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FOREIGN INVESTMENTS IN THE UNITED STATES

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**U. S. DEPARTMENT OF COMMERCE
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FOREIGN INVESTMENTS IN THE UNITED STATES

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CONTENTS

Foreword.....	Page VIII
PART I. INTRODUCTION, SUMMARY, AND HISTORICAL BACKGROUND	
Chapter I. Nature and scope of survey.....	3
Introduction.....	3
Creditor-debtor position of the United States.....	4
Earlier estimates of foreign investments.....	6
Inception and organization of present study.....	8
Classification of foreign investments.....	9
Direct investments.....	10
Common stocks.....	11
Preferred stocks.....	12
Bonds.....	13
Other investments.....	13
Chapter II. Foreign long-term investments, 1934-36.....	14
Principal types, 1934-36.....	14
Foreign investments, end of 1934.....	16
Distribution by countries.....	17
Distribution by industries.....	19
Other investments.....	19
Chapter III. History and growth of foreign investments.....	21
Revolutionary War to Civil War.....	21
Civil War to World War.....	22
World War period.....	24
World War to depression.....	26
Annual movements of foreign capital in post-war period.....	26
PART II. ANALYSIS OF DATA COLLECTED FROM PRIMARY SOURCES	
Chapter IV. Foreign direct investments, 1934.....	31
Industrial distribution.....	31
Geographic distribution.....	31
Classification by size.....	34
Capital structure.....	35
Miscellaneous stock and bond investments.....	37
United States branches and affiliates of foreign insurance companies.....	38
Historical survey.....	40
Industrial investments.....	40
Insurance investments.....	43
Chapter V. Foreign investments in common and preferred stocks, end of 1934.....	44
Common stocks.....	44
Industrial distribution.....	45
Foreign holdings in relation to outstanding shares.....	46
Dividend-paying status.....	47
Nominee holdings.....	48
New York Stock Exchange issues.....	50
Geographic distribution.....	50
Nominee holdings, by countries.....	52
Preferred stocks.....	53
Industrial distribution.....	53
Foreign holdings in relation to outstanding shares.....	54
Dividend-paying status.....	54
Nominee holdings.....	56
Geographic distribution.....	57
Differences in percentage distribution.....	58

	Page
Chapter VI. Trends in foreign holdings of United States corporate shares	59
Trends prior to World War	59
Trends during war and post-war periods (1914-29)	60
Trends during period 1929-36	61
Foreign holdings in relation to outstanding shares	64
Summary indexes, common and preferred shares	64
Common shares, listed and unlisted	65
Preferred shares, listed and unlisted	67
Foreign holdings, by industrial groups	68
Trends in nominee and direct holdings compared, 1934 and 1936	69
Industrial groups	70
Geographic distribution	71
Chapter VII. Trends in foreign holdings of United States railroad shares, 1914-36	73
Chapter VIII. Foreign holdings of United States corporate bonds	76
Early history	76
Interest payments to nonresident aliens, 1929 and 1933	78
Trend in interest payments, 1933-35	85

APPENDIXES

A. Industrial classification	86
B. Data relating to chapter II	86
I. Procedure followed in estimating foreign investments in common and preferred stocks, 1935 and 1936	86
II. Mortgage certificate holdings	87
C. Data relating to chapter IV	88
I. Methods employed in collecting and compiling data on foreign direct investments in the United States	88
D. Data relating to chapter V	89
I. Methods employed in collecting and compiling data on foreign investments in United States common and preferred stocks	89
II. Sources and scope of basic data	91
III. Omission estimate of foreign-owned common and preferred shares of United States corporations, end of 1934	91
IV. British investment trust holdings	97
E. Data relating to chapter VI	97
I. Data employed in estimating trends in foreign investments in common and preferred shares of United States corporations, 1929-36	97
F. Data relating to chapter VII	103
I. Statistical methods employed in computation of trend data on foreign holdings of United States railroad shares, 1914-36	103
G. Data relating to chapter VIII	107
I. Computation of statistics on interest paid to nonresident alien owners of bonds of United States corporations	107
II. Estimate of foreign holdings of defaulted bonds	108

TEXT TABLES

1. Estimated creditor-debtor position of United States, end of 1935 and of 1936	5
2. Estimated receipts and payments in interest and dividend account of United States balance of international payments, 1935 and 1936	5
3. Foreign long-term investments in the United States, 1934-36	14
4. Net inflow of funds involved in transactions in United States securities, 1935-36	16
5. Foreign long-term investments in the United States, by countries and areas, end of 1934	17
6. Foreign long-term investments in the United States, by industries, end of 1934	19
7. Estimated foreign investments in United States, end of 1927 and of 1929	27
8. Balance-of-payments estimates of funds involved in transactions affecting foreign investments in the United States, 1919-36	27
9. Recapitulation: Estimates from scattered sources of foreign investments in the United States at various dates, 1801-1936	28

	Page
10. Foreign direct investments in the United States, by industrial groups and by countries or areas, end of 1934.....	32
11. Number of items of foreign direct investments (other than insurance) in the United States, by value of investment, end of 1934.....	34
12. Foreign direct investments in the United States by types of investment, by countries or areas, and by industrial groups, end of 1934..	35
13. Miscellaneous stock and bond investments in foreign-controlled American enterprises, end of 1934.....	37
14. Net worth of United States branches and affiliates of foreign insurance companies, by principal countries or areas, by type of investment, and by type of company, end of 1934.....	39
15. Number of United States branches and affiliates of foreign insurance companies, by value of investment, end of 1934.....	40
16. Number of foreign direct investments in the United States, by dates of incorporation or acquisition, 1853-1935.....	41
17. Number of United States branches and affiliates of foreign insurance companies, by dates of establishment or acquisition, 1804-1934.....	43
18. Market value of total foreign-held common shares of United States corporations, by countries or areas and by industries, end of 1934..	44
19. Market value of foreign-held common and par value of foreign-held preferred shares of 2,774 corporations, by industries, end of 1934..	45
20. Percentage of outstanding common shares of United States corporations owned by residents of foreign countries, end of 1934.....	47
21. Foreign-held common shares of 2,774 corporations, by dividend-paying and non-dividend-paying groups, 1934.....	47
22. Rate of cash dividend payments on total outstanding and on foreign-held common shares, 1934.....	48
23. Market value of foreign-held common and par value of foreign-held preferred shares of 2,774 corporations, by industrial groups, as reported by corporations and by banks and brokers, end of 1934.....	49
24. Market value of foreign-held common shares of 860 corporations, by industries and by countries or areas, end of 1934.....	51
25. Ratios of direct and nominee holdings to total foreign investment in United States common stocks, by countries or areas, end of 1934..	52
26. Par value of total foreign-held preferred shares of United States corporations, by countries or areas and by industries, end of 1934..	53
27. Percentage of outstanding preferred shares of United States corporations owned by residents of foreign countries, by industries, end of 1934.....	54
28. Rate of cash dividend payments on total outstanding and on foreign-held preferred shares, 1934.....	55
29. Foreign-held preferred shares of 2,774 corporations, by dividend-paying and non-dividend-paying groups, 1934.....	55
30. Ratios of direct and nominee holdings to total foreign investment in United States preferred stocks, by countries or areas, end of 1934..	56
31. Par value of foreign-held preferred shares of 860 corporations, by industries and by countries or areas, end of 1934.....	57
32. Ratios of foreign-held to outstanding common and preferred shares of United States corporations, 1929-36.....	64
33. Trends in number and value of foreign holdings of common and preferred shares of United States corporations, 1929-36.....	65
34. Comparative trends in foreign holdings of listed and unlisted common shares of United States corporations, 1929-36.....	67
35. Comparative trends in foreign holdings of listed and unlisted preferred shares of United States corporations, 1929-36.....	68
36. Trends in foreign-held common and preferred shares of United States corporations, by industries, 1929-36.....	68
37. Percentage increase in foreign-held common and preferred shares of a selected list of United States corporate issues, by industries and by types of holdings, 1934-36.....	70
38. Percentage of foreign-held to total common and preferred shares outstanding, by types of holdings and by industries, 1934 and 1936.....	70
39. Foreign-held common and preferred shares of some United States corporate issues, by countries and by types of holdings, 1936.....	71
40. Indexes of foreign holdings of common and preferred shares of United States railroads, 1914-36.....	74

	Page
41. Interest payments to nonresident alien owners of bonds of United States corporations, 1927, 1929, and 1933.....	78
42. Interest paid on United States corporate bonds to nonresident aliens, by industries and by principal countries or areas, 1929.....	79
43. Interest paid on United States corporate bonds to nonresident aliens, by industries and by principal countries or areas, 1933.....	81
44. Indexes of interest payments on United States corporate bonds to nonresident aliens, 1933-35.....	85

APPENDIX TABLES

I. Sample survey of mortgage certificates held by residents of foreign countries, end of 1935.....	87
II. Basic data for the omission estimate of foreign holdings of American common and preferred shares (data relating to dividend payments of 5,500 corporations).....	92
III. Partial omission estimate of foreign holdings of dividend-paying stocks.....	93
IV. Total non-dividend-paying shares outstanding and foreign-held non-dividend-paying shares among the stock issues of 5,500 United States corporations.....	93
V. Partial omission estimate of foreign-held non-dividend-paying stocks.....	94
VI. Basic data for the omission estimate of foreign holdings of American common and preferred shares (data relating to number of shares of 5,500 corporations).....	94
VII. Partial omission estimate of foreign holdings of common and preferred shares.....	95
VIII. Final omission estimate of foreign investments in United States common and preferred shares.....	95
IX. Market value of foreign-held common shares and par value of foreign-held preferred shares, including the omission estimate, end of 1934.....	96
X. Holdings of United States securities by a group of British investment trusts, 1929-36.....	97
XI. Number of common and preferred stock issues used in computing the chain indexes of foreign-held United States corporate shares, by listed and unlisted issues, 1929-36.....	98
XII. Number of common and preferred stock issues used in computing the 1933-34 chain index of foreign-held shares, by industrial groups and by listed and unlisted issues.....	98
XIII. Trend in foreign holdings of common shares of United States corporations, and annual percentage changes, 1929-36.....	99
XIV. Ratios of foreign-held to total common shares outstanding of certain United States corporations, 1929-36.....	100
XV. Average year-end prices of foreign-held common and preferred shares of United States corporations compared with average prices of all issues listed on the New York Stock Exchange, 1929-36.....	100
XVI. Comparison of straight and chain indexes of foreign-held common and preferred shares of United States corporations, 1930-34.....	101
XVII. Ratios of foreign holdings in straight and chain sample data to total foreign-held common and preferred stocks of 2,774 corporations, by number of shares and by value, 1934.....	101
XVIII. Indexes of foreign-held common and preferred shares, by industrial groups, 1929-36.....	102
XIX. Foreign holdings of United States railroad shares, 1914-36.....	103
XX. Foreign holdings of defaulted United States corporate bonds.....	108
XXI. Par value of foreign holdings of defaulted United States corporate bonds.....	109

LIST OF ILLUSTRATIONS

1. Foreign long-term investments in the United States, by type of investment, 1934-36.....	Page 15
2. Foreign long-term investments in the United States, by principal countries and areas, by industries, and by type of investment, end of 1934.....	18
3. Foreign direct investments in the United States, by principal countries and areas, by industries, and by type of investment, end of 1934....	36
4. Market value of foreign-held common and par value of foreign-held preferred shares of 2,774 United States corporations, by industries, end of 1934.....	46
5. Market value of foreign-held common and par value of foreign-held preferred shares of 860 United States corporations, by principal countries and areas, end of 1934.....	52
6. Foreign holdings of 10 selected common stocks of United States corporations, 1913-36.....	62
7. Foreign holdings of 8 selected preferred stocks of United States corporations, 1913-36.....	63
8. Trends in number, value, and average price of foreign-held common and preferred shares of United States corporations, 1929-36.....	66
9. Trends in foreign holdings of common and preferred shares of United States railroads, 1914-36.....	75
10. Interest paid on United States corporate bonds to nonresident aliens, by principal countries and areas, 1927, 1929, and 1933.....	79
11. Par value of United States corporate bonds held by nonresident aliens, by principal countries and areas and by industries, 1933.....	82
12. Interest paid on United States corporate bonds to nonresident aliens, by industries, 1929 and 1933.....	84

FOREWORD

This study of foreign investments in the United States was initiated 2 years ago by the Finance Division of the Bureau of Foreign and Domestic Commerce and is now published as the second of a series of special researches designed to improve the available data relating to the international financial position of the United States. It is believed, for example, that the results will provide a more adequate basis for estimating interest and dividend payments by the United States to foreign holders of American securities as reported annually in the balance of international payments. The first study in this series, made by August Maffry of the Finance Division, was published in August 1936, under the title "Insurance Transactions in the Balance of International Payments of the United States, 1919-35." A survey of American direct investments in foreign countries, similar to the initial study made in 1930, is being prepared by Paul D. Dickens of the Finance Division for publication late in 1937.

This report was prepared in the Finance Division under the direction of Amos E. Taylor, Assistant Chief of the Division. Dr. Dickens prepared chapter II, which summarizes the results of the study; chapter III, which discusses the history and growth of foreign investments in the United States; and chapter V, which outlines the results of a comprehensive compilation of data for the year-end 1934. Dr. Dickens also prepared the text of chapter IV, relating to foreign direct investments in the United States, except the section on insurance investments, which was prepared by Dr. Maffry. The analysis in chapter VI of recent trends in foreign investments in the United States was largely the work of Milton Abelson of the Finance Division staff. The computations, on which chapter VII, relating to foreign ownership of American railroad securities, is based, were made by Gertrude Stanley, formerly of the Division's staff, and by Allen H. Lester, the latter of whom prepared the analysis of the data. Dr. Maffry assisted in the final preparation of various parts of the text and directed the preparation of the charts, which are designed to simplify the presentation of the basic data.

It is believed that this study will be of timely interest, not only because of its bearing upon contemporary international financial problems but also because of its contribution to the general history of foreign investments in the United States.

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JUNE 1937.

FOREIGN INVESTMENTS IN THE UNITED STATES

Part I. INTRODUCTION, SUMMARY, AND HISTORICAL BACKGROUND

CHAPTER I

NATURE AND SCOPE OF SURVEY

INTRODUCTION

The results of this study of foreign investments in the United States will provide, it is believed, an adequate statistical basis for estimating annual interest and dividend payments by the United States to investors residing in foreign countries, or, more specifically, in all world areas outside the balance-of-payments area of the United States.¹ The importance, in the balance of payments, of total interest and dividend payments by this country to investors residing abroad is indicated by the fact that in 1936 the estimated payments aggregated \$238,000,000, as compared with corresponding interest and dividend receipts of \$568,000,000 on American investments abroad.

Prior to 1935, when the preliminary results of the present study provided a comparatively satisfactory basis for computing interest and dividend payments, the estimates were subject, at least theoretically, to a wide margin of error. In the first annual report by the Department of Commerce on the balance of international payments of the United States, the interest and dividend payments by this country in 1922 to investors residing in foreign countries were originally estimated at \$100,000,000, as compared with estimated receipts of \$227,000,000 by investors in this country from their investments abroad.² As a result of the rapid increase in United States holdings of foreign securities during the period of heavy underwriting of foreign dollar issues from 1924 to 1930, inclusive, the ratio of payments to receipts in the international "interest and dividend" account showed a sharp decline. Since the facilities for estimating receipts were much more satisfactory than those for determining the approximate payments, the margin of error to which *net* receipts were subject was influenced primarily by the percentage of error in the estimated payments entry. The data assembled for the purpose of this study are not adequate for testing the accuracy of this entry during the period from 1922 to 1930, inclusive, but they provide considerable statistical evidence that during the period from 1931 to 1934, inclusive, such payments were materially underestimated.³

The shift of the United States from a debtor to a creditor country during the World War directed particular attention to the effect which a shift from net interest and dividend payments to net interest and dividend receipts tends to have on the net movements of mer-

¹ In addition to continental United States, our balance-of-payments area includes Alaska, Hawaii, Puerto Rico, and the Virgin Islands. The Philippine Islands and the Panama Canal Zone fall outside this area and are therefore considered foreign countries.

² Trade Information Bulletin No. 144, The Balance of International Payments of the United States in 1922.

³ It must be noted, however, that the estimates of interest and dividend payments in 1935 and 1936, when satisfactory basic data were available, should not be used directly as an index of the extent of understatement in the years 1931-34. Substantial additions to foreign holdings of American securities and a marked increase in the rate of dividend payments were important factors in the estimates for 1935 and 1936.

chandise and service transactions. Since certain adjustments must necessarily be made more gradually than others, the actual results of the international balance could be dissociated all the less from questions of commercial and financial policy. This shift from debtor to creditor was consummated in a short period of time, largely as a result of (1) the heavy repatriation by this country of American railroad and other securities held abroad, (2) a growing rate of private lending abroad, and (3) loans made by the United States to foreign governments. Although available data provide a satisfactory measure of the value of foreign-held American securities thus repatriated,⁴ no equally satisfactory statistical basis exists for determining (1) the value of American securities which remained in foreign hands at the conclusion of the war and (2) the additional purchases or sales, by appropriate classification, of such securities made for foreign account in subsequent years.

CREDITOR-DEBTOR POSITION OF THE UNITED STATES

Although the principal purpose of this study is closely related to the preparation of the "interest and dividend" estimates in the annual balance of international payments, the changes produced during recent years in the long-term creditor-debtor position of the United States have emphasized not only the need of data on current changes in foreign investments in the United States but also the need of a comprehensive survey designed to indicate the total value of such investments both in the aggregate and by individual classes. Current problems relating to trade and financial policy cannot be dissociated from the nature and magnitude of changes in the international investment position of the United States. The flow of foreign capital funds into American securities, especially common stocks, during recent years has introduced elements of change of dominant influence in the country's balance of international payments.

In addition to estimated United States long-term investments abroad of \$12,486,000,000 at the end of 1936, American-owned bank balances and other short-term credits abroad amounted to \$759,000,000 at the end of the year. Long-term investments of foreigners in the United States at the end of the year are estimated in this bulletin (see ch. II) at \$6,108,000,000, while foreign-owned bank balances and other short-term funds amounted to \$1,530,000,000. Estimated total American investments abroad of \$13,245,000,000 and foreign investments in the United States amounting to \$7,638,000,000 indicate a net creditor position at the end of 1936 of approximately \$5,607,000,000. The international creditor-debtor position of the United States at the end of 1936, with comparative data for the end of 1935, is summarized in table 1.

In addition, outstanding credits extended by American manufacturers and exporters at the respective year-ends exceeded by several hundred million dollars corresponding credits extended by foreign concerns to American customers. The figures in table 1 on the country's net creditor position thus tend to underestimate the excess of American investments abroad over foreign investments in the United States.

⁴ See ch. III.

Table 1.—Estimated Creditor-Debtor Position of United States, End of 1935 and of 1936

[In millions of dollars]

Investment	1935	1936
A. AMERICAN INVESTMENTS ABROAD		
Holdings of foreign securities (largely bonds).....	4,795	4,741
Direct investments abroad ¹	7,835	7,745
American-owned bank balances and other short-term credits abroad, as reported by banks and brokers.....	850	759
Total.....	13,480	13,245
B. FOREIGN INVESTMENTS IN THE UNITED STATES		
Holdings of American securities and other foreign long-term investments in the United States ²	³ 5,109	³ 6,108
Foreign-owned bank balances and other short-term funds owed to foreigners as reported by banks and brokers.....	1,220	1,530
Total.....	³ 6,329	³ 7,638
Estimated net creditor position.....	³ 7,151	³ 5,607

¹ A detailed study of American direct investments abroad, similar to the one completed in 1930, is now in preparation.

² For classification of investments see table 3.

³ It should be noted that changes in average annual market prices of common stocks may exert an important influence on the annual changes in this item.

The international creditor-debtor position of the United States, as indicated by estimated interest and dividend receipts and payments in 1935 and 1936, is summarized in table 2.

Table 2.—Estimated Receipts and Payments in Interest and Dividend Account of United States Balance of International Payments, 1935 and 1936

[In millions of dollars]

Item	1935	1936
A. RECEIPTS		
Interest on American holdings of foreign securities (largely bonds).....	188	176
Income from American-owned direct investments abroad.....	320	380
Earnings on American-owned short-term investments abroad.....	13	12
Total.....	521	568
B. PAYMENTS		
Interest on foreign-held American bonds.....	22	22
Income to foreigners from direct investments in the United States.....	40	55
Dividends on foreign-held American stocks.....	83	130
Income to foreigners from other long-term investments in the United States.....	25	30
Payments to foreigners on short-term investments in the United States.....	1	1
Total.....	171	238
Net receipts.....	350	330

Since data on the outstanding short-term foreign investments in the United States as well as statistics relating to current changes are readily available,⁵ this study is concerned wholly with estimates of so-called long-term investments. All data summarized and discussed in later chapters of this bulletin relate to so-called long-term investments, as represented by the foreign ownership of American stocks, bonds, direct investments, real estate, and other investments.

⁵ Statistics of Capital Movements between the United States and Foreign Countries and Purchases and Sales of Foreign Exchange in the United States, Report No. 1 (November 1936), covering the period from January 1935 to September 1936, and Report No. 2 (April 1937), covering the period from January 1935 to December 1936, U. S. Treasury Department, Division of Research and Statistics.

EARLIER ESTIMATES OF FOREIGN INVESTMENTS

In 1927 and 1929, the Finance Division, with the cooperation of the foreign representatives of the Departments of State and Commerce, prepared estimates of long-term investments in the United States by residents of each of the principal foreign countries.⁶ The estimates were reported in the respective issues of the Balance of International Payments, although their usefulness in determining interest and dividend payments was seriously limited. The various estimates necessarily represented a heterogeneous mass of investment statistics drawn from numerous sources, based on no common terminology and resting on no uniform conception of investment valuation. They were in many cases admittedly little more than guesses which represented the assumed collective value of numerous types of investments of widely varying average yields. Owing to the many forms in which the total investments in the United States by the various national groups are held, a single aggregate, even if carefully evaluated, tends to be of limited utility for the purpose in view. The influence of a single class of investments on total estimated interest and dividend payments is clearly reflected in table 2, which calls attention to the sharp increase during 1936 in dividends paid to foreigners on the shares of American corporations. These increases were due to a combination of factors which did not apply equally to other classes of foreign investments in the United States.

Despite the limitations of the data on foreign investments in the United States, secured from foreign sources in 1927 and 1929, the request has been repeated during each year from 1931 to date. Although the difficulties of securing adequate returns increased during the depression years and although the utility of the reported data in estimating interest and dividend payments to foreigners was limited, the statistics made available in several foreign centers have often been of collateral use in appraising the long-term holdings in the United States of certain foreign investing groups.

In connection with the collection of data from banks and brokers on international security transactions in 1931, the Finance Division requested all reporting banks to state the value of all American securities held in custody for foreign account at both the beginning and the end of the year. In addition, a representative group of banks responded to a request for data on total interest and dividend payments remitted by them during the year to foreign clients or credited to their domestic deposit accounts. The value reported was "market" value, since that proved the only practicable basis on which banks could uniformly report. Neither the value data nor the income data could be satisfactorily used for the end in view, despite the earnest cooperation of the reporting banks. The market value of a mixed portfolio of stocks and bonds permitted no qualitative analysis, while the ratios between reported market value and income varied so widely that any computed average was certain to arouse skepticism concerning the usefulness of this type of data. Furthermore, it proved virtually impossible in some cases for the banks to report in such a way as to distinguish between custody holdings which represented actual investments in the United States and those which related to obligations issued by borrowers in foreign countries, but payable in the United States. Owing to this inadequacy of the results, the request for data was not repeated.

⁶ See ch. III, table 7.

In connection with the preparation of the 1933 issue of the bulletin on the balance of international payments, an effort was made to collect data relating to annual changes in the foreign ownership of American corporate shares. The undertaking was viewed merely as exploratory and experimental, and the results were presented as a supplement to the discussion of international capital transactions during 1933. The reported data, shown by principal countries, indicated the total number (as contrasted with the value) of the common shares of 52 corporations, consisting of 16 railroads, 9 utilities, and 27 industrial concerns. The statistics reported by the respective corporations related primarily to the 4-year period 1930-33, and showed that in each group foreign holdings increased steadily in actual number of shares during this period. The resulting trend has been in general verified by the more comprehensive study, based on a much larger sampling, which is summarized in chapter VI.

Although these statistics on foreign holdings of American corporate shares elicited considerable interest and satisfied in part a need for data supplementing the statistics on international security transactions reported by banks and brokers, they were deficient—and in some instances clearly misleading. The corporations included in the sample were more or less representative of the much wider group in which foreign investors have continually demonstrated an interest, and it was thus reasonable to expect that the reported data would reflect in general the year-to-year trend in foreign holdings. Nevertheless, the total absence of data relating to those shares which were carried on the corporate records in the names of American nominees cast some doubt on the results, particularly in view of the fact that the sampling was comparatively narrow.⁷

The results of this partial survey strongly indicated that, in any comprehensive study of foreign investments in the United States, the foreign ownership of common shares of American corporations, exclusive of all so-called direct investments, would be found to constitute one of the most important single groups of foreign-investment interest in the United States. In this connection, the principal unknown factor related to the percentage of foreign-owned shares which are normally carried in the names of American nominees.⁸ It was obvious that dividend payments on the large mass of noncontrolling shares⁹ of American corporations owned by residents of foreign countries were an important element in the total interest and dividend payments entering the annual balance of international payments. The elimination of the existing difficulties in preparing an adequate "interest and dividend" debit estimate in the annual balance was thus contingent upon the development of a sound statistical basis for computing the aggregate dividend payments made by American corporations on common and preferred shares owned by stockholders residing in foreign countries. The desirability of seeking a solution to the problem of estimating interest and dividend payments made to foreign holders of securities and properties in the United States through a concentration of attention on miscellaneous (noncontrolling) equity holdings and through devising a means of collecting comprehensive

⁷ Trade Information Bulletin No. 819, *The Balance of International Payments of the United States in 1933*, pp. 50-52.

⁸ See section entitled "Classification of Foreign Investments", in this chapter.

⁹ All foreign-owned shares of corporations which are controlled by foreign equity-holding interests are included in the separate category of "direct" investments. See section entitled "Classification of Foreign Investments."

statistical data thereon was especially emphasized by the actual availability of basic data for the computation of interest payments to nonresident alien owners of taxable United States corporate bonds. The importance of these two groups of investments is apparent.

INCEPTION AND ORGANIZATION OF PRESENT STUDY

In 1935, the Finance Division initiated a comprehensive survey with a view to determining the value of each of the various classes of investments held in this country by residents of foreign countries and thus to providing a satisfactory basis for computing the income derived from such investments for entry in the United States balance of payments. The methods employed in collecting and compiling the data under the respective categories are discussed in appendixes C, D, and G. The statistics on common and preferred shares center primarily on reported foreign holdings as of the end of 1934, whereas data on the foreign ownership of American corporate bonds were compiled in detail by industrial and geographic classifications for the years 1929 and 1933. The basic data on foreign direct investments in the United States are the result of a detailed computation by industrial and geographic distribution as of the end of 1934. The estimates relating to other classes of investment were likewise based on data which, generally speaking, applied to the same year-end. The original summary, relating to the end of 1935, was prepared by means of a sampling of 1935 data and was released by the Department of Commerce on June 5, 1936. The results, which were incorporated in the 1935 report on the balance of international payments,¹⁰ were subsequently revised and, with several changes in classifications, are presented in detail in this bulletin.

In the case of each type of investment, the year selected for detailed study was based solely on practical considerations. The selection of 1929 for a comprehensive survey of foreign holdings of American corporate bonds was influenced by a desire to obtain a statistical measure of such holdings for the earliest period possible. The records essential to such a survey were not available for any year prior to 1929.¹¹ The comprehensive compilations of shareholdings at the end of 1934 and of bondholdings at the end of 1933, respectively, applied to the latest year-end dates for which satisfactory data were available at the time the surveys were initiated. The same practical considerations applied to the compilation of data on direct investments as of the end of 1934.

The estimates of foreign holdings of American shares and bonds for subsequent year-ends were based on sampling, the nature and extent of which is clearly indicated in subsequent sections of this bulletin and in the respective appendixes.

With a view to providing the maximum use of all available data relating to foreign investments in this country, chapter VI is devoted to an analysis of foreign holdings, and the changes therein, of American common and preferred shares from 1929 to 1936. The data employed were those made available for this period by a large group of companies, the total number of which varied from year to year but aggregated at

¹⁰ Trade Information Bulletin No. 833, *The Balance of International Payments of the United States in 1935*, pp. 56-60.

¹¹ These data had been employed, however, in a previous instance in the computation of interest payments made to nonresident alien bondholders. T. C. Atkeson of the Statistical Section, Income Tax Unit, Bureau of Internal Revenue, prepared in 1928 a compilation of interest payments made during 1927 by American corporations to nonresident aliens in each foreign country. The results, published in *Internal Revenue News*, May 1928, are shown in table 41.

the maximum 278 companies, whose reports pertained to 248 common stocks and 149 preferred issues. This special study is designed primarily to indicate the trend from year to year in the total number of American shares held by investors in foreign countries. Since the data exclude all so-called nominee holdings for foreign account, the value of the analysis for other purposes is obviously somewhat limited. It is believed, however, that because the rather wide sampling includes most of those corporations whose shares are known to be popular among foreign investors, the data are sufficiently comprehensive to serve the purpose indicated.

As a means of utilizing all available data relating to foreign holdings of American railroad shares, an attempt has been made in chapter VII to delineate the annual trend in such holdings from 1914 to date. In view of the statistical information relating to pre-war foreign holdings of United States rail and other shares, made available through L. F. Loree and the Report of the Dollar Securities Committee,¹² the data relating to subsequent years collected by the Finance Division were believed adequate to make possible the computation of a comparatively accurate index of the annual war and post-war trend in foreign holdings of American rail shares.

Since the usefulness of recent data pertaining to the changes in foreign holdings of American securities is certain to be influenced by the historical factors which have made such securities attractive to international investors, chapter III is devoted to a brief history of foreign investments in the United States. It covers the entire period of the country's commercial and industrial development throughout the various stages from "immature" borrower to "mature" lender.¹³

CLASSIFICATION OF FOREIGN INVESTMENTS

The data on foreign investments in the United States are compiled and analyzed throughout this bulletin under the following categories: (a) direct investments, (b) common stocks, (c) preferred stocks, (d) bonds, and (e) other investments.

The analysis of changes in the long-term creditor-debtor position of the United States is complicated by the fact that the relative importance of the respective classes of investments which measure this position varies materially. For example, noncontrolling holdings of United States corporate shares constitute the largest single class of foreign investment in this country, whereas the counterpart of this type among American investments abroad is negligible. The collective portfolios of trust funds administered by United States trustees in behalf of beneficiaries resident abroad are of substantial, even if not of paramount, importance in the total foreign investments in this country. No corresponding item appears in American investments abroad, except perhaps in a few rare instances. Although foreign holdings of United States corporate and Government bonds (exclusive of entries under other categories as indicated below) exceed \$600,000,000, par value, they constitute a much smaller element, both relatively and absolutely, in total foreign investments in this country than they do in holdings of corresponding foreign securities by investors in the United States.

¹² See also ch. III.

¹³ In the interest of clear presentation, all technical details relating to methods employed in collecting data and in evaluating reported statistics are presented in appendixes C, D, and G.

It must be emphasized that, for the purpose of this study, residence rather than nationality is the test of foreign ownership.¹⁴ Income derived from investments in the United States by resident aliens does not require the international transfer of funds, nor does it involve the crediting of an account which is recorded under a foreign address. On the other hand, income derived from investments in this country in behalf of a United States citizen permanently residing abroad will, upon its realization, be reflected in the balance of international payments, regardless of the form in which he utilizes the cash funds received in payment.

Attention has been called above to the reasons which determined the classification of investments discussed in this section. Although the nomenclature indicates the nature of the investments which dominate the respective groups, it must be noted that no arbitrary rule can be employed in determining the exact composition of each group. Owing to the importance of relating the recorded aggregate investment value of each group to the corresponding income item which enters into the balance of international payments, the respective investment classifications exclude in certain instances items which, on the basis of investment identity, should theoretically be included. For example, estimated foreign holdings of United States Government bonds are not included in the category "bonds", but, owing to the absence of satisfactory basic data, they are considered as part of the general catch-all item, "other investments." This procedure avoids excessive impairment of the accuracy of the various classifications, while introducing no new risks of error in the final investment figure representing the aggregate of all classifications. Further reference to the comparatively few instances in which such entries were made follows in the discussion of the respective groups. For reasons explained in chapter VIII and appendix G, II, corporate bonds in default are included in the bond classification.

DIRECT INVESTMENTS

So-called foreign direct investments in the United States include all foreign equity interests in those American corporations or enterprises which are controlled by a person or group of persons (corporate or natural) domiciled in a foreign country. In other words, the definition bases the classification of the investment on the domicile of the control directed over the American enterprise. The classification brings within its scope all enterprises in this country to which this definition applies, and then includes such additional foreign holdings of securities in American subsidiaries as do not fall within the block or group of shares which are held by the controlling interests. The latter securities would be included under the respective categories of stocks and bonds except for the factor of foreign control.

The valuation of direct investments was based on balance-sheet data with a view to approximating the net equity of foreigners in the assets of the American subsidiary corporations. Net equity includes (1) the stated or par value of common stock, plus (or minus) a proportionate share of surplus (or deficit) accounts, (2) the amount of net advances to the American company and net intercompany accounts, and (3) the par or stated value of preferred stocks, bonds, debentures, and notes. In cases where balance-sheet data were not available

¹⁴ An exception is found in the data on foreign ownership of United States corporate bonds (ch. VIII). See appendix D, I.

(that is, for about 8 percent of the total estimated direct investments), a substitute was employed in the form of a figure for capital employed or of book value as shown on the books of the foreign company.

The net equity investment of foreign insurance companies in their United States branches and affiliates is included in the classification of direct investments. The identity of this equity is, however, kept intact throughout the analysis of direct investments in chapter IV. The nature of international insurance operations involves legal and accounting distinctions which require a unique approach to their treatment for balance-of-payments purposes. Furthermore, the return on such investments cannot be computed as a separate item in the total movement of insurance funds proper.¹⁵

COMMON STOCKS

Common stocks comprise the most important single group of American securities held by investors in foreign countries. When considered from the standpoint of individual holdings, it is probable that this group of investments includes a larger number of separate investment accounts than all the other categories combined. Furthermore, it must be noted that although many common shares of corporations in the United States held by foreign investors are viewed by the latter as permanent investments, the classification as a whole represents a comparatively volatile type of security and therefore tends to show more rapid changes both in volume and in value than any other class of investment. Even though changes in the number of shares held by foreigners should remain comparatively small over a given period of time, actual dividend payments to foreigners would still tend to represent a more fluctuating element in the balance of international payments than the income received by foreigners on other types of investment in the United States. The potentialities of such irregular movements of dividend payments lie not only in changes in per-share dividend rates but also in shifts by investors from one type of share (either from standpoint of price or of dividend yield) into another, with the result that changes in the number of shares held and changes in dividend payments might actually show respective trends in opposite directions.

As previously indicated, the definition of direct investments for purposes of this classification is of sufficient scope to include within it certain miscellaneous foreign holdings of American shares which would ordinarily fall within the category of common stocks. All data included in this category apply, therefore, only to foreign holdings of common shares in companies which are in no way controlled by foreign corporations or other nonresident alien interests. The primary statistics which were assembled related to the number of shares of each corporation of which the beneficial owners were residents of foreign countries.

A substantial volume of foreign-held American shares is held by nominees resident in the United States. The transfer to a nominee of securities owned by persons who are far removed from the principal domestic trading centers facilitates the sale and purchase of securities and relieves the beneficial owner of the various cares incidental to ownership, except, of course, that of passing judgment upon questions of investment policy. Under the nominee system, title is vested in

¹⁵ See pp. 38-40.

some officer or employee of a banking or brokerage institution, so that, when the customer telegraphs an order, the transaction may be closed without delay.¹⁶

The collection of data on foreign-owned American shares required, therefore, not only the cooperation of the various corporations whose shares were held in part by investors in foreign countries but also the aid of banks and brokers whose nominees held such shares for foreign account. In order to convert all share figures for individual companies into values at identical quotations, it was necessary that nominee holdings be reported for individual companies and as of approximately the same dates. Data reported by individual corporations relative to the number of shares held directly in the names of the beneficial owners were inevitably subject to slight errors, in view of the inability of various companies to make their data available as of the year-end.¹⁷

The basis of valuation of common stocks employed throughout this study is that of market value. This basis was employed not because it is entirely satisfactory but rather because no other method is practicable. A large proportion of the common shares outstanding have no par value. Stated values of no-par shares or par values of others are unsatisfactory because they do not reflect the amount of the corporation's surplus or deficit applicable to the shares owned by residents of foreign countries. Even were facilities available for apportioning the stated value and surplus or deficit by shares, the results would not prove satisfactory; for the value of common shares depends primarily upon earnings and the current dividend rate. Despite the admitted shortcomings of market value as a measure of investment interest, especially during a period of sharp rises or sharp declines in quotations, it does tend to reflect in general the factors to which investment value is fundamentally related. Furthermore, the question of valuation raises no particular difficulties in the use of the data for balance-of-payments purposes, since dividend payments are not estimated through the application of an assumed average rate of dividend disbursements to aggregate value but are computed by applying actual dividend payments per share, issue by issue, to the total number of shares owned by investors residing in foreign countries.

PREFERRED STOCKS

The category "preferred stocks" includes all foreign-owned preferred and preference shares of American corporations except a very small number which, for reasons already indicated, are included among direct investments. The basic data were collected by methods similar to those pertaining to common stocks, while the basis of valuation was par value, or the same as that applicable to bonds. In most cases, preferred stock is callable at par and in liquidation is usually entitled to an amount up to the par value. Since one of the functions of the investment data is to provide a means of estimating annual payments to foreign investors, the use of par value is obvious. Most preferred-stock issues have par values, and dividend payments are made at fixed rates based on such values. Stock issues, whenever

¹⁶ In order to guard against difficulties which might arise in case the nominee should die or be absent for a prolonged period, a contingency which might compel the legal owner to pay an inheritance tax before having his property returned, the nominee usually signs a declaration to the effect that he owns "no right, title, or interest in the annexed certificates of stock" but that he stands "possessed of the same" and that they are "registered in my name for the account of the true owner thereof," For additional data regarding nominee holdings, see ch. V, pp. 48-50, 52-53, and 56-57.

¹⁷ For details relative to the collection and analysis of data on foreign-owned common stocks, see appendix D, I.

specifically designated as common or as preferred, were classified under these respective headings. When no such designation is made, all issues that included a preference as to dividends were classified as preferred.

BONDS

Since the data reported under the classification "bonds" were based on the results of tabulations supplied by the Statistical Section, Income Tax Unit, Bureau of Internal Revenue, the item includes all United States corporate bonds except (1) those issues contained within the portfolios of charitable, educational, and other foreign institutions whose investments in this country are free from taxation and (2) obligations of those American corporations in which all foreign capital participation, whether as equity interest or as creditor interest, is included under the category "direct investments."

United States Government securities, as well as the obligations of other public and quasi-public bodies in the United States, the income from which is exempt from all Federal taxes, are automatically excluded from this category. Although a separate estimate is prepared to cover foreign holdings of tax-exempt bonds, allowance for these holdings is made in the "other investments" item, in order that the bond classification may be confined as far as possible to issues for which accurate computation of annual interest payments can be made. Defaulted issues are included in this classification, however, because, as indicated in appendix G, II, the method of computation provides a reasonably satisfactory basis for determining their aggregate value.

OTHER INVESTMENTS

The miscellaneous group of foreign investments in the United States includes investments and property holdings which consist either of (1) mixed portfolios which cannot, for practical purposes, be segregated into stocks, bonds, and other securities or (2) investments, the value of which cannot be satisfactorily estimated because of the incompleteness of basic data.

It may be said that personal and corporate trust funds administered by trustees in the United States for beneficiaries residing in foreign countries are not ordinarily considered as foreign investments in this country, since a substantial and perhaps a major part of such funds is administered in behalf of United States citizens who reside more or less permanently in foreign countries. Since residence, rather than nationality, is the basis for classification, the capitalized value of income derived from trust funds and remitted to recipients abroad must necessarily be included in the types of foreign investment in this country to the analysis and appraisal of which this study is directed. The aggregate value of such trust funds is not shown, however, as a single category, because the data thus far collected are not considered sufficiently complete to permit an entirely satisfactory estimate, and it was therefore considered advisable to include the tentative estimate in a general group of investments admittedly subject to a substantial margin of error.

As indicated above, foreign holdings of United States Government and other tax-exempt bonds are included in this category. Foreign holdings of American real estate, urban and agricultural mortgages, and certain personal holdings of other properties complete the list.¹⁸

¹⁸ See pp. 19-20.

CHAPTER II

FOREIGN LONG-TERM INVESTMENTS, 1934-36

Foreign long-term investments in the United States at the end of 1936¹⁹ were estimated at \$6,108,000,000, an increase of approximately \$1,000,000,000 over the estimate at the end of the preceding year. The estimates for both these years are based on the results of a comprehensive survey of foreign investments in this country as of the end of 1934.

PRINCIPAL TYPES, 1934-36

The composition, by principal types of investments, of the respective year-end totals for 1934 to 1936 are shown in table 3 and figure 1.

Table 3.—Foreign Long-Term Investments in the United States, 1934-36

[Year-end data; in millions of dollars]

Type of investment	1934	1935	1936
Direct investments (book value).....	1,518	1,580	1,640
Common stocks (market value).....	1,202	1,840	2,700
Preferred stocks (par value).....	351	390	455
Bonds (par value).....	536	549	563
Other investments.....	750	750	750
Total.....	4,357	5,109	6,108

The increase in aggregate foreign long-term investments in the United States during each of the 2 years 1935 and 1936 was distributed among the four principal classes of such investments.²⁰ The major part of each annual increase was reflected, however, in the growth of foreign ownership of noncontrolling common shares of American corporations. In 1935, for example, when the value of total foreign investments increased by \$752,000,000, the combined effect of additional net purchases of common stocks and the rise in aggregate market value of previously acquired holdings accounted for a rise of \$638,000,000. During 1936, when the long-term investments of foreigners increased by approximately \$1,000,000,000, the value of foreign-held common shares (exclusive of direct investments) increased by \$860,000,000.

Foreign direct investments, which in 1934 constituted the largest single item of foreign long-term investments in this country, increased by \$122,000,000 from the end of 1934 to the end of 1936, a growth of 8 percent. In the latter year, however, foreign holdings of noncontrolling common shares exceeded the value of direct investments by

¹⁹ A more detailed discussion of trends in these investments during recent years follows in the succeeding chapters of this bulletin.

²⁰ The fifth category listed in the table, "other investments", represents the aggregate of a small number of miscellaneous groups which include items of more or less arbitrary valuation. See pp. 13 and 19-20.

more than \$1,000,000,000, and the latter constituted only 26.8 percent of total foreign-owned investments in the United States, as compared with 34.8 percent in 1934.

Almost half of the 2-year increase of \$122,000,000 in direct investments was the result of the increase in the net equity of foreign insurance companies in their United States branches and affiliates. The remainder was largely accounted for by additions to surplus (out of earnings) by the American subsidiaries of foreign companies of other types. New foreign direct investments, particularly in the liquor industry, were partly offset by the resale of old foreign investments to Americans and by the liquidation of unprofitable enterprises in this country.

The total market value of foreign-held common shares of United States corporations more than doubled from 1934 to 1936, largely as

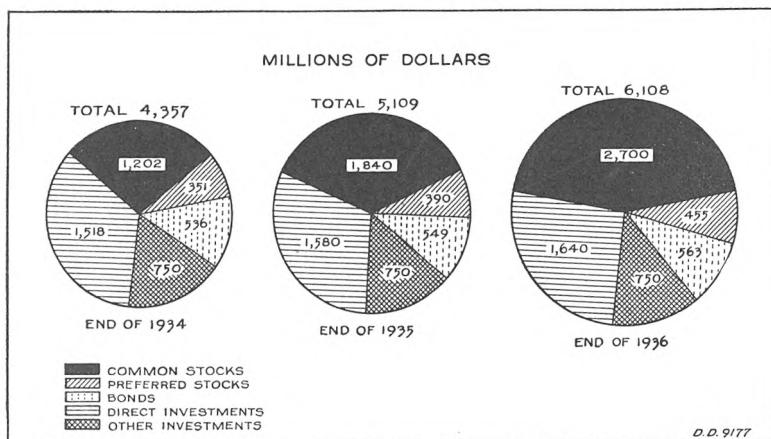


Figure 1.—Foreign long-term investments in the United States, by type of investment, 1934-36.

a result of two influences: namely, increased share holdings and appreciation in market prices. Because of the steady international movement of securities and the use, in preparing the estimates, of market values in the case of common shares and par values in the case of preferred shares and bonds, it is not possible to measure separately the statistical effect of new purchases, as compared with that produced by the appreciation of the market price of previously acquired holdings of common stock. The data relating to the net cash movement of foreign funds employed in the purchase of American securities, and summarized in table 4, indicate a net inward movement during 1935 and 1936 of \$917,000,000. The importance of common stocks as a factor in this net inflow of foreign funds for investment is illustrated not only by the data in table 3 but also by the statistics in chapter VI. As indicated in table 33 (ch. VI), the index of the number of common shares held abroad rose from 147 in 1934 to 211 in 1936. The effect of these additional purchases, together with a rise in the average-price index from 28 at the end of 1934 to 42 at the end of 1936, was sufficient to raise the value of foreign-held common shares during the 2-year period from \$1,202,000,000 to \$2,700,000,000, or by more than 125 percent. (See appendix B.)

Table 4.—Net Inflow of Funds Involved in Transactions in United States Securities, 1935-36

[In millions of dollars]

Country	1935	1936	Total
Canada.....	2	30	32
United Kingdom.....	150	218	368
France.....	23	42	65
Netherlands.....	51	107	158
Switzerland.....	55	145	200
Other Europe.....	8	20	28
Latin America.....	3	12	15
Rest of world.....	24	27	51
Total.....	316	601	917

Source: Statistics of Capital Movements Between the United States and Foreign Countries and Purchases and Sales of Foreign Exchange in the United States, Report No. 2, U. S. Treasury Department, Division of Research and Statistics, 1937.

According to the data summarized in table 4, 40 percent of the net inflow of funds involved in transactions in United States securities during the 2 years 1935 and 1936 came from the United Kingdom. The proportion was somewhat above this average in 1935 and slightly less in 1936. Next in importance were Switzerland and the Netherlands, transactions by the former involving a net inflow of \$200,000,000 and those by the latter aggregating \$158,000,000. In both these cases the 1936 net inflow was more than double that in 1935. Although these three countries are among the first four investing countries in the United States,²¹ it is important to note that the reported origin of international security transactions does not necessarily determine either the national origin of the funds or the domicile of the beneficial owner of the securities purchased or sold.

The estimated par value of foreign-held preferred shares of United States corporations increased from \$351,000,000 at the end of 1934 to \$455,000,000 at the end of 1936. The greater part of the increase of \$104,000,000 took place in 1936. The use of par values minimizes, of course, the fluctuations in value of foreign holdings of preferred stocks. Foreign holdings of United States corporate bonds rose steadily during the period covered by table 3, largely as a result of an increase in holdings of public-utility issues²² and possibly to some extent because of new investments in certain classes of industrial issues. The value of total foreign-owned railroad bonds declined sharply during 1934, but during the 2 subsequent years remained comparatively stable.

FOREIGN INVESTMENTS, END OF 1934

Attention was called in chapter I to the comprehensive survey of foreign investments in the United States as of the end of 1934, the results of which have provided most of the basic data employed throughout this bulletin. These data, classified by types of investments, are summarized by countries in table 5 and by industries in table 6 and are shown graphically in figure 2.

²¹ See also ch. VI, pp. 71-72, for an indication of the changes in the geographic distribution of foreign investments in common and preferred shares.

²² See ch. VIII, table 44.

DISTRIBUTION BY COUNTRIES

The principal countries whose residents held substantial investments in the United States were, in the order of their importance, the United Kingdom, Canada, and the Netherlands. Their aggregate long-term investments in this country at the end of 1934 were \$3,017,000,000, or 69 percent of the total for all countries. These three countries also assumed correspondingly important positions in three of the five individual groups of investments; in the other two groups, these relative positions were altered only by Switzerland's replacement of the Netherlands as third in importance in the holdings of preferred stock and of the same country's replacement of Canada as third in importance in the holdings of bonds.

Table 5.—Foreign Long-Term Investments in the United States by Countries and Areas, End of 1934

[In millions of dollars]

Type of investment	Canada	United Kingdom	France	Netherlands	Switzerland	Other Europe	Latin America	Rest of world	Total
Direct investments (book value).....	367	678	24	224	91	68	6	60	1,518
Common stocks (market value).....	333	233	81	133	101	47	13	261	1,202
Preferred stocks (par value).....	89	135	18	20	25	36	4	24	351
Bonds (par value).....	49	87	50	207	63	40	8	32	536
Other investments.....	169	164	53	129	68	44	9	114	750
Total.....	1,007	1,297	226	713	348	235	40	491	4,357
Percent of total.....	23.1	29.8	5.2	16.3	8.0	5.4	0.9	11.3	100.0

United Kingdom.—Direct investments comprised over half of the United Kingdom's total, owing, in a very considerable degree, to the investments of British insurance companies and of a large number of British manufacturing enterprises. British capital invested in manufacturing undertakings exceeded that in insurance, the respective figures being \$305,000,000 and \$231,000,000. These investments are found in practically every major industrial group, but principally in the manufacture of textiles and textile products.

Railroad securities, which once formed such a large part of the total British investments in the United States, were definitely of secondary importance at the end of 1934, being exceeded by manufacturing investments and very closely followed by public-utility securities. Exclusive of those included with the insurance-company investments, rail securities aggregated only slightly more than \$100,000,000. This is in striking contrast with the situation that existed at the time of the World War, when the United Kingdom was able to mobilize over \$1,000,000,000 of railroad stocks and bonds, which comprised about three-fourths of all United States securities mobilized.

Canada.—Canadian investments in this country are rather evenly distributed among direct investments, common-stock holdings, and those not separately classified. Direct investments, of which 54 percent were railroad enterprises, were first in value of all groups. The noncontrolling common stocks held were principally those of manufacturing enterprises and public utilities, while those of railroads were of lesser significance.

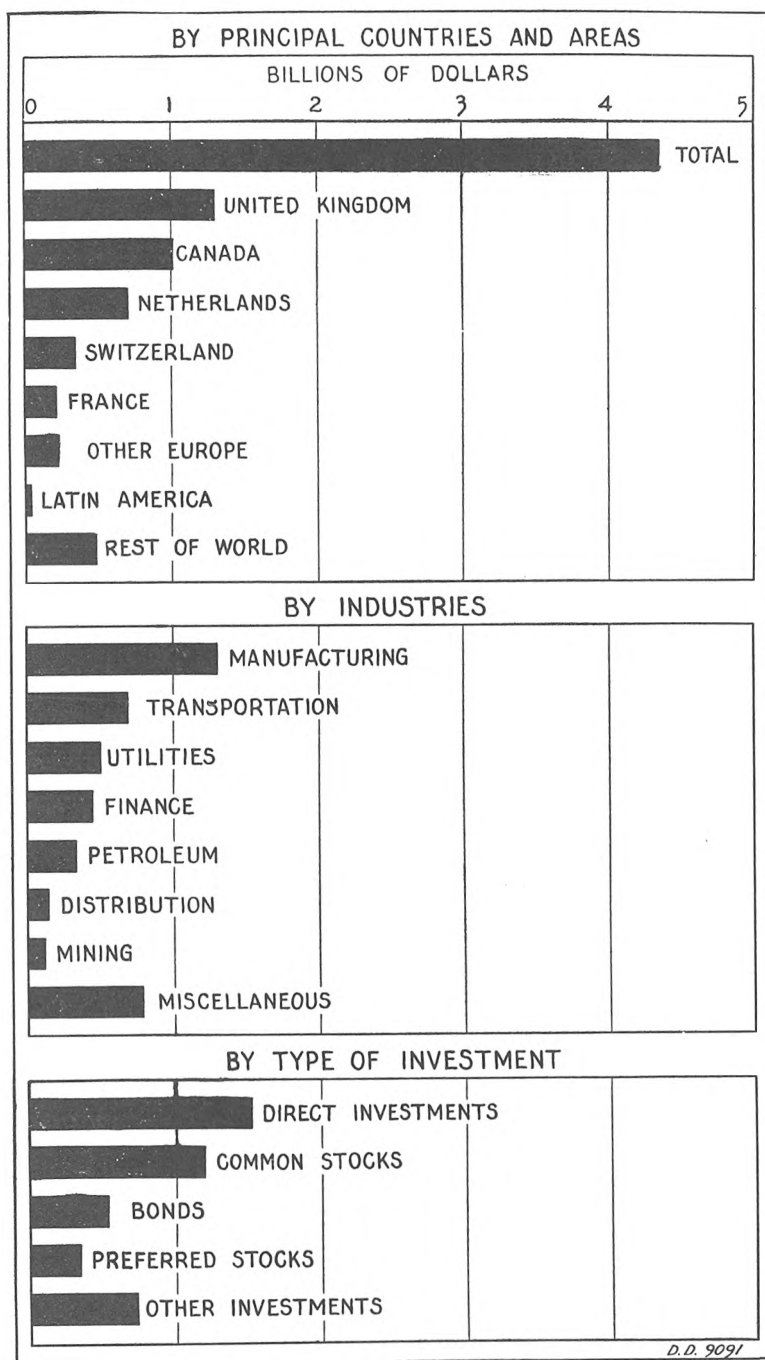


Figure 2.—Foreign long-term investments in the United States, by principal countries and areas, by industries, and by type of investment, end of 1934.

The Netherlands.—Bond holdings were next in importance to direct investments in the total of the Netherlands investments. Even so, they occupied a much more prominent position in that total than in the investments of any other country or area. More than half of the \$207,000,000 invested in bonds by residents of the Netherlands was in railroad securities. While rails were of first importance in the bond category, they were displaced by manufacturing and public utilities in the Netherlands investments in common and preferred stocks.

Other countries.—The value of Switzerland's holdings was fourth in order among the various investing countries, while France occupied fifth place. The total for the rest of the world was somewhat inflated by the inclusion of some holdings of common stock which were not shown by geographic distribution in the reported data.

DISTRIBUTION BY INDUSTRIES

The importance of foreign investments in manufacturing enterprises in these countries is clearly indicated in table 6. They comprise 30 percent of the total, and it is only in the bond category that they fail to occupy first place. One-half of the common-stock holdings, approximately one-third of the direct investments, and nearly one-third of the preferred-stock interest are in the manufacturing group. As was to be expected, transportation and public utilities, in the order of their importance, comprise distinctly the larger part of the foreign-held American bonds. At the end of 1934, finance occupied a prominent position among the foreign direct investments in the United States. Mining investments, once an outstanding favorite among foreigners, represented a minor part of the total. Transportation, well represented in each type of investment, and public utilities were second and third, respectively, among foreign investments in specified industries.

Table 6.—Foreign Long-Term Investments in the United States, by Industries,¹
End of 1934

[In millions of dollars]

Type of investment	Manu- factur- ing	Retail and whole- sale distrib- ution	Rail- roads, includ- ing other transporta- tion	Public utili- ties	Petro- leum	Min- ing	Fi- nance	Mis- cella- neous	Total
Direct investments (book value)	565	86	245	8	207	35	360	12	1,513
Common stocks (market value)	601	45	110	198	113	69	58	8	1,202
Preferred stocks (par value)	114	11	80	95	12	8	25	6	351
Bonds (par value)	28	1	254	215	4	9	5	20	536
Other investments								750	750
Total	1,308	143	689	516	336	121	448	796	4,357
Percent of total	30.0	3.3	15.8	11.8	7.7	2.8	10.3	18.3	100.0

¹ See appendix A for details of the industrial classification.

OTHER INVESTMENTS

The category "Other investments", carried at \$750,000,000 during each of the 3 years covered by table 3, consists largely of miscellaneous items for some of which no very satisfactory data are available. The most important item relates to the capitalized value of income

accruing to residents of foreign countries from investments administered by American trustees for foreign beneficiaries, many of whom are United States citizens residing more or less permanently abroad. Other items pertain to foreign holdings of real estate, of urban and agricultural mortgages, and of Government bonds, including Federal, State, and municipal obligations.

The estimates of trustee investments administered for foreign beneficiaries are based on a special survey, made by the Finance Division, of income remitted to such beneficiaries during 1934. The estimated capital value of \$415,000,000 was arrived at by applying an arbitrary rate of 4¼ percent²³ to the income accruing during the year to residents of foreign countries, as estimated on the basis of data submitted by approximately 100 banks and trust companies.

Data on foreign ownership of real estate and of urban and agricultural mortgages in this country are incomplete and unsatisfactory. On the basis of scattered statistical information, it appears that foreign holdings of real estate in the United States, exclusive of properties included in the other investment categories, such as direct investments and trust funds, do not exceed \$250,000,000. That aggregate foreign holdings of urban mortgages are comparatively small is indicated in a sample survey made by the Mortgage Commission of the State of New York (see appendix B, II) which showed foreign holdings of approximately \$1,500,000 out of a total of \$1,000,000,000. Foreign holdings of agricultural properties are included in part in direct investments.

Foreign holdings of the obligations of Federal, State, and municipal governments and of other political subdivisions have been comparatively unimportant among total foreign investments in this country for a half century or more.²⁴ The examination of available foreign institutional portfolios during recent years indicates that foreign holdings at present are negligible. Furthermore, the tax-exemption provisions in industrial bond indentures (whereby debtor corporations assumed the payment of all taxes), which were recognized by the Federal tax laws prior to 1936, offered a special incentive to foreign investors to choose industrial issues in preference to the lower-yield issues of the Federal, State, and municipal governments.

Certain foreign holdings of government issues are, of course, included in trust funds, while others are reflected in the foreign equity interest in American insurance companies and thus included in direct investments. On the basis of all available collateral data, it is not likely that other foreign holdings of such issues exceeded \$50,000,000 at the end of 1934.

The estimates in this final category of foreign long-term investments in the United States constitute admittedly a somewhat catch-all item. The reasons for including all of the least certain items in this single category are, as explained in chapter I, prompted by the desire to eliminate, to the highest degree possible, the sources of potential error in the other categories as defined and reported. At the same time, the aggregate of "other investments" is such a small part of total investments that the maximum errors in the component parts are hardly of sufficient import to cast serious doubt on the aggregate investment figures.

²³ This rate is referred to as "arbitrary" in the sense that no data were available for actual computation. It was an average of rates suggested by various trust officers who were consulted.

²⁴ See ch. III.

CHAPTER III

HISTORY AND GROWTH OF FOREIGN INVESTMENTS

REVOLUTIONARY WAR TO CIVIL WAR

The earliest long-term foreign investments in the United States took the form of local merchandising enterprises, turnpikes, and bridges. During the Revolution, Government obligations became an important part of the total. At first the foreign borrowings took the form of subsidies and loans from France and Spain. Later, private bankers in the Netherlands extended loans to the struggling revolutionists.²⁵

As early as 1791 English capitalists became interested in the bonds of the United States, and by 1801 Baring Bros. (British bankers) cashed the coupons from over £4,000,000 of American debt, an amount which exceeded the combined holdings of the Dutch and the Swiss. In 1812, despite an intervening increase, the same firm cashed the coupons from only £1,500,000, the reduction being at least partially due to the extinction of the First Bank of the United States (about \$7,000,000 of the stock of this bank was said to have been held by the British)²⁶ and the retirement of a considerable part of the public debt.

After the War of 1812, much of the national debt of the United States again found its way abroad. It has been estimated that foreign investments in the Federal debt in 1818 amounted to \$25,000,000.²⁷ Shortly after the war, canals began to be constructed in many parts of the country. These attracted considerable amounts of foreign capital to this country. Furthermore, a large number of the shares of the Second Bank of the United States was held by foreigners in the late twenties²⁸ and probably, also, when the bank's charter expired in 1836.

One student of the developments of this period wrote: "It will not be far wrong to estimate the total quantity of British capital invested in the United States during the thirties as approximately equal to the indebtedness incurred by the several States."²⁹ The State debts rose from \$26,470,000 in 1830 to \$170,000,000 in 1838. However, the depression of 1837 caused a withdrawal of foreign capital. Bank suspensions were general in 1839, and in 1841 and 1842 nine States defaulted on interest payments.³⁰ Several of the State-supported banks collapsed entirely. The railroads, which had been expanding very rapidly (with the aid of foreign capital), were not profitable and added to the defaults. About this time the credit of the country was at a low ebb in Europe.

²⁵ See mimeographed release of U. S. Treasury Department (Nov. 8, 1923), *Liquidating the Revolutionary War Debt*.

²⁶ Jenks, Leland H., *The Migration of British Capital to 1875*, pp. 65-66.

²⁷ Review of Economic Statistics, July 1919, p. 218, *The Balance of Trade of the United States*, citing Seybert, *Statistical Annals*, p. 757.

²⁸ Sumner, Wm. G., *History of the American Currency*, pp. 88-89.

²⁹ Jenks, op. cit., p. 85.

³⁰ Jenks, op. cit., p. 103.

A few years later, in 1843, a committee of the House of Representatives reported that between \$150,000,000 and \$200,000,000 of the debts of the States and cities was held abroad.³¹ In an unsigned article in Hunt's Merchants' Magazine, written at a much later date, foreign investments in this country in 1847 were estimated at only \$166,000,000, of which about one-third was commercial and short term.³² With the return of prosperity, the past was forgotten, and there was a return of foreign confidence and an inflow of capital, much of it going into the building of railways. The foreign debt of the United States in 1851 was estimated in Hunt's Merchants' Magazine at \$251,000,000.³³ Just before the Civil War, foreign investments amounted to an estimated \$400,000,000.³⁴

CIVIL WAR TO WORLD WAR

At the beginning of the Civil War the future of the Federal Government was viewed abroad as highly uncertain, and foreign investors tended to liquidate their American holdings at a sacrifice.³⁵ By the latter part of 1863, however, Federal bonds to the extent of many millions of dollars were being sold both in England and on the Continent. The Special Commissioner of the Revenue, David A. Wells, estimated that the foreign holdings of the bonds of the National Government amounted in 1869 to \$1,000,000,000. Foreign holdings of State and city bonds were estimated at \$107,000,000, holdings of railroad bonds and stocks at \$243,000,000, and holdings of other securities and properties at \$65,000,000.³⁶ These represented a total of \$1,415,000,000, exclusive of \$50,000,000 of capital temporarily employed.

Bullock, Williams, and Tucker, writing at a much later date, expressed the opinion that \$1,500,000,000 was a conservative estimate for foreign investments in this country in 1873.³⁷ According to the same authorities, the total had increased to \$2,500,000,000 by 1895, but the increase was not continuous. For example, it was estimated that American repurchases (net) of foreign-held American securities during the years 1876 to 1878, inclusive, amounted to \$300,000,000; that between July 1882 and July 1885 net repurchases averaged \$25,000,000 per annum; and that from the last quarter of 1890 to December 1896 they averaged \$60,000,000 each year.³⁸ The intervening years of restored confidence and prosperity witnessed such heavy foreign investments, particularly in railway bonds, that with each new surge the total reached a new high level.

Probably the best known of the early estimates of foreign investments in the United States are those of Nathaniel T. Bacon,³⁹ applying to the beginning of 1899. His estimates are shown in the following summary:

³¹ H. Rept. No. 296, 27th Cong., 3d sess., Mar. 2, 1843, p. 7.

³² Hunt's Merchants' Magazine, December 1857 (p. 664), The Panic and Financial Crisis of 1857.

³³ Ibid. An estimate of \$184,200,000 and one of \$222,200,000 in 1853 were contained in S. Exec. Doc. No. 42, 33d Cong., 1st sess., Mar. 2, 1854, p. 53. This document was a report of the Secretary of the Treasury in answer to a resolution of the Senate calling for data regarding American securities held abroad as of June 30, 1853.

³⁴ Hunt's Merchants' Magazine and Commercial Review, October 1868 (p. 241 et. seq.), American Securities in Europe.

³⁵ H. Exec. Doc. No. 27, 41st Cong., 2d sess., p. XXVI.

³⁶ Ibid., pp. XXVI-XXVIII. Other estimates of \$600,000,000 in 1866 and \$938,000,000 in 1868 are found in Hunt's Merchants' Magazine, October 1868, op. cit.

³⁷ Review of Economic Statistics, op. cit., p. 223.

³⁸ Ibid., pp. 225-226.

³⁹ Yale Review, November 1900, vol. 9, pp. 263-285, American International Indebtedness. The insurance estimate shown in the table probably represented the total American assets of foreign insurance companies and is not comparable with current estimates.

Foreign Investments in the United States as of Jan. 1, 1899

[In millions of dollars]	
England.....	2, 500
Netherlands.....	240
Germany.....	200
Switzerland.....	75
France.....	50
Belgium.....	20
Rest of Europe.....	15
Cuba.....	30
Other American and Chinese.....	15
Life insurance companies.....	185
Total.....	3, 330

Bacon collected his data from many different sources in the United States and abroad. The estimate of British investments was based in large part on British income-tax returns. It was necessary first to ascertain the part of the foreign income that came from the United States and then to capitalize it. (Bacon assumed a rate of return of 4 percent.) In other countries the estimates of bankers proved useful to him. Naturally, estimates based on such information are subject to wide margins of error. On the whole, however, they appear to have considerable merit.

During the decade following Bacon's investigation there was undoubtedly a substantial increase in foreign investments in the United States. For a few years around the turn of the century, Americans apparently were making net repurchases of American securities in Europe, but after 1903 the flotation of American railway issues in England and on the Continent assumed large proportions and this country again became a heavy net borrower. At the same time quite large foreign investments were made in companies developing the mines and petroleum resources of the United States.

Sir George Paish, editor of the *London Statist*, estimated that total foreign investments in the United States in 1908 amounted to \$6,500,000,000.⁴⁰ Of this amount \$400,000,000 was short term and \$100,000,000 was not identified. The \$6,000,000,000 credited to Europe was divided as follows: Great Britain, \$3,500,000,000; Germany, \$1,000,000,000; Netherlands, \$750,000,000; France, \$500,000,000; and other Europe, \$250,000,000.

British investments in the United States in 1910 were placed by Paish at £688,078,000.⁴¹ The following summary shows how this estimate was divided by classes:

British Capital in the United States in 1910

Railways.....	£586, 227, 000
Land.....	31, 437, 000
Mines and petroleum.....	25, 196, 000
Banking, commercial and industrial.....	16, 645, 000
Breweries, etc.....	11, 505, 000
Public utilities.....	8, 431, 000
Municipal securities.....	7, 896, 000
Other.....	741, 000
Total.....	688, 078, 000

⁴⁰ United States National Monetary Commission, Publications, vol. XX, Miscellaneous Articles, pp. 172-176, *The Trade Balance of the United States*. See Paish's article in the *Journal of the Royal Statistical Society*, Sept. 10, 1909, for a slightly different geographical distribution. Other British students of the subject arrived at greatly different estimates. For example, the *London Economist*, Feb. 20, 1909, p. 376, published the estimates of a correspondent "who for some years has made a detailed study of the subject" and of a Mr. Beaumont, a member of the London Stock Exchange, who made rough estimates. The former estimated British capital in the United States at £485,000,000 and the latter at £400,000,000.

⁴¹ *Journal of the Royal Statistical Society*, January 1911, p. 176, *Great Britain's Investments in Individual Colonial and Foreign Countries*, by Sir George Paish. Total investments would be somewhat higher, inasmuch as he did not include so-called private capital in his estimates.

Three years later he raised his estimate to £754,617,000.⁴² On the basis of this figure, total foreign investments in the United States at the outbreak of the World War have been placed as high as \$7,000,000,000.

Other estimates differed widely from those just quoted. Dow, Jones & Co., of New York, compiled returns from 114 American corporations and on that basis estimated that the total of American securities held abroad in June 1914 exceeded \$5,000,000,000.⁴³

Early in 1915, L. F. Loree, president of the Delaware & Hudson Co., circularized each of the 144 American railroads that were over 100 miles long for data regarding the foreign holdings of their securities. Of this number, 105 reported foreign holdings, while 39 reported that none of their securities were held abroad. The reports were based on the transfer records of the various stock issues and, as regards bonds, on the slips filed by the payee under the provisions of the Federal Income Tax Law. The results of his compilation are shown in the following summary:⁴⁴

**Par Value of Foreign Investments in United States Railway Securities,
Jan. 31, 1915**

Railway common stocks.....	\$573, 880, 393
Railway preferred stocks.....	209, 952, 550
Railway notes and equipment certificates.....	79, 485, 845
Railway bonds.....	1, 841, 083, 576
Total.....	2, 704, 402, 364

These figures need to be supplemented with other data in order that they may be comparable with Paish's estimates or with those based on his studies. For example, by January 31, 1915, many American securities had been sold by European holders, probably to the extent of \$500,000,000 or even \$700,000,000. Furthermore, defaulted bonds were not included in Loree's data except to the extent that the issuing companies determined the facts from sources other than the tax slips. Securities carried in American names also were not covered. In an article issued shortly after Loree's figures first appeared, a financial weekly estimated American-name holdings of railway securities at \$150,000,000. This journal also estimated that railway securities comprised four-fifths of the total foreign investments in the United States, thus allowing \$682,000,000 for all other foreign holdings.⁴⁵ These two estimates plus the figures reported by Loree aggregate only \$3,536,000,000.

WORLD WAR PERIOD

Two official sources of information regarding foreign investments in the United States became available as a result of the World War—the report of the American Dollar Securities Committee and the reports of the Alien Property Custodian. These reports are helpful in fixing the limits of total foreign investments in the United States and in determining the character of those investments. The first—

⁴² Statist Supplement, Feb. 14, 1914, pp. I-VIII, *The Export of Capital and the Cost of Living*, by Sir George Paish.

⁴³ Review of Economic Statistics, op. cit., p. 245. Direct investments were undoubtedly omitted from this estimate.

⁴⁴ Commercial and Financial Chronicle, Mar. 31, 1917, p. 1216.

⁴⁵ *Annalist*, June 28, 1915, p. 674. The railway figures cited in the article as being Mr. Loree's were less than those later published by him. The total figure given above is, therefore, higher than that in the article. The estimate of foreign holdings of other than rail securities was undoubtedly too low.

named source was the report of a committee appointed by the British Government to mobilize securities held by British subjects for use in supporting sterling exchange.⁴⁶ The mobilization of securities was not started until July 1915 and did not become really effective until some months later. Even then the mobilization was not complete. However, by 1919 the committee had purchased, or received under loan agreements, American securities with a par value of about \$1,365,000,000.⁴⁷ These securities may be classified as follows:

American Securities Purchased by or Loaned to the American Dollar Securities Committee

[Par value]	
Dollar bonds:	
Railroad.....	\$668, 006, 859
Other.....	158, 601, 815
Sterling bonds:	
Railroad.....	100, 393, 218
Other.....	26, 989, 122
Dollar shares:	
Railroad.....	304, 663, 962
Other.....	106, 674, 379
Total.....	1, 365, 329, 355

The report of the United States Alien Property Custodian made available detailed information relative to enemy properties seized in the amount of \$503,000,000. Other properties not yet evaluated were believed to raise the total to \$700,000,000, the report stated.⁴⁸ Of the former amount the properties seized from resident alien enemies accounted for \$96,000,000, while those seized from German, Austrian, and other enemy aliens amounted to \$327,000,000, \$39,500,000, and \$40,000,000, respectively. Over \$34,000,000 of the total consisted of enemy vessels, which were not, properly speaking, foreign investments in the United States. The same may be said of the properties of resident alien enemies.

A large part of the enemy holdings was in the form of direct investments. Many of the stock holdings below represented the controlling interests in American corporations. The distribution of the total was as follows:

Alien Enemy Property Seized by Alien Property Custodian, by Types

[In millions of dollars]	
Cash.....	80
Stocks.....	167
Bonds and mortgages.....	74
Notes and accounts receivable.....	55
Real estate.....	10
General businesses.....	83
Enemy vessels.....	34
Total.....	503

Source: Report, 1918-19, p. 203.

⁴⁶ The French Government also mobilized dollar securities, but there are no very satisfactory data regarding the amounts involved. All neutral securities (including those of the United States) mobilized amounted to less than \$130,000,000. Banque de France, compte rendu au nom du Conseil General, 30 Janvier, 1919, p. 24.

⁴⁷ Great Britain, Report of the American Dollar Securities Committee, 1919. The total cited above includes securities of American companies operating abroad. About 30 percent of the securities acquired were loaned to the committee and were probably returned to their owners after the war.

⁴⁸ Alien Property Custodian Report, 1918-19, pp. 9 and 23.

There was a heavy liquidation of American securities by foreigners during the war. The principal measure of this liquidation is provided by the data collected by Loree.⁴⁹ These data are given in the following summary:

American Railway Securities Held Abroad

	<i>Par value</i>	<i>Market value</i>
Jan. 31, 1915-----	\$2, 704, 402, 364	-----
July 31, 1915-----	2, 223, 510, 229	\$1, 751, 437, 913
July 31, 1916-----	1, 415, 628, 563	1, 110, 099, 090
Jan. 31, 1917-----	1, 185, 811, 486	924, 542, 646

The figures reveal a reduction of over \$1,500,000,000 in the par value of foreign holdings of railway securities in the 2 years following January 31, 1915. In addition, foreign investments in the United States were reduced by substantial sales of other American securities and the seizure of enemy properties. One writer estimated that the total reduction in foreign investments during the war was \$2,200,000,000, leaving total investments at the end of 1919 at \$2,800,000,000.⁵⁰

WORLD WAR TO DEPRESSION

No thorough studies of foreign investments in the United States were made following the World War, until the present survey. As indicated in chapter I, some estimates were published in the Balance of International Payments of the United States in 1927 and again in 1929.⁵¹ These were based on estimates of the investments of various foreign countries that were reported by the foreign representatives of the Departments of Commerce and State. Sometimes those estimates were based on the impressions of a few informed individuals and sometimes on more thorough studies made by interested individuals or organizations in a particular foreign country. Naturally, estimates obtained in that manner were not based on any consistent method of valuation and were subject to wide variations from year to year, as will be apparent from an examination of table 7.

After allowing for the investments of the countries for which no data were available, the total foreign investments in the United States in 1927 were estimated at \$3,700,000,000. In 1929 the total was placed at \$4,700,000,000.

ANNUAL MOVEMENTS OF FOREIGN CAPITAL IN POST-WAR PERIOD

The Balance of International Payments of the United States⁵² has included annual estimates of international capital movements, although transactions affecting foreign investments in this country cannot be identified separately each year. Furthermore, since they are based on the cash values involved, they are of limited use in arriving at the total of foreign investments at different dates. Lastly, and of most importance, the capital movement data are only approximations, based in some cases on rather unsatisfactory data. They do serve, however, to indicate the broad movements of foreign investments in this country.

⁴⁹ Chronicle, March 1917, p. 1216.

⁵⁰ National Industrial Conference Board, Inc., The International Financial Position of the United States, p. 49.

⁵¹ Department of Commerce, Trade Information Bulletin No. 552, pp. 8-9 and 22-25, and Trade Information Bulletin No. 698, pp. 11-12.

⁵² Published for the years 1919, 1920, and 1921 in the Harvard Review of Economic Statistics and from 1922 to date by the Finance Division, Department of Commerce.

Table 7.—Estimated Foreign Investments in United States, End of 1927 and of 1929

[In thousands of dollars]

Country	1927	1929	Country	1927	1929
Canada.....	722, 000	935, 450	Europe—Continued.		
Europe:			Yugoslavia.....	(1)	(1)
Austria.....	2, 000	5, 000	Total.....	2, 206, 858	3, 299, 450
Belgium.....	75, 000	75, 000	Latin America:		
Bulgaria.....	(1)	(1)	Cuba.....	(2)	60, 000
Czechoslovakia.....	(1)	4, 000	Mexico.....	125, 000	100, 000
Denmark.....	18, 000	15, 650	Bahamas.....	(2)	500
Estonia.....	(1)	(1)	Bermuda.....	(1)	1, 000
Finland.....	(1)	(1)	Jamaica.....	(2)	500
France.....	(2)	400, 000	Panama.....	(2)	1, 000
Germany.....	(2)	400, 000	Barbados.....	(1)	300
Greece.....	17, 500	25, 000	Total.....	125, 000	163, 300
Hungary.....	250	(1)	Rest of world:		
Irish Free State.....	(2)	40, 000	Azores.....	(2)	6, 250
Italy.....	(2)	52, 600	China.....	20, 000	50, 000
Latvia.....	80	(1)	Egypt.....	(1)	4, 000
Lithuania.....	250	300	India.....	(2)	5, 000
Netherlands.....	300, 000	450, 000	Japan.....	(1)	50, 000
Norway.....	19, 778	9, 700	Palestine.....	(1)	(1)
Poland.....	(2)	(1)	Turkey.....	(1)	(1)
Portugal.....	(2)	(1)	Total.....	20, 000	115, 250
Rumania.....	2, 000	2, 000	Grand total.....	3, 073, 858	4, 513, 450
Russia.....	(2)	(1)			
Spain.....	90, 000	20, 000			
Sweden.....	122, 000	40, 200			
Switzerland.....	200, 000	200, 000			
United Kingdom.....	1, 360, 000	1, 560, 000			

¹ Negligible.² No data available.

NOTE.—Based, with slight rearrangements, on data in the Bulletins referred to in footnote 51.

The figures in table 8 tend to confirm what has been generally believed, that foreigners have been adding to their investments in this country throughout most of the post-war period. The possibilities of safe and profitable investments in the United States have apparently been highly rated by foreign investors. The inflow of foreign funds reached its highest in 1928 and 1936, years of advancing prosperity. However, even the depression years 1930, 1931, and 1932 failed to show an aggregate withdrawal of foreign long-term capital.

Table 8.—Balance-of-Payments Estimates of Funds Involved in Transactions Affecting Foreign Investments in the United States, 1919-36

[In millions of dollars; plus sign indicates a net inflow of funds; minus sign indicates a net outflow]

Year	Net direct investments	American stocks and bonds bought back from foreigners	American stocks and bonds sold to foreigners	Bond redemption and sinking fund payments	Net movement of foreign capital
1919.....		¹ -195			
1920.....		¹ -258			
1921-25.....	(2)	(2)	(2)	(2)	(2)
1926.....	+32	-509	+635	-65	+93
1927.....	+28	-650	+831	-70	+139
1928.....	+70	-1, 135	+1, 661	-70	+526
1929.....	+16	-1, 054	+1, 489	-77	+374
1930.....	+19	-916	+1, 035	-77	+61
1931.....	+9	-495	+589	-50	+53
1932.....	-1	-305	+300	-50	-56
1933.....	+7	-580	+760	-50	+137
1934.....	+12	-480	+480	-25	-13
1935.....	+24	-970	+1, 305	-15	+344
1936.....	-4	-2, 070	+2, 685	-15	+596

¹ Net stock and bond transactions.² No data available.

With foreign investments at the end of 1934 estimated herein at \$4,357,000,000, reference to table 8 makes it clear, as stated by the Federal Reserve Board,⁵³ that “* * * most of this great foreign investment was acquired before the depression—a substantial portion of it before the war. * * * In the intervening years foreign buying and selling transactions have resulted in shifts of ownership and changes in the securities held. * * * During the last decade the movement of foreign funds has been prevailing into, rather than out of, American securities.”

According to the balance-of-payments estimates, foreign capital flowed to this country between 1926 and 1929, inclusive, at an average annual rate of over \$275,000,000. The balance-of-payments bulletins of the years before 1926 indicate that there was a net inflow of foreign funds during the 6 years just preceding. Considering the estimated volume of this inflow of foreign capital, it appears that total foreign investments at the end of 1919 were close to \$2,800,000,000, as estimated by the National Industrial Conference Board.⁵⁴

Estimates of foreign investments in the United States at various dates, as cited in this chapter, are given in the recapitulation following (table 9). Additional historical data, as they relate to specific types of foreign investments, are presented in the chapters setting forth the details regarding those different types.⁵⁵

Table 9.—Recapitulation: Estimates from Scattered Sources, of Foreign Investments in the United States at Various Dates, 1801–1936

Year	Amount	Comment	Source
1801	£4,000,000	British; bonds	Jenks.
1812	£1,500,000	do	Do.
1818	\$25,000,000	Federal debt	Seybert.
1830	\$26,000,000	British	Jenks.
1838	\$170,000,000	do	Do.
1843	{ \$150,000,000 \$200,000,000 }	{ State and municipal debt	House Report.
1847	\$166,000,000	Total	Hunt's Magazine.
1851	\$251,000,000	do	Do.
1853	{ \$184,000,000 \$222,000,000 }	{ Securities	Senate Document.
1860	\$400,000,000	do	Do.
1866	\$600,000,000	do	Hunt's Magazine.
1868	\$938,000,000	Total	Do.
1869	\$1,465,000,000	do	Do.
1873	\$1,500,000,000	do	Wells.
1899	\$3,330,000,000	do	Bullock, Williams & Tucker.
1908	\$6,500,000,000	do	Bacon.
1909	£485,000,000	British	Paish.
1909	£400,000,000	do	Economist (London).
1910	£688,000,000	do	Beaumont.
1913	£755,000,000	do	Paish.
1914	\$7,000,000,000	Total	Do.
1914	\$5,000,000,000	Securities	Based on Paish.
1919	\$2,800,000,000	Total	Dow-Jones.
1927	\$3,700,000,000	do	National Industrial Conference Board.
1929	\$4,700,000,000	do	Department of Commerce.
1934	\$4,357,000,000	do	Do.
1935	\$5,109,000,000	do	Present survey.
1936	\$6,108,000,000	do	Do.

⁵³ Federal Reserve Bulletin, December 1936, p. 936.

⁵⁴ Op. cit.

⁵⁵ The Brookings Institution, of Washington, D. C., is at present engaged in a detailed historical study of foreign investments in the United States.

FOREIGN INVESTMENTS IN THE UNITED STATES

Part II. ANALYSIS OF DATA COLLECTED FROM PRIMARY SOURCES

CHAPTER IV

FOREIGN DIRECT INVESTMENTS, 1934

INDUSTRIAL DISTRIBUTION

Foreign direct investments ⁵⁶ in the United States at the end of 1934 were estimated (see table 10) at \$1,518,000,000 and accounted for 35 percent of aggregate foreign long-term investments in this country as of the same year-end. Direct investments by foreign enterprise in domestic manufacturing concerns—amounting to \$565,000,000, or 37 percent of the total—far surpassed those in any other industrial field. The largest single item in the manufacturing classification comprised investments in textiles and textile products, especially in rayon plants, many of which were built during the last 10 years. The large investment in the chemical industries was second only to textiles in the manufacturing category and was followed by the group composed principally of tobacco and liquor companies. The liquor investment, which has grown to substantial size since 1933, includes beer, whisky, gin, and wine among its branches.

Foreign direct investments in American financial institutions amounted to \$360,000,000 at the end of 1934 and were second in importance only to those in manufacturing enterprises. Although the direct and controlling investments of foreign banking institutions in United States banks and trust companies amounted to the substantial sum of \$47,000,000, the dominant foreign interest in the financial field was represented by the net equity of foreign insurance companies in their American branches and affiliates. This equity was computed at \$313,000,000, an amount not exceeded by any other specific type of investment.

Total direct investments by foreign companies in American transportation enterprises amounted to \$246,000,000 and consisted largely of controlling interests in American railroads by two Canadian railway systems. Aside from investments in manufacturing, insurance, and transportation, the only other class of foreign direct investments of more than \$100,000,000 consisted of those in petroleum production and distribution, which amounted to \$207,000,000 at the end of 1934. Foreign direct participation in general retail distribution involved \$86,000,000 in invested capital.

GEOGRAPHIC DISTRIBUTION

Although data on the geographic distribution of foreign direct investments in the United States do not necessarily reflect the ultimate source, by individual countries, of foreign capital invested in American

⁵⁶ "Direct" investments include all foreign investments in those American corporations or enterprises which are controlled by a person or small group of persons (corporate or natural) domiciled in a foreign country. This definition bases the classification of the foreign investment on the domicile of the control of the enterprise. Some foreign investments in the securities of these enterprises—investments which are not identified with the controlling interests and which otherwise would be classified with the stock and bond investments—are included with the direct investments. However, they are identified separately in the tables as "Miscellaneous investments in foreign-controlled enterprises."

enterprise, the direct investments of the United Kingdom in this country were clearly the largest. Nearly 45 percent of foreign direct investments in the United States at the end of 1934 represented participation in American business by British concerns; and, as indicated in table 10, out of total direct investments of \$678,000,000 by the United Kingdom, interests in textile concerns and in insurance enterprises accounted for \$369,000,000, or for more than 50 percent.

Table 10.—Foreign Direct Investments in the United States, by Industrial Groups and by Countries or Areas, End of 1934

[In thousands of dollars]

Industry	Canada	United Kingdom	France	Netherlands	Switzerland	Other Europe	Latin America	Rest of world	Total
Manufacturing:									
Automotive parts and equipment.....	(¹)	(¹)							(¹)
Iron and steel.....	(¹)	2, 257				(¹)			3, 028
Machinery and manufacturing equipment.....	14, 903	4, 910				16, 768		(¹)	36, 581
Heating and electrical equipment.....	1, 483	3, 837	(¹)	(¹)	(¹)	4, 514		29	9, 880
Hardware, tools, and other metal products.....	14, 982	1, 675		(¹)	(¹)	2, 608			20, 021
Building and construction materials.....		7, 389	(¹)	(¹)		1, 478			12, 706
Paper and wood products.....	16, 591	211				570			17, 372
Chemicals, medicinal, paints, cosmetics.....	2, 933	50, 397	1, 658	985	64, 341	8, 045	(¹)	691	129, 050
Textiles and textile products.....	1, 228	137, 349	6, 690	55, 550	3, 443	1, 274		698	206, 232
Food products, tobacco, and beverages.....	23, 889	49, 750		147	(¹)	2, 494	(¹)		77, 194
Other manufacturing ²	763	47, 352	1, 618	5, 124	1, 551	927	415	1, 266	52, 719
Total.....	76, 772	305, 127	9, 966	61, 806	69, 335	38, 678	415	2, 684	564, 783
Distribution.....	10, 030	37, 442	1, 866	606	4, 624	7, 545	4, 667	19, 632	86, 412
Transportation.....	201, 077	31, 954	1, 476	1, 074	460	6, 205	280	3, 061	245, 587
Public utilities.....	7, 936		109						8, 045
Petroleum.....	11, 550	25, 714	2, 778	159, 042	3, 859	851	641	2, 569	207, 004
Mining.....	8, 494	26, 190				116	1		34, 801
Finance:									
Insurance.....	27, 604	231, 397	5, 923	1, 147	12, 516	6, 629		27, 467	312, 683
Banks, trust companies, etc.....	22, 742	10, 283	2, 311	50		7, 565	150	3, 918	47, 019
Total.....	50, 346	241, 680	8, 234	1, 197	12, 516	14, 194	150	31, 385	359, 702
Miscellaneous.....	540	10, 230		325		353	25	683	12, 156
Grand total.....	366, 745	678, 337	24, 429	224, 050	90, 794	67, 942	6, 179	60, 014	1, 518, 490

¹ Included in "other manufacturing."

² This group will not add across because all but 2 of the items included in "other manufacturing" (foot-note 1) have been added into their proper industrial groups in the total column.

Although a relatively large part of foreign direct investments in the American textile industry was accounted for by the equity participation of British concerns, the investment interest of British manufacturing industry was comparatively important in at least two other classes of manufactures—chemicals and food products. This rather broad interest in American industry is in large part attributable to Great Britain's preeminence as a manufacturing country and to its outstanding position and technical superiority in the production of

certain specialized products. In addition, the potentialities of the American market and the influence of United States tariff legislation upon the development of branch plants have contributed to the entry of British capital into American enterprise.

In two of the nonmanufacturing groups—namely, transportation and petroleum—the British interest primarily fell within the category of “miscellaneous”, as contrasted with “controlling”, investments. British investments of this type in transportation were stock and bond holdings in the Canadian-controlled lines—lines which in some cases were purchased from the British by the Canadian companies. The British interest in the American petroleum industry was probably somewhat larger than the amount reflected in the table, because of possibly substantial interests in a Netherland corporation which controls a large United States enterprise.

The former substantial direct investments of the United Kingdom in the mining industry, particularly copper, had by 1934 been reduced to minor stock holdings. British-controlled companies had an important place, however, in the recently developed American potash industry, and in the older borax industry.

Canadian direct investments in the United States at the end of 1934 amounted to \$367,000,000, or 24 percent of the total. Transportation interests comprised almost 55 percent of the Canadian total, and 82 percent of the total foreign-controlled investments in transportation enterprises. The American railroads concerned were really branches of the two big Canadian systems. They provided the Canadian National and Canadian Pacific systems with direct connections to the Atlantic seaboard at Boston and to Chicago. Furthermore, the securities, especially the bonds, of these railroads were held in large amounts among the miscellaneous investments, particularly in Great Britain, as is shown in table 13.

Manufacturing properties occupied a prominent place among the Canadian direct investments in this country. They were the natural extensions of activity across the border and occurred primarily in the liquor, foodstuffs, paper, and metal industries. Canadian entrepreneurs were developing several petroleum properties in Oklahoma, Texas, and Montana fields, which may later assume a larger place in the total than they do at present.

Netherlands controlling investments in the United States were centered in the petroleum and manufacturing industries. Rayon enterprises constituted a large part of the latter, although it is probable that German, British, and possibly other foreign ownership was present in the Netherlands concerns which control the American companies. Swiss interests were heavily concentrated in the manufacturing industry, particularly in the chemical group, which includes toilet preparations. It is probable that French and German corporations indirectly controlled some of these investments. The larger part of the direct investments of “Other European” countries were Swedish. They involved the exploitation of basic patents for specialized products.

Insurance investments and the branches of Japanese and Philippine concerns, engaged in the marketing of the products of those countries, accounted for most of the direct investments of “All other” countries.

CLASSIFICATION BY SIZE

At the end of 1934, 657 American corporations and branches ⁵⁷ were controlled by foreigners, exclusive of the 129 branches and affiliates of insurance companies.⁵⁸ Manufacturing was numerically the most important, but was followed closely by distribution. The average foreign investment in the former amounted to \$2,600,000 and in the latter to \$400,000. The average investment in the transportation industry was about the same as in manufacturing because of the inclusion of ocean transportation. With the average confined to steam transportation, it was over \$9,000,000.

The number of units of foreign direct investments in the United States, by value of investment, by countries, and by industries, is shown in table 11.

Table 11.—Number of Items of Foreign Direct Investments (Other Than Insurance) in the United States, by Value of Investment, End of 1934

[NOTE.—The term "items", as used above, refers to the number of United States subsidiaries or branches of foreign corporations regarding which investment figures were available. The necessity for using consolidated balance sheets in some cases makes the number of items somewhat smaller than the number of subsidiaries and branches.]

Item	Under \$1,000,000	\$1,000,000 to \$10,000,000	Over \$10,000,000	Total
INDUSTRY				
Manufacturing.....	143	62	11	216
Distribution.....	190	19	1	210
Transportation.....	79	9	4	92
Public utilities.....	6	3	-----	9
Petroleum.....	13	4	1	18
Mining.....	34	10	1	45
Finance (other than insurance).....	29	14	-----	43
Miscellaneous.....	21	3	-----	24
Total.....	515	124	18	657
COUNTRY OR AREA				
Canada.....	131	39	6	176
United Kingdom.....	159	42	9	210
France.....	21	6	-----	27
Netherlands.....	21	4	2	27
Switzerland.....	29	9	1	39
Other Europe.....	98	15	-----	113
Latin America.....	16	1	-----	17
Rest of world.....	40	8	-----	48
Total.....	515	124	18	657

In average value per unit, the Netherlands investments greatly exceeded those of any other country, owing to the predominance of two units. The British, Swiss, and Canadian investments averaged around \$2,000,000 in value. The British manufacturing interests were older and considerably larger than the Canadian manufacturing enterprises.

Most of the large investments were in manufacturing industries, while the very small holdings were largely in the distribution field. Of the 18 large investments, only 4 exceeded \$50,000,000 in value; 2 of these were engaged in manufacturing.

⁵⁷ Of this number, 432 were subsidiaries of foreign corporations and over 225 were direct branches. The direct branches occurred most frequently in the following groups: distribution, 80; and ocean transportation, 67.

⁵⁸ See p. 40.

CAPITAL STRUCTURE

Common-stock holdings in the amount of \$663,000,000 accounted for 44 percent of total foreign direct investments in the United States at the end of 1934 (see table 12 and fig. 3). The foreign interest in the surplus accounts of domestic subsidiaries aggregated \$353,000,000, or 23 percent of the total, and ranked next in importance among types of investment, primarily as a result of the large equity of foreign insurance companies in the surplus of their United States branches and affiliates. Investments in bonds, advances and intercompany accounts, and other capital employed amounted to \$131,000,000, \$133,000,000, and \$137,000,000, respectively, and accounted in each case for approximately 9 percent of the total. Holdings of preferred stock were \$95,000,000, or 6 percent of the aggregate, while unclassified investments were estimated at only \$6,000,000.

Table 12.—Foreign Direct Investments in the United States, by Types of Investment, by Countries or Areas, and by Industrial Groups, End of 1934

[In thousands of dollars]

Type of investment	Country or area								Total
	Canada	United Kingdom	France	Netherlands	Switzerland	Other Europe	Latin America	Rest of world	
Common stock	119,192	231,746	13,186	191,349	65,305	32,609	1,165	8,460	663,012
Preferred stock	44,210	36,509	1,099	9,006	2,338	1,442	1	743	95,348
Bonds	94,660	24,627	804	3,832	1,741	3,090	57	1,905	130,716
Surplus	729	267,435	5,487	18,024	19,949	19,393	91	22,103	353,211
Advances and intercompany accounts	55,730	75,166	827	218	17	823	-----	21	132,778
Unclassified	3,300	973	-----	749	75	125	25	1,250	6,497
Other capital employed ² ..	48,924	41,881	3,026	872	1,393	10,460	4,840	25,532	136,928
Total	366,745	678,337	24,429	224,050	90,794	67,942	6,179	60,014	1,518,490
	Industry								Total
	Manufacturing	Distribution	Transportation	Public utilities	Petroleum	Mining	Finance	Miscellaneous	
Common stock	278,652	39,932	75,037	2,807	193,220	15,046	54,000	4,318	663,012
Preferred stock	44,068	2,144	38,284	-----	9,128	1,724	-----	-----	95,348
Bonds	8,872	938	109,893	2,756	1,149	2,108	-----	5,000	130,716
Surplus	130,864	3,869	34,489	171	36,744	4,492	255,700	3652	353,211
Advances and intercompany accounts	80,614	5,542	41,975	-----	2,609	1,092	-----	946	132,778
Unclassified	1,351	1,285	-----	-----	50	3,786	-----	25	6,497
Other capital employed ² ..	20,362	32,702	14,887	2,311	7,592	6,553	50,002	2,519	136,928
Total	564,783	86,412	245,587	8,045	207,004	34,801	359,702	12,156	1,518,490

¹ Net amount due to American companies.

² The "finance" item includes \$25,150,000 of "deposit capital" of United States branches of foreign insurance companies. All other amounts are based on capital-stock tax records.

³ Net deficit. This amounts to a deduction from the value of the common stock.

Considerable variations existed among the different industries and countries in regard to the means by which the American subsidiaries were financed (see table 12). While common stock and advances were important in the Canadian investments, bonds comprised a larger part of the Canadian total than they did in any other country total. This fact arose from the size of the transportation item relative

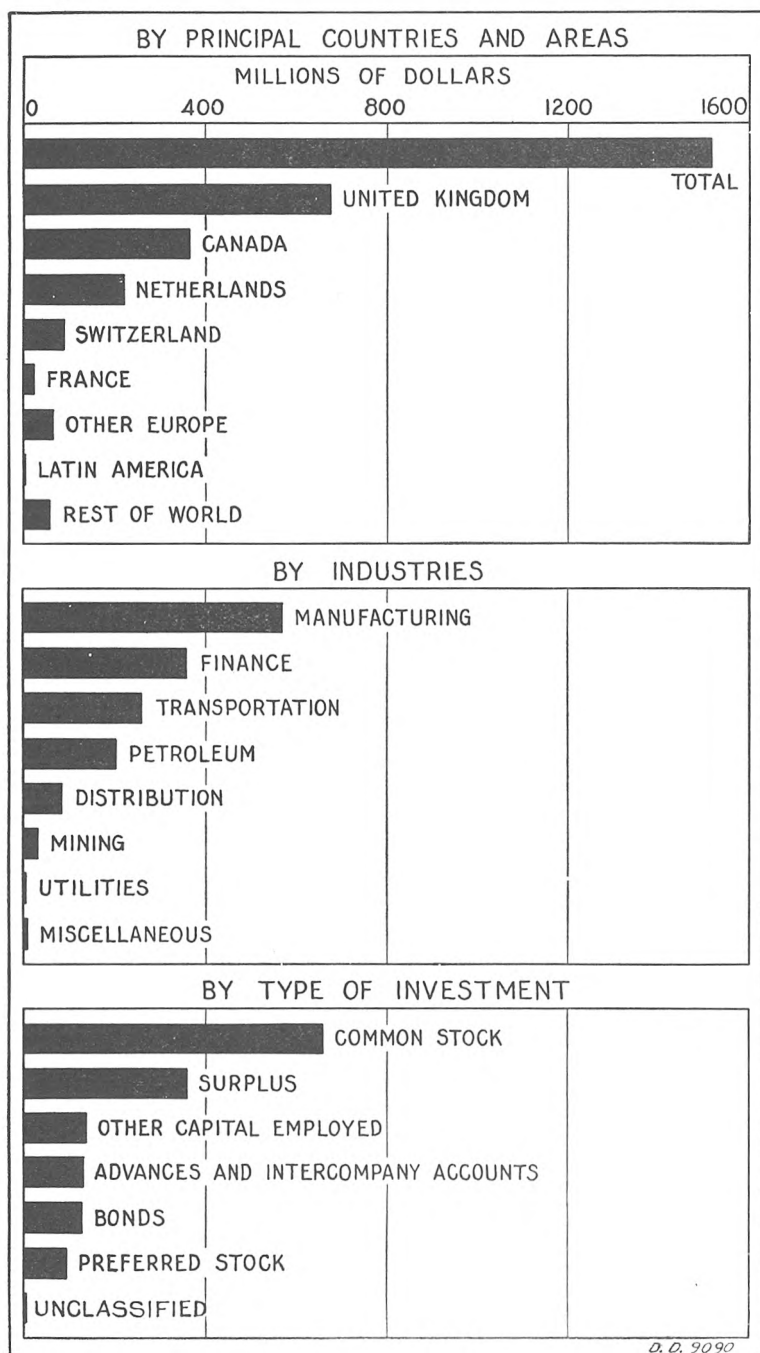


Figure 3.—Foreign direct investments in the United States, by principal countries and areas, by industries, and by type of investment, end of 1934.

to total Canadian investments, coupled with the fact that 44 percent of the net investment in the transportation industry took the form of bond holdings. The need for advances arose partly from the large deficits incurred by companies in this group. Frequently the interest, and occasionally the preferred dividends, on the securities of the American lines was paid out of advances by the parent companies.

The investments of the United Kingdom took largely the form of common-stock holdings, plus surplus and advances, with much smaller amounts of bonds and preferred stock. Most of the bonds held were those of the Canadian railway branches in the United States rather than those of British-controlled subsidiaries. The large surplus accounts of the British enterprises reflected the favorable earnings records of the British manufacturing enterprises (particularly of some of the larger units) and the insurance investments, the latter accounting for two-thirds of the total.

Holdings of common stock were far larger in amount than other types of foreign direct investments in manufacturing, petroleum, and mining enterprises. In the transportation field, the foreign interest was chiefly in the form of bonds. In the finance and distribution groups, the importance of branch operations accounted for the relatively large amounts of other capital employed in these fields. The equity of foreign companies in the surplus accounts of domestic branches and affiliates predominated in the finance category. Foreign direct investments in public utilities and in miscellaneous enterprises were distributed over common stock, bonds, and other capital employed.

MISCELLANEOUS STOCK AND BOND INVESTMENTS

Miscellaneous stock and bond investments, amounting to over \$100,000,000, as shown in table 13, have been included in the direct-investment classification in order to show the total foreign investment in foreign-controlled American enterprises. An additional reason for

Table 13.—Miscellaneous Stock and Bond Investments in Foreign-Controlled American Enterprises,¹ End of 1934

[In thousands of dollars]

Item	Canada	United Kingdom	France	Netherlands	Switzerland	Other Europe	Latin America	Rest of world	Total
INDUSTRY									
Manufacturing.....	407	7,459	885	5,875	2,029	930	15	1,010	18,610
Distribution.....	1	527	3	5	32	1	-----	9	578
Transportation.....	5,977	21,930	414	889	460	398	45	1,304	31,417
Public utilities.....	-----	-----	-----	-----	-----	-----	-----	-----	-----
Petroleum.....	958	23,168	2,778	15,373	3,859	851	641	2,569	50,197
Mining.....	2	86	-----	-----	-----	4	-----	-----	92
Miscellaneous.....	-----	2	-----	-----	-----	-----	-----	-----	2
Total.....	7,345	53,172	4,080	22,142	6,380	2,184	701	4,892	100,896
TYPE OF INVESTMENT									
Common stock.....	3,352	27,816	2,835	10,330	3,450	633	660	2,257	51,333
Preferred stock.....	548	10,195	499	8,846	1,333	355	1	736	22,513
Bonds.....	5,171	15,743	505	1,529	1,371	1,146	57	1,905	27,427
Surplus.....	² 1,726	² 582	241	1,437	226	50	² 17	² 6	² 377
Total.....	7,345	53,172	4,080	22,142	6,380	2,184	701	4,892	100,896

¹These amounts are included in tables 10 and 12.

²Net deficit. This amounts to a deduction from the common-stock value.

this procedure is found in the circumstance that these miscellaneous holdings appear to be influenced by the fact of control within the foreign country. Although superficially this does not appear to be the case with the British holdings of petroleum and railway securities, it is probable, as has been mentioned before, that the petroleum investments were no exception to this rule and that the railway securities were held in such relatively large volume because of historical interest in the companies (which was at one time direct), as well as in the Canadian parent corporations which often guarantee the interest and dividends.

UNITED STATES BRANCHES AND AFFILIATES OF FOREIGN INSURANCE COMPANIES

The net equity of foreign insurance companies⁵⁹ in their United States branches and affiliates was \$313,000,000 as of December 31, 1934.⁶⁰ Foreign direct investments of this type thus ranked next in importance to investments in manufacturing enterprises and accounted for approximately 21 percent of estimated total foreign direct investments in the United States.

The equity of British insurance companies in domestic branches and subsidiaries was \$231,000,000. This amount was approximately 74 percent⁶¹ of the total for all countries and constituted a third of the total direct investments of the United Kingdom in the United States. Canadian investments of this type, chiefly in the United States branches of Canadian life-insurance companies, were \$27,600,000 at the end of 1934, and those of companies domiciled in Asia and Australasia were almost as large, at \$27,500,000.⁶² In the former case, insurance investments comprised only a small part of total direct investments, but in the latter instance they accounted for almost 50 percent. Data for continental European countries are shown in table 10. The amounts are relatively small, and only in the case of France were investments of this character a substantial portion of total direct investments in the United States.

The direct branches of foreign fire and marine insurance companies accounted for more than 45 percent of total foreign investments in domestic insurance enterprises in 1934. American fire and marine companies affiliated with foreign companies accounted for an additional 28 percent. The net equity of foreign casualty insurance companies in their United States branches constituted approximately 12 percent of the total, and domestic casualty companies affiliated

⁵⁹ For an analysis of the operations of foreign insurance companies in the United States, a discussion of insurance transactions in the balance of international payments of the United States, and a statement of the net equity of foreign insurance companies in their United States branches and affiliates in the years 1919-35, see Trade Information Bulletin No. 834, Insurance Transactions in the Balance of International Payments of the United States.

⁶⁰ Miscellaneous investments in foreign-controlled insurance enterprises are negligible. Direct branches are wholly owned by foreign companies; and, with a few exceptions, parent companies abroad own, directly or indirectly, practically all the stock of their United States affiliates. Relatively small foreign holdings of the shares of independent United States insurance companies are included in portfolio investments. (Ch. V.)

In the case of the United States branches of foreign insurance companies, the sum of deposit capital (amounts deposited with State insurance authorities as required by law) and surplus was taken as the value of the foreign investment represented. In the case of the domestic affiliates of foreign companies, the interest of parent companies in the par value of common stock and in surplus was recorded. In both cases, surplus included contingency and special reserves. These additions were in large part the surplus accounts of branches or affiliates which carry surplus to policyholders at fixed amounts over periods of several years each. The net equity of foreign insurance companies in the assets of their United States branches and affiliates, thus measured, is obviously affected by the valuation of securities held by the latter. In 1934, bonds were carried at amortized or investment values and stocks at market values. If all securities had been carried at market values, the result would have been somewhat larger.

⁶¹ If account were taken of investments in the United States by insurance companies domiciled in other foreign countries, but owned and controlled by British interests, the British share would be even greater.

⁶² Japanese capital constituted the bulk.

with foreign companies constituted 9 percent. The remainder, 6 percent, was in the United States branches of foreign life-insurance companies.⁶³ British investments preponderated in each of these categories except in the case of the foreign interest in life-insurance enterprises, which was entirely Canadian. Dollar amounts are given in table 14.

Table 14.—Net Worth of United States Branches and Affiliates of Foreign Insurance Companies, by Principal Countries or Areas, by Type of Investment, and by Type of Company, End of 1934

[In thousands of dollars]

Item	Branches			Affiliates		Total
	Fire and marine	Casualty	Life	Fire and marine	Casualty	
COUNTRY OR AREA						
Canada.....	6, 217	1, 479	19, 908	-----	-----	27, 604
United Kingdom.....	94, 887	29, 669	-----	82, 294	24, 547	231, 397
Other Europe ¹	19, 720	4, 788	-----	1, 707	-----	26, 215
Rest of world ²	22, 467	-----	-----	3, 000	2, 000	27, 467
Total.....	143, 291	35, 936	19, 908	87, 001	26, 547	312, 683
TYPE OF INVESTMENT						
Deposit capital.....	19, 500	5, 650	-----	-----	-----	25, 150
Common stock.....	-----	-----	-----	30, 246	10, 213	40, 459
Surplus.....	123, 791	30, 286	19, 908	56, 755	16, 334	247, 074
Total.....	143, 291	35, 936	19, 908	87, 001	26, 547	312, 683

¹ Switzerland, France, Sweden, Denmark, Netherlands, Norway, and Spain are represented in the order named.

² Japan, China, New Zealand, British India, and Australia are represented in the order named.

At the end of 1934 there were 85 United States branches and 44 domestic subsidiaries of foreign insurance companies—a total of 129.⁶⁴ Of the direct branches, 66 were agencies of foreign fire and marine companies, 9 of foreign casualty companies, and 10 of foreign life-insurance companies. Of the subsidiaries, 34 were in the fire and marine field and 10 in the casualty field.

British units numbered 83, comprised of 36 branches of fire and marine companies, 7 branches of casualty companies, 31 domestic fire and marine companies affiliated with British companies, and 9 affiliated casualty companies. Canadian-controlled units numbered 16, of which 10 were domestic branches of Canadian life-insurance companies. The remaining units were distributed by geographic areas as shown in table 15, which shows also the number of items by size of investment. The average net equity of foreign insurance companies in 129 branches and affiliates was slightly less than \$2,500,000. The bulk of the items fell in the \$1,000,000 to \$10,000,000

⁶³ The admitted assets of the United States branches of foreign life-insurance companies constitute approximately a third of the assets of all domestic branches and affiliates of foreign companies; but differences in statutory reserve requirements for life-insurance companies, as opposed to those stipulated for companies of other types, have the effect of reducing the net equity of foreign life-insurance companies in their United States branches to relatively small proportions.

⁶⁴ Inactive branches are excluded from the enumeration. Domestic companies controlled by foreign companies through their United States branches or other affiliates are included; but to avoid duplication in the compilation of investment data, the foreign interest was taken as the percentage of the capital stock of the domestic company held directly by the parent company. A few known cases of the management of domestic companies by persons identified with foreign or foreign-controlled companies were, in the absence of a substantial foreign ownership, excluded from consideration.

range, and three countries (Canada, United Kingdom, and Japan) were represented by single investments each of which exceeded \$10,000,000.

Table 15.—Number of United States Branches and Affiliates of Foreign Insurance Companies, by Value of Investment, End of 1934

Item	Under \$1,000,000	\$1,000,000 to \$10,000,000	Over \$10,000,000	Total
TYPE OF COMPANY				
Branches:				
Fire and marine companies ¹	22	42	2	66
Casualty companies	1	8		9
Life companies	9		1	10
Affiliates:				
Fire and marine companies	7	27		34
Casualty companies	2	8		10
Total	41	85	3	129
COUNTRY OR AREA				
Canada	11	4	1	16
United Kingdom	18	64	1	83
Other Europe	7	10		17
Rest of world	5	7	1	13
Total	41	85	3	129

¹ 9 inactive branches and 6 branches in liquidation were excluded.

Foreign direct investments in domestic insurance enterprises were largely net equities in surplus accounts. Out of a total investment of \$313,000,000 at the end of 1934, \$247,000,000 was of this type.⁶⁵ These accounts have been created by means of remittances from home offices and parent companies abroad and by the accumulation of underwriting and investment profits.

HISTORICAL SURVEY

INDUSTRIAL INVESTMENTS

It is well known that many of the beginnings of American industry, in its major forms, involved the use of foreign capital and foreign control. The early history of the railroad system of this country is an outstanding example of an important industry which, in its infancy, was almost wholly dependent upon foreign capital. Foreign control of American railways, with the exception of the few lines owned in Canada, has gradually been replaced by domestic control, although foreign investments in railroad securities are still large in their absolute amounts. (See ch. V on foreign holdings of common and preferred stocks and ch. VIII on bonds.)

It is equally true, though less generally known, that many of the early companies formed to develop the natural resources of this country were financed and controlled by foreign capitalists, principally British. This control, like that in the railroad field, has largely given way to domestic control.

While foreign capital was prominent in the development of United States manufacturing, it has not been replaced by domestic capital and control to an extent equal to that in the other industries. This does not imply that American manufacturing is still substantially controlled by foreign interests; nor should it be inferred that the control

⁶⁵ Statutory deposits in the case of direct branches accounted for \$25,000,000, and the par value of the shares of affiliates held by parent companies abroad accounted for approximately \$41,000,000.

of foreign-owned American enterprises was not, in many cases, repatriated to the United States. In various instances former controlling interests have in fact been shifted from foreign to American hands. It is true, however, that foreign ownership has persisted in numerous instances, particularly in the manufacturing field (see table 16). Seventeen of the investments existing in 1934 originated before 1898. Of these, six were manufacturing undertakings, six were agricultural enterprises, and only three were in the transportation field.

Table 16.—Number of Foreign Direct Investments in the United States,¹ by Dates of Incorporation or Acquisition, 1853–1935

Year	Canada	United Kingdom	France	Netherlands	Switzerland	Other Europe	Rest of world	Total	Manufacturing	Distribution	Petroleum and mining	Transportation	Banking, exclusive of insurance	Miscellaneous
1853–97 ²	3	11	1	—	—	2	1	17	6	1	1	3	—	6
1898	—	1	—	—	—	—	—	1	1	—	—	—	—	—
1899	2	—	1	—	—	—	—	3	1	—	—	2	—	—
1900	2	—	—	—	—	—	—	2	—	—	—	1	—	1
1901	—	1	—	—	—	1	—	2	2	—	—	—	—	—
1902	—	—	—	—	—	1	—	1	—	1	—	—	—	—
1904	—	—	—	—	1	—	—	1	1	—	—	—	—	—
1905	1	—	—	—	—	—	—	1	—	—	—	1	—	—
1906	2	1	1	—	—	—	—	4	1	—	2	—	—	1
1908	—	1	—	—	1	—	—	2	1	1	—	—	—	—
1909	3	—	—	—	—	—	—	3	1	—	1	1	—	—
1910	2	6	—	—	—	—	—	8	4	1	3	—	—	—
1911	—	1	—	—	—	—	—	1	—	—	—	—	—	1
1913	1	4	—	—	—	1	—	6	2	1	3	—	—	—
1914	—	—	—	1	1	—	—	4	2	1	—	—	—	—
1915	1	2	—	—	—	1	—	4	4	—	1	—	—	—
1916	—	—	—	—	—	1	—	1	—	—	—	—	—	—
1917	1	1	—	—	—	1	—	3	2	—	—	—	—	1
1918	2	1	—	1	—	—	—	4	3	—	—	—	1	—
1919	4	3	1	—	1	—	—	9	7	1	—	—	1	—
1920	—	4	3	—	—	1	—	10	6	3	—	—	—	1
1921	—	1	—	—	1	—	—	2	2	—	—	—	—	—
1922	—	1	1	—	—	—	—	2	1	1	—	—	—	—
1923	1	3	—	—	2	1	—	7	3	1	—	1	2	—
1924	2	2	2	—	3	3	—	12	7	3	1	—	1	—
1925	4	1	—	—	—	4	—	9	3	3	1	—	1	1
1926	3	2	—	—	—	4	—	9	7	—	—	—	1	—
1927 ²	1	2	1	1	2	—	—	6	6	—	—	—	—	—
1928	4	3	—	—	2	1	—	10	9	1	—	—	—	—
1929 ²	7	—	—	1	3	5	—	15	5	3	—	—	3	3
1930	1	6	—	—	—	2	—	9	2	2	3	—	2	—
1931	—	4	—	—	—	1	—	5	4	1	—	—	—	—
1932	3	2	1	—	1	—	—	7	5	1	—	1	—	—
1933	11	1	1	—	2	—	—	15	11	4	—	—	—	—
1934	3	4	—	2	—	1	—	10	9	—	1	—	—	—
1935	3	1	—	—	1	—	—	5	4	1	—	—	—	—
Total	67	70	13	8	22	32	1	210	123	31	18	10	12	16

¹ Exclusive of insurance companies (see table 17).

² A joint enterprise by nationals of 2 foreign countries was established during this year or in this period.

Of the 11 British investments known to have been in existence in 1897, only 1 was in the transportation field, while 1 was a mining company. Five of the investments were manufacturing and four were agricultural or land-holding enterprises. As late as 1900, in several of our large railroad systems the British stock interest was large enough to classify the investment as a direct investment. However, during the years following 1900, particularly the war years, there was a steady return flow of railway issues to the United States, and the foreign holdings became only a small part of the total shares outstanding.

British holdings of American real estate and agricultural properties were extensive before the World War. During the seventies and eighties, many British companies were established to own and operate large ranches or to speculate in land. One of these companies now holds between 200,000 and 300,000 acres of land—the amount remaining of a much larger acreage originally received in lieu of certain foreign-held defaulted bonds of one of the Southern States. Most of these companies have since been liquidated. Some real-estate holdings still exist and are included in the estimates of “other investments.” (See ch. II and appendix B, II.)

The manufacturing investments of English companies were not as highly centralized in one or two branches of the field as were the investments of other countries. Textiles, machinery, and a wide variety of other specialized products have always been and still are manufactured here by plants owned in Great Britain. During the merger period at the turn of the century some of these British plants were taken into the new American organizations. Other British interests merged competing American companies into organizations controlled in England. Changes have, of course, been numerous, but there has been a noticeable tendency for many English companies to continue to hold their subsidiaries through years of prosperity and of depression.

The migration or extension of Canadian industry to the United States occurred at a much later date. The early Canadian investments were largely in the railroad field. This was the case even as late as the World War. Since the war, especially since 1923, Canadian manufacturers have been looking to an increasing extent toward the United States market and have been developing it through the establishment of subsidiaries here. This significant trend is apparent, even if the recent influx of Canadian capital into the liquor industry is eliminated.

Before the World War, German direct investments were more important than they are at the present time. At that earlier time they had a substantial controlling interest in the chemical industry of the United States. That control was based largely on patent rights, but it was not confined to the licensing of production. Manufacturing was carried on extensively in German-owned plants. The story of this control of the chemical industry and of German and Austrian investments in other industries is told in detail in the Report of the Alien Property Custodian.⁶⁶ A substantial part of the present-day German direct investments in the United States are in the chemical industry, but they now comprise only a small part of the total capital invested in that industry.

Table 16 can be used only for illustrative purposes; it does not reveal definite trends. In the first place, it is confined to investments that were still in existence in 1934; secondly, it is based, in most instances, on the dates of incorporation of the existing subsidiaries. In some cases the dates of incorporation of predecessor companies could be ascertained. In other cases, dates of acquisition were known and used. This limitation is not as serious as it might appear, because most of the companies are 100-percent owned and the changes in incorporation under such circumstances are less numerous than in the case of independent companies. A third limitation arises from the extent of the sample—210 out of 657 investments, or, if only incorporated enterprises are considered, 210 out of 432 investments.

⁶⁶ Alien Property Custodian Report, 1918–19, ch. 2.

INSURANCE INVESTMENTS

Foreign insurance companies have operated in the United States through branches or affiliates for a century and a third. The opening of a branch office in Philadelphia in 1804 by a British company probably marked the original establishment of a foreign-controlled insurance enterprise in the United States. By 1900 there were 47 branches and affiliates of foreign companies in this country, of which 37 represented British interests. The steady infiltration of foreign capital⁶⁷ into the domestic insurance field continued during the period 1900-29. Eleven units were established in the first decade, 28 in the second, and 38 in the third. During 1930-34, however, only 5 new branches and affiliates of foreign companies were established or acquired.⁶⁸ British companies were the first to enter the United States, and their position has been at all times a dominant one among foreign-controlled insurance enterprises. A schedule of the dates of establishment or acquisition of the United States branches and affiliates of foreign insurance companies is given in table 17.

Table 17.—Number of United States Branches and Affiliates of Foreign Insurance Companies, by Dates of Establishment or Acquisition, 1804-1934

Year	Canada	United Kingdom	Other Europe	Rest of world	Total	Branches			Affiliates	
						Fire and marine	Casualty	Life	Fire and marine	Casualty
1804-99.....	6	37	2	2	47	32	5	3	7	1
1900.....		1	1		2	1			1	
1901.....		1			1				1	
1902.....										
1903.....	1	1			2	1		1		
1904.....										
1905.....										
1906.....	1				1			1		
1907.....		1	1	1	3	2			1	
1908.....		2			2	2				
1909.....										
1910.....		2	4		6	5				1
1911.....		4			4	1	1		1	1
1912.....			1	2	3	2	1			
1913.....		1	2		3	2			1	
1914.....		2			2	1				1
1915.....		1			1				1	
1916.....		2	1		3	2			1	
1917.....		1		1	2	1			1	
1918.....			1		1	1				
1919.....		2	1		3	1			1	
1920.....		3	1	1	5	3			1	1
1921.....				2	2	2				
1922.....		6		1	7				4	3
1923.....		4			4				4	
1924.....	1	3		1	5	1	1	1	2	
1925.....										
1926.....	4	2			6	2		2	1	1
1927.....		2			2	1			1	
1928.....	1			1	2	1				1
1929.....	1	3	1		5		1	1	3	
1930.....	1				1			1		
1931.....				1	1	1				
1932.....										
1933.....										
1934.....		2	1		3	1			2	
Total.....	16	83	17	13	129	66	9	10	34	10

NOTE.—The enumeration includes only active branches and affiliates as of Dec. 31, 1934.

⁶⁷ In certain instances in recent years, contributions to surplus by home offices and parent companies served to maintain surplus in the face of rapidly declining security values. Some of these contributions have been withdrawn, and the amounts involved might be considered as temporary advances.

⁶⁸ 2 additional branches were established, and 1 new affiliate was acquired during 1935. The net equity of foreign insurance companies in their United States branches and affiliates increased to \$344,000,000 at the end of 1935 and to \$366,000,000 at the end of 1936.

CHAPTER V

FOREIGN INVESTMENTS IN COMMON AND PREFERRED STOCKS, END OF 1934

COMMON STOCKS

As indicated in chapter II, the basic data employed in the preparation of current estimates relating to foreign holdings of common and preferred shares of United States corporations are those derived from a comprehensive survey of such holdings as of the end of 1934. On the basis of this survey, it was estimated that the market value at the end of that year of all foreign-owned common shares of American corporations, exclusive of shares classified under the direct-investments category, aggregated \$1,202,000,000; the par value of preferred shares similarly held was estimated at \$351,000,000.⁶⁹

The inclusive nature of these statistics of foreign-held American shares is emphasized by the fact that approximately 86 percent of the estimated value of foreign-owned common stocks at the end of 1934 represented the total of data actually obtained from original sources.⁷⁰ Nearly 89 percent of the estimated foreign holdings of preferred stocks were similarly reported. The reporting sources comprised 2,774 corporations and 146 banks and brokerage houses, the latter group including virtually all institutions in the country known to carry United States corporate shares in the names of their respective nominees for foreign account.⁷¹

A summary of the results of the survey is shown in table 18. Since the total of \$1,202,000,000 includes an omission estimate to cover unreported shares,⁷² the data in this chapter may be viewed as representing a reasonably correct aggregate of the total foreign ownership of common shares of corporations in this country, insofar as such shares do not fall within the category of direct investments, which is discussed in chapter IV.

Table 18.—Market Value of Total Foreign-Held Common Shares of United States Corporations,¹ by Countries or Areas and by Industries, End of 1934

[In millions of dollars]

Country or area	Value	Industry	Value
Canada.....	333	Manufacturing.....	601
United Kingdom.....	233	Distribution.....	45
France.....	81	Transportation.....	110
Netherlands.....	133	Public utilities.....	198
Switzerland.....	101	Petroleum.....	113
Other Europe.....	47	Mining.....	69
Latin America.....	13	Finance.....	58
Rest of world.....	261	Miscellaneous.....	8
Total.....	1,202	Total.....	1,202

¹ See table IX, appendix D, III.

⁶⁹ For bases of valuation in the respective classifications, see ch. I and appendix D, I.

⁷⁰ See appendix D, III, for explanation of the method whereby unreported data were estimated.

⁷¹ See ch. I.

⁷² See appendix D, II, for a statement as to the number of companies to which the basic data applied. Throughout the text, reference is made to the *reported* foreign holdings or investments and the *estimated* foreign investments. The former is exclusive and the latter inclusive of the omission estimate.

Canadian ownership of United States common shares at the end of 1934 exceeded in market value similar holdings by the residents of any other country.⁷³ The remaining principal investing countries, in the order of their importance, were the United Kingdom, the Netherlands, Switzerland, and France. The investment of the United Kingdom was 30 percent less than the Canadian. Although the foreign interest in United States common stocks is much more volatile than that in any other class of investment, the first three countries in this category are also first in total and in direct investments.

INDUSTRIAL DISTRIBUTION

Exactly 50 percent of the foreign holdings in American common stocks at the end of 1934 represented investments in manufacturing concerns. In view of the comparatively large foreign holdings of United States railroad bonds and small holdings of railroad common shares relative to total foreign-held common shares, the industrial distribution of foreign-owned common shares is not an accurate indicator of the relative importance of the respective industrial groups which comprised the aggregate of all foreign investments in the United States. Only 30 percent of the total investments fell within the manufacturing group, as compared with 50 percent when confined to common shares (see table 6). On the other hand, approximately 16 percent of total foreign investments was in railroads and other transportation enterprises, while only 9 percent of foreign-owned common shares was found in this group.⁷⁴ Public utilities and petroleum enterprises were second and third, as will be seen in table 18, surpassing transportation. The other industrial groups were of minor importance.

Table 19.—Market Value of Foreign-Held Common and Par Value of Foreign-Held Preferred Shares of 2,774 Corporations,¹ by Industries, End of 1934

[In thousands of dollars]

Industry	Common stock	Preferred stock	Total
Manufacturing:			
Automobiles and parts.....	53,758	9,173	62,931
Iron and steel.....	37,579	19,489	57,068
Transportation equipment.....	9,889	2,114	12,003
Machinery and manufacturing equipment.....	106,543	4,100	110,643
Heating and electrical equipment.....	7,366	569	7,935
Hardware, tools, and other metal products.....	15,989	5,412	21,401
Building and construction materials.....	5,979	3,211	9,190
Paper and wood products.....	3,385	11,137	14,522
Chemicals, etc.....	81,529	7,416	88,945
Textiles and apparel.....	13,391	2,198	15,589
Foods and beverages.....	84,056	13,622	97,678
Sugar producing and refining.....	3,674	2,071	5,745
Tobacco and tobacco products.....	41,820	2,838	44,658
Other manufactures.....	21,124	4,332	25,456
Total.....	486,082	87,682	573,764
Distribution.....	38,522	8,278	46,800
Transportation.....	94,842	58,885	153,727
Public utilities.....	164,903	68,786	233,689
Petroleum.....	91,553	10,969	102,522
Mining.....	58,512	7,260	65,772
Finance.....	35,220	16,509	51,729
Miscellaneous.....	4,803	4,024	8,827
Grand total.....	974,437	262,393	1,236,830

¹ Of these 2,774 corporations, 908 reported no foreign holdings.

⁷³ As indicated in earlier chapters, the respective countries of reported ownership are not necessarily the primary sources of the invested capital. See appendix D, I.

⁷⁴ The significance of these comparisons may be easily overemphasized, however, in a time of comparatively low share prices, owing to differences in methods of valuation.

The industrial classification of foreign-held common and preferred shares in table 19 and figure 4 summarizes the data reported by 2,774 corporations and the nominee holdings of the shares of the same companies as reported by banks and brokers. The composition of the manufacturing groups, whose total common shares, as already indicated in table 18, dominated foreign holdings of common shares generally, is thus shown to center largely in such industries as ma-

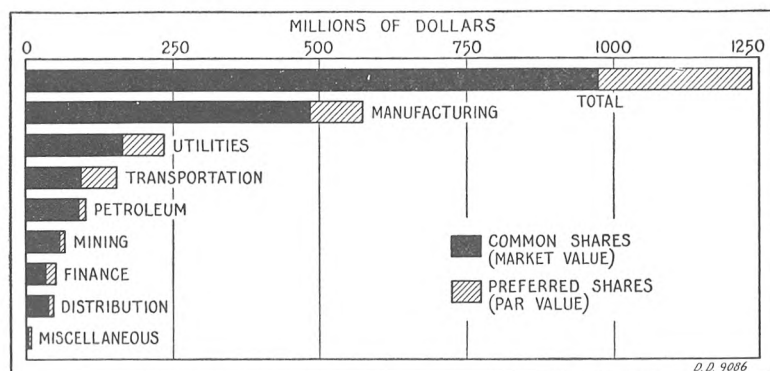


Figure 4.—Market value of foreign-held common and par value of foreign-held preferred shares of 2,774 United States corporations, by industries, end of 1934

chinery and equipment, foods (including beverages), chemicals, automobiles and parts, tobacco and tobacco products, and iron and steel.

FOREIGN HOLDINGS IN RELATION TO OUTSTANDING SHARES

When viewed as a percentage of total shares outstanding, the foreign holdings of common stocks, as shown in table 20, are smaller in manufacturing enterprises than in transportation and in public utilities. In the transportation group, which consists almost entirely of railroad shares, this difference is greatest and is due undoubtedly to the traditional foreign interest in American railway shares dating back to the last quarter of the nineteenth century. The comparatively high percentage of mining shares held abroad is probably due to similar reasons, while foreign holdings of utility shares, which were relatively unknown before the World War, increased appreciably in the period of rapid expansion of this industry since that time. Those groups whose foreign-held common shares represent a percentage above the average for all groups are transportation, utilities, manufacturing, and mining.

A comparison of the first two columns in table 20 reveals the importance of the large corporations in total foreign ownership of United States common stocks. Even with the elimination, in the second column, of the 908 small companies which reported that none of their common shares were foreign-owned, the percentage of foreign ownership in the total shares outstanding showed virtually no change. It is, of course, reasonable to expect that the foreign noncontrolling common-stock investments would be concentrated largely in companies whose shares are listed on the principal exchanges and that the shares of those smaller companies would have a relatively unimportant influence on the aggregate number of shares outstanding. In view of the comparatively high quotations of a number of listed shares, the importance of foreign holdings is more sharply emphasized when based on mar-

ket value. As indicated in table 20, the value of foreign holdings of common shares of American railroads and other transportation companies was equal at the end of 1934 to 5 percent of the value of all common rail shares outstanding. In every group except distribution and finance, the percentage of foreign ownership was higher on a market-value basis than on the basis of the number of shares held. The higher average market price for foreign-held shares is reflected in their average year-end quotation of \$22.78, as compared with an average of only \$18.68 for all shares outstanding.

Table 20.—Percentage of Outstanding Common Shares of United States Corporations Owned by Residents of Foreign Countries, End of 1934

Industry	All reporting corporations (2,774)	All reporting corporations whose shares were partly held abroad (1,866)	
	Percentage of shares owned by foreigners	Percentage of shares owned by foreigners	Percentage of market value represented by foreign holdings
Manufacturing.....	2.6	2.9	3.6
Distribution.....	1.6	1.8	1.8
Transportation.....	3.5	3.6	5.0
Public utilities.....	2.7	2.8	3.0
Petroleum.....	1.7	1.8	2.8
Mining.....	2.6	2.9	4.1
Finance.....	2.0	2.1	1.4
Miscellaneous.....	1.3	1.7	1.9
All groups.....	2.4	2.6	3.2

DIVIDEND-PAYING STATUS

Foreign holdings of common shares according to their dividend-paying status ⁷⁵ are shown in table 21. Slightly more than 51 percent of the foreign-held shares paid dividends in 1934, as compared with 50.3 percent of the total shares outstanding of the 2,774 corporations covered in the compilation. Again reflecting the very slight import-

Table 21.—Foreign-Held Common Shares of 2,774 Corporations,¹ by Dividend-Paying and Non-Dividend-Paying Groups, 1934

Industry	Number of shares		
	Dividend-paying	Non-dividend-paying	Total
Manufacturing.....	10,275,676	5,501,206	15,776,882
Distribution.....	583,439	546,777	1,130,216
Transportation.....	1,342,502	1,572,775	2,915,277
Public utilities.....	3,811,774	7,111,390	10,923,164
Petroleum.....	2,820,383	1,502,715	4,323,098
Mining.....	1,448,782	2,488,125	3,936,907
Finance.....	1,566,481	1,698,763	3,265,244
Miscellaneous.....	90,515	422,149	512,664
Total.....	21,939,552	20,843,900	42,783,452

¹ Of these 2,774 corporations, 908 reported no foreign holdings.

NOTE.—Shares on which any cash dividend was paid during the year were classed as dividend-paying shares.

⁷⁵ A stock was considered on a dividend-paying basis if any cash dividend payment was made during the calendar year.

ance of the 908 corporations which reported that their stock ownership was wholly domestic, this percentage rose only slightly, to 52, when confined to the 1,866 corporations in each of which foreign investors had an equity interest. In most of the industrial groups, foreign-held shares represented a good cross-section of all shares outstanding in regard to the number paying dividends. Distribution, transportation, and finance were the outstanding exceptions—the dividend record of the foreign-held shares being lower than that of all shares in the group.

As shown in table 22, foreign holders of common shares received higher average dividends per share than did all holders, domestic and foreign combined. The comparatively high average payments to foreign holders were largely due to the relatively good dividend record of foreign-held manufacturing and utility shares. If related to market value, the dividend payments on foreign-held shares during 1934 were at a slightly lower rate than similar payments on total outstanding shares of all companies in which foreign investors were interested. If confined to dividend-paying shares, the average payment per share was \$1.93 on common stocks held by residents of foreign countries, as compared with an average payment of \$1.68 on such shares outstanding of all the companies in which foreigners had common-stock investments.

Table 22.—Rate of Cash Dividend Payments on Total Outstanding and on Foreign-Held Common Shares, 1934

Industry	All reporting corporations (2,774)	All reporting corporations whose shares were partly held abroad (1,866)			
		Total shares outstanding		Foreign-held shares	
		Dividend payments per share on total shares outstanding	Dividend payments as percent of market value	Dividend payments per share	Dividend payments as percent of market value
Manufacturing.....	\$0.95	\$1.02	4.1	\$1.27	4.1
Distribution.....	1.24	1.26	3.7	1.06	3.1
Transportation.....	1.50	1.53	6.5	1.29	4.0
Public utilities.....	.95	.94	6.7	1.06	7.0
Petroleum.....	.57	.58	4.2	.62	2.9
Mining.....	.35	.39	3.6	.36	2.4
Finance.....	.67	.67	4.1	.45	4.2
Miscellaneous.....	.33	.32	3.7	.34	3.6
All groups.....	.84	.87	4.7	.99	4.3
Dividend-paying shares only, all groups.....	1.68	1.68		1.93	

NOMINEE HOLDINGS

With a view to showing the relative importance of common and preferred shares held directly in the names of the beneficial owners residing in foreign countries and of shares held for foreign account by American nominees, the data which were shown in table 19 are subdivided in table 23. The 1934 year-end market value of all foreign-owned common shares of 2,774 corporations was \$974,437,000, of which \$361,646,000, or 37 percent, represented the value of those shares reported as held for foreign account in the names of bankers' and brokers' nominees. The ratios of nominee holdings to total

foreign holdings range from 34 percent in utility shares to 47 percent in distribution issues.

Table 23.—Market Value of Foreign-Held Common and Par Value of Foreign-Held Preferred Shares of 2,774 Corporations,¹ by Industrial Groups, as Reported by Corporations and by Banks and Brokers, end of 1934

[In thousands of dollars]

Industry	Common shares			Preferred shares		
	Direct holdings (reported by corporations)	Nominee holdings (reported by banks and brokers)	Total foreign holdings	Direct holdings (reported by corporations)	Nominee holdings (reported by banks and brokers)	Total foreign holdings
Manufacturing.....	311,831	174,251	486,082	54,661	33,021	87,682
Distribution.....	20,287	18,235	38,522	4,431	3,847	8,278
Transportation.....	55,172	39,670	94,842	38,039	20,846	58,885
Public utilities.....	108,837	56,066	164,903	36,645	32,141	68,786
Petroleum.....	60,116	31,437	91,553	4,920	6,049	10,969
Mining.....	33,973	24,539	58,512	4,725	2,535	7,260
Finance.....	19,769	15,451	35,220	8,641	7,868	16,509
Miscellaneous.....	2,806	1,997	4,803	1,742	2,282	4,024
Total.....	612,791	361,646	974,437	153,804	108,589	262,393

¹ Of these 2,774 corporations, 908 reported no foreign holdings.

An examination of the data on foreign-held common shares as of the end of 1934 indicated that the shares held for foreign account in the names of American nominees were of a somewhat higher quality than foreign holdings generally. Whereas 34.6 percent of the foreign ownership of common shares was carried in the names of American nominees, the corresponding percentage, if confined to non-dividend-paying common stocks, was only 29.7, while for dividend-paying shares it was 39.2. In other words, 58.1 percent of the nominee holdings of the common shares of the 2,774 corporations were paying dividends in 1934, while only 47.7 percent of the direct holdings were in that class.

The higher average quality of nominee holdings was also corroborated by the analysis of the data on a market-value basis. The average year-end market value of nominee-held shares was \$24.46 and that of directly held shares was \$21.89. A separate analysis of the listed common-stock issues among the 2,774 corporations showed that nominee holdings of these issues were 37.4 percent of the total foreign-held shares, as compared with 34.6 percent for all the common shares reported by these corporations.⁷⁶ By classifying foreign-held listed⁷⁷ shares according to price groups, it was found that nominee holdings formed a larger percentage of the total in the price groups between \$10 and \$100 and a smaller percentage of the total in the extreme price groups—that is, in groups below \$10 and in those priced above \$100.

Nominee holdings of shares in the least active group⁷⁸ (32.7 percent of foreign holdings in the group) were much below the average of all

⁷⁶ The comparative quality of two stock issues cannot always be based on their market prices, on market activity, or on their status relative to listing on the New York Stock Exchange.

⁷⁷ For the sake of brevity in exposition, only those issues that are listed on the New York Stock Exchange will be referred to as "listed."

⁷⁸ Activity was judged by the ratio of total sales turn-over during the year 1934 to total shares listed at the end of that year. The issues were grouped according to activity ratio, as follows: up to 1:10; 1:10 to 1:2; and above 1:2.

groups. The moderately active groups (38.6 percent nominee-held) showed such holdings nearest to the average, while the most active group (40.8 percent nominee-held) was the farthest from the average. It appears probable, therefore, that nominee holdings of foreign-owned common stocks reflect in large part the existence of relatively active trading accounts.⁷⁹

NEW YORK STOCK EXCHANGE ISSUES

Foreign holdings of common shares listed on the New York Stock Exchange amounted, at the end of 1934, to \$824,000,000, or 84.6 percent of the total foreign holdings of the shares of the 2,774 corporations.⁸⁰ The average market value of all New York Stock Exchange common shares was \$26.34, and that of foreign-held listed shares was \$26.89. The average market value of all of the common shares of the 1,866 corporations whose shares were partly foreign-owned (of which about 525 had listed issues) was \$18.68 for total shares outstanding and \$22.78 for foreign-held shares. It thus appears that the average market value of issues not listed on the New York Stock Exchange was much lower than that of listed shares; also, that the average market value of foreign-held issues not listed on the principal exchange was much greater than that of all unlisted issues. Average dividends per share showed, in general, the same relationships.

As already shown in table 20, foreign-held shares of the 2,774 corporations represented 2.4 percent of total shares outstanding. For New York Stock Exchange issues, the ratio of foreign-held to total shares outstanding was 3.2 percent, while for other issues it was 1.5 percent. Attention has previously been directed to evidence showing that the listed issues were the more popular among foreign investors. A special study of a group of 35 large corporations, whose shares are listed on the New York Stock Exchange, showed that foreign holdings were 4.7 percent of the total. Nominee holdings were found to be 40.8 percent of total foreign holdings, or 3.4 points higher than for all New York Stock Exchange issues. These data reflect a preference for the larger corporations, although it must also be observed that these are the companies whose shares, almost without exception, tend to be listed and also tend to show a high degree of activity, both of which factors are of special interest to the foreign investor. Further analysis of the data reported by the 35 corporations revealed that the larger percentages of foreign ownership applied principally to the issues of more-than-average market activity.

GEOGRAPHIC DISTRIBUTION

Table 24 shows the geographic distribution of foreign-held common shares, based on the reports of 860 United States corporations which presented their data in appropriate form for the purpose (see also fig. 5). These investments aggregated \$361,000,000, thus representing approximately 30 percent of the estimated total of foreign holdings

⁷⁹ The advantage of a nominee in the case of active accounts is obvious. The practice avoids the necessity of sending certificates abroad for endorsement or of requiring the registered owner to transmit stock powers in order that the shares may be in negotiable form and readily salable at all times. It must be noted that an analysis of nominee data pertaining to a single date may not be conclusive. See discussion of partial data for years 1934 and 1936 in ch. VI.

⁸⁰ As of the end of 1934, there were about 755 common-stock issues listed on the New York Stock Exchange. The number of companies involved was undoubtedly slightly less. About 550 of these issues were included in the group here studied and covered the issues of about 535 companies. Common shares listed on the Exchange at that time amounted to 1,166,732,000 and those in this study to 955,562,000. Thus, 73 percent of the issues and 82 percent of the shares listed were covered.

of American corporate shares (see table 18). Since banks and brokers also reported their nominee holdings by countries, the data in table 24 represent a substantially accurate geographic distribution of the foreign ownership of the shares of the 860 corporations, although it does not follow that this distribution is fully representative of total foreign holdings.

Table 24.—Market Value of Foreign-Held Common Shares of 860 Corporations, by Industries and by Countries or Areas, End of 1934

[In thousands of dollars]

Industry	Canada	United Kingdom	France	Netherlands	Switzerland	Other European countries	Latin America	Rest of world ¹	Total held abroad
Manufacturing:									
Automobiles and parts.....	1,575	557	66	265	166	106	44	675	3,454
Iron and steel.....	1,011	7,027	678	8,582	1,745	580	109	6,417	26,149
Transportation equipment.....	3,014	520	118	44	165	48	14	309	4,232
Machinery and manufacturing equipment.....	2,467	493	425	372	487	268	80	528	5,120
Heating and electrical equipment.....	507	226	33	-----	11	25	14	522	1,338
Hardware, tools, and other metal products.....	1,840	267	145	42	48	59	4	332	2,737
Building and construction materials.....	3,418	406	121	316	190	81	181	337	5,050
Paper and wood products.....	886	211	48	8	14	459	5	16	1,647
Chemicals, etc.....	4,700	4,232	2,561	1,735	5,489	3,953	298	1,196	24,164
Textiles and apparel.....	412	195	36	878	71	397	21	115	2,125
Foods and beverages.....	17,662	8,046	1,403	791	1,983	1,174	742	4,601	36,402
Sugar producing and refining.....	295	318	243	226	104	140	154	128	1,608
Tobacco and tobacco products.....	323	790	189	5,529	155	97	34	4,316	11,433
Other manufactures.....	1,042	125	32	1,009	57	54	17	57	2,393
Total.....	39,152	23,413	6,098	19,797	10,685	7,441	1,717	19,549	127,852
Distribution.....	5,762	823	328	322	537	87	42	1,632	9,533
Transportation.....	5,425	6,256	1,492	4,682	2,710	515	54	1,476	22,610
Public utilities.....	21,215	11,962	4,314	7,842	11,780	3,293	1,386	41,303	103,095
Petroleum.....	16,908	7,248	7,830	2,828	4,543	2,048	412	16,025	57,842
Mining.....	7,911	2,796	645	7,420	1,755	809	236	765	22,337
Finance.....	6,671	4,032	1,247	528	1,063	508	162	1,180	15,391
Miscellaneous.....	811	922	138	95	221	45	67	174	2,473
Grand total.....	103,855	57,452	22,092	43,514	33,294	14,746	4,076	82,104	361,133

¹ Includes some investments which probably belong to other areas (see rules of geographic distribution, appendix D, I).

Canadian-owned holdings occupied first place in the foreign ownership of United States common stocks. Holdings of the United Kingdom and of the Netherlands were second and third in order. The very small interest of Latin America was in sharp contrast with the relatively large investments of "Rest of world." The amount attributed to the latter was somewhat magnified by the inclusion of holdings that were not fully distributed geographically in the reports of some corporations.

Some rather striking differences appeared in the relative importance of the industrial groups in the total common-stock investment of the various countries. In a comparison of Canada and the United Kingdom, differences as well as similarities were observed. For example, manufacturing, public utilities, and petroleum investments were in each case the most important, in the order named. However, the market value of mining shares was fourth in the Canadian holdings,

while the value of transportation equities occupied fourth place in corresponding investments of the United Kingdom.

The relative importance of the respective countries' investments in the different industrial groups showed substantial variation. The common-share investments of the Netherlands were centered somewhat more largely in the manufacturing group than were those of any other country. Among the French common-share investments the value of holdings in petroleum issues exceeded those in the manufacturing group, while among corresponding Swiss investments the

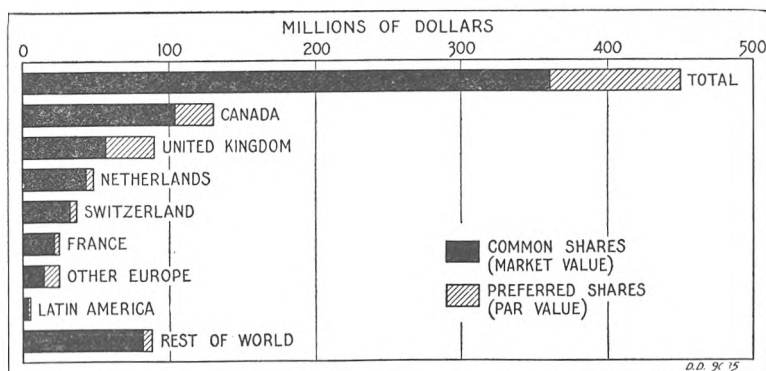


Figure 5.—Market value of foreign-held common and par value of foreign-held preferred shares of 860 United States corporations, by principal countries and areas, end of 1934

share holdings in the manufacturing group were second to those in utilities. Further differences appeared in the respective commodity subdivisions of the manufacturing group.

NOMINEE HOLDINGS, BY COUNTRIES

Table 25 reflects somewhat the investment practices in the various countries relative to the use of American nominees. Investors in a contiguous country like Canada are closer to the principal markets for United States issues than are overseas investors, and the need for and desirability of American nominees is less pronounced.⁸¹

Table 25.—Ratios of Direct and Nominee Holdings to Total Foreign Investment in United States Common Stocks, by Countries or Areas, End of 1934

[In percent]

Country or area	Direct holdings (reported by corporations) ¹	Nominee holdings (reported by banks and brokers)	Country or area	Direct holdings (reported by corporations) ¹	Nominee holdings (reported by banks and brokers)
Canada	89	11	Other Europe	55	45
United Kingdom	47	53	Latin America	66	34
France	29	71	Rest of world	80	20
Netherlands	73	27			
Switzerland	8	92	All countries or areas	65	35

¹ Including the omission estimate.

⁸¹ In addition to the conveniences previously discussed, it is possible that in certain countries the beneficial owners of foreign securities may be encouraged to seek further advantages of nominee arrangements in the effort to avoid taxation or possible seizure of securities by their respective governments.

Direct holdings of common shares, as contrasted with nominee holdings, were also comparatively high in the case of the Netherlands and Latin America—namely, 73 and 66 percent, respectively. The common-share investments of the United Kingdom—showing about 53 percent held by nominees—were probably characterized by a larger proportion of “big block”, or institutional, holdings than were the investments of the other areas. Since, for obvious advantages, investments of institutions, particularly trading and investment organizations, tend to be held in nominee accounts, the percentage of direct holdings by the United Kingdom would be consequently lowered.⁸²

The common-share holdings in the names of American nominees exceeded direct holdings by a wide margin in the Swiss and French totals. “Other Europe” is a composite of several countries, and as such does not lend itself to analysis.⁸³

PREFERRED STOCKS

Foreign-held preferred shares of United States corporations had an estimated ⁸⁴ par value of \$351,000,000 ⁸⁵ at the end of 1934. These investments are shown by countries and by industries in table 26.

Table 26.—Par Value of Total Foreign-Held Preferred Shares of United States Corporations,¹ by Countries or Areas and by Industries, End of 1934

[In millions of dollars]

Country or area	Value	Industry	Value
Canada.....	89	Manufacturing.....	114
United Kingdom.....	135	Distribution.....	11
France.....	18	Transportation.....	80
Netherlands.....	20	Public utilities.....	95
Switzerland.....	25	Petroleum.....	12
Other Europe.....	36	Mining.....	8
Latin America.....	4	Finance.....	25
Rest of world.....	24	Miscellaneous.....	6
Total.....	351	Total.....	351

¹ See table IX, appendix D, III.

INDUSTRIAL DISTRIBUTION

The total reported foreign investment in the preferred shares of 2,774 United States corporations,⁸⁶ was \$262,000,000 at the end of 1934, as shown in table 19. The principal industrial groups were manufacturing, utilities, and transportation, of which the respective foreign-held preferred shares represented 33.4 percent, 26.2 percent, and 22.4 percent of the total. Foreign holdings of preferred shares were less highly concentrated in the manufacturing group than were corresponding foreign holdings of common shares. This absence of concentration in the preferred stocks of manufacturing industries was due partly to the limited supply of preferred shares in this group as compared with the supply of preferred utility shares, and partly to the traditional interest of foreign investors in railroad preferred stocks.

⁸² See appendix D, IV, for data regarding the holdings of certain British investment trusts.

⁸³ Direct holdings reported under “Rest of world” are somewhat exaggerated, owing to the inclusion of certain holdings attributable to various countries designated in the table but not so reported by the corporations; while, on the other hand, nominee holdings were generally reported according to the country classification used in the table.

⁸⁴ For method whereby total estimate was determined, see appendix D, III.

⁸⁵ The market value of the total investment in preferred shares was \$214,000,000.

⁸⁶ See appendix D, II, for the sources and scope of the reported data used in this section.

FOREIGN HOLDINGS IN RELATION TO OUTSTANDING SHARES

As indicated in table 27, foreign-held preferred shares at the end of 1934 amounted to 2.3 percent of total shares outstanding. The ratios of foreign-owned preferred shares to total shares outstanding ranged from 1.9 percent in the petroleum industry to 3.9 percent in financial institutions. The exclusion of all corporations whose preferred shares were owned solely in this country has no important effect upon these percentages, although the differences were slightly greater than in the case of foreign-owned common shares (see table 20). The respective percentages reflected in general the relative position of the groups when based on total par value of the investments.

Table 27.—Percentage of Outstanding Preferred Shares of United States Corporations Owned by Residents of Foreign Countries, by Industries, End of 1934

Industry	All reporting corporations (2,774)	All reporting corporations whose shares were partly held abroad (1,866)	Industry	All reporting corporations (2,774)	All reporting corporations whose shares were partly held abroad (1,866)
Manufacturing.....	2.2	2.6	Mining.....	2.4	2.4
Distribution.....	2.3	2.8	Finance.....	3.9	4.2
Transportation.....	3.8	4.1	Miscellaneous.....	.8	1.0
Public utilities.....	2.2	2.3			
Petroleum.....	1.9	2.0	All groups.....	2.3	2.6

DIVIDEND-PAYING STATUS

The average rate of dividend payments per share on foreign-held preferred shares in 1934 was \$2.28, as compared with \$2.29 on all preferred shares outstanding (see table 28). Among individual groups of investments, comparatively large differences appeared, showing at times a higher rate for the foreign-held issues and in other instances for the total issues outstanding. In the manufacturing group, the respective rates per share were identical. In the petroleum group, the average rate on foreign-held issues was \$5.75, as compared with a rate of only \$2.70 on total shares. In the finance group, the rate on foreign-held issues was also appreciably higher than on total issues; but, on the other hand, total preferred shares outstanding in the distribution and transportation groups were on a much higher dividend-paying basis than were the foreign-held issues in these respective groups.

On those preferred shares that were paying dividends,⁸⁷ foreign holders received a slightly higher rate of return than the average for the total outstanding shares of this group. This slightly higher rate was offset by the fact that foreign holdings included a comparatively larger proportion of non-dividend-paying shares than the total. The low rate of return received from transportation and distribution shares (see table 28) was to be expected in view of the high percentage of non-dividend-paying shares included among the foreign holdings in these groups (see table 29). On the other hand, the relatively high rate of return on foreign-held public-utility, petroleum, and finance preferred shares was due to the high percentage on a dividend-paying basis.

⁸⁷ A stock was considered to be on a dividend-paying basis if any cash dividend payment on it was made during the calendar year.

Table 28.—Rate of Cash Dividend Payments on Total Outstanding and on Foreign-Held Preferred Shares, 1934

Industry	All reporting corporations (2,774)	All reporting corporations whose shares were partly held abroad (1,866)			
		Total shares outstanding		Foreign-held shares	
		Dividend payments per share on total shares outstanding	Dividend payments per share	Dividend payments per share	Dividend payments as percent of market value
Manufacturing.....	\$2.35	\$2.57	3.5	\$2.57	3.2
Distribution.....	3.17	3.58	5.2	1.90	2.0
Transportation.....	1.20	1.21	1.3	.97	1.0
Public utilities.....	2.27	2.32	3.4	2.15	3.2
Petroleum.....	2.54	2.70	5.0	5.75	6.0
Mining.....	2.80	2.90	3.9	2.33	2.9
Finance.....	1.74	1.85	5.5	3.28	6.0
Miscellaneous.....	2.03	1.80	7.6	2.36	4.7
All groups.....	2.20	2.29	3.4	2.28	3.5
Dividend-paying shares only, all groups....	4.10	4.07	-----	4.32	-----

As of the end of 1934, nominee holdings of United States preferred corporate shares amounted to \$108,000,000, or 41 percent of the total reported holdings of foreign residents. Based on the number of shares, nominee holdings amounted to 40 percent of the total outstanding, indicating a slightly higher average par value for foreign holdings. As shown in table 23, public-utility, petroleum, and finance shares constituted the principal groups in which the par value of nominee holdings was relatively high compared with direct holdings, while in the transportation and manufacturing groups the situation was reversed. It is probable that, as in the case of common shares, these differences were partly fortuitous. As a matter of fact, public-utility shares showed the lowest percentage of nominee-held shares among the common stocks and one of the highest among the preferred stocks.

Table 29.—Foreign-Held Preferred Shares of 2,774 Corporations,¹ by Dividend-Paying and Non-Dividend-Paying Groups, 1934

Industry	Number of shares		
	Dividend-paying	Non-dividend-paying	Total
Manufacturing.....	664,381	411,658	1,076,039
Distribution.....	26,771	61,257	88,028
Transportation.....	136,526	459,131	595,657
Public utilities.....	908,149	749,761	1,657,910
Petroleum.....	103,554	10,980	114,534
Mining.....	38,317	50,782	89,099
Finance.....	195,299	104,196	299,495
Miscellaneous.....	34,819	46,016	80,835
Total.....	2,107,816	1,893,781	4,001,597

¹ Of these 2,774 corporations, 908 reported no foreign holdings.

NOTE.—Shares on which any cash dividend was paid during the year were classed as dividend-paying shares.

NOMINEE HOLDINGS

As in the case of common stocks, it appears that nominee holdings of preferred shares were of somewhat higher grade than the direct holdings. Whereas 51.4 percent of the direct holdings were not paying dividends, only 41.2 percent of the nominee holdings were in that class. In other words, nominee holdings constituted 44.7 percent of the foreign-held dividend-paying shares but only 34.9 percent of the non-dividend-paying shares.

Nominee holdings of preferred shares for foreign account were of greater relative importance among the New York Stock Exchange issues than among other issues. This, of course, may point to marketability or possibility of turn-over as a characteristic much desired by those foreign investors who use this method of holding their investments. When these investments were divided by activity groups, the shares held by nominees were shown to comprise a larger part of the total in the inactive groups than in the active groups, thus indicating a relationship contrary to that shown in the case of common stocks.

The respective direct and nominee investments in preferred stock of the various countries, as shown in table 30, although somewhat larger for all areas, were quite similar in the general relationships to the common-stock holdings (see table 25). The direct British interests were somewhat less, in relation to total, than they were in common stocks. On the other hand, such holdings were considerably larger in the total for "Other Europe." However, Canada and the Netherlands, among those countries whose nominee holdings were quite small, and France and Switzerland, among those whose nominee holdings were important, displayed characteristics in type of preferred-stock holding very similar to those displayed in common-stock investments.

Table 30.—Ratios of Direct and Nominee Holdings to Total Foreign Investment in United States Preferred Stocks, by Countries or Areas, End of 1934

[In percent]

Country or area	Direct holdings (reported by corporations) ¹	Nominee holdings (reported by banks and brokers)	Country or area	Direct holdings (reported by corporations) ¹	Nominee holdings (reported by banks and brokers)
Canada	89	11	Other Europe	82	18
United Kingdom	36	64	Latin America	83	17
France	21	79	Rest of world	59	41
Netherlands	72	28			
Switzerland	1	99	All countries or areas ..	55	45

¹ Including the omission estimate.

Foreign holdings of preferred shares listed on the New York Stock Exchange had a market value at the end of 1934 of \$123,000,000, or 73.6 percent of the total foreign holdings of the shares of the 2,774 reporting corporations. The average market value of all New York Stock Exchange preferred shares at the end of 1934 was \$48.88, and that of foreign-held listed shares was \$54.11.⁸⁸ Foreign-held shares

⁸⁸ As of the end of 1934, 410 preferred-stock issues were listed on the New York Stock Exchange with a total of 101,927,839 shares. The 275 issues included in this study accounted for 67,093,983 shares. The analysis, therefore, covered around 66 percent of both issues and shares.

DIFFERENCES IN PERCENTAGE DISTRIBUTION

Noticeable differences appear in the respective percentage distributions—geographic and industrial—of foreign investments in common and preferred stock. Manufacturing, for example, comprised one-half of the investment in common stock and only about one-third of the investment in preferred stock. Likewise, the shares of petroleum companies occupied a more important place in the common-stock than in the preferred-stock category. On the other hand, public-utility and transportation shares comprised a larger proportion of the preferred than of the common-stock investment. Among the geographic differences, the changes in the relative position of Canada and the United Kingdom were especially notable, Canada being first in holdings of common shares and the United Kingdom first in holdings of preferred shares.

Foreign-held common and preferred shares were about evenly divided between those paying dividends and those not paying dividends. A larger percentage of the foreign investments in preferred shares (45) was held through nominees than was the case with common shares (35). Furthermore, it was found that nominee holdings of preferred shares were concentrated in the inactive issues to a greater extent than were the common shares.

Although foreign investments in common and preferred stocks showed these several differences, they also revealed certain similarities. Among the latter were (1) the ratio of foreign holdings to the total shares outstanding, (2) the higher average value of foreign-held New York Stock Exchange issues, and (3) the higher degree of foreign ownership in the listed than in the nonlisted issues.

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CHAPTER VI

TRENDS IN FOREIGN HOLDINGS OF UNITED STATES CORPORATE SHARES

The discussion in the preceding chapter provides a convenient point of departure for tracing the changes in foreign investment in the common and preferred shares of United States corporations. The summary and analysis which follows is divided into three periods, the length of each being determined by the nature and amount of statistical data available.

The first period, covering over a century and terminating with the outbreak of the World War in 1914, is in general devoid of statistical data. The discussion of share investments by foreigners in this country during that period is, accordingly, confined to a brief historical survey which, it is hoped, will suffice as a background against which subsequent developments can be satisfactorily outlined.⁸⁹ The second period relates to developments between 1914 and 1929, the discussion of which is based on data made available by a comparatively small group of corporations whose shares have been traditionally attractive to foreign investing groups. The years from 1929 to 1936, inclusive, constitute a third period to which detailed attention is directed, because of the comparatively large number of corporations which were able to aid in the collection of pertinent data. The analysis relating to this period has been divided into two parts: (1) an extended treatment of direct holdings throughout the period, and (2) a shorter treatment of nominee holdings in 1934 and in 1936.

TRENDS PRIOR TO WORLD WAR

Most of the earliest estimates of foreign investments in the United States did not distinguish between holdings of stocks and of bonds.⁹⁰ With regard to investments in particular institutions—as, for example, the First Bank of the United States—no such distinctions applied. The heavy British holdings of the shares of the First Bank,⁹¹ as well as the substantial foreign share interest in the Second Bank of the United States,⁹² became the subject of political controversy, because of the special nature of the foreign equity interest embodied in these investments, and knowledge regarding them was thus more widespread than in the case of other investments in this country by foreigners.

Among the first estimates which distinguished between stocks and bonds held abroad was one made by the Secretary of the Treasury in

⁸⁹ See ch. III for more detailed discussion of foreign investments in the United States during the nineteenth century.

⁹⁰ It is impossible to distinguish, in the early estimates, between the so-called portfolio holdings of common and preferred issues and those holdings that were identified with the controlling interests—that is, direct investments. This discussion will ignore that distinction, inasmuch as the investments have tended to shift from the latter to the former category over a period of years.

⁹¹ Jenks, *The Migration of British Capital to 1875*, p. 656.

⁹² Sumner, *History of the American Currency*, p. 88.

1853.⁹³ Of his total estimate of \$222,000,000, foreign-owned bank and insurance shares were reported at \$7,100,000, railroad stocks owned abroad were estimated at \$8,200,000, and shares of other companies were placed at \$1,300,000. The balance represented largely investments in bonds. Thus, at that date, equity interests aggregated only \$16,600,000. In 1869 the Special Commissioner of the Revenue reported that \$113,000,000 of railway shares were held abroad, as well as small amounts of other corporate stocks.⁹⁴ Regardless of possible deficiencies in these early estimates, it is apparent that, during the period of rapid growth in foreign investments in this country just after the Civil War, holdings of rail issues increased more rapidly than other share interests.

TRENDS DURING WAR AND POST-WAR PERIODS (1914-29)

No other statistical data became available until the war period, but all evidence points to the fact that foreign holdings of railway securities continued to increase much more rapidly than holdings of other corporate securities. L. F. Loree's data, as of January 31, 1915, showed railway common stocks held abroad in the amount of \$574,000,000 and preferred stocks in the amount of \$210,000,000.⁹⁵ His report also indicated that within the course of 2 years (that is, by January 31, 1917) the par value of foreign holdings of railway common and preferred stocks were reduced by \$288,000,000 (50 percent) and \$114,000,000 (54 percent), respectively. Loree's data did not cover industrial and public-utility shares, but from the report of the Dollar Securities Committee⁹⁶ it is seen that railroad shares constituted about three-fourths of the \$411,000,000 of dollar shares mobilized in Great Britain. Shares held in five companies—three public utilities and two industrials (one of the latter a direct investment)—comprised 42 percent of the total of nonrailroad shares mobilized.

German and Austrian share holdings, according to the data presented in the Report of the Alien Property Custodian, 1918-19, represented a somewhat different industrial distribution. On a par value basis, railroad shares comprised \$48,000,000, industrials \$90,000,000, and securities of unknown value \$40,000,000, out of a total of \$190,000,000.⁹⁷ Thus, rails accounted for only 25 percent of the total. It is possible, however, that a substantial number of railroad securities, being more highly marketable, had been liquidated to a greater extent than the others before the United States entered the war. (The report indicated that 62 percent of the stocks seized were inactive.)

Through the cooperation of a number of corporations whose shares were held abroad in substantial volume, statistics of foreign-held shares of a group of certain large companies were assembled⁹⁸ for the period from 1914 to 1936. The annual changes in the percentage of common stocks outstanding which were held abroad are shown for a selected group of companies in figure 6. Corresponding data regarding changes in the foreign holdings of the preferred shares of a group of corporations are shown in figure 7. These percentages reflect a sharp

⁹³ S. Exec. Doc. No. 42, op. cit.

⁹⁴ H. Exec. Doc. No. 27, op. cit.

⁹⁵ Op. cit. See also ch. III in this bulletin.

⁹⁶ Op. cit.

⁹⁷ Op. cit., p. 375.

⁹⁸ These statistics apply only to shares held directly by foreign investors; they do not include nominee holdings.

decline between 1913 and 1916, for reasons already suggested. During subsequent years to 1920 the ratios fell more gradually. No general increase in the percentages occurred after that year until 1934; but, in view of the increase in the total shares outstanding and the increase in market prices, it is apparent that the market value of foreign-owned shares was steadily rising during the greater part of the period from 1921 to 1929.

TRENDS DURING PERIOD 1929-36

In connection with the Finance Division's comprehensive compilation of data on foreign holdings of United States corporate shares at the end of 1934, a large number of corporations were able to make available comparable data for previous years; and, in compliance with a special request, many of them reported figures for subsequent dates, usually at the time of annual meetings or coincidental with dividend payments.

This section of the bulletin is based on a statistical analysis of these collateral data with a view to indicating the general trend during an important 8-year period in foreign holdings of American corporate shares, both common and preferred. These data should prove valuable in any appraisal of foreign investments in the United States since the collapse of stock prices in 1929. Attention is directed, however, to the inevitable limitations of these statistics as measures of total foreign holdings, either according to value or according to total number of shares. An attempt to measure thereby the total value of all foreign holdings would require an omission estimate covering the value of a relatively large number of shares. The omission of nominee holdings also tends to limit the usefulness of the reported data for purposes other than annual-trend measurement. Despite these limitations, the foreign share holdings included in the sample data cover 14 percent of the total reported foreign holdings.⁹⁹

Attention was called in chapter I to the Finance Division's experimental survey in 1934 relating to the changes in the foreign ownership of United States corporate shares from 1930 to 1933. Although the sampling was confined to the common shares of only 52 companies, exclusive of shares held by bankers' or brokers' nominees, it was believed that the inclusion of a substantial number of shares which had long been popular in the international investment markets would warrant their use as a general indicator of the annual trend in foreign holdings.

The statistics on foreign holdings of American shares published in 1934¹ indicated that during the 4 years 1930 to 1933 such holdings (that is, in number of shares) showed a comparatively sharp rise in 1930 and in 1932, whereas in 1931 and in 1933 the increase was comparatively small. The indexes in table 33 (based on a wider sampling), although reflecting annual changes less sharp than the earlier compilation based on only 52 shares, tend to verify the findings.² In each of the 2 years 1930 and 1932, the number of foreign-held shares rose 11 percent, while in 1931 and in 1933 the respective increases were 5.4 and 2.3 percent.

⁹⁹ See ch. V.

¹ Trade Information Bulletin No. 819, *The Balance of International Payments of the United States in 1933*, p. 50.

² See ch. I, p. 7.

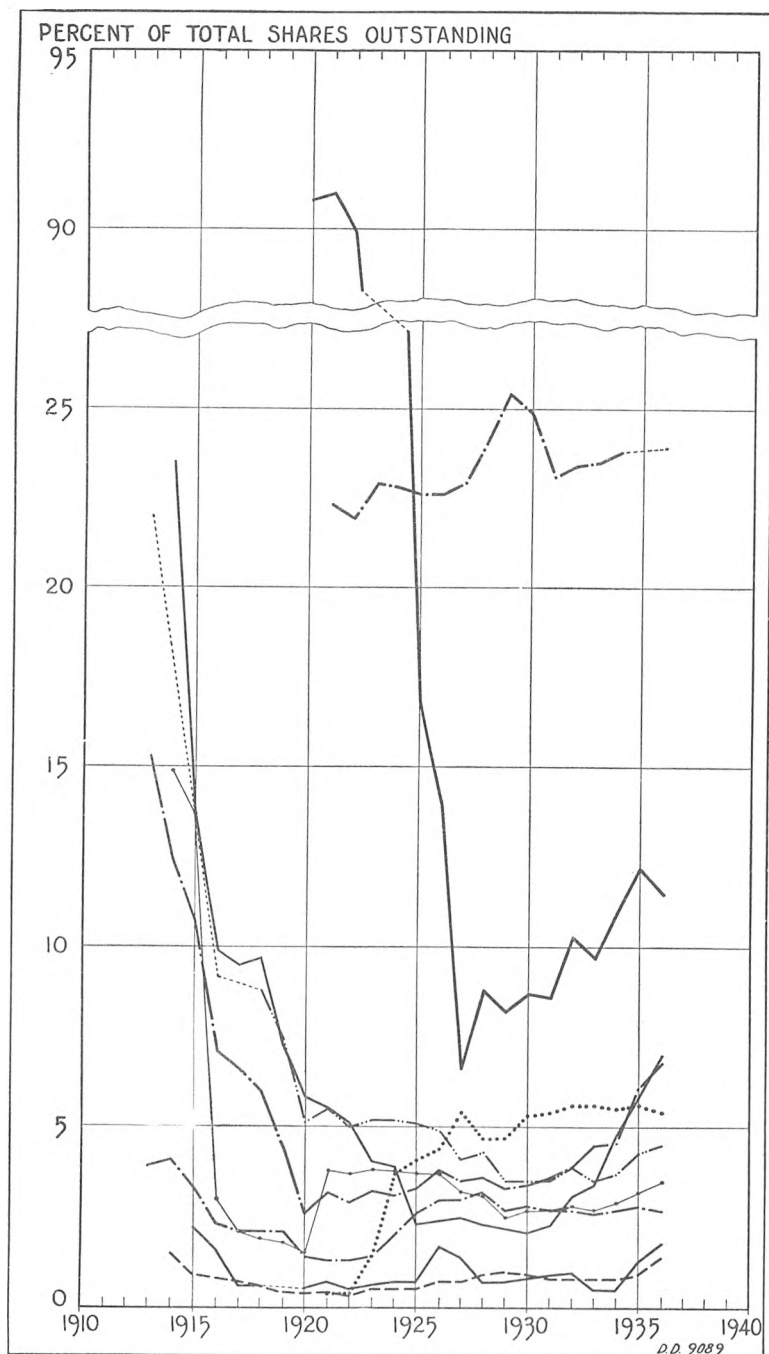


Figure 6.—Foreign holdings of 10 selected common stocks of United States corporations, 1913-36.

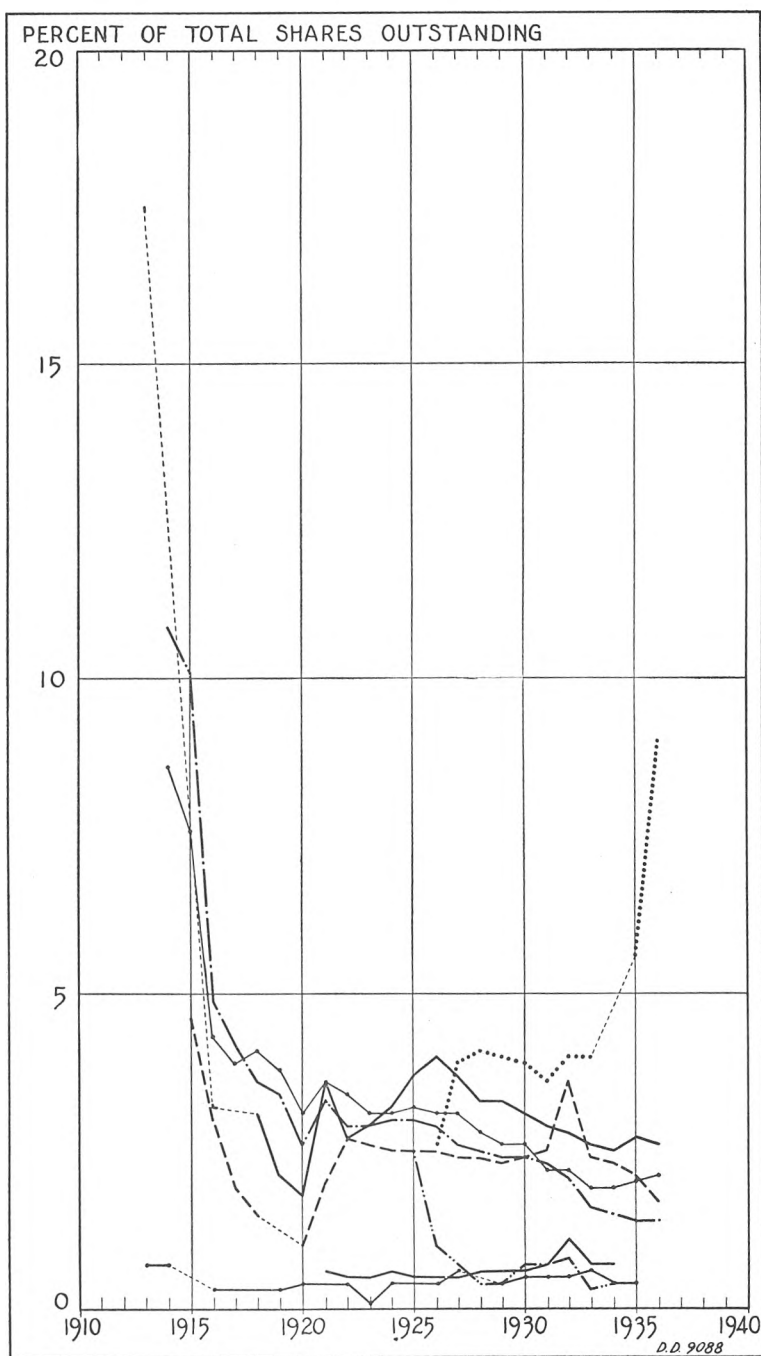


Figure 7.—Foreign holdings of 8 selected preferred stocks of United States corporations, 1913-36.

FOREIGN HOLDINGS IN RELATION TO OUTSTANDING SHARES

The ratios of foreign-held to total outstanding common and preferred shares of United States corporations are shown in table 32. Although these figures do not provide a measure of the annual changes in the actual volume of foreign funds invested in American stocks, the adjusted data employed in computing the percentage figures reflect, it is believed, the changes in the relative importance of foreign holdings of the shares of American corporations. In 1933, when the number of American corporate common shares held abroad showed a negligible rise, the percentage of total shares held abroad remained virtually unchanged. During the 3 subsequent years, when the annual index of foreign-owned common stocks showed appreciable gains, the ratio of such shares to the total number outstanding rose steadily from 2.45 to 3.81.

Table 32.—Ratios of Foreign-Held to Outstanding Common and Preferred Shares of United States Corporations, 1929-36¹

End of year—	Common shares	Preferred shares	End of year—	Common shares	Preferred shares
1929.....	2.06	2.12	1933.....	2.45	2.42
1930.....	2.14	2.26	1934.....	2.72	2.51
1931.....	2.24	2.40	1935.....	3.07	2.74
1932.....	2.46	2.56	1936.....	3.81	2.81

¹ For details regarding statistics employed and method of compilation see appendix E.

SUMMARY INDEXES, COMMON AND PREFERRED SHARES

Although the number of foreign-owned American common shares showed a net increase during each year from 1929 to 1936 (see table 33 and fig. 8), the rise from 1929 to 1934 was comparatively small (except possibly in 1930 and 1932, when the gain was 11 percent), and the cumulative gains were not sufficient to overcome the decline in average market prices. At the end of 1934, when shareholdings were 47 percent higher than at the end of 1929, the aggregate value was less than one-half that of the much smaller number of shares held at the end of 1929. Aggregate values rose sharply during 1935 and 1936 and showed more rapid percentage gains than the number of shares held. The cumulative effect upon total value of the rising number of shares and share prices in 1935 and 1936 is indicated by the fact that the number of shares rose 14 and 25 percent respectively, and average prices of foreign-held common shares showed gains of 32 and 14 percent, while the corresponding increases in aggregate market values were 52 and 40 percent.

Although the foreign investment interest in United States corporate shares extends to virtually all issues listed on the New York Stock Exchange, as well as to many others, foreign equity holdings are highly concentrated in the shares of relatively few corporations. Out of 191 common stocks employed in sampling the volume of foreign holdings of American corporate shares at the end of 1934, the foreign interest in 16 companies, in each of which foreign holdings exceeded 100,000 shares, aggregated 83 percent of the total.³ With the addition of 18 companies in each of which foreign holdings exceeded 25,000 shares, the aggregate holdings of this group constituted 94 percent. Thus, by contrast, the foreign interest in the 157 less important companies was only 6 percent of the total.

³ See appendix E, p. 99.

Table 33.—Trends in Number and Value of Foreign Holdings of Common and Preferred Shares of United States Corporations, 1929–36

[Year-end data, 1929=100]

End of year—	Common shares				Preferred shares			
	Number of shares ¹	Average market price	Total market value	Dividends paid ²	Number of shares	Average market price	Total market value	Dividends paid ²
1929.....	100	100	100	100	100	100	100	100
1930.....	111	57	70	99	104	91	95	103
1931.....	117	30	39	88	110	45	50	102
1932.....	130	24	34	52	117	33	39	78
1933.....	133	30	46	43	111	38	43	42
1934.....	147	28	46	48	115	42	49	42
1935.....	168	37	70	62	124	53	66	79
1936.....	211	42	98	86	125	59	74	141

¹ The number of common shares in 1929 was adjusted for split-ups that occurred in 1930 (see appendix E); Without such adjustments, the index would read as follows: 1929, 100; 1930, 124; 1931, 132; 1932, 144; 1933, 149; 1934, 165; 1935, 187; 1936, 236.

² Data on dividends paid represent total payments during the year.

Among the preferred-stock issues, the number of which ranged from 54 in 1934–35 to 130 in 1932–33, foreign holdings, exclusive of shares held by nominees, aggregated in no single instance 100,000 shares. In each of six preferred stocks, however, such holdings exceeded 25,000 shares, and the aggregate foreign holdings of stocks in this group represented 47 percent of all foreign-held shares of the reporting companies. Foreign holdings of preferred shares showed a net gain of 25 percent from 1929 to 1936, as compared with a net gain of more than 100 percent in the case of common shares. This marked foreign preference for common shares is further reflected in table 32, which shows that during this period foreign holdings of preferred shares ranged from 2.12 percent (in 1929) to 2.81 percent (in 1936) of the total preferred shares outstanding of all the companies included in the survey, while for common-stock holdings the range was from 2.06 percent in 1929 to 3.81 percent in 1936.

The statistics relating to international security transactions, which are reported annually in the Commerce Department's bulletin on the Balance of International Payments of the United States, indicate that a substantial part of the net inflow of long-term capital during 1935 and 1936 represented net purchases of American securities (as contrasted with purchases of foreign issues for redemption, sinking-fund, repatriation, and investment purposes). It is apparent from table 3 that bonds and preferred shares were negligible factors in these new net foreign investments in the United States; on the other hand, table 33 shows that since 1933 the rise in common-share holdings has been exceptionally rapid. On the basis of the actual number of shares held directly (that is, exclusive of nominee holdings) the total foreign interest in American common shares increased by 60 percent from the end of 1933 to the end of 1936.

COMMON SHARES, LISTED AND UNLISTED

The data in table 33 show an increase of 111 percent from 1929 to 1936 in the number of all foreign-held shares. The indexes in table 34 show that foreign-held common shares listed on the New York

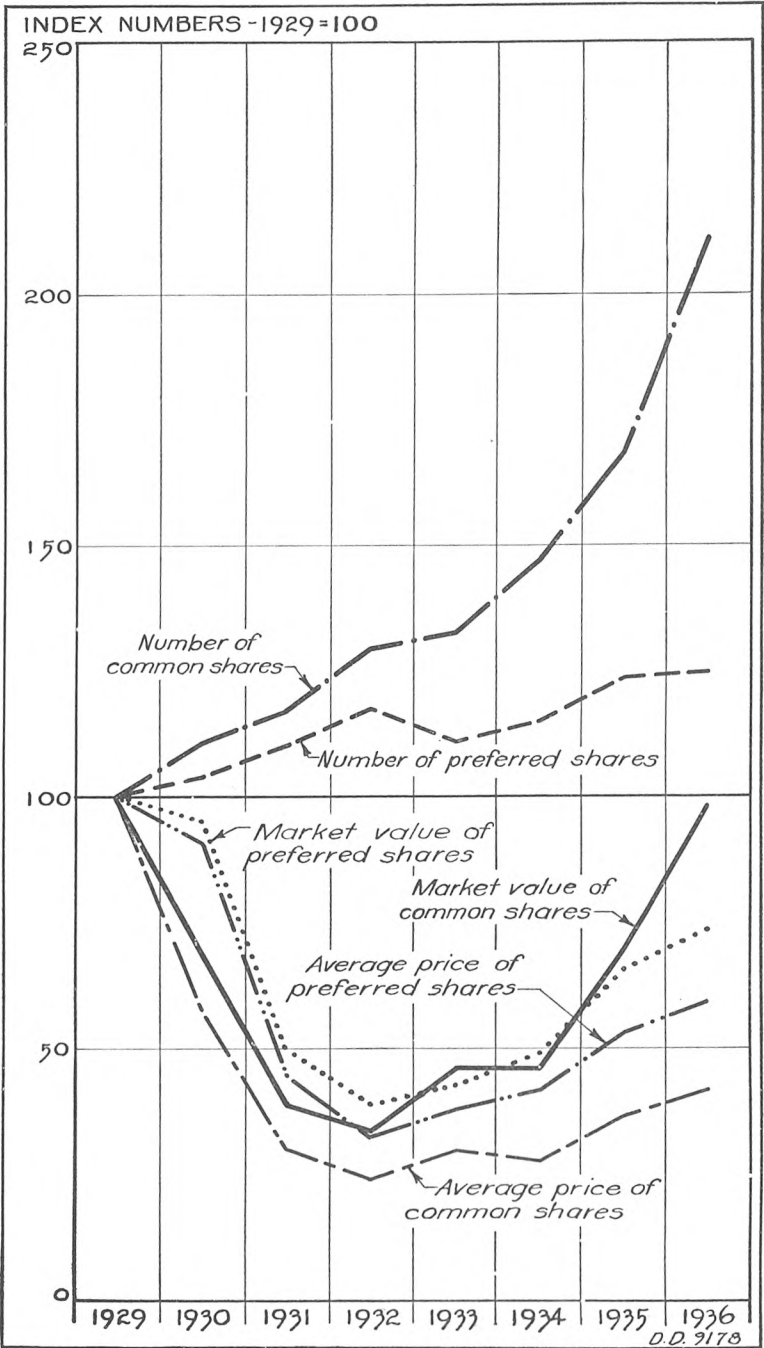


Figure 8.—Trends in number, value, and average price of foreign-held common and preferred shares of United States corporations, 1929-36.

Stock Exchange increased only 106 percent during the same period, while those not listed on the New York Exchange increased 126 percent. On the other hand, the market value of the former was 10 percent higher at the end of 1936 than at the end of 1929, while the market value of the latter, though affected by a larger increase in the number of shares, showed a decline of 28 percent. Total dividends paid on the foreign-held common shares listed on the New York Stock Exchange showed no material decline until 1932 and no appreciable gain from the depression low until 1936, despite sharp increases after 1933 in the number of shares held. On the other hand, total dividend payments of foreign-held common stocks not listed on the New York Stock Exchange fell abruptly after 1929 and declined steadily until 1933, after which they rose sharply to a total in 1936 approximately equal to that of 1929.

Table 34.—Comparative Trends in Foreign Holdings of Listed and Unlisted Common Shares of United States Corporations, 1929-36

[Year-end data, 1929=100]

End of year—	Listed on the New York Stock Exchange (83-143 issues) ¹				Not listed on the New York Stock Exchange (30-85 issues) ¹			
	Number of shares	Average market price	Total market value	Dividends paid	Number of shares	Average market price	Total market value	Dividends paid
1929.....	² 100	³ 100	³ 100	⁴ 100	⁵ 100	100	100	⁴ 100
1930.....	114	57	76	106	101	57	58	81
1931.....	123	30	43	96	101	31	31	65
1932.....	138	24	39	56	106	22	24	43
1933.....	141	32	53	47	112	27	30	31
1934.....	156	28	51	48	123	28	34	47
1935.....	176	38	78	51	143	37	52	91
1936.....	206	45	110	81	226	32	72	99

¹ The number of issues in 1935 and 1936 was 75 and 91 for the common shares listed on the New York Stock Exchange and 17 and 24 for those not listed on the New York Stock Exchange.

² Allowance is made for split-ups.

³ Based on value and price of original number of shares without adjustment for split-ups.

⁴ Based on total cash dividend payments made during the year.

⁵ The original series contained data for a large company in each year except in 1934. Owing to the importance of the foreign holdings of this company's shares, the 1934 figure was assumed to be half-way between the number reported for 1933 and for 1935.

PREFERRED SHARES. LISTED AND UNLISTED

The outstanding feature in the comparative trends of foreign-held listed and unlisted preferred shares (see table 35) was the extremely sharp decline from 1929 to 1936 in the total market value of foreign-held preferred shares not listed on the New York Stock Exchange, a decline especially significant because of the increase of 33 percent in the number of shares. This represents a sharp contrast with the corresponding changes in the indexes relating to foreign holdings of common stocks. As in the case of common stocks, however, the preferred issues listed on the country's principal exchange showed a smaller net gain in the number of shares during the 8-year period than those listed elsewhere or not listed at all, while in the aggregate market value the former rose much nearer the 1929 aggregate than the latter.

Table 35.—Comparative Trends in Foreign Holdings of Listed and Unlisted Preferred Shares of United States Corporations, 1929-36

[Year-end data, 1929=100]

End of year—	Listed on the New York Stock Exchange (41-63 issues) ¹				Not listed on the New York Stock Exchange (18-67 issues) ¹			
	Number of shares	Average market price	Total market value	Dividends paid ²	Number of shares	Average market price	Total market value	Dividends paid ²
1929.....	100	100	100	100	100	100	100	100
1930.....	104	91	96	103	101	88	89	102
1931.....	107	43	46	100	123	55	67	106
1932.....	114	36	41	85	131	23	30	59
1933.....	104	45	47	49	141	17	24	24
1934.....	109	49	54	49	143	18	26	23
1935.....	120	61	75	91	142	21	30	17
1936.....	123	68	84	189	133	25	34	19

¹ The number of issues in 1935 and 1936 was 41 and 40 for the preferred shares listed on the New York Stock Exchange, and 13 and 20 for the preferred shares not listed on the New York Stock Exchange.

² Based on cash dividend payments made during the year.

FOREIGN HOLDINGS, BY INDUSTRIAL GROUPS

Although the number of foreign-owned common shares of United States corporations showed an increase during each year from 1929 to 1936, this increase was not uniformly distributed among the various industrial groups. As shown in table 36, during the early years of the depression the number of common shares of manufacturing companies held directly by residents of foreign countries declined. On the other hand, the net increase in foreign holdings in this group was more marked after 1933 than that in any other group except distribution; although, if confined to 1935 and 1936, the gain was not as sharp as that in the public-utility or petroleum and mining groups. The percentage gain in the number of foreign-held common railroad shares was, for the period as a whole, somewhat greater than that in the number of manufacturing shares, while similar holdings of common stocks of public utilities rose without interruption throughout the entire period for a net gain of 129 percent. The sharpest annual rise in manufacturing issues was 25 percent and occurred in 1934. The following year foreign holdings of common railroad shares made the largest gain, when they rose 22 percent. In 1936 common shares of public utilities held by foreigners showed a gain of 29 percent, the largest advance by any industrial group for any single year during this period.

Table 36.—Trends in Foreign-Held Common and Preferred Shares of United States Corporations, by Industries, 1929-36

[Year-end data, 1929=100]

COMMON SHARES

Industry	1929	1930	1931	1932	1933	1934	1935	1936
Manufacturing.....	100	87	97	107	116	145	162	190
Railroads ¹	100	110	113	131	128	147	179	204
Public utilities.....	100	114	120	134	140	154	177	229
Petroleum and mining.....	100	145	144	142	136	130	134	204
Distribution.....	100	111	234	277	286	286	420	475

PREFERRED SHARES

Industry	100	107	97	102	97	96	100	98
Manufacturing.....	100	98	100	107	102	111	124	145
Railroads ¹	100	106	135	149	151	154	172	159
Public utilities.....	100	101	101	131	98	102	111	143
Petroleum and mining.....	100	113	305	239	232	263	313	350
Distribution.....								

¹ Based on shares listed on the New York Stock Exchange only. See appendix E.

Foreign holdings of the preferred shares of all companies in the manufacturing group reached their highest point in 1930, while their lowest point was reached in 1934. The index relating to preferred railroad issues showed only slight changes from 1929 through 1933, after which it rose—at first gradually and then, in 1936, rather sharply. Foreign-held utility issues rose steadily in number through 1935 and then declined. Although it is certain that foreign-held preferred shares (also, the common) of concerns in the distribution group rose during the period, it is possible that the indexes somewhat exaggerate this growth because of the relatively small sample of total data relating to this group.

TRENDS IN NOMINEE AND DIRECT HOLDINGS COMPARED, 1934 AND 1936

In view of the importance of nominee holdings in total foreign investments in United States common and preferred stocks (see ch. V), and particularly in view of the circumstances under which the very large net influx of funds into this country for security transactions occurred in 1935 and 1936 (see ch. II), some measure of the changes in such holdings was highly desirable. It was not feasible to obtain these data regarding the entire list of issues in which foreigners are interested. Instead, a list of 145 issues was selected—108 common-stock issues and 37 preferred issues. They were selected with the following desirable requisites in mind: first, that 1934 and 1936 data should be available regarding direct holdings; second, that both direct and nominee foreign holdings should be found in each issue; and, third, that the principal industrial groups should be represented.⁴

This list of 145 issues was then sent to all the banks and brokers that reported nominee holdings in 1934, and the replies were tabulated, analyzed, and compared with similar analyses of direct holdings. (Being based on a slightly different set of issues, the results of the analysis of direct holdings differed slightly from the results of the analysis reported earlier in this chapter.) On a value basis, the data upon which these analyses were based covered 34 percent of the total estimated direct holdings and 31 percent of the total reported nominee holdings of common stocks, and, on a share basis, 17 and 12 percent respectively of the preferred stocks. On a share basis, the common-stock sample did not cover as large a percentage of the total, because it happened that the average price of the stocks in the sample issues was relatively high.

From 1934 to 1936 the total market value of foreign-held common shares of the 108 issues rose 115.5 percent. This was the result of a 47-percent increase in the number of shares held (see table 37) and a 46-percent increase in the average price of those shares (\$33.60 to \$49.10). The increase in the value of nominee holdings was much more rapid than that of direct holdings, owing to the larger increases in shares held as well as in the average price of those shares.

⁴ The industrial groups were represented by the following numbers of issues: common stocks—manufacturing 60, distribution 5, mining 7, petroleum 6, public utilities 14, railroads 11, and miscellaneous 5; preferred stocks—manufacturing 14, public utilities 10, railroads 7, and miscellaneous 6. Of the common-stock issues, 94 were listed on the New York Stock Exchange, 11 on the New York Curb, 1 on the Boston Stock Exchange, 1 on the Detroit Stock Exchange, and 1 was traded in over-the-counter. Of the preferred-stock issues, 28 were listed on the New York Stock Exchange, 6 on the Curb, and 3 were over-the-counter issues.

INDUSTRIAL GROUPS

Foreign-held United States corporate shares of this selected list of companies in 1936 are related to 1934 in table 37. These data are presented as indicative of the trend, not as absolutely accurate measures of it.

Table 37.—Percentage Increase in Foreign-Held Common and Preferred Shares of a Selected List of United States Corporate Issues, by Industries and by Types of Holdings, 1934-36

Industry	Percent increase from 1934 to 1936 (year-ends)					
	Common stocks			Preferred stocks		
	Direct holdings (reported by corporations)	Nominee holdings (reported by banks and brokers)	Total	Direct holdings (reported by corporations)	Nominee holdings (reported by banks and brokers)	Total
Manufacturing.....	26.5	46.0	32.7	4.8	45.6	12.6
Distribution.....	10.2	32.3	18.1	(¹)	(¹)	(¹)
Transportation.....	39.1	58.2	45.7	32.6	33.7	32.8
Public utilities.....	53.3	57.7	54.1	27.3	79.4	42.4
Petroleum.....	73.1	108.7	84.4	(¹)	(¹)	(¹)
Mining.....	13.2	261.6	39.1	(¹)	(¹)	(¹)
Miscellaneous.....	111.3	138.4	128.9	7.1	61.5	33.8
All groups.....	41.2	63.3	47.3	16.6	55.0	28.5

¹ Included in "Miscellaneous."

The total number of foreign-held common shares of these selected issues increased 47 percent. The data in table 37 show that nominee holdings increased at a considerably more rapid rate. This result was to be expected in view of the circumstances under which the changes took place. The largest percentage increases occurred in miscellaneous, petroleum, and public-utility shares, in the direct and nominee holdings combined. Foreign-held preferred shares increased by 28.5 percent. In this case the more rapid rate of increase of the nominee holdings was still more marked. The increases on an industrial basis were somewhat different from those of the common shares, both in total and by types of holdings.

These larger foreign holdings show up clearly in the ratios of foreign-held to total shares outstanding given in table 38.

Table 38.—Percentage of Foreign-Held to Total Common and Preferred Shares Outstanding, by Types of Holdings and by Industries, 1934 and 1936

[Year-end data]

Industry	Common stocks				Preferred stocks			
	Direct holdings (reported by corporations)		Nominee holdings (reported by banks and brokers)		Direct holdings (reported by corporations)		Nominee holdings (reported by banks and brokers)	
	1934	1936	1934	1936	1934	1936	1934	1936
Manufacturing.....	2.5	3.1	1.2	1.7	1.8	1.9	1.0	1.6
Distribution.....	2.0	2.2	1.1	1.5	(¹)	(¹)	(¹)	(¹)
Transportation.....	2.8	3.9	1.5	2.4	3.0	4.0	.9	1.1
Public utilities.....	3.0	4.7	.6	1.0	2.6	3.3	1.1	1.9
Petroleum.....	1.8	3.0	.8	1.7	(¹)	(¹)	(¹)	(¹)
Mining.....	9.1	9.9	1.1	3.7	(¹)	(¹)	(¹)	(¹)
Miscellaneous.....	.8	1.2	1.5	2.5	2.3	2.3	2.2	3.4
All groups.....	2.6	3.6	1.0	1.6	2.3	2.8	1.1	1.7

¹ Included in "Miscellaneous."

These percentages run higher than they did for the 2,774 corporations analyzed in chapter V, because both types of holdings were represented in each of the issues of the present sample, whereas in the larger group there was a goodly number of issues in which there was no foreign interest of one and sometimes in neither type.

Large increases occurred in the foreign interest in those common and preferred issues upon which dividends were paid in 1936 and not in 1934, and more moderate increases in those issues which (1) did not pay dividends either year or (2) paid in both years. It is significant, also, that of the last two groups, increases were larger among the issues that did not pay any dividends. These facts apply to direct, as well as nominee holdings, but it is only in the totals, not in the industrial comparisons, that the similarities are found.

Issue-by-issue comparisons reveal that increased holdings frequently occurred in issues upon which dividends were paid at a lower rate, and decreases occurred in issues which increased or resumed dividends. Furthermore, such comparisons reveal that the largest increases in one type of holding frequently coincided with decreases in the other type. One might generalize by saying that the data seem to indicate that foreign investors who hold their securities in nominees' names and those who hold them directly comprise two dissimilar groups which are not in themselves homogeneous. Each type rated various issues differently, if judged on the basis of issue-by-issue comparisons; but both were led by existing forces or circumstances to add to their investments in United States common and preferred shares, if judged by total comparisons.

GEOGRAPHIC DISTRIBUTION

Some data were collected in connection with the general inquiry bearing on the changes in the geographic distribution of foreign investments in common and preferred stocks. These data related to a lesser number of foreign-held shares and are, accordingly, of more limited significance. They are presented in table 39 as indicative, not as exact measures of the changes.

Table 39.—Foreign-Held Common and Preferred Shares of Some United States Corporate Issues, by Countries and by Types of Holdings, 1936

[Year-end data, 1934 = 100]

Country	Common stocks		Preferred stocks	
	Direct holdings (reported by corporations)	Nominee holdings (reported by banks and brokers)	Direct holdings (reported by corporations)	Nominee holdings (reported by banks and brokers)
Canada.....	107.2	113.5	92.6	120.4
United Kingdom.....	141.4	180.7	127.8	143.2
France.....	48.8	130.8	71.2	116.2
Netherlands.....	169.4	226.6	110.0	238.0
Switzerland.....	116.7	255.6	30.2	253.6
Other Europe.....	107.1	124.7	58.1	133.5
Latin America.....	85.8	146.1	88.9	1,251.8
Rest of world.....	147.2	149.6	23.3	141.4
All areas.....	116.9	176.6	96.6	160.6

The data relating to direct holdings (reported by corporations) were smaller relative to the total of such holdings than those relating to nominee holdings and covered a slightly different group of companies. It is worthy of mention, however, that the inflow of funds for security transactions in 1935 and 1936, as reported to the Treasury Department,⁵ came in the largest amounts from the same countries which show the largest percentage increases in table 39—that is, United Kingdom, the Netherlands, and Switzerland.

⁵ Statistics of Capital Movements between the United States and Foreign Countries, *op. cit.*

CHAPTER VII

TRENDS IN FOREIGN HOLDINGS OF UNITED STATES RAILROAD SHARES, 1914-36

The traditional interest of foreign investors in United States railroad securities is clearly reflected in the statistics of the preceding chapters. The present chapter is devoted to a brief analysis of the trends in foreign holdings of common and preferred shares of United States railroads from 1914 to 1936. Although data available on a comparable basis during this period are confined to the number of shares reported by the respective roads as held directly in the names of the beneficial owners, it is believed that the reported figures are quite adequate as indicators of the general trend.⁶ Approximately 20 of the principal railroads in the country cooperated in the compilation of the data employed in the analysis. This reporting group included two companies which, on the basis of total capital invested, are among the largest five in the United States.

The surveys relating to foreign ownership of United States railroad securities which L. F. Loree conducted during the early years of the World War provided a virtually complete census of foreign holdings. Mr. Loree's reports constitute, therefore, a useful foundation for statistical compilations covering subsequent years. No equally comprehensive statistical basis appears at so early a date for any other group of foreign-held American securities.

Although certain other classes of American corporate equities, notably utility issues, have become an increasingly important medium for foreign investment in this country during the past decade, railroad shares have lost little, if any, of their traditional appeal among European and other foreign investors. As indicated in chapter II, table 6, the value of foreign-owned American railroad securities (including small holdings in other transportation enterprises) constituted at the end of 1934 approximately 16 percent of the total foreign long-term investments in the United States, a percentage exceeded only by that for foreign holdings in American manufacturing enterprises. On the same date, foreign holdings of common and preferred shares of United States railroads comprised approximately 43 percent of the value of all foreign investment interest in American railway lines, exclusive of the substantial volume of direct investments.⁷

The trends in estimated foreign holdings of common and preferred shares of United States railroads from 1914 to 1936 are shown in table 40 and in figure 9. The indexes confirm the marked drop in foreign-held issues during the war period which was reflected in the Loree reports.

⁶ Because of the limitation of the data available, the indicated trend in preferred shares should not be regarded as conclusive. A comparison of the indexes in table 40 with those in table 36 (ch. VI) indicates that the change from 1929 to 1936 shown by the two indexes differs only to a minor extent. The year-to-year fluctuations of common-share holdings agree quite well, but those of the preferred-share holdings are often contrary. The preferred-stock sample used as a basis for column XV in table XIX of appendix F was somewhat larger and should, therefore, be more reliable. For more detailed comments see appendix F.

⁷ According to Loree's compilation, this percentage on July 31, 1915, was 25. This relatively low ratio reflects the importance of foreign-held railroad bonds at the earlier date.

After a sharp decline during 1916, the rate of liquidation subsided during the intervening years up to 1920. In 1918 the market value of foreign holdings of common stocks actually increased, despite continued liquidation by alien investors. Accelerated liquidation in 1920 was followed in 1921 by heavy foreign buying, which resulted in the first net increase in the number of foreign-owned shares since the outbreak of the war.

Table 40.—Indexes of Foreign Holdings of Common and Preferred Shares of United States Railroads, 1914-36¹

[Year-end figures; December 31, 1914=100]

Year	Common		Preferred		Year	Common		Preferred	
	Number of shares	Market value	Number of shares	Par value		Number of shares	Market value	Number of shares	Par value
1914.....	100	100	100	100	1926.....	36	45	48	48
1915.....	94	87	90	90	1927.....	34	50	45	46
1916.....	32	29	38	38	1928.....	36	60	43	44
1917.....	28	25	34	35	1929.....	33	48	44	44
1918.....	26	25	37	37	1930.....	38	36	41	41
1919.....	24	21	35	35	1931.....	39	13	38	39
1920.....	18	18	26	26	1932.....	42	12	37	37
1921.....	33	23	43	43	1933.....	42	18	35	35
1922.....	32	27	36	36	1934.....	44	17	35	35
1923.....	33	28	38	38	1935.....	53	26	39	39
1924.....	34	35	39	39	1936.....	61	40	46	46
1925.....	35	41	44	44					

¹ Based on the computed foreign holdings in table XIX, columns IX-XII, inclusive, in appendix F.

During 1922, the number of both common and preferred foreign-owned shares declined, although their combined value (market value for common, par for preferred) increased as a result of a rise in the market quotations of common shares. The actual number of both common and preferred shares held abroad then showed minor net increases through 1926 and again declined in 1927. Although the respective trends in the number of shares of each class held by foreigners moved in opposite directions during 1928 and 1929, the combined effect was distinctly influenced by the numerical predominance of common stocks and thus showed a rise in 1928 and a fall in 1929. After the latter year, the trend in the number of foreign-held preferred issues was downward until 1934, after which it indicated a sharp reversal.⁸ Foreign-held common shares, however, have risen without interruption every year since 1929 except for a slight decline in 1933 when the "flight from the dollar" encouraged liquidation of foreign-held American securities generally. As indicated in table 40 and figure 9, it was not until the last 2 years that the number of foreign-held common shares of American railroads reached 50 percent of the number of shares owned abroad in 1914, while such holdings of preferred shares have not yet quite reached this percentage.

The trend of estimated total foreign-held rail shares shows that, in general, net liquidation of such issues by foreign holders was synchronized in the post-war period with the early stages of business recession and that it continued for only a year or less. The sharp

⁸ See footnote 6, in this chapter.

decline during the war period was closely related to the activity of the Dollar Securities Committee of the British Government.

Foreign holdings of common shares of American railroads at the end of 1914 represented 11.25 percent of total shares outstanding of

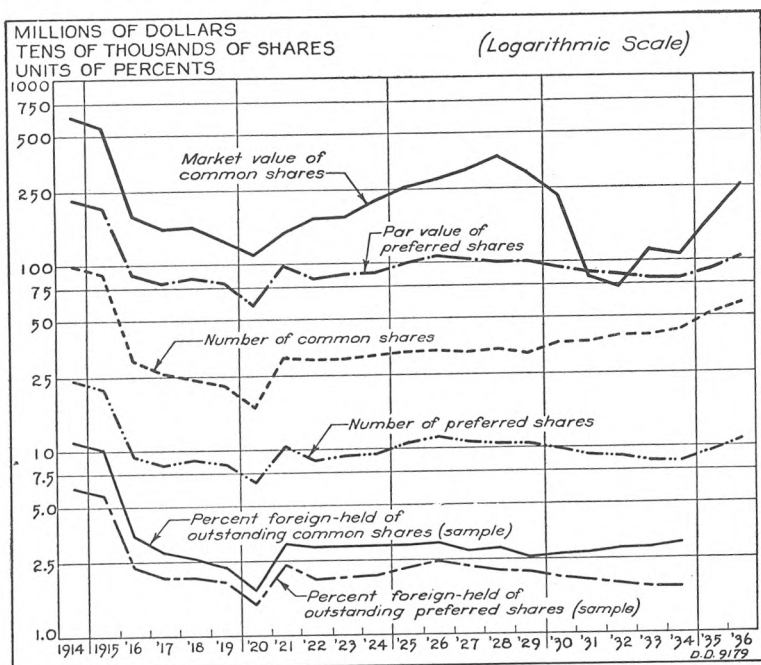


Figure 9.—Trends in foreign holdings of common and preferred shares of United States railroads, 1914-36.

all companies used in the sample. As a result of war-time liquidation, this percentage reached a low point of 1.78 in 1920. Renewed foreign interest raised foreign holdings to over 3 percent in 1921, after which they remained close to this ratio (see, for example, appendix F, table XIX). Foreign holdings of preferred shares, as indicated by the sample, at no time approached as large a proportion of the total as did those of common stocks, but they did not fall much below the low point reached by the common shares in 1920.

CHAPTER VIII

FOREIGN HOLDINGS OF UNITED STATES CORPORATE BONDS

As indicated in chapter II (table 3), the par value of foreign-held bonds of United States corporations (including issues in default, but excluding obligations of foreign-controlled companies classified as "direct investments") aggregated \$563,000,000 at the end of 1936. Although this amount was \$27,000,000 higher than the computed holdings at the end of 1934, the relative importance of bonds among foreign investments in the United States declined during the 2-year period, largely because of the marked increase in foreign holdings of common stocks of American corporations. The data in table 3 show that at the end of 1934 corporate bonds represented 12.3 percent of total foreign long-term investments, while at the end of 1935, despite an actual increase in the value of foreign bond holdings, they were only 10.8 percent of the total; and during 1936, again in the face of an increase in foreign holdings, they declined to 9.2 percent of aggregate foreign-held investments (see fig. 1).

At the present time, bonds occupy a much less important relative position among foreign long-term investments in the United States than before the World War, when they constituted about 50 percent of the total foreign investment interest in this country.⁹ A second notable change which has occurred, especially if the last century be taken as a basis, is found in the fact that the issues of the Federal Government and of other political entities are at present of minor importance among total foreign-held American bonds; whereas, throughout the first three-quarters of the nineteenth century, direct Government obligations constituted a relatively large part of total foreign-owned issues. Furthermore, many of the earlier corporate issues held abroad, especially those of canal companies, were guaranteed by State governments to assure their ready sale.

EARLY HISTORY

Government bonds have been an important part of total foreign investments in the United States during three different periods: (1) between the Revolutionary War and 1800; (2) in the 1830's; and (3) during the Civil War and a short time thereafter. During the first of these periods the Revolutionary War debt was largely held abroad; this was almost entirely paid off, however, by 1809. In the second period, State debts were the largest item in foreign investments in this country. Most of these went into default in the early 1840's, but service was resumed shortly thereafter on some issues. In a few cases resumption occurred only after a scaling down of the principal, while several issues are still in default.¹⁰ In 1853 it was estimated that foreigners held \$27,000,000 of United States Government bonds, \$111,000,000 of State obligations, and \$21,400,000 of county and city issues, out of the total foreign investments of \$222,000,000.¹¹

⁹ See ch. III.

¹⁰ Sixty-second Annual Report of the Council of the Corporation of Foreign Bondholders (London, 1936), pp. 454-470. See also Treasury Department, Repudiation of State Indebtedness (June 22, 1925).

¹¹ S. Exec. Doc. No. 42, 33d Cong., 1st sess., p. 53.

The third period included the Civil War years and those immediately following. During the later stages of the Civil War the bonds of the Federal Government were marketed vigorously on the Continent of Europe and in England. In 1869 the Special Commissioner of the Revenue estimated that \$1,000,000,000 of the bonds of the United States Government were held abroad. That was probably the highest point reached by those holdings, because the national debt had begun to decline by that date. The reduction in the national debt was accompanied for a time by the increase in the debt of the States, although not in the same proportion. Total State and municipal obligations held abroad in 1869 were estimated at \$107,000,000.¹²

For later years up to 1914 there is no record of any large foreign investment interest in Federal or State bonds, while New York City seemed to be the only municipality whose issues were placed abroad in substantial amount, over \$6,500,000 of its obligations being among those mobilized by the Dollar Securities Committee. Other New York City obligations were among those maturing shortly after the opening of the World War. Since the war Government bonds have not formed an important part of foreign investments in this country.¹³

Canal and railroad bonds were the first United States corporate issues to be held abroad in any substantial amounts. Most of the canal bonds were issued or guaranteed by State governments. There is no clear indication of the amounts held prior to 1853, when the Secretary of the Treasury reported foreign holdings of American railroad bonds at \$43,900,000 and of foreign-held canal bonds at \$2,000,000.¹⁴ By 1869 railroad bonds held abroad amounted to \$130,000,000.¹⁵ Foreign holdings of other corporate bonds were not estimated separately but, together with share holdings, they amounted to about \$15,000,000.

Nathaniel Bacon's estimates of foreign investments in the United States in 1899 made no distinction between types of investments, but his comments indicate that railroad bonds were the most important category. Sir George Paish did not show a bond and stock classification in his estimates. The relative importance of bonds, and particularly of railroad bonds, is clearly shown, however, by other sources covering the World War period. L. F. Loree, for example, showed railroad bonds and notes at \$1,920,000,000, out of total foreign holdings of railroad securities of \$2,704,000,000. The American Dollar Securities Committee mobilized \$768,000,000 of railroad bonds, out of total American securities of \$1,365,000,000, while other bonds totaled \$185,000,000.¹⁶

No satisfactory data are available relative to the changes in foreign holdings of American corporate bonds during the early post-war years. In 1928, T. C. Atkeson, of the Bureau of Internal Revenue, computed total interest payments on such issues to nonresident aliens during 1927 at \$26,671,000.¹⁷ It is estimated that the par value of outstanding foreign-held issues at that time was approximately \$570,000,000. On the basis of computed interest payments in 1929, the amount of foreign-held issues declined slightly after 1927. After falling to \$536,000,000 in 1934, the par value of foreign holdings

¹² H. Exec. Doc. No. 27, 41st Cong., 2d Sess., p. XXVI.

¹³ See ch. III.

¹⁴ S. Exec. Doc. No. 42, op. cit.

¹⁵ H. Exec. Doc. No. 27, op. cit.

¹⁶ For discussion of references in this paragraph, see ch. III.

¹⁷ See ch. I.

showed a slight increase during each of the next 2 years, as indicated by the trend of interest payments. At the end of 1933 the alien ownership of corporate bonds represented 1.96 percent of the total par value of all issues which were partly foreign-owned. The corresponding percentages of foreign-owned common and preferred shares were, as reported in tables 20 and 27, 2.6 percent for each class of shares.¹⁸

Owing to the Atkeson survey of 1927, it is possible to provide comparable data, insofar as they pertain to the countries of residence of the foreign holders, for 3 separate years which reflect the general trend of foreign-owned corporate bonds during the 7-year period from 1927 to 1933. The trend of total interest payments during this period, as shown in table 41 and figure 10, was clearly downward. The 4-year interval between 1929 and 1933 may, of course, have concealed important intervening changes, especially insofar as they pertained to payments made to particular countries. Certain changes were, nevertheless, so sharp that they seemed to indicate a more or less continuous trend during the period. The drop in interest payments on issues held in the United Kingdom from \$6,251,000 in 1927 to \$3,525,000 in 1933 suggests a steady downward trend during the entire period. Declines slightly less marked featured interest payments to Swiss and French holders, whereas those made to holders in the Netherlands were presumably on a higher level during the last 4 years of the period than during the 2 or 3 years immediately preceding.

Table 41.—Interest Payments to Nonresident Alien Owners of Bonds of United States Corporations, 1927, 1929, and 1933

[In thousands of dollars]

Country	1927	1929 ¹	1933 ¹
Netherlands.....	7, 151	8, 789	8, 571
United Kingdom.....	6, 251	5, 111	3, 525
Switzerland.....	3 945	2, 706	2, 656
France.....	3, 120	2, 726	2, 060
Canada.....	1, 946	2, 783	2, 029
Other Europe.....	2, 592	2, 302	1, 618
Latin America.....	1, 034	754	263
Rest of world.....	632	393	1, 452
Total.....	26, 671	25, 564	22, 174

¹ The distribution of interest payments by countries shows slightly higher totals during 1929 and 1933 in this table than in tables 42 and 43. In order that the data for these two years could be compared with those for 1927 prepared by T. C. Atkeson, the payments listed in tables 42 and 43 under "American agents" were distributed among the various countries in proportion to the relative importance of payments made to each country.

INTEREST PAYMENTS TO NONRESIDENT ALIENS, 1929 AND 1933

Tables 42 and 43 summarize the respective results of a detailed computation of interest payments made during 1929 and 1933 by United States corporations to nonresident alien bondholders. The aggregate par value of foreign-held corporate bonds in 1929 was estimated on the basis of computed interest payments at \$549,000,000 and in 1933 on a similar basis at \$563,000,000. The computed interest payments, according to industries and according to countries, are presented in detail in these tables, with a view to indicating the

¹⁸ These two share ratios are based on the year-end data of 1934. The percentage relating to common shares is based on the number of shares foreign-held and outstanding, respectively, while that pertaining to preferred issues is based on corresponding par-value data.

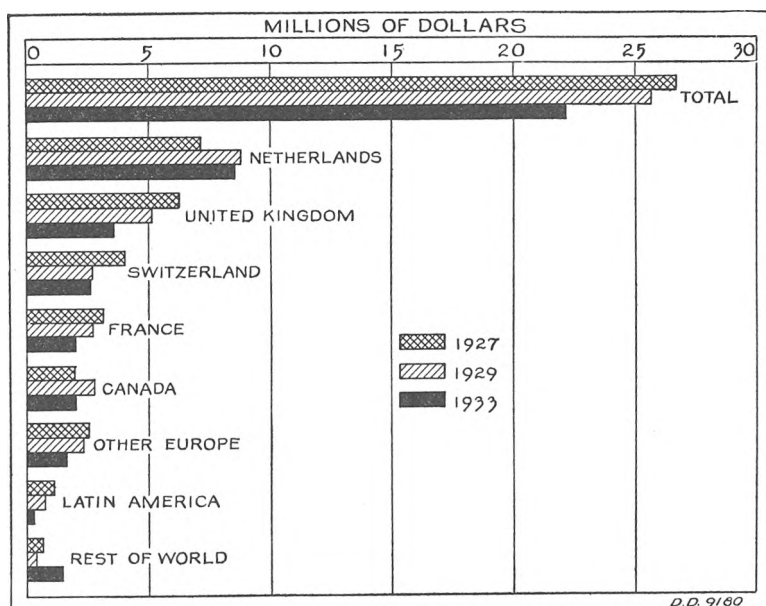


Figure 10.—Interest paid on United States corporate bonds to nonresident aliens, by principal countries and areas, 1927, 1929, and 1935.

relative importance of the respective classes of bonds among total foreign holdings and the comparative positions of the various national groups of investors as creditors of American corporations.¹⁹ (See fig. 11.)

Table 42.—Interest Paid on United States Corporate Bonds to Nonresident Aliens, by Industries and by Principal Countries or Areas, 1929

Industry	Canada	United Kingdom	France	Netherlands	Switzerland	Germany	Belgium
Manufacturing:							
Automobiles and trucks.....	\$34,641	\$16,873	\$43,111	\$18,203	\$31,028	\$10,502	\$2,298
Iron and steel.....	42,996	47,809	73,406	132,331	58,911	15,675	10,784
Transportation equipment.....	315	8,478	470	650	250	500	50
Machinery and manufacturing equipment.....	18,483	14,145	15,526	1,629	8,823	2,290	324
Heating and electrical equipment.....	35,604	5,783	2,487	-----	531	45	33
Hardware and tools.....	8,583	5,522	5,828	2,565	4,478	595	115
Building and construction materials.....	30,661	4,945	8,417	2,185	24,323	5,359	313
Paper and wood products.....	153,134	13,735	12,012	1,323	7,136	6,891	577
Chemicals, fertilizers, and drugs.....	15,944	17,498	9,388	4,490	2,644	1,965	393
Textiles and apparel.....	7,091	21,145	3,935	6,475	13,867	18,995	1,090
Foods and beverages.....	107,295	63,672	30,554	46,157	16,308	9,724	2,130
Sugar producing and refining.....	12,630	33,324	14,211	2,140	11,985	1,782	995
Tobacco and tobacco products.....	4,613	4,568	7,700	2,037	3,925	1,466	863
Other manufactures.....	4,355	103,177	4,892	-----	1,672	9,336	488
Total.....	476,345	360,674	231,937	220,185	185,881	85,125	20,423
Distribution.....	5,203	2,648	10,170	150	1,722	1,843	110

¹⁹ Changes in aggregate interest payments are not an entirely accurate indicator of changes in the par value of total bond holdings. It is apparent, however, that defaults (see appendix G) were not of sufficient consequence to exert an appreciable influence on total interest payments. Also, annual changes in average coupon rates of outstanding issues are relatively small, and there is no evidence of substantial shifts in holdings through international sales and purchases within a single year.

Table 42.—Interest Paid on United States Corporate Bonds To Nonresident Aliens, by Industries and by Principal Countries or Areas, 1929—Continued

Industry	Canada	United Kingdom	France	Netherlands	Switzerland	Germany	Belgium
Transportation:							
Railroads.....	\$294,267	\$2,145,542	\$1,854,106	\$5,648,001	\$1,276,518	\$478,225	\$243,226
Other.....	13,263	15,073	16,136	145,733	14,335	5,528	1,905
Total.....	307,530	2,160,615	1,870,136	5,793,734	1,290,853	483,753	245,131
Public utilities.....	1,069,392	1,489,621	510,467	1,922,701	717,654	142,285	69,153
Petroleum.....	29,598	21,949	62,297	290,477	35,439	12,857	3,557
Mining:							
Coal and coke.....	7,226	60,401	38,966	32,324	107,624	9,344	3,290
Other.....	26,368	51,470	43,604	30,952	11,058	11,058	13,499
Total.....	33,594	111,871	82,570	322,801	138,576	20,402	16,789
Finance.....	105,640	113,087	41,135	10,672	33,359	16,820	6,625
Miscellaneous.....	615,033	311,210	61,634	52,203	166,068	43,758	6,276
Grand total.....	2,642,335	4,571,675	2,870,346	8,345,760	2,569,552	806,843	368,064

Industry	Italy	Spain	Other European countries	Latin America	Rest of world	American agents	Total interest paid abroad
Manufacturing:							
Automobiles and trucks.....	\$2,097	\$2,225	\$4,512	\$9,732	\$3,418	\$14,958	\$193,598
Iron and steel.....	3,494	8,058	10,470	14,927	15,155	40,638	474,654
Transportation equipment.....	50	-----	540	50	300	-----	11,653
Machinery and manufacturing equipment.....	1,649	410	2,782	4,436	1,320	6,298	78,115
Heating and electrical equipment.....	-----	195	-----	515	130	3,196	48,519
Hardware and tools.....	1,025	50	200	726	670	7,765	38,122
Building and construction materials.....	928	345	1,844	9,891	3,331	34,717	127,259
Paper and wood products.....	1,008	120	7,955	6,063	3,920	14,613	228,487
Chemicals, fertilizers, and drugs.....	-----	305	1,215	3,386	520	3,570	61,318
Textiles and apparel.....	1,947	-----	16,009	1,540	50	6,483	98,597
Foods and beverages.....	3,371	765	2,294	7,618	2,737	24,757	317,382
Sugar producing and refining.....	2,095	3,109	1,858	24,415	2,022	21,834	132,400
Tobacco and tobacco products.....	1,320	190	2,100	1,923	927	6,395	38,027
Other manufactures.....	1,475	1,458	832	2,765	5,892	32,055	168,397
Total.....	20,459	17,230	52,611	87,987	40,392	217,279	2,016,528
Distribution.....	434	-----	105	4,228	-----	138	26,751
Transportation:							
Railroads.....	154,756	252,737	134,200	347,393	149,597	522,112	13,500,680
Other.....	1,075	3,750	950	3,016	930	6,373	227,961
Total.....	155,831	256,487	135,150	350,409	150,527	528,485	13,728,641
Public utilities.....	90,000	78,121	133,815	174,651	134,436	351,755	6,884,051
Petroleum.....	3,646	1,680	8,991	5,690	4,216	23,526	236,760
Mining:							
Coal and coke.....	1,856	810	3,290	6,552	6,215	30,094	307,992
Other.....	4,553	2,606	6,623	10,123	12,810	17,089	521,232
Total.....	6,409	3,416	9,913	16,675	19,025	47,183	829,224
Finance.....	3,099	4,548	7,618	12,130	3,472	19,206	377,411
Miscellaneous.....	6,728	2,272	12,400	63,883	22,057	102,275	1,465,797
Grand total.....	286,606	363,754	360,603	715,653	374,125	1,289,847	25,565,163

Table 43.—Interest Paid on United States Corporate Bonds to Nonresident Aliens, by Industries and by Principal Countries or Areas, 1933

Industry	Canada	United Kingdom	France	Netherlands	Switzerland	Germany	Belgium
Manufacturing:							
Automobiles and trucks....	\$37,200	\$11,943	\$52,157	\$13,365	\$15,509	\$3,745	\$2,022
Iron and steel.....	28,458	20,218	18,938	77,125	19,794	4,849	2,982
Transportation equipment.....	1,772	8,485	517	225	873	25	25
Machinery and manufacturing equipment.....	4,732	3,242	7,010	1,643	3,185	1,514	135
Heating and electrical equipment.....	391	1,196	1,170	45	105	-----	-----
Hardware and tools.....	6,056	3,377	7,254	1,535	7,435	545	125
Building and construction materials.....	18,280	2,327	1,466	300	3,073	189	180
Paper and wood products.....	54,518	14,646	3,363	1,528	9,599	7,608	30
Chemicals, fertilizers, and drugs.....	11,478	29,365	2,840	817	7,885	3,075	78
Textiles and apparel.....	264	6,185	1,721	2,942	2,113	362	-----
Foods and beverages.....	19,198	31,582	12,899	51,779	35,109	10,830	2,592
Sugar producing and refining.....	747	21,088	1,770	540	530	140	-----
Tobacco and tobacco products.....	1,893	2,530	843	373	3,680	703	165
Other manufactures.....	3,627	41,570	3,540	600	1,556	6,157	567
Total.....	188,614	197,754	115,488	152,817	110,446	39,742	8,901
Distribution.....	7,267	2,317	2,878	215	2,060	2,418	263
Transportation:							
Railroads.....	224,059	1,287,008	1,147,808	4,407,953	1,060,212	382,367	162,249
Other.....	166,023	22,672	6,780	157,428	3,770	1,520	1,065
Total.....	390,082	1,309,680	1,154,588	4,565,381	1,063,982	383,887	163,314
Public utilities.....	955,898	1,377,556	506,169	2,771,081	1,038,459	226,031	111,974
Petroleum.....	29,136	17,538	13,715	27,227	36,815	7,180	2,297
Mining:							
Coal and coke.....	6,814	94,136	19,397	39,058	47,960	4,565	610
Other.....	11,201	12,262	7,223	182,220	17,686	6,167	4,330
Total.....	18,015	106,398	26,620	221,278	65,646	10,732	4,940
Finance.....	56,268	103,410	25,299	7,624	29,739	18,874	3,710
Miscellaneous.....	200,509	92,594	29,140	52,576	69,436	12,337	10,304
Grand total.....	1,845,789	3,207,247	1,873,897	7,798,199	2,416,583	701,201	305,703

Industry	Italy	Spain	Other European countries	Latin America	Rest of world	American agents	Total interest paid abroad
Manufacturing:							
Automobiles and trucks....	\$1,775	\$262	-----	\$1,477	\$6,961	\$42,179	\$188,595
Iron and steel.....	1,390	50	-----	2,628	23,041	14,170	213,643
Transportation equipment.....	325	-----	-----	270	2,735	-----	15,252
Machinery and manufacturing equipment.....	157	1,078	-----	1,742	4,117	-----	28,555
Heating and electrical equipment.....	-----	-----	-----	60	1,048	-----	4,015
Hardware and tools.....	405	-----	-----	1,383	3,980	750	32,845
Building and construction materials.....	60	516	-----	1,176	4,239	13,530	45,336
Paper and wood products.....	1,566	615	-----	1,610	26,235	19,137	140,455
Chemicals, fertilizers, and drugs.....	110	300	-----	748	6,317	8,350	71,363
Textiles and apparel.....	25,785	140	-----	723	296	-----	40,531
Foods and beverages.....	5,950	1,055	-----	3,131	32,775	23,414	230,314
Sugar producing and refining.....	600	735	-----	105	7,687	-----	33,942
Tobacco and tobacco products.....	35	-----	-----	525	838	-----	11,585
Other manufactures.....	1,861	310	-----	492	19,679	86	80,045
Total.....	40,019	5,061	-----	16,070	139,948	121,616	1,136,476
Distribution.....	747	175	-----	676	7,350	535	26,901

Table 43.—Interest Paid on United States Corporate Bonds to Nonresident Aliens, by Industries and by Principal Countries or Areas, 1933—Continued

Industry	Italy	Spain	Other European countries	Latin America	Rest of world	American agents	Total interest paid abroad
Transportation:							
Railroads.....	\$66,809	\$127,018	\$1,483	\$81,388	\$632,423	\$873,848	\$10,454,625
Other.....	640	2,710	-----	1,300	2,792	2,963	369,663
Total.....	67,449	129,728	1,483	82,688	635,215	876,811	10,824,288
Public utilities.....	127,070	45,937	14,496	101,897	432,854	859,785	8,569,207
Petroleum.....	2,884	993	-----	5,519	17,048	28,202	188,554
Mining:							
Coal and coke.....	2,858	4,382	-----	575	5,971	16,897	243,223
Other.....	2,270	2,190	-----	5,833	7,932	9,180	268,494
Total.....	5,128	6,572	-----	6,408	13,903	26,077	511,717
Finance.....	1,862	2,950	4,153	3,145	15,318	27,900	300,252
Miscellaneous.....	5,870	3,205	-----	22,418	58,827	59,141	616,357
Grand total.....	251,029	194,621	20,132	238,821	1,320,463	2,000,067	22,173,752

Total interest payments were computed at \$25,565,000 in 1929 and at \$22,174,000 in 1933. Owing to the absence of corresponding computations for the intervening years, it is not possible to state with

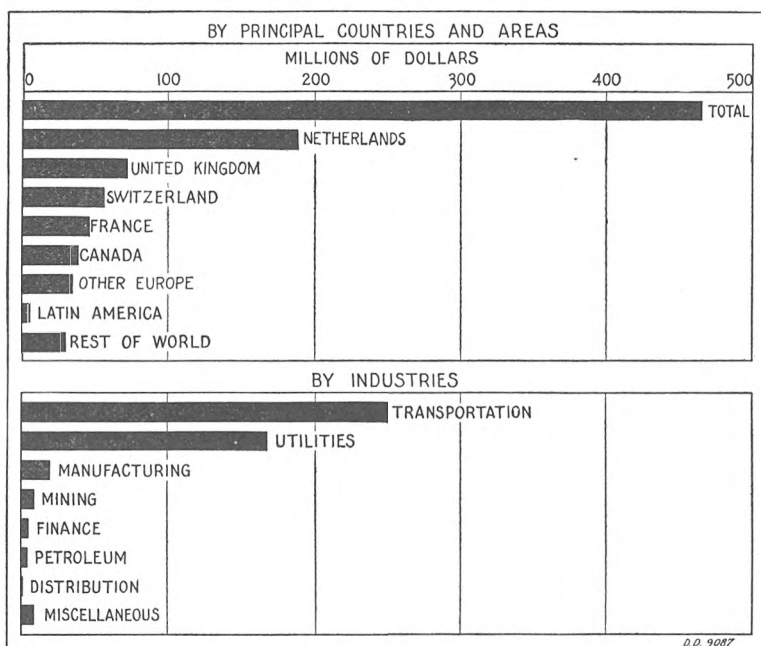


Figure 11.—Par value of United States corporate bonds held by nonresident aliens, by principal countries and areas and by industries, 1933.

any degree of certainty whether the decline of approximately 13.3 percent from 1929 to 1933 represented the cumulative result of a steady year-by-year recession in foreign holdings or whether the annual changes were at times upward and at times downward. Avail-

able annual data relating to foreign holdings of corporate bonds indicated, however, that total foreign holdings tended gradually downward from 1929 to 1934 and moved steadily, though not sharply, upward during 1935 and 1936.

Attention has already been called to the changes from 1929 to 1933 in total interest payments made by American corporations to bondholders in several of the principal investing countries. A comparison of tables 42 and 43 indicates that the decline of 30 percent in total interest payments on holdings in the United Kingdom related almost entirely to manufacturing, railroad, and miscellaneous issues, although there was also a slight drop in total interest received by British investors on public-utility issues. The major part of the drop in Canadian interest receipts was confined to issues in the groups "manufacturing" and "miscellaneous." Payments to Canadian holders on utility bonds showed a small decline, whereas interest derived from American transportation bonds, other than railroad issues, showed an appreciable increase.

Interest payments to French holders of American corporate bonds aggregated approximately \$1,874,000 in 1933, as compared with \$2,870,000 in 1929, a decline of 35 percent. This decrease was distributed over all industrial groups, but in the more important groups the drop was relatively smaller than in the minor classes, such as petroleum, mining, finance, and miscellaneous.

Interest payments by American corporations to bondholders in the Netherlands represent distinctly the largest single aggregate on a country basis. In 1929 holders in the Netherlands received \$8,346,000 or 32.6 percent, of all interest payments abroad to nonresident aliens, and in 1933 the slightly smaller payments of \$7,798,000 represented 35.2 percent of the total. Not only were payments to this group of bondholders much higher in each of the 2 years than those to the investors of any other country, but the payments made in 1933 represented a smaller percentage decline from those made in 1929 than did corresponding payments to any other group except the Swiss. Holdings of the latter, as reflected in interest payments, indicated a decline of only 6 percent, as compared with a decrease of 6.6 percent in Netherlands holdings. Swiss holdings were, however, considerably smaller in the aggregate than those of the Netherlands and were substantially less than those of the United Kingdom even in 1933 after those of the latter had fallen well below the total for 1929.

Interest payments to bondholders in Germany, Belgium, Italy, Spain, Latin America, and other areas,²⁰ respectively, were less in 1933 than in 1929. Payments to Spain and Latin America showed rather substantial declines, due in each case to substantially smaller payments in the latter year on holdings of railroad bonds. Interest paid by American corporations to investors in the United Kingdom, France, Canada, Spain, and Latin America fell from 1929 to 1933 much more in proportion than total interest payments made abroad. The relative declines in payments to Germany, Belgium, and Italy, respectively, were approximately the same as the drop in aggregate payments to all foreign bondholders. As previously indicated, the

²⁰ Interest payments listed in tables 42 and 43 under "Other European countries" and "Rest of world" are not comparable, except as aggregates of the two categories, owing to the inclusion in 1933 of most items applicable to "Other European countries" in the "Rest of world" category. The increase in aggregate interest payments under these two categories in 1933, as compared with payments in 1929, resulted largely from increased holdings by a group of countries in northern Europe, namely, Sweden, Norway, Denmark, and Finland.

Netherlands and Switzerland were the only countries whose interest receipts on American corporate bonds in 1933 were not materially below the receipts in 1929. A slight discrepancy in the comparative interest data by individual countries for 1929 and 1933 resulted from the relatively larger amount paid to American agents in 1933. It is likely that certain groups of foreign investors became increasingly inclined to carry their American security holdings in the names of American agents as their governments enforced or tightened regulations relating to foreign securities owned by their nationals.

The decline of 13.3 percent in total interest payments to nonresident alien bondholders by American corporations in 1933, as compared with

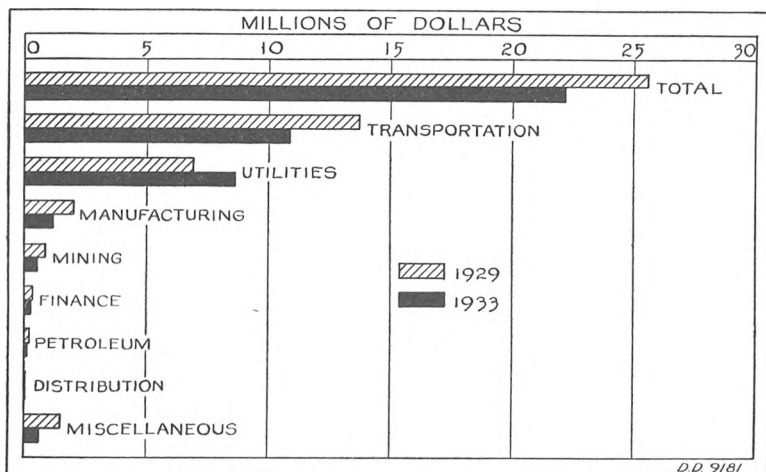


Figure 12.—Interest paid on United States corporate bonds to nonresident aliens, by industries, 1929 and 1933.

payments in 1929, was the result of widely varying changes in the payments made by the companies in the respective industrial groups (see fig. 12). Interest receipts by foreign investors on their holdings of utility bonds increased from \$6,884,000 in 1929 to \$8,569,000 in 1933. Since payments on utility issues were in each year second in importance only to payments on transportation issues, it is apparent that in certain other groups the decline was quite pronounced. The largest decline, that from \$13,500,000 in 1929 to \$10,455,000 in 1933, in payments on railroad obligations resulted from the combined influence of liquidation and defaults. In the third most important group, which comprises the various classes of manufacturing companies, interest payments to foreign creditors fell from \$2,017,000 in 1929 to \$1,136,000 in 1933. With the exception of companies classified under "Distribution", the total interest payments made to nonresident aliens by each of the minor groups of corporations were substantially less in 1933 than in 1929.

Although interest payments made abroad by manufacturing companies were 44 percent less in 1933 than in 1929, the decline was unevenly distributed among the various manufacturing industrial subgroups. Payments by transportation-equipment companies, as well as those by chemical concerns, were substantially higher in 1933 than in 1929, although no special significance attaches to these because

the amounts involved were comparatively small. In each of the more important industries, such as iron and steel, automobiles and trucks, paper and wood products, and foods and beverages, the interest payments made abroad in 1933 were less than those in 1929. These declines ranged from 2.6 percent in automobiles and trucks to 55 percent in iron and steel.²¹

TREND IN INTEREST PAYMENTS, 1933-35

The trend in interest payments during 1934 and 1935 is reflected in the indexes in table 44, which were based on a sampling of interest payments to nonresident aliens covering for each year approximately 25 percent of the total foreign-owned issues. These indexes clearly indicate that utility issues have been the principal factor in the increase of interest payments to foreign bondholders since the low point of 1934. Although it has not been possible to classify corresponding data for 1936, the estimated interest payments of slightly more than \$22,000,000 in that year indicate that the payments have returned to approximately their 1933 level and that the aggregate foreign holdings of corporate bonds were approximately the same as in 1933, even though the distribution among the respective industrial groups has changed.

Table 44.—Indexes of Interest Payments on United States Corporate Bonds to Nonresident Aliens, 1933-35

[1933 = 100]

Item	1933	1934	1935
All investments.....	100.0	97.5	98.8
Railroads.....	100.0	77.6	73.0
Public utilities.....	100.0	115.1	119.5
Other groups.....	100.0	103.2	117.9

²¹ It must be repeated that the analysis of interest payments in this chapter, especially the comparison of payments in the respective years 1929 and 1933, are presented to serve only such purposes as are clearly indicated. Foreign holdings of United States corporate bonds are no longer a major item in total foreign investments in this country. Also, as has been previously suggested, the comparison of 1929 and 1933 data may possibly obscure changes during the intervening years.

APPENDIXES

A. INDUSTRIAL CLASSIFICATION ¹

Manufacturing:

- Automobiles and trucks, tires, and parts.
- Iron and steel.
- Transportation equipment (railway, marine, and aviation).
- Machinery and manufacturing equipment.
- Heating and electrical equipment.
- Hardware, tools, and other metal products, n. e. s.
- Building and construction materials.
- Paper and wood products.
- Chemicals, fertilizers, drugs, and paints.
- Textiles and textile products, including wearing apparel.
- Foods and food products, including beverages.
- Sugar producing and refining.
- Tobacco and tobacco products.
- Other manufacturing.

Distribution:

- Chain stores, department stores, mail-order houses, and wholesalers.
- Sales subsidiaries, export-import houses.

Transportation:

- Railroads (steam).
- Other transportation (air, water, and highway).

Public utilities (electric, gas, telephone, telegraph, and city traction companies, including both operating and holding companies).

Petroleum (producing, refining, and distribution, including pipe lines and royalties).

Mining and smelting:

- Coal and coke.
- Other mining, including copper, iron, potash, and zinc.

Finance:

- Insurance companies.
- Banks and trust companies.
- Investment trusts.
- Other financial institutions.

Miscellaneous:

- Hotels, apartments, and restaurants.
- Real estate (urban and agricultural property).
- Advertising, printing, and publishing.
- Theaters and motion pictures.
- Building, engineering, and construction companies.
- Other.

B. DATA RELATING TO CHAPTER II

I. PROCEDURE FOLLOWED IN ESTIMATING FOREIGN INVESTMENTS IN COMMON AND PREFERRED STOCKS, 1935 AND 1936

Estimates of foreign investments in common and preferred shares covering the years 1935 and 1936 represented adjustments of the 1934 estimate upon the basis of indexes of foreign holdings in those years. These indexes, while based on data regarding a fairly large proportion of the foreign investments, cannot be said to be perfect measures of the trends in foreign investments.

The 1934 estimates of common and preferred stock held abroad were divided into the direct and the nominee holdings, as follows:

¹ Holding companies for which only consolidated figures were available were classed according to the major activity of the subsidiaries.

Foreign Investments in United States Common and Preferred Stocks, 1934

[In millions of dollars]

Kind of stock	Direct holdings	Nominee holdings	Total
Common stock (market value).....	782	420	1, 202
Preferred stock (par value).....	193	158	351

The indexes used in computing the 1935 and 1936 estimates related to the market value of the foreign-held common stock and the number of foreign-held shares of preferred stock (taken as representative of par value). They are as follows:

Indexes of Foreign Investments in Common and Preferred Stocks, 1935 and 1936

[1934 = 100]

Year	Direct holdings		Nominee holdings	
	Common	Preferred	Common	Preferred
1934.....	100	100	100	100
1935.....	152	108	152	115
1936.....	213	109	246	155

The sources and methods of computing these indexes are discussed in chapter VI.

II. MORTGAGE CERTIFICATE HOLDINGS

Table I.—Sample Survey of Mortgage Certificates Held by Residents of Foreign Countries,¹ End of 1935

Country	Number of investments	Amount	Country	Number of investments	Amount
Australia.....	4	\$12, 000. 00	Japan.....	1	\$1, 500. 00
Austria.....	5	17, 400. 00	Yugoslavia.....	3	9, 500. 00
Belgium.....	15	18, 500. 00	Latvia.....	2	6, 000. 00
Bermuda.....	5	8, 800. 00	Lithuania.....	1	2, 000. 00
British West Indies.....	20	26, 000. 00	Malta.....	2	4, 000. 00
Bulgaria.....	2	6, 000. 00	Mexico.....	1	500. 00
Canada.....	129	214, 877. 88	Newfoundland.....	2	3, 100. 00
China.....	8	13, 727. 31	Netherlands.....	6	6, 894. 70
Colombia.....	1	1, 000. 00	Norway.....	28	76, 035. 71
Cuba.....	10	41, 600. 00	Palestine.....	10	36, 700. 00
Czechoslovakia.....	8	15, 200. 00	Peru.....	2	400. 00
Denmark.....	11	9, 266. 66	Poland.....	1	1, 200. 00
Ecuador.....	2	1, 000. 00	Spain.....	5	7, 500. 00
Egypt.....	1	550. 00	Sweden.....	8	13, 643. 59
Finland.....	1	3, 600. 00	Switzerland.....	33	20, 509. 09
France.....	48	92, 350. 94	Syria.....	1	10, 000. 00
Germany.....	82	210, 575. 93	Turkey.....	4	3, 250. 00
Great Britain and Channel Islands.....	125	214, 246. 11	Canal Zone.....	17	17, 513. 14
Greece.....	8	20, 298. 74	Haiti.....	5	3, 000. 00
Hungary.....	1	2, 000. 00	Philippine Islands.....	7	20, 929. 00
Ireland.....	61	120, 604. 93			
Italy.....	79	258, 924. 19	Total.....	765	1, 552, 097. 92

¹ This table, showing the amount and distribution of foreign-held mortgage certificates in a total sampling of approximately \$1,000,000,000, was prepared for the Finance Division, through the courtesy of Maurice Finkelstein of the Mortgage Commission of the State of New York, as an index reflecting the volume of this type of foreign investment in the United States.

C. DATA RELATING TO CHAPTER IV

I. METHODS EMPLOYED IN COLLECTING AND COMPILING DATA ON FOREIGN DIRECT INVESTMENTS IN THE UNITED STATES

Sources of list of corporations.—The list of American corporations that are controlled by foreigners was compiled from many different sources. Among the sources are (1) the foreign offices of the Departments of Commerce and State, (2) other Government departments and commissions, (3) men associated with various industries (business and trade-association executives), (4) various business manuals and periodicals, both domestic and foreign, and (5) newspapers.

Data gleaned from these various sources were checked as far as possible by means of correspondence with the corporations and by reference to other sources before they were accepted. Notwithstanding the care exercised in the preparation of the list, there is little doubt but that some foreign-controlled companies have been missed, while some that are included should be eliminated. For the most part, however, it is thought that these errors are minor.

Method of valuation.—The valuation used herein may be described briefly as the net foreign investment in the American company as shown on the books of the latter.² This included the foreign interest (1) in the stated or par value of common and preferred stocks, (2) in the surplus or deficit account, including undistributed profits and appropriated surplus, (3) in the principal amount of bonds and notes, and (4) in the net amount of advances and inter-company accounts. This method of valuation was used for the miscellaneous investments in foreign-controlled enterprises as well as for the controlling interests.

About \$87,000,000 of the total foreign direct investment in this country represents the properties of foreign corporations that operate in the United States through registered branches. Capital-stock tax records filed by foreign corporations were used as the basis of the \$87,000,000 estimate. The report form (no. 708) gives the following instructions: "Declare in the space below a value for the *entire capital employed* in the transaction of business in the United States which you are willing to have accepted in this and subsequent years, as a basis on which to pay capital-stock tax and excess-profits tax."

The method of valuation used is subject to all the limitations resulting from the different accounting principles and practices in use among the reporting firms. For example, the depreciation and depletion policies of corporations vary greatly. In the aggregate, therefore, the values shown herein are the composite of businessmen's judgments of the value of these foreign-controlled corporations as shown by balance-sheet statements.

In view of these limitations, other methods of valuation were considered. The alternatives, in the case of direct investments, are capitalized earnings and market values. Capitalized earnings were not used, because (1) even greater difficulties arise in obtaining the necessary earnings data than in obtaining balance-sheet figures, (2) net earnings figures are subject to the same accounting problems that balance-sheet figures are, and (3) the selection of a rate at which to capitalize earnings would be extremely difficult. Slight errors in the rate selected would be magnified in the investment estimate.

A very basic objection to the use of market values for direct investments is that most of the corporations included in this category are wholly owned or closely held and that, therefore, satisfactory market values are not available for their securities. The investment in those corporations which have bonds or other securities listed on some stock exchange or actively traded in over the counter comprises less than one-third of the total foreign direct investments in the United States. The other objections to the use of market values are similar to those stated in chapter V.

Rules of geographic distribution.—It has not been possible in most cases to get back of the recorded foreign owner of the American corporation or enterprise. The domicile of the recorded owner was accepted for the purpose of allocating the investments geographically. This procedure, of course, does not yield an entirely true picture of the source of the capital nor of the ultimate destination of any earnings of the enterprise. Occasionally the foreign investment is held in the name of a holding company incorporated in a third country. There is reason to believe that some French and German corporations control American enterprises through the medium of Netherland and Swiss holding companies. In other instances, the foreign corporation controlling the American enterprise is itself owned (at least, in part) by stockholders residing in a third country. These and other factors complicate the problem of geographic distribution.

² See the insurance section in ch. IV for a brief statement of the rules of valuation applying to that type of investment.

Data regarding the miscellaneous investments in controlled enterprises were obtained from the same sources as were the data regarding stock and bond investments and are subject to rules stated in appendix D, I, except insofar as valuation is concerned. In the few and relatively minor cases where a complete geographic break-down was not obtained, the investment was included with those of the "Rest of world."

A detailed outline of the industrial classification is given in appendix A.

D. DATA RELATING TO CHAPTER V

I. METHODS EMPLOYED IN COLLECTING AND COMPILING DATA ON FOREIGN INVESTMENTS IN UNITED STATES COMMON AND PREFERRED STOCKS

Holdings registered under foreign addresses and reported by corporations (direct holdings).—The corporations were the source of data relating to shares held under foreign addresses. Most corporations have lists of their stockholders of record prepared for use in mailing dividend checks and notices of annual meetings. Frequently these lists contain a hundred thousand or more names, and the preparation of data regarding the number and location of shares held by foreigners requires a considerable amount of labor and expense. Often these records are maintained by the registrar or transfer agent for the issue, rather than by the corporations.

In the letter asking the corporations for these data, the term "foreigner" was defined as "any holder with a foreign address."³ As a result, shares held by American citizens living abroad, either temporarily or permanently, were classed as foreign investments. Very frequently the share holdings of American citizens who serve as managers or technical advisers in the foreign branches of American corporations were considered as foreign.

The working of the rule defining the term "foreigner" may be illustrated by quoting pertinent remarks from the letters of many of the smaller corporations:

1. "Over 17,000 shares held abroad—all held by employees residing in foreign country."
2. "The large increase over our report for the previous year is due to the recent division of a large estate in which two of the heirs were residents of Canada."
3. "Regarding Mr. -----, we understood that this party was only traveling in -----, but as this address has continued for approximately 2 years we presume his residence is there now."
4. "Over 100 shares are held by one of our employees whom we sent to China in order to open a branch at Shanghai."
5. "This gentleman has been a holder of this security for more than 10 years."
6. "Due to unsettled conditions abroad, it is quite likely that this stockholder shall be moving back to this country within the course of the next year or so."

Similar cases undoubtedly exist among the thousands of shareholders of the larger corporations. There are no means of telling whether or not most of the securities are held for long periods or whether they are being bought and sold, but it is reasonable to assume that many foreign stockholders expect to continue to hold their shares for many years.

Letters were mailed late in 1934 and early in 1935 to about 4,300 American corporations. The mailing list was made up principally from Moody's 1934 Manuals, supplemented by other sources. One of the chief supplementary sources was the list of corporations whose shares were reported by banks and brokers as being held for foreign account. The mailing list was confined to corporations that had common or preferred stock in the hands of the public. This naturally eliminated thousands of wholly owned subsidiaries of American parent or holding companies.

Of the 4,300 corporations to whom letters were sent, 2,774 replied giving the data requested in a form that was suitable for use. These 2,774 replies were divided into three groups:

1. The 860 corporations which gave a distribution, by country, of the foreign-held shares. This group provides the principal basis for the distribution of foreign holdings by countries.
2. The 1,006 corporations which gave only the total number of their shares that were owned by foreign residents. Some of each of these two groups gave the desired data for 2 or more years and thus provided the basis for the time-trend analyses which are given in chapters VI and VII.
3. The 908 corporations which reported that none of their shares was held abroad. Of course, many of the corporations in the first and second groups

³ Holdings by investors residing in Alaska, Hawaii, Puerto Rico, and the Virgin Islands were considered as domestic.

reported that there were no foreign holders of some of their issues, either common or preferred.

Late in 1936 the questionnaire letter was mailed to about 1,300 additional corporations. These were, on the whole, small local companies, many of whose issues are closely held. Over 650 replies were received. These replies were used as a test of the adequacy of the omission estimate. (See appendix D, III.)

Although the corporations were requested to base their reports on shares registered under foreign addresses, it was found that they occasionally reported those held in American addresses where they knew the beneficial owner was a foreign resident. This practice probably caused some duplication of records, inasmuch as some of the same holdings were reported by the banks and brokers.

*Foreign holdings registered under domestic addresses (nominee holdings).—*Data regarding common and preferred shares held in American names for foreign account were obtained from 61 banks and 85 brokerage houses. These institutions included all the commercial banks, trust companies, foreign banking agencies, private banking houses, and stock-exchange firms that carry such accounts in any appreciable volume. The banks and brokerage houses searched their records, as of the end of 1934, and reported the number of American corporate shares, by issues, that were held by them for foreign account, giving a geographic distribution of those shares.

Method of valuation.—Market values were used for common shares and par values for preferred shares. These types of values not only seemed most significant for general use in estimates of this character but were most feasible as well. A large part of the common shares outstanding do not have par values, while most preferred shares do. For common stock, par values (or stated values in the case of no-par shares) would not be satisfactory, because they do not reflect the amount of the corporation's surplus or deficit applicable to the particular number of shares held by foreigners. To have calculated the value by proportionating stated value and surplus or deficit by shares would have meant a great deal of added work and would still not have provided the best value for the purpose. The value of common stock depends partly on earnings and partly on the dividend rate. Its market value depends upon those factors and, in addition, upon market psychology. In the long run, however, market value probably corresponds to the value determined by the basic factors, and the influence of market psychology averages out. Consequently, market value is the most significant value for common stock.

Stock issues when specifically designated as common or preferred were classified as such. When not so designated, all issues that included a preference as to dividends were classified as preferred. Most preferred-stock issues have par values and pay dividends at fixed rates on the basis of those values. Some are callable, usually at par or above. Whenever liquidation occurs, preferred stock is usually entitled to receive up to its par value, and no more. For these reasons, par values, whenever available, have been used for preferred stocks in the basic tables in this study. No-par-value shares and shares for which only market values could be found were entered at their market values. Inasmuch as market value has a certain significance, the total market value of the preferred stock held abroad was calculated and is also stated.

Market prices were obtained from several sources. Chief among these, particularly for listed securities, was the annual number of *The Annalist*. The National Quotation Service and Standard Statistics Stock Offerings were especially useful in getting the prices of over-the-counter securities. The prices used were the bid or take prices nearest to the end of 1934.

Geographic distribution and industrial classification.—Little need be said regarding the geographic distribution. Inasmuch as a large part of the data was not distributed geographically when received in the replies from the corporations, it became necessary to divide all of it on the basis of the sample that was received on a "by country" basis (that is, the 860 companies). The details of that computation are given in appendix D, III, on the omission estimate. The nominee data were divided geographically by the reporting institutions.

Some almost unavoidable inaccuracies appear in the geographic distribution. Occasionally corporations reported the countries holding large numbers of shares but bulked the smaller amounts together in the "Rest of world." Therefore, that column could be called, more precisely, "Rest of world and undistributed." If it were not for this circumstance, the investment shown for the "Rest of world" would have been considerably less and that for "Other Europe" and the other countries or areas somewhat larger.

The geographic distribution is subject to still another limitation. The addresses under which the shares are registered are not always the addresses of the beneficial

owners. For example, a bank in a foreign country may hold United States corporate shares for a person living in still another country. Furthermore a shareholder may have his shares registered in his own name at an address other than that at which he lives, or in care of some bank in a third country. There are indications that such practices have had a tendency to increase the shareholdings of Switzerland and of other places, such as Luxemburg, the Isle of Man, and the Bahama Islands. Conversely, similar practices tended to decrease the reported shareholdings of France, Germany, and some other countries. The investments of Canada may have been increased substantially by the holdings of the personal investment companies of wealthy Americans.

The industrial classification presented the same problems that are always present in attempting to divide corporations into types. Many corporations produce commodities and services which might well cause them to fall into two or more types. This difficulty applied particularly to the manufacturing division. The industrial groupings finally decided upon are shown in outline in appendix A.

II. SOURCES AND SCOPE OF BASIC DATA

Data regarding the foreign holdings of United States corporate shares, used as the basic data for chapter V, were received as follows:

Source and scope of data:	<i>Corporations whose issues were reported</i>
I. Geographic break-down reported by banks and brokers and by corporations (used as the basis of the geographic analysis)-----	860
II. Geographic break-down reported by banks and brokers, but totals only by corporations-----	1, 006
III. No foreign holdings indicated in reports received from banks and brokers, nor from corporations-----	908
IV. Total foreign holdings reported (sum of groups I, II, and III) (used as the basis of the industrial analysis)-----	2, 774
V. Geographic break-down reported by banks and brokers, but no data received from corporations-----	794
VI. Reports received from banks and brokers (includes groups I, II, and V)-----	2, 660

III. OMISSION ESTIMATE OF FOREIGN-OWNED COMMON AND PREFERRED SHARES OF UNITED STATES CORPORATIONS, END OF 1934

By an examination of corporation manuals it was possible to obtain capitalization and dividend data regarding slightly more than 5,500 corporations. This group covers virtually all corporations whose shares have any appreciable public distribution, as compared with approximately 520,000 corporations which filed income-tax returns in 1934 with the Bureau of Internal Revenue. The smaller group controls distinctly the greater part of the corporate assets in the United States,⁴ and it is the same group within which virtually all the foreign ownership of United States corporate assets is found. Only in rare cases could foreign interest, not classed as a direct investment, be expected to be found in companies other than those whose financial status is reported in the recognized corporation manuals.

For purpose of analysis, the 5,500 corporations are grouped as follows:

I. A total of 2,774 corporations, including (a) 1,866 regarding which virtually complete data on foreign holdings of common and preferred shares were made available and (b) 908 corporations regarding which reports showed that no shares were owned by investors in foreign countries.

II. A total of 794 corporations for which data were made available by banks and brokers relating to foreign-owned shares carried on the corporate records in the names of American nominee but for which no reports were received from the corporations themselves.

III. Approximately 2,000 corporations, believed to be of no real importance for the study in view and for which no data were secured.⁵

The stock issues of these corporations were further subdivided into common and preferred shares, and according to New York Stock Exchange listing or

⁴ For statistics regarding the concentration of United States corporate assets, see the recent study, *Big Business: Its Growth and Its Place*, published by the Twentieth Century Fund, Inc., New York, 1937.

⁵ Data were obtained as of the end of 1936 from 650 of these companies, referred to hereafter as the "supplementary sample" (530 reported that there were no foreign holdings of their shares). The ratio of foreign holdings to total shares outstanding in the case of the reporting companies was 0.45 percent for common stock and 0.54 percent for preferred stock. These ratios were used as a check on the omission estimate, but the data were not included in the estimates.

absence of such listing. Data were then compiled for each group as follows: (1) the number of foreign-held shares; (2) the total shares outstanding; (3) the dividends paid to foreigners; and (4) the total dividends paid. Issues that were wholly or almost wholly owned by other United States corporations were omitted from the compilation.

Two methods were used for the calculation of the final omission estimate, one based on data relating to dividend payments and the other on data relating to the number of shares outstanding. Neither method, however, could be used entirely independently of the other. The final estimate was an approximation or rounding of the results obtained by these two sets of calculations.

1. The Omission Estimate, as Calculated from Dividend Data

The basic data for arriving at the omission estimate by the use of data regarding dividend payments are given in table II.

Table II.—Basic Data for the Omission Estimate of Foreign Holdings of American Common and Preferred Shares (Data Relating to Dividend Payments of 5,500 Corporations) ¹

Item	New York Stock Exchange issues		Other than New York Stock Exchange issues	
	Total dividends paid	Dividends paid to foreign investors	Total dividends paid	Dividends paid to foreign investors
A. COMMON STOCK				
1. Issues regarding which complete data were available:				
Companies in group I (a)	\$1,084,257,470	\$35,419,497	\$339,030,472	\$6,815,887
Companies in group I (b)	3,578,523		22,089,432	
Total, group I	1,087,835,993	35,419,497	401,119,904	6,815,887
2. Issues regarding which incomplete or no data were available: Companies in groups II and III	121,657,029	1,643,648	153,456,743	415,731
Omission estimate ²		2,310,205		1,901,566
B. PREFERRED STOCK				
1. Issues regarding which complete data were available:				
Companies in group I (a)	199,088,051	6,256,475	157,946,345	2,859,894
Companies in group I (b)	2,066,043		38,217,492	
Total, group I	201,154,094	6,256,475	196,163,837	2,859,894
2. Issues regarding which incomplete or no data were available: Companies in groups II and III	35,791,657	896,288	74,656,404	692,937
Omission estimate ²		216,832		262,441

¹ The 5,500 corporations include both those paying and those not paying dividends.

² These estimates were made by applying the ratio of dividends paid to foreigners to total dividends in item 1 to item 2 and subtracting the dividends paid to foreigners (on nominee-held shares) shown under that item. An exception was made in the other than New York Stock Exchange issues, where the ratios of the "supplementary sample" were applied to the group of companies circularized in 1936.

The omission estimate in table II, which might be called net dividends omitted, was capitalized on the basis of a 5-percent return for common stock and an 8½-percent return for preferred stock to give the estimated market values. The rate of capitalization was determined by dividing the market value of the nominee holdings of the dividend-paying issues among the 794 corporations ⁶ by the dividends paid on the shares held. The preferred stock was then raised from market to par value by dividing the former by 0.51. This divisor was the ratio of the market value of foreign-held preferred shares to the par value. It applied to dividend-paying and non-dividend-paying issues combined, and resulted, therefore, in overestimating the par value of the first group of issues and underestimating that of the latter.

The results of these calculations are set forth in table III.

⁶ This group of companies accounted for the bulk of the shares of those corporations for which complete data were not available.

Table III.—Partial Omission Estimate of Foreign Holdings of Dividend-Paying Stocks

[In millions of dollars]

Item	Market value of common shares	Par value of preferred shares	Total value
New York Stock Exchange issues.....	46	5	51
Other than New York Stock Exchange issues.....	39	6	45
Total.....	85	11	96

In order to complete the omission estimate it was necessary to estimate the foreign holdings (a) of dividend-paying issues not included in the list of 5,500 corporations and (b) of non-dividend-paying issues.

The national income study of the Department of Commerce⁷ estimated total dividend payments to individuals by American corporations in 1934 at \$2,549,000,000. The 5,500 corporations included in the present computation made total dividend payments of \$2,272,000,000. The former figure was exclusive of all intercompany dividends, while the latter included some of these (estimated at \$200,000,000). On the other hand, the national income study included about \$71,000,000 of dividends paid by companies included in other parts of this investment study. The net difference between the two sets of dividend figures—or the omitted dividends—is, therefore, about \$406,000,000.

The corporations not included among the 5,500 were small local (other than New York Stock Exchange) corporations. Inasmuch as the findings of this study show that the foreign interest becomes progressively smaller as the corporations are more local in character,⁸ it was estimated that one-fourth of 1 percent of the omitted dividends, or \$1,000,000, was paid to foreigners. By dividing this estimate into common and preferred dividends in the same ratio that the common and preferred dividends known to have been paid to foreigners were divided and then capitalizing the results as described above, the foreign investment involved was placed at \$16,000,000 in common shares and \$6,000,000 in preferred shares.⁹ This addition of \$22,000,000 is 48.9 percent of the partial omission estimate of \$45,000,000 for other than New York Stock Exchange issues, which was based exclusively on the dividend sample (see table III).

Table IV.—Total Non-Dividend-Paying Shares Outstanding and Foreign-Held Non-Dividend-Paying Shares Among the Stock Issues of 5,500 United States Corporations

Item	New York Stock Exchange issues		Other than New York Stock Exchange issues	
	Total shares outstanding	Foreign-held shares	Total shares outstanding	Foreign-held shares
COMMON STOCK				
1. Issues regarding which complete data were available: Companies in groups I (a) and I (b).....	344, 219, 189	12, 056, 864	547, 134, 057	8, 787, 036
2. Issues regarding which incomplete or no data were available: Companies in groups II and III.....	105, 159, 041	1, 290, 362	941, 950, 914	2, 598, 605
PREFERRED STOCK				
1. Issues regarding which complete data were available: Companies in groups I (a) and I (b).....	23, 616, 983	972, 409	62, 464, 907	921, 372
2. Issues regarding which incomplete or no data were available: Companies in groups II and III.....	10, 760, 974	226, 524	48, 833, 388	296, 485

⁷ National Income in the United States, 1929-35, p. 26.

⁸ Corporations controlled by foreigners are covered in the direct investments.

⁹ It would have been possible to estimate the total omissions by capitalizing on the basis of a return of 3.9 percent for common stock and of 5.9 percent for preferred stock. Calculated in this way the total omission estimate would have been somewhat lower.

Applying the ratios of foreign holdings to total non-dividend-paying shares outstanding in the items numbered 1 in table IV to the total shares outstanding in items numbered 2, and allowing for the known foreign holdings of the latter, give an estimate of the number of shares held by foreigners. This estimated number of shares was then multiplied by the average market value of the nominee holdings of the 794 corporations comprising the bulk of the companies involved in the omission estimate. The preferred stock was raised to par values by the method previously described. The results are given in table V.

Table V.—Partial Omission Estimate of Foreign-Held, Non-Dividend-Paying Stocks

[In millions of dollars]

Item	Market value of common shares	Par value of preferred shares	Total value
New York Stock Exchange issues	17	6	23
Other than New York Stock Exchange issues	28	8	36
Total	45	14	59

Upon the assumption that this partial estimate lacks completeness to the same degree as the partial estimate based on dividend payments (48.9 percent), \$13,000,000 of common stock and \$4,000,000 of preferred stock were added to the omission estimate to cover foreign holdings of the non-dividend-paying issues of small local companies.

Bringing these partial estimates together, the total omission estimate of foreign investments, calculated by this method, was found to be \$159,000,000 in common shares and \$35,000,000 in preferred shares.

2. The Omission Estimate, as Calculated from Share Data

The basic data for arriving at the omission estimate upon the basis of shares outstanding are given in table VI.

Table VI.—Basic Data for the Omission Estimate of Foreign Holdings of American Common and Preferred Shares (Data Relating to Number of Shares of 5,500 Corporations)

Item	New York Stock Exchange issues		Other than New York Stock Exchange issues	
	Total shares outstanding	Foreign-held shares	Total shares outstanding	Foreign-held shares
A. COMMON STOCK				
1. Issues regarding which complete data were available:				
Companies in group I (a)	955,562,304	30,663,112	674,039,308	12,120,340
Companies in group I (b)	5,303,808		145,721,106	
Total, group I	960,866,112	30,663,112	819,760,414	12,120,340
2. Issues regarding which incomplete or no data were available: Companies in groups II and III	187,857,322	2,249,623	1,046,422,256	2,894,371
Omission estimate ¹		3,743,026		10,891,107
B. PREFERRED STOCK				
1. Issues regarding which complete data were available:				
Companies in group I (a)	65,995,362	2,267,029	90,117,380	1,734,568
Companies in group I (b)	1,098,621		25,715,164	
Total, group I	67,093,983	2,267,029	115,832,544	1,734,568
2. Issues regarding which incomplete or no data were available: Companies in groups II and III	20,237,440	488,803	70,475,905	450,831
Omission estimate ¹		193,199		466,273

¹ These estimates were made by applying the ratio of foreign holdings to total shares in item 1 to item 2, and subtracting the foreign holdings (nominee shares) shown under that item. An exception was made in the other than New York Stock Exchange issues, where the ratios derived from the "supplementary sample" were applied to the group of companies circularized in 1936.

The omission estimate in table VI, which might be called net shares omitted, was multiplied by the average market price of the nominee holdings of the issues of the 794 corporations—those for which nominee data only were available.¹⁰ The results, after raising the preferred shares to par values by the method described earlier, are shown in table VII.

Table VII.—Partial Omission Estimate of Foreign Holdings of Common and Preferred Shares

[In millions of dollars]

Item	Market value of common stock	Par value of preferred stock	Total value
New York Stock Exchange issues	70	11	81
Other than New York Stock Exchange issues	62	26	88
Total	132	37	169

This estimate is not complete because it was impossible to ascertain the number of shares outstanding of many small, purely local, companies. Those companies can be covered by assuming that the foreign-held shares of small local companies bear approximately the same relation to the total shares outstanding of the other than New York Stock Exchange issues as was found to exist in the calculation based on dividend payments (48.9 percent). Accordingly, \$32,000,000 is added to the partial omission estimate of common shares and \$11,000,000 to the preferred shares.

The total omission estimate, calculated by this second method, is \$164,000,000 in common shares and \$48,000,000 in preferred shares.

The results obtained by these two methods are compared and the final estimates shown in table VIII.

Table VIII.—Final Omission Estimate of Foreign Investments in United States Common and Preferred Shares

[In millions of dollars]

Methods	New York Stock Exchange issues		Other than New York Stock Exchange issues		All issues	
	Common	Preferred	Common	Preferred	Common	Preferred
Dividend method	63	11	96	24	159	35
Share method	70	11	94	37	164	48
Final estimate	65	10	1 95	30	1 160	40

¹ Exclusive of an arbitrary estimate of \$10,000,000 to cover unreported foreign holdings of shares of financial institutions, for which available data were considered incomplete.

3. Geographic and Industrial Distribution of the Omission Estimate

Having arrived at an omission estimate, it was necessary to distribute it geographically and industrially. This could be done only on the basis of ratios obtained from the data given in other parts of the study.

For the industrial distribution these ratios were derived from the totals reported by the corporations¹¹ in the group of 2,774 corporations. It was necessary to apply these ratios only to the omission estimate of \$160,000,000 of common stock and \$40,000,000 of preferred stock (see secs. A and C of table IX), the industrial break-down being available already for all other parts of the total.

For the geographic distribution the ratios were derived from the totals reported by the corporations in the group of 860 corporations. It was necessary to apply

¹⁰ As before, this group of companies accounted for the bulk of the shares of those corporations for which complete data were not available.

¹¹ It is assumed here, and has been throughout this study, that no omission estimate was necessary to complete the nominee holdings.

these ratios to the data reported by the 1,006 corporations (exclusive of the nominee holdings) that did not report the geographic break-down, as well as to the omission estimate. (See secs. B and D of table IX.)

Table IX.—Market Value of Foreign-Held Common Shares and Par Value of Foreign-Held Preferred Shares, Including the Omission Estimate, End of 1934

[In millions of dollars]

Industries	A. Investment in common shares, by industries			
	Data reported relating to—		Omission estimate	Total estimated foreign investment
	2,774 corporations ¹	794 corporations (nominees only)		
Manufacturing.....	486	33	82	601
Distribution.....	38	2	5	45
Transportation.....	95	1	14	110
Public utilities.....	165	5	28	198
Petroleum.....	92	5	16	113
Mining.....	58	2	9	69
Finance.....	35	8	² 15	58
Miscellaneous.....	5	2	1	8
Total.....	974	58	² 170	1,202

Geographic areas	B. Investment in common shares, by geographic areas				
	Data reported relating to—			Omission estimate	Total estimated foreign investment
	860 corporations	1,006 corporations			
Direct holdings		Nominee holdings			
Canada.....	104	139	20	6	333
United Kingdom.....	57	50	83	16	233
France.....	22	11	34	9	81
Netherlands.....	44	46	18	5	133
Switzerland.....	33	4	52	10	101
Other Europe.....	15	12	11	3	47
Latin America.....	4	4	3	-----	13
Rest of world.....	82	99	27	9	261
Total.....	361	365	248	58	² 170

Industries	C. Investment in preferred shares, by industries			
	Data reported relating to—		Omission estimate	Total estimated foreign investment
	2,774 corporations ¹	794 corporations (nominee only)		
Manufacturing.....	88	11	15	114
Distribution.....	8	2	1	11
Transportation.....	59	11	10	80
Public utilities.....	69	16	10	95
Petroleum.....	11	-----	1	12
Mining.....	7	-----	1	8
Finance.....	16	7	2	25
Miscellaneous.....	4	2	-----	6
Total.....	262	49	40	351

¹ Of these corporations, 908 reported no foreign holdings.

² Including the \$10,000,000 arbitrarily added to the finance-group omission estimate.

Table IX.—Market Value of Foreign-Held Common Shares and Par Value of Foreign-Held Preferred Shares, Including the Omission Estimate, End of 1934—Continued

[In millions of dollars]

Geographic areas	D. Investment in preferred shares, by geographic areas					
	Data reported relating to—				Omission estimate	Total estimated foreign investment
	860 corporations	1,006 corporations		794 corporations (nominee only)		
		Direct holdings	Nominee holdings			
Canada.....	26	40	4	3	16	89
United Kingdom.....	33	24	40	28	10	135
France.....	4	2	8	3	1	18
Netherlands.....	5	7	3	2	3	20
Switzerland.....	4	-----	12	9	-----	25
Other Europe.....	10	15	4	1	6	36
Latin America.....	1	2	-----	-----	1	4
Rest of world.....	6	7	5	3	3	24
Total.....	89	97	76	49	40	351

IV. BRITISH INVESTMENT TRUST HOLDINGS

Table X.—Holdings of United States Securities by a Group of British Investment Trusts, 1929-36¹

Investment trusts	Book value of total investments of individual trusts		Percentage of market value of total investments represented by United States securities			
	Earliest year	Latest year	1929	1934	1935	1936
English and New York Trust Co., Ltd.....	£900,000	£1,400,000	12.2	18.7	25.4	32.0
Stockholders Investment Trust, Ltd.....	1,500,000	1,100,000	13.6	14.3	29.5	31.3
Traction and General Investment Trust, Ltd.	2,100,000	2,600,000	5.8	5.2	8.9	(²)
United States and General Trust Corporation, Ltd.....	2,700,000	3,000,000	12.9	11.2	14.5	18.0
Metropolitan Trust Co., Ltd.....	3,200,000	3,200,000	11.7	8.9	12.3	16.4
United States Debenture Corporation, Ltd.....	4,500,000	4,800,000	4.0	15.0	20.0	31.0
Scottish American Investment Trust.....	-----	6,500,000	³ 71.0	46.0	52.0	(²)
British Assets Trust, Ltd.....	6,700,000	6,800,000	-----	29.6	34.7	37.6
The British Investment Trust, Ltd.....	6,700,000	6,800,000	-----	8.6	11.8	17.3
Industrial and General Trust, Ltd.....	7,700,000	7,900,000	6.1	5.0	6.0	7.0

¹ It is generally known that the British investment trusts have large holdings of American securities. Their value and character are not well known, however, and cannot be ascertained, because the portfolios are seldom published. A few of the investment trusts have published the percentage of their assets composed of American securities. These percentages are based on market-value figures, and the totals are not published. Although some of the increase in the United States percentages may be due to the more rapid market appreciation of the American securities than of others held in the portfolios, the changes are so marked as to denote some actual shifts from English or other foreign securities to American.

² Not available.

³ 1926 data.

E. DATA RELATING TO CHAPTER VI

I. DATA EMPLOYED IN ESTIMATING TRENDS IN FOREIGN INVESTMENTS IN COMMON AND PREFERRED SHARES OF UNITED STATES CORPORATIONS, 1929-36

The data employed in the analysis of foreign holdings of common and preferred shares of United States corporations during the period 1929 to 1936 included 397 issues reported by 278 corporations. Common-stock issues numbered 248 and preferred issues 149. In a number of instances the reported figures covered only certain years of the 8-year period. A total of 41 companies submitted data on foreign holdings of their shares during the entire period. This group included, however, a number of corporations whose shares have long been held abroad in comparatively large volume.

In view of the rather fragmentary nature of the reported data, it was necessary to weld them into a statistical series which permitted comparison of annual results. A straight index based on the comparable data reported by 41 companies

possesses obvious deficiencies, owing to the restriction of the sample data available. In order to utilize the data reported for periods of less than 8 years, the data were combined into a chain index. This procedure involved the computation of relatives of shares reported by identical companies for consecutive 2-year periods, moved forward 1 year at a time, and then fixing the composite relatives to a base period. The index series were computed with 1934 as the base. This year was chosen because more data were available for 1934 than for any other year (see ch. V). With a view to presenting the indexes in a convenient sequence, the resulting series was then reconverted with 1929 as the base year.

The number of stock issues employed in the computation of each index series is shown in table XI, classified on the basis of whether or not the respective shares are listed on the New York Stock Exchange. Table XII shows the same data for 1933-34 classified by industries.

Table XI.—Number of Common and Preferred Stock Issues Used in Computing the Chain Indexes of Foreign-Held United States Corporate Shares, by Listed and Unlisted Issues, 1929-36

Year ¹	Common		Preferred		Total	
	Listed on the New York Stock Exchange	Not listed on the New York Stock Exchange	Listed on the New York Stock Exchange	Not listed on the New York Stock Exchange	Common	Preferred
1929-30.....	83	30	41	18	113	59
1930-31.....	116	64	58	40	180	98
1931-32.....	132	77	63	55	209	118
1932-33.....	143	85	63	67	228	130
1933-34.....	113	78	53	54	191	107
1934-35.....	75	17	41	13	92	54
1935-36.....	91	24	40	20	115	60

¹ Data pertain to identical companies in each 2-year period.

Table XII.—Number of Common and Preferred Stock Issues Used in Computing the 1933-34 Chain Index of Foreign-Held Shares, by Industrial Groups and by Listed and Unlisted Issues

Industry	Common		Preferred		Total	
	Listed on the New York Stock Exchange	Not listed on the New York Stock Exchange	Listed on the New York Stock Exchange	Not listed on the New York Stock Exchange	Common	Preferred
Manufacturing.....	55	32	23	19	87	42
Distribution.....	6	1	3	3	7	6
Railroad.....	21	0	12	0	21	12
Other transportation.....	2	5	0	0	7	0
Public utility.....	11	16	11	29	27	40
Mining and minerals.....	14	14	4	1	28	5
Finance.....	1	6	0	0	7	0
Miscellaneous.....	3	4	0	2	7	2
Total (1933-34).....	113	78	53	54	191	107

The procedure followed in the computation of the chain indexes is based on the assumption that the annual changes in the data reported by the corporations during any 2 consecutive years reflect the trend in total foreign holdings of American corporate shares.

In listing the dividend payments (per share and in the aggregate) to foreign shareholders, only cash dividends were computed. Dividend payments resulting from capital liquidation were not included. In several instances stock split-ups occurred in shares reported in 1929. In computing the ratios of foreign-held shares to outstanding shares, it was not necessary to take cognizance of these

split-ups, since the effect was presumably the same among foreign-held issues as among total issues. In the preparation of indexes showing the changes in the number of foreign-held shares, adjustment was made for split-ups, in order to keep annual data on a comparable basis.

For 1933 and 1934, the reported data employed in this analysis included 191 common stocks and 107 preferred issues. Although these totals appear very small when related to the 2,774 companies whose reported data were employed in the analysis of chapter V, the foreign-held common shares comprising this sample in 1934 represented 34 percent of the total reported by the larger group of companies, while the preferred issues in the sample were more than 24 percent of the corresponding aggregate of foreign-held preferred shares. The importance of the issues in the sample, in each of which foreign holdings amounted to 100,000 shares and over, is illustrated in the relatively high percentages which these foreign holdings represented of total foreign-held shares employed in the sample. These percentages were as follows:

1929.....	66.3	1933.....	81.0
1930.....	76.7	1934.....	83.2
1931.....	76.3	1935.....	82.7
1932.....	78.7	1936.....	82.6

The number of common stocks of which foreigners held more than 100,000 shares during the 8-year period ranged from 12 to 17. As indicated in the figures cited above, foreign investors tended, through 1934, to add to their holdings in shares of which they already held substantial amounts. During 1935 and 1936 this trend was not in evidence. In the latter 2 years foreign investors tended more to spread their new holdings over a larger number of issues. Table XIII reflects the rate of annual increase in the foreign holdings of those shares held abroad in large volume, as compared with the annual increase in such holdings of all common shares reported in the sample.

Table XIII.—Trend in Foreign Holdings of Common Shares of United States Corporations, and Annual Percentage Changes, 1929-36

[Year-end data, 1929=100]

Item	1929	1930	1931	1932	1933	1934	1935	1936
Corporations reporting foreign holdings in excess of 100,000 shares each (12-17).....	100	128	135	154	163	185	209	263
Percentage change over preceding year.....		+28	+5	+14	+6	+13	+13	+26
All corporations in sample reporting foreign holdings (92-228).....	100	111	117	130	133	147	168	211
Percentage change over preceding year.....		+11	+6	+11	+2	+10	+14	+26

The large foreign holdings were found, as was to be expected, in the stocks of the larger corporations. This fact is illustrated in the following summary of the net worth in 1934 of the 17 corporations included in table XIII.

Number of corporations:	Net worth (range in millions of dollars)
3.....	40- 100
8.....	150- 600
3.....	700-1, 200
3.....	1, 250-2, 500

Generally speaking, these 17 corporations were the leading companies operating in their respective fields. Four were manufacturing companies, five were public utility corporations, five were railroad companies, and three were petroleum and mining concerns. The importance of these companies is further indicated by the fact that the five railroads are included in the largest eight, as measured by total capital invested.

Table XIV shows the ratios of foreign-held common shares to total shares outstanding of the respective groups of issues: first, those of the 12 to 17 larger corporations; second, those of all corporations in the sample. The higher ratios uniformly applicable to the larger companies throughout the period reflect the importance of the latter's shares among total foreign-held shares.

Table XIV.—Ratios of Foreign-Held to Total Common Shares Outstanding of Certain United States Corporations, 1929-36

Item	1929	1930	1931	1932	1933	1934	1935	1936
Corporations reporting foreign holdings in excess of 100,000 shares each (12-17).....	2.45	2.82	2.87	3.28	3.47	3.94	4.45	5.60
Percentage change from preceding year.....		+15	+2	+14	+6	+14	+13	+26
All corporations in sample reporting foreign holdings (92-228).....	2.06	2.14	2.24	2.46	2.45	2.72	3.07	3.81
Percentage change from preceding year.....		+4	+5	+10	0	+11	+13	+24

Tables 34 and 35 included data on foreign holdings of stocks listed on the New York Stock Exchange. In 1934 the common shares thus listed were equal to 78.4 percent of the total number of shares included in the sample, while, on the basis of market value, they represented 77.2 percent of the total. Similarly, foreign-held preferred shares of the larger companies listed on the principal exchange were 77.2 and 89.7 percent, respectively, on a share and a market-value basis, of total foreign-held shares included in the sample.

The data summarized in table XV show that the average year-end prices of common and preferred shares listed on the New York Stock Exchange held by foreign investors at the end of 1929 were substantially higher than the average prices of all common and preferred issues listed on the New York Stock Exchange. This situation was materially altered by the end of 1934, when the average price of common shares held abroad was approximately equal to the average for all issues listed on the principal exchange. In the case of preferred shares, this close parallel in the respective averages was evident as early as 1933 and represented, as in the case of common shares a year later, a shift which during 1935 and 1936 was reflected in average year-end quotations on all listed issues which were substantially higher than the averages applicable to foreign-held issues only.

Table XV.—Average Year-End ¹ Prices of Foreign-Held Common and Preferred Shares of United States Corporations Compared with Average Prices of All Issues Listed on the New York Stock Exchange, 1929-36

End of year—	Common shares		Preferred shares	
	All stocks listed on the New York Stock Exchange	Foreign-held stocks listed on the New York Stock Exchange	All stocks listed on the New York Stock Exchange	Foreign-held stocks listed on the New York Stock Exchange
1929.....	\$55.25	\$87.00	\$77.50	\$94.00
1930.....	35.70	50.00	65.33	86.00
1931.....	18.72	26.00	41.21	40.00
1932.....	16.04	21.00	35.28	34.00
1933.....	24.33	28.00	41.81	42.00
1934.....	24.20	24.00	48.88	46.00
1935.....	33.47	32.00	64.19	58.00
1936.....	41.78	39.00	75.04	63.00

¹ It must be emphasized that the use of year-end averages, in this table as well as in others, is not due to an implied preference for "year-end" averages as contrasted with "yearly" averages but solely to the difficulties involved in attempting to compute, within reasonable time limits, a yearly average of market prices for foreign-held issues, especially since a varying number of issues were included in the respective sets of annual data.

The ratios of the total number of shares outstanding of those companies which comprised the 1934 sample to all shares listed on the New York Stock Exchange are shown in the following summary (in percent):

	Shares	Value
Common stocks.....	22.8	21.6
Preferred stocks.....	16.4	14.7

The ratios of the shares held abroad (as reported by the companies included in the 1934 sample) to all shares listed on the New York Stock Exchange were as follows (in percent):

	<i>Stock issues</i>	<i>Shares</i>	<i>Value</i>
Common.....	15. 0	0. 642	0. 646
Preferred.....	12. 9	. 441	. 419

With a view to comparing the computed chain indexes employed in chapter VI with straight indexes relating to the same data, the respective results are set forth in table XVI. Although both series showed somewhat similar trends, the degree of reconciliation between shares and values in those series with the foreign holdings in the 2,774 companies (chapter V), as shown in table XVII, was more pronounced in the chain series than in the straight indexes. The year 1930 rather than 1929 was taken as the base year, since the straight index with the latter year as the base was found to be inadequate.

Table XVI.—Comparison of Straight and Chain Indexes of Foreign-Held Common and Preferred Shares of United States Corporations, 1930–34

[Year-end data, 1930=100]

Year	Straight index		Chain index	
	Common, 133 issues	Preferred, 73 issues	Common, 180–228 issues	Preferred, 98–130 issues
1930.....	100	100	100	100
1931.....	107	109	106	106
1932.....	122	113	117	113
1933.....	130	109	120	107
1934.....	144	114	133	111

Table XVII.—Ratios of Foreign Holdings in Straight and Chain Sample Data to Total Foreign-Held Common and Preferred Stocks of 2,774 Corporations, by Number of Shares and by Value, 1934

Item	Straight index			Chain index		
	Number of issues	Percentage covered by sample		Number of issues	Percentage covered by sample	
		Shares	Value		Shares	Value
Common stocks.....	133	25. 5	30. 7	180–228	34. 1	38. 5
Preferred stocks.....	73	16. 8	19. 8	98–130	24. 3	23. 3

A final elaboration of the data employed in the sampling is shown in table XVIII. The increase of 375 percent in foreign-held shares of distribution concerns suggests the possibility that the sampling in that group is inadequate. In other cases the same possibility exists, but the reservations implied by such deficiencies can hardly be said to suggest serious errors in general trend.

Table XVIII.—Indexes of Foreign-Held Common and Preferred Shares, by Industrial Groups, 1929-36

[Year-end data, 1929=100]

Year end	Common		Preferred		Common listed on New York Stock Exchange		Preferred listed on New York Stock Exchange	
	Shares	Market value	Shares	Market value	Shares	Market value	Shares	Market value
Manufacturing companies								
Number of stock issues: ¹	49-109		25-51		38-75		18-29	
1929.....	100	100	100	100	100	100	100	100
1930.....	87	57	107	97	86	62	106	97
1931.....	97	32	97	29	97	37	98	28
1932.....	107	26	102	34	110	30	104	34
1933.....	116	37	97	46	120	40	95	46
1934.....	145	45	96	51	159	52	93	50
1935.....	162	67	100	66	180	79	97	66
1936.....	190	94	98	77	213	110	97	77
Railroad companies								
Number of stock issues: ¹					17-23		8-12	
1929.....	(2)	(2)	(2)	(2)	100	100	100	100
1930.....	(2)	(2)	(2)	(2)	110	78	98	86
1931.....	(2)	(2)	(2)	(2)	113	28	100	43
1932.....	(2)	(2)	(2)	(2)	131	23	107	31
1933.....	(2)	(2)	(2)	(2)	128	39	102	35
1934.....	(2)	(2)	(2)	(2)	147	35	111	35
1935.....	(2)	(2)	(2)	(2)	179	52	124	44
1936.....	(2)	(2)	(2)	(2)	204	81	145	52
Public utility companies								
Number of stock issues: ¹	16-32		15-52		8-14		7-15	
1929.....	100	100	100	100	100	100	100	100
1930.....	114	77	106	97	120	79	122	115
1931.....	120	49	135	75	129	52	155	87
1932.....	134	44	149	50	138	47	170	83
1933.....	140	44	151	36	136	50	150	57
1934.....	154	42	154	42	145	47	156	70
1935.....	177	70	172	67	162	77	179	118
1936.....	229	81	159	68	157	86	164	116
Mining and mineral companies								
Number of stock issues: ¹	19-35		6-5		13-20		5-4	
1929.....	100	100	100	100	100	100	100	100
1930.....	145	104	101	82	196	110	101	82
1931.....	144	59	101	55	202	63	101	55
1932.....	142	69	131	72	224	74	129	71
1933.....	136	129	98	76	233	140	97	76
1934.....	130	111	102	83	217	116	101	83
1935.....	134	150	111	126	224	157	110	126
1936.....	204	297	143	163	341	310	141	163
Distribution companies								
Number of stock issues: ¹	5-7		3-7		4-6		3-4	
1929.....	100	100	100	100	100	100	100	100
1930.....	111	64	113	118	106	64	113	118
1931.....	234	82	305	90	228	82	116	96
1932.....	277	93	239	21	269	93	108	24
1933.....	286	180	232	53	278	180	107	62
1934.....	286	227	263	95	278	227	120	110
1935.....	420	304	313	145	409	304	143	168
1936.....	475	381	350	170	461	386	(2)	(2)

¹ The number of stock issues for 1935-36 for the different types of companies are fewer than those given.² Nonlisted data not available.³ Data inadequate.

F. DATA RELATING TO CHAPTER VII

I. STATISTICAL METHODS EMPLOYED IN COMPUTATION OF TREND DATA ON FOREIGN HOLDINGS OF UNITED STATES RAILROAD SHARES, 1914-36

The primary data on which the analysis in chapter VII is based were made available to the Finance Division through the cooperation of approximately 20 of the country's principal railroads. The statistical computation, in the case of common shares, is based upon a nine-stock straight sample which in 1914 represented 42 percent of the number of common rail shares and 49 percent of the market value of such shares listed at that time on the New York Stock Exchange. In 1934 the identical issues represented 32 percent of the number of shares listed on the New York Stock Exchange and 28 percent of the market value of all such listed shares. In the case of preferred shares a five-stock straight sample was used which in 1914 represented 25 percent of the number of all preferred rail shares listed on the New York Stock Exchange and 21 percent of their value, whereas in 1934 these respective percentages were 20 and 17.¹²

Table XIX.—Foreign Holdings of United States Railroad Shares, 1914-36

Year	Sample data used in computation method				Foreign holdings (in columns I-IV) as a percent of outstanding shares of respective issues			
	Common (9 issues)		Preferred (5 issues)		Common		Preferred	
	I Number of shares (thousands)	II Market value (millions of dollars)	III Number of shares (thousands)	IV Par value (millions of dollars)	V Number of shares (percent)	VI Market value (percent)	VII Number of shares (percent)	VIII Par value (percent)
1914.....	2,178	216.0	214	20.3	11.25	11.08	6.35	7.61
1915.....	1,959	140.0	199	18.8	10.24	9.18	5.72	6.80
1916.....	656	49.7	82	7.8	3.41	3.33	2.37	2.83
1917.....	542	35.4	72	7.0	2.81	2.95	2.08	2.56
1918.....	502	35.9	72	7.1	2.60	2.89	2.08	2.57
1919.....	459	29.7	67	6.6	2.35	2.53	1.93	2.38
1920.....	354	21.6	50	4.9	1.78	1.81	1.45	1.76
1921.....	622	31.0	82	8.1	3.11	3.01	2.39	2.93
1922.....	596	36.9	69	6.7	2.97	2.82	1.98	2.42
1923.....	615	35.5	70	6.8	3.06	2.92	2.02	2.48
1924.....	622	41.7	72	7.0	3.03	2.82	2.07	2.51
1925.....	631	46.5	79	7.8	3.06	2.81	2.29	2.79
1926.....	643	49.7	86	8.4	3.11	2.87	2.47	3.01
1927.....	633	55.4	80	7.9	2.83	2.65	2.32	2.82
1928.....	629	61.4	76	7.4	2.85	2.79	2.18	2.65
1929.....	586	55.9	74	7.3	2.59	2.34	2.14	2.59
1930.....	632	44.2	70	6.9	2.65	2.47	2.01	2.45
1931.....	647	15.3	66	6.5	2.71	2.36	1.91	2.33
1932.....	690	12.5	64	6.3	2.89	2.42	1.85	2.26
1933.....	690	21.4	61	6.0	2.89	2.47	1.76	2.15
1934.....	728	18.3	61	6.0	3.04	2.44	1.75	2.14
1935.....								
1936.....								

¹² Among all figures for the number of shares held abroad of the nine common and five preferred stock constituting the samples, seven instances of interpolation to obtain a figure for an individual stock for a given year were necessary in order to complete the scant preferred series available throughout the period. The method in interpolating was to use for the missing year that figure which would bear the same relation to the year previous and the year following as did the sum of the figures given for that year for the other stocks of the sample to the sum of their figures for the year previous and the year following.

Table XIX.—Foreign Holdings of United States Railroad Shares, 1914-36—Con.

Year	Estimated foreign holdings of all United States railroad shares, 1914-36, by computation method ¹				Estimated foreign holdings of all United States railroad shares, 1914-34, by graphic method			
	Common		Preferred		Common		Preferred	
	IX Number of shares (thousands)	X Market value (millions of dollars)	XI Number of shares (thousands)	XII Par value (millions of dollars)	XIII Par value (millions of dollars)	XIV Market value (millions of dollars)	XV Par value (millions of dollars)	
1914.....	9,437	624.0	2,399	225.8	860	611	209	
1915.....	8,862	542.9	2,157	203.0	780	530	195	
1916.....	3,021	181.1	922	86.9	350	228	90	
1917.....	2,603	156.6	824	78.0	310	205	68	
1918.....	2,427	158.9	883	83.6	275	210	71	
1919.....	2,232	134.0	832	78.8	275	168	64	
1920.....	1,672	111.4	630	59.7	200	128	55	
1921.....	3,095	143.2	1,023	96.9	280	175	76	
1922.....	3,016	171.0	865	82.0	260	205	62	
1923.....	3,080	176.5	908	86.3	265	225	65	
1924.....	3,193	215.9	928	88.2	275	255	68	
1925.....	3,297	253.9	1,046	99.4	270	285	75	
1926.....	3,378	282.4	1,141	108.5	265	310	81	
1927.....	3,246	313.1	1,086	103.4	258	340	77	
1928.....	3,352	371.6	1,042	99.2	268	370	70	
1929.....	3,136	301.9	1,046	99.6	250	335	74	
1930.....	3,632	226.1	974	92.8	270	260	72	
1931.....	3,690	83.0	914	87.0	270	94	73	
1932.....	3,983	73.1	885	84.3	290	72	74	
1933.....	3,978	113.4	842	80.1	305	120	74	
1934.....	4,176	108.1	833	79.3	350	108	79	
1935.....	5,068	160.6	930	88.6	-----	-----	-----	
1936.....	5,797	250.2	1,088	103.5	-----	-----	-----	

¹ The figures of columns IX-XII are derived through 1934 from figures shown for the samples in previous columns. The 1935 and 1936 figures are projected from 1934 according to the chain index shown in chapter VI, table 36. The figures for par value of preferred, 1935 and 1936, were obtained by applying the chain index of the number of preferred shares to the par value figures for 1934. For fuller details see the text of this appendix.

In contrast with the results of the nine-stock common-share sample, the five-stock preferred-share sample shows, for the 7 years 1928 to 1934, a trend somewhat different from that indicated by a chain index computed from the combination of broken and unbroken series of data available. Percentage changes, both in the sample used for the entire period and in the larger one, are comparatively small. In view of the slight variation, together with the fact that the preferred stocks are materially fewer in number than the common stocks, it is apparent that the absolute error for the period 1928-34 is not as large as the small size of the preferred sample might suggest and that its effect is reduced if summation is made of the proportionally larger number of common stocks with the preferred issues. In short, the depicted trend of the holdings of common stocks abroad is probably reasonably representative over the period and would enter a total of all railroad shares with a weight sufficient to offset largely the somewhat less representative sample for the preferred. The chain index utilizing all available data for the period 1929 through 1934 supports the theory that, except for the indicated slight declines during 1930 and 1933, the general downward trend of preferred stocks here portrayed was a result of the growing sparsity of the preferred sample toward the end of the period.¹³

A graphic method of utilizing broken series of data, in addition to the straight samples used in the computation method, affords further indication that the trend of the preferred stocks during the later period should be up rather than down. This graphic method consisted of plotting on logarithmic scale the data pertaining to various combinations of stocks throughout the period, in the order of their completeness. The data for the less complete series were plotted cumulatively upon those plotted first. The shape of the highest available curve for each period was raised to link with the curve of the most complete sample for any period, and the entire series was hooked on to the 1934 estimates of the

¹³ For a more detailed discussion see pp. 103 and 106.

Finance Division.¹⁴ A "par value" series was derived instead of a "number of share" series, but a comparison of the trends shown by these two series indicates that they moved very similarly, the only influence of the change to par value being to weight the number of shares by their par values.

It will be noted that the trends obtained from the graphic method otherwise confirm those shown in figure 9, with the following exceptions: (1) The graphic series corresponding to the number of shares of common series of figure 9 shows infinitesimal declines during 1925 and 1926, instead of slight rises; (2) the negligible decline in the number of foreign-held common shares for 1933 is not evidenced by the graphic method.

A correction of the data for 1914, 1915, and 1916 was desirable, because in those years the average market price of the foreign-held shares of the sample was well above the average for all common railway shares held abroad, as shown by the Loree data.¹⁵ The latter made available the market value of all shares held abroad as a percent of par value for these 3 years. These ratios, applied to the par value totals read from the graph, furnish a market-price series which is corrected for this exaggerated market price of the sample.

By 1917, the foreign-held shares of the sample had fallen in price to approximately the level shown by Loree's data. His figures for January 1, 1917, show a ratio of market to par of 64.8 percent. The ratio of market to par for December 31, 1917, as determined from the graph, is 66.0 percent.

In computing total foreign holdings of all railroad stocks, listed or unlisted, the following general steps were taken:

1. Data of the total number of shares and market value of stocks outstanding on the New York Stock Exchange were compiled.

2. Ratios derived from the sample were applied to these New York Stock Exchange figures. Certain corrections were thus made for the incompleteness of the sample.

3. The figures obtained as indicated in the preceding paragraph were raised to represent all stocks, listed or unlisted.

4. In the case of common stocks, the figures for market value thus obtained were further adjusted by means of data for average market price available from the Loree figures.

These steps are herewith described in more detail.

1. In order to have available throughout the period a series of data which more completely represented all railroad stocks outstanding (including holding and investment companies) than did the sample alone and which afforded comparable figures, tabulations were made from the Annalist for years prior to 1930 of the number of railroad shares outstanding at the year-end on the New York Stock Exchange.

The number of shares outstanding of each common stock was multiplied by the year-end market value; of each preferred stock, by its par value. Totals were thus obtained showing number of shares outstanding and market value of all New York Stock Exchange common rail stocks and number of shares outstanding and par value of all New York Stock Exchange preferred rail stocks.

2. Percentages expressing the ratio of the number of shares held abroad of the common-stock sample to the total number of common shares of the sample outstanding were computed for each year. The total derived, as above, for the number of shares of New York Stock Exchange stocks outstanding was multiplied by these percentages for the corresponding year.

Thus, the trend of holdings abroad of the number of stocks of the sample was applied to all stocks listed on the New York Stock Exchange to reach an estimate of the total number of foreign-held shares there listed. This figure was then raised to include stocks other than those listed on the New York Stock Exchange, as described on page 106.

In estimating the market value of United States railroad common stocks held abroad, it was necessary to include a correction for the deviations of the average market price of the outstanding shares of the sample from the average market price of the outstanding shares of all New York Stock Exchange issues. This was accomplished by using, instead of the total number of New York Stock Exchange shares, their total market value and multiplying this figure by the ratio of the market value of the foreign-held shares of the sample to that of all of the outstanding shares of the sample. The results thus obtained were checked by multiplying the total number of common shares estimated held abroad for

¹⁴ The figures derived by the graphic method are tabulated in columns XIII-XV of table XIX.

¹⁵ For more details concerning the Loree data, see ch. III, p. 24, and p. 107 of this appendix. See also The Commercial and Financial Chronicle, Mar. 31, 1917, p. 1217.

New York Stock Exchange stocks by an average price which reflected the same adjustments as the foregoing method. This average price was made up by multiplying the average price of New York Stock Exchange stocks for the years of the study by the ratio of the average market price of the foreign-held portion of the sample to the average market price of the sample outstanding for respective years. This figure was then raised to include stocks other than those listed on the New York Stock Exchange, as described on this page.

The number of shares of preferred stocks held abroad was estimated by the same means as for the common stocks.

In computing a par value total for preferred stocks, the methodology used for obtaining the market value of foreign holdings of common stocks was found inapplicable, because of certain considerations regarding the average par value of the stocks of the preferred sample available. Inasmuch as the average par value of the foreign-held shares of the five preferred stocks differed little throughout the period from the average par value of the New York Stock Exchange preferred stocks as a whole, the number of New York Stock Exchange preferred shares estimated to be held abroad was multiplied by the average par value of New York Stock Exchange preferred stocks to obtain a figure for the value, at par, of the New York Stock Exchange preferred stocks held abroad. This figure was adjusted to include foreign holdings of other than New York Stock Exchange stocks, by the method described in the following.

3. To raise the time series (obtained as above) for foreign holdings of New York Stock Exchange stocks to a total which would represent all stocks held abroad, listed or unlisted, these figures of number of shares and of value held abroad for common and for preferred stocks were multiplied by the ratio that the number of shares and the value held abroad for all common and for all preferred stocks (as determined by the Department of Commerce for the end of 1934) was to the respective estimate for foreign holdings of New York Stock Exchange stocks for that year. In this connection, the omission estimate which, in the Finance Division's estimate of foreign holdings of United States securities in 1934, was added as a lump sum to the separately compiled figures for railroads and for other transportation, was arbitrarily distributed between these two classifications in the same proportion as represented by the totals of the separately compiled figures for these two classifications.

4. A further adjustment in these figures was possible for the years 1914, 1915, and 1916, in terms of the market-to-par ratios shown by Loree's data and by price data used in the computation method. These price data show the adjusted average market price of foreign-held shares previous to final adjustment to the Finance Division's 1934 figures. This price itself must be slightly below the exact market-to-par ratio here, since no allowance is made for shares of less than \$100 par; and its net effect would be to make the correction slightly less drastic than if a clear-cut market-to-par ratio were available from the computations. The final adjustment to the 1934 figures of the Finance Division, however, makes a further small shift in average market price which slightly increases the correction.

Comparisons of the figures derived by the computation method with those of Loree, and with those derived by the graphic and chain index methods, are shown below.

To show how results from the methods employed in this study compare with the data covering a short series of years in the war period, the year-end figures obtained by the computation method discussed above were interpolated to shift them to the dates of those compiled by Loree.¹⁶ Similarly, estimates reached by the graphic method¹⁷ were taken for the dates of the Loree estimates. Loree's actual figures reported by the roads directly should not include stocks held in nominee names by banks or brokers for foreign account. His actual figures, therefore, have here been raised to include an estimate of nominee holdings. For common shares these holdings were estimated to be approximately 37 percent of total foreign holdings, and for preferred, 40 percent. Nominee holdings had already been brought into the other two series, since they had been computed at these ratios as component parts of the 1934 figure of the Finance Division.

¹⁶ See p. 105, footnote 15.

¹⁷ See p. 104, also table XIX.

The resulting values (in millions of dollars), tabulated according to source, compare as follows:

Date	Market value of common shares (including 37 percent nominee in holdings)			Par value of preferred shares (including 40 percent nominee holdings)		
	Loree data	Computation method	Graphic method	Loree data	Computation method	Graphic method
Jan. 31, 1915.....	647	617	607	350	224	207
July 31, 1915.....	543	575	539	281	213	199
July 31, 1916.....	372	332	341	209	135	148
Jan. 31, 1917.....	294	179	224	159	86	115

NOTE.—This comparison shows that, for the foreign holdings of common stock, both the computation and graphic methods give a considerably lower figure for 1917 than do the Loree data. This also holds for the preferred, although the percentage decline in the preferred shown by the graphic method is not as great as in Loree's preferred series.

A possibility may exist that the 37 percent and 40 percent for nominee holdings overestimated the amount which should have been added to the respective Loree figures. The basic Loree questionnaire did not call for nominee holdings, estimates for which have been added here, as noted, to facilitate comparison with those figures obtained by the above methods. The concentration of stocks previously owned by nationals of Britain and other foreign countries into the hands of those Governments was doubtless known to the railroads, and it is conceivable that they reported as foreign owned any securities which they knew were being held in nominee names for account of foreign governments. If, on the other hand, foreign governments transferred securities into their own names, those securities might well represent a subtraction from those held in nominee names; and for this reason the percentage of nominee holdings added to the original Loree data perhaps ought to be lower.

The one thing common to the chain index study¹⁸ for the period 1929-34, the computation method discussed above, and the graphic method is that all of these used the 1934 figures of the Finance Division to which to tie. Putting the results of both studies on the base of December 31, 1929=100, the following comparisons are obtained:

	1929	1930	1931	1932	1933	1934
Number of common shares.....	100	115	118	127	127	133
computation method.....	100	110	113	131	128	147
chain index study.....	100	108	108	116	122	140
Par value common shares, graphic method.....	100	75	27	25	38	35
computation method.....	100	78	28	23	39	35
chain index study.....	100	78	28	21	36	32
Market value common shares.....	100	93	86	84	80	80
computation method.....	100	98	100	107	102	111
chain index study.....	100	97	99	100	100	107
Par value preferred shares, graphic method.....						

NOTE.—It is apparent that, as in the comparison for the war period, the trends of the common of the series compared are similar but that here the trends of the preferred, which were similar in the early period, show divergence. The chain index study and the graphic method appear to be more accurate for the preferred for the later period. This is presumably due to the growing sparsity of the 5-stock preferred sample in the later years.

G. DATA RELATING TO CHAPTER VIII

I. COMPUTATION OF STATISTICS ON INTEREST PAID TO NONRESIDENT ALIEN OWNERS OF BONDS OF UNITED STATES CORPORATIONS

In presenting the results of his computation of interest payments to nonresident-alien bondholders during 1927 (Internal Revenue News, May 1928), T. C. Atkeson, Chief of the Sorting Section, Records Division, Bureau of Internal Revenue, called attention to the source of the basic data as follows:

The regulations issued under section 221 of the Revenue Act of 1926 require the preparation of ownership certificates by nonresident alien individuals, partnerships, and corporations holding bonds issued by domestic corporations. This certificate is presented with bond coupons at the time interest is collected and is required whether or not the bond contains a tax-free covenant and whether or not the bondholder is subject to tax.

The ownership certificates represent interest from bonds held in this country for the account of foreigners and also interest from bonds physically held abroad. The presumption is that where certificates are prepared by alien holders or their agents in a foreign country the bonds are physically held there. In those cases where the bonds are held in this country by banks for the account of the alien it is customary for the certificate to show the American bank as agent.

¹⁸ See ch. VI, p. 68.

Subsequent revenue legislation continued these provisions. The detailed computations of interest payments to nonresident aliens in 1929 and 1933, as summarized in tables 42 and 43, respectively, were made by a procedure similar to that employed by Atkeson in 1927.

II. ESTIMATE OF FOREIGN HOLDINGS OF DEFAULTED BONDS

As explained in chapter I, the special survey relating to the 1933 statistics on alien ownership was designed to prepare as complete a summary as possible of foreign holdings of United States corporate bonds. Since issues in default may be viewed as potentially subject to interest renewal and since current interest-paying issues may in some instances be subject to later default, the importance of bringing both classes of bonds within a single aggregate is obvious. The absence of ownership statistics on defaulted issues in reported income-tax data required the use of records applicable to a date when the issues in question were still on an interest-paying basis.

Bonds were considered in default when one or more of the following conditions applied:

1. Defaulted as to interest.
2. Defaulted as to the payment of the principal at maturity but on which the interest was being paid in full.
3. Contingent interest bonds on which the interest payment was omitted.

The sum of the par value of these defaulted bonds was added to the total of foreign-held interest-paying bonds for 1933 (see ch. VIII) to arrive at the aggregate of foreign-held bonds reported for 1933. In case a bond went into default in 1933, the interest paid on that bond during the year was incorporated with total reported interest payments for 1933 (see ch. VIII). The par value of the bonds in default was included in the reported capital value of defaulted issues, as defined above.

An examination of available data relating to the foreign ownership in 1930 of corporate bonds known to be in default during 1933 indicated that practically all such defaulted issues lost their interest-paying status during this 3-year period. On the assumption that those issues which were foreign-held in 1930 did not change ownership to any important extent during the intervening years, the compilation of data on the foreign ownership in 1933 of defaulted issues was based on an examination of records for earlier years, principally those for 1930.¹⁹ The results of this special survey are shown in table XX.

Table XX.—Foreign Holdings of Defaulted United States Corporate Bonds

[In millions of dollars]

Industry	I	II	III	IV
	Total par value of bonds in default	Total par value of defaulted bonds included in survey	Par value of defaulted bonds held by foreigners	Percentage of defaulted bonds held abroad (based on columns II and III)
Industrial.....	1 852	2 699	7.5	1.07
Public utility.....	906	859	11.3	1.32
Real estate.....	995	509	³ 10.0	.98
Railroad.....	2,085	2,029	69.3	3.41
Total.....	4,838	4,096	98.1	2.28

¹ Data cover approximately 800 bond issues of a slightly smaller number of companies.

² Data cover approximately 430 bond issues of a slightly smaller number of companies.

³ Includes an arbitrary addition of \$5,000,000 to the computed figure to cover issues for which no records were available.

NOTE.—The issues making up the difference between columns I and II were, for the most part, small issues. It was not thought to be necessary to make an omission estimate for foreign holdings except in the case of real estate.

Table XXI summarizes the results of the study of foreign holdings of defaulted bonds, divided by countries and by industries.

¹⁹ In the case of bonds which passed into default during 1930, the computation was based on 1929 records. For later defaults, the returns for the first complete year prior to default were used. An exception to this rule is found in railroad issues which passed into default during the second half of 1933. In the case of these issues, the data reported during the first half of the year were used.

Table XXI.—Par Value of Foreign Holdings of Defaulted United States Corporate Bonds

[In thousands of dollars]

Industry	Canada	United Kingdom	France	Netherlands	Switzerland	Other Europe	Latin America	Rest of world	Total
Industrials.....	2,789	1,447	313	671	1,011	434	154	668	7,487
Railroads.....	2,658	14,587	6,198	27,482	6,804	7,476	1,638	2,496	69,339
Public utilities.....	4,186	2,760	651	597	1,337	673	528	613	11,345
Real estate ¹	3,254	1,387	639	645	2,087	805	430	759	10,006
Total.....	12,887	20,181	7,801	29,395	11,239	9,388	2,750	4,536	98,177

¹ Includes an arbitrary addition of \$5,000,000 to the computed figure to cover issues for which no records were available.

