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The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

NIC #02699-84
7 May 1984

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA: Chairman, National Intelligence Council

FROM: Maurice C. Ernst
National Intelligence Officer for Economics

SUBJECT: Capital Flows

REFERENCE: DCI Memo dated 1 May 1984, same subject

Attached for your signature is a response to Ken Dam on the kind of work the Agency does on capital flows.

Maurice C. Ernst

Attachment:
As stated

~~CONCUR:~~

~~Director of Central Intelligence~~ ~~Date~~

25X1

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DCI/NIC/NIO/Econ/M.Ernst:bha(7 May 84) 25X1

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The Director of Central Intelligence

Washington, D.C. 20505

11 May '84

The Honorable Kenneth W. Dam
Deputy Secretary of State
Washington, D.C. 20520

Dear Ken:

You asked me at our luncheon what kind of work the Agency does on international capital flows. CIA's principal work on capital flows is along the following lines:

- As part of the analysis of the balance of payments of foreign countries. In this connection we pay particular attention to the Communist countries and major LDCs, such as Brazil and Mexico.

- As an aspect of our global analysis of the international debt problem. This analysis involves assessments of the causes, consequences, and reactions to the debt problem from the point of view of the debtor countries, of creditors' views, including governments and banks, and of the economic interactions between the debt-ridden LDCs and the international economy

- As a basis for systematic monitoring and analysis of OPEC assets, including their volume, location, currency composition, and liquidity.

- Occasionally, as part of general assessments of global economic trends, especially in the OECD countries.

CIA has little specialized expertise and consequently does not often produce studies on world capital markets, leaving this topic primarily to Treasury and the Federal Reserve.

With respect to the Commerce study you handed me on US-EC capital flows, we find it a straightforward analysis based on US balance of payments statistics. The issue it addresses, however--the belief by some

West European leaders that capital flows from Europe to the US are seriously inhibiting recovery of European investments--is largely a straw man, designed to pander to a socialist audience, rather than a widely held view, even among high-level socialist party officials. The Europeans have been highly critical of high US interest rates but are well aware that the large net inflow of capital into the US, with little of this coming from Western Europe, is a counterpart to a large US current account deficit from which Europe is benefiting. Indeed, as the US economic recovery has picked up steam, bringing with it a large increase in imports, European criticism of US policies has been muted considerably. Now the Europeans are beginning to worry more about a possible large depreciation of the dollar than by continued overvaluation supported by capital inflows.

Yours,

/s/

William J. Casey