

OCTOBER 1971

# THE TRAVEL AND TRANSPORTATION COMPONENTS OF THE UNITED STATES BALANCE OF PAYMENTS

*Richard D. Carter*

During the past decade, international travel has increased at a phenomenal rate, and the expenditures of United States travelers abroad have exceeded spending by foreign visitors to the United States by ever increasing amounts. United States exports and imports of goods have also increased dramatically, and this, coupled with the growth in international travel, has resulted in a rapid increase in payments and receipts for transportation. In 1970, the combined travel and transportation components constituted the third largest item—following merchandise exports and direct investment income—in the export of goods and services and the second largest item—following merchandise imports—in the import of goods and services of the United States balance of payments. This article reviews the trends in United States travel and transportation expenditures and receipts during the past decade and the factors influencing these trends. It is the third in a series<sup>1</sup> covering the current account of the United States balance of international payments.

## AN OVERVIEW: TRAVEL AND TRANSPORTATION TRENDS

Total expenditures of United States residents traveling abroad and payments of passenger fares to foreign carriers, freight payments to foreign carriers, and foreign port expenses amounted to almost \$8.0 billion in 1970, an increase of about \$4.2 billion from 1961 (see Table I). During the same period, United States receipts from comparable transactions increased from more than \$2.7 billion to nearly \$6.0 billion. Thus, the net deficit in the travel and transportation components of the United States balance of payments almost doubled from about \$1 billion to nearly \$2 billion between 1961 and 1970.

Although this deficit on travel and transportation has contributed to the current United States balance of payments problems, it cannot be viewed in isolation. The travel and transportation components should be considered as integral parts of the overall balance of payments account. There are interrelationships among the various components of the balance of payments—although many are difficult, if not impossible, to measure—and they should be kept in mind when evaluating any one component. For example, even though the combined travel and transportation components

<sup>1</sup>The previous articles are, "The Pattern of United States International Trade," *Economic Review*, Federal Reserve Bank of Cleveland, August 1970, and "Direct Foreign Investment of the United States," *Economic Review*, Federal Reserve Bank of Cleveland, March 1971.

## ECONOMIC REVIEW

TABLE I

**Combined Travel and Transportation Components  
of the United States Balance of Payments  
1961-1970**  
(Billions of Dollars)

<u>Year</u>	<u>Payments</u>	<u>Receipts</u>	<u>Net</u>
1961	-\$3,728	\$2,752	-\$ 976
1961	-4,067	2,921	-1,146
1963	-4,430	3,130	-1,300
1964	-4,675	3,524	-1,151
1965	-5,112	3,794	-1,318
1966	-5,579	4,198	-1,381
1967	-6,188	4,436	-1,752
1968	-6,279	4,721	-1,558
1969	-6,950	5,170	-1,780
1970	-7,957	5,978	-1,979

Source: U. S. Department of Commerce

have been in persistent deficit during the last decade, they exert some positive, counterbalancing influence on other sectors of the balance of payments account. Travel spending abroad by United States residents can lead indirectly to the expansion of United States exports, since dollars spent in other countries represent a source of foreign exchange with which the recipient nation can purchase United States goods and services. Travel dollars are particularly important to developing nations in Latin America, the Middle East, Asia, and Africa because their methods of earning dollar exchange are limited. Increases in the number of United States residents traveling abroad also expand the business activities of foreign carriers who, in turn, may purchase a large share of their equipment from the United States aircraft industry. Of course, in addition to the economic influences exerted by international travel, important "invisible" benefits are derived from the exposure to new and different cultures of both United States travelers abroad and foreign visitors to the United States that result in better understanding of people, events, and conditions in

our ever shrinking world. These "invisible" benefits of travel, in particular, and transportation expenditures and receipts are important considerations in evaluating the impact of these components on the balance of payments.

### TRAVEL COMPONENT

**Definition.** Payments associated with travel in foreign countries by United States residents are recorded in the balance of payments as imports of goods and services (outflows of funds), while receipts from foreigners traveling in the United States are recorded as exports of goods and services (inflows of funds). The travel component of the import account measures foreign expenditures of United States travelers for lodging, food, transportation within foreign areas, entertainment, personal purchases, and other outlays incidental to a trip abroad. It also includes passenger fares paid to Canadian and Mexican carriers by United States residents visiting these countries. The travel component does not, however, include expenditures of United States Government and military personnel stationed abroad or their dependents. These expenditures are included in the appropriate government transactions component of the balance of payments. Expenditures of United States citizens living abroad are likewise excluded since such citizens are classified as foreigners for balance of payments purposes. Also excluded are transoceanic passenger fares, which are part of the transportation component. Distinctions similar to those described above are made in measuring expenditures by foreign residents traveling in the United States, including passenger fares received by United States carriers from Canadian and Mexican visitors. These outlays are recorded as receipts from tourists in the export travel component.

OCTOBER 1971

TABLE II

**Travel Payments and Receipts in the United States Balance of Payments  
Selected Years  
(Millions of Dollars)**

Area	Transaction	1961	1964	1967	1970
World*	Payments	-\$1,785	-\$2,211	-\$3,195	-\$3,953
	Receipts	<u>947</u>	<u>1,207</u>	<u>1,646</u>	<u>2,319</u>
	Net	-838	-1,004	-1,549	-1,634
Western Europe	Payments	-600	-758	-944	-1,310
	Receipts	<u>133</u>	<u>157</u>	<u>227</u>	<u>318</u>
	Net	-467	-601	-717	-992
Eastern Europe	Payments	- 4	- 9	-14	-24
	Receipts	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	Net	- 4	- 9	-14	-24
Canada*	Payments	-425	-550	-1,070	-1,049
	Receipts	<u>451</u>	<u>448</u>	<u>575</u>	<u>885</u>
	Net	26	-102	-495	-164
Mexico*	Payments	-370	-490	-590	-720
	Receipts	<u>200</u>	<u>342</u>	<u>457</u>	<u>545</u>
	Net	-170	-148	-133	-175
Other Latin American and Western Hemisphere	Payments	-72	-229	-365	-480
	Receipts	<u>102</u>	<u>62</u>	<u>263</u>	<u>334</u>
	Net	30	-167	-102	-146
Japan	Payments	n.a.	-54	-58	-97
	Receipts	n.a.	<u>25</u>	<u>42</u>	<u>101</u>
	Net	n.a.	-29	-16	4
Australia, New Zealand	Payments	n.a.	-14	-22	-40
South Africa	Receipts	n.a.	<u>23</u>	<u>32</u>	<u>41</u>
	Net	n.a.	9	10	1
Other in Asia and Africa	Payments	n.a.	-112	-132	-233
	Receipts	n.a.	<u>38</u>	<u>50</u>	<u>95</u>
	Net	n.a.	-74	-82	-183

n.a. Not available.

\* Includes passenger fares for Canada and Mexico.

Source: U. S. Department of Commerce

**Travel Payments and Receipts.** Both travel payments by United States residents traveling abroad and travel receipts from foreign visitors to the United States showed an almost continuous

increase during the 1961-1970 period (see Table II). The only interruption occurred in 1968 when travel payments fell 5.4 percent from the level of the previous year. This decrease, however, was

## ECONOMIC REVIEW

more a reflection of the sharp increase in 1967 travel payments than a deviation from the general long-term uptrend. Canada's Expo-67 attracted large numbers of United States visitors and was the major reason for the 1967 jump in overseas travel payments. Because some foreign travelers were diverted from the United States to Canada, receipts from foreign visitors also eased in 1967. Largely as a result of this one event, the net deficit in the travel component of the United States balance of payments increased nearly \$500 million in 1967, compared with relatively small increases in previous years.

In 1968, the travel deficit narrowed as payments decreased from their high 1967 level and travel receipts continued to increase. In 1969 and 1970, however, the deficit in the travel component of the balance of payments resumed its relatively rapid rate of increase, largely because the number of United States residents traveling abroad increased at a faster pace than the number of foreign visitors to the United States. Rising travel costs, other than air fares, also contributed to the increased deficit. In 1970, the travel deficit amounted to \$1.6 billion, compared with \$838 million ten years earlier.

**Numbers and Types of International Travelers.** The number of United States residents traveling abroad (excluding Mexico and Canada) increased by about 234 percent during the 1961-1970 period (see Chart 1). The largest part of this increase took place between 1966 and 1970 when the number of overseas travelers from the United States rose by more than two million or double the increase for the previous five years.

Travel to the European-Mediterranean area and "other areas" (including the Pacific, Asia, and Africa) increased at a faster pace than travel to the West Indies, Central America, and South America,

particularly during the latter part of the period (see Chart 1).

Although the recent recession in the United States did not slow the growth in numbers of overseas travelers, it did bring about some shift in the travel destinations. Travel to the European-Mediterranean area and "other areas" continued to increase rapidly in 1970, while travel by United States residents to South America increased only slightly and travel to the West Indies and Central America actually declined. Reductions in air fares across the Atlantic, particularly student fares, and the rapid growth of charter flights and package tours stimulated travel to Europe. Rising prices of Caribbean tourist services, coupled with the lower Atlantic air fare structure, were considered to be factors in the leveling of tourist travel to the West Indies area. Japan's Expo-70 was a major factor in the growth of travel to "other areas," primarily the Pacific and Far East.

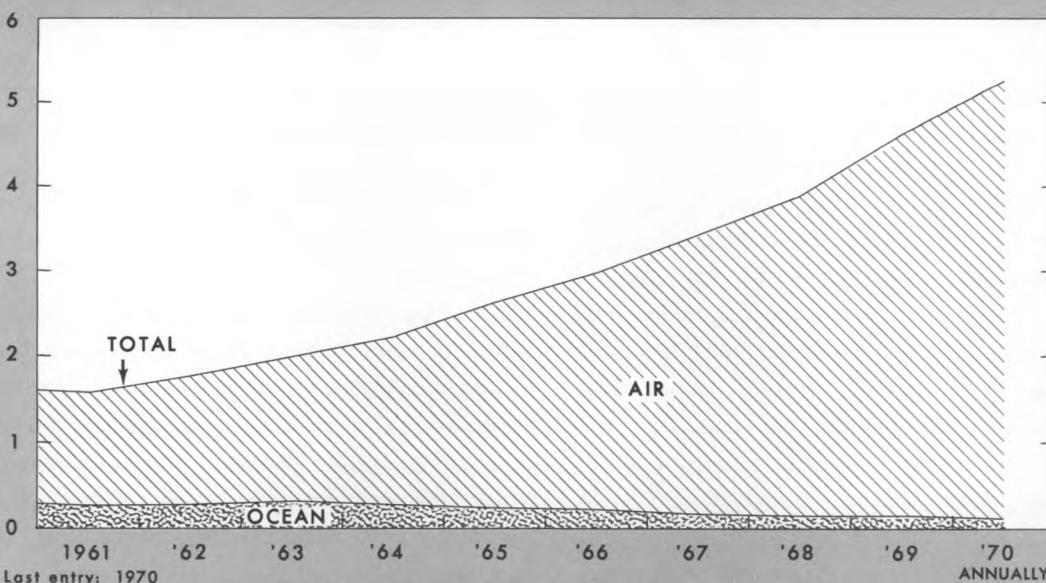
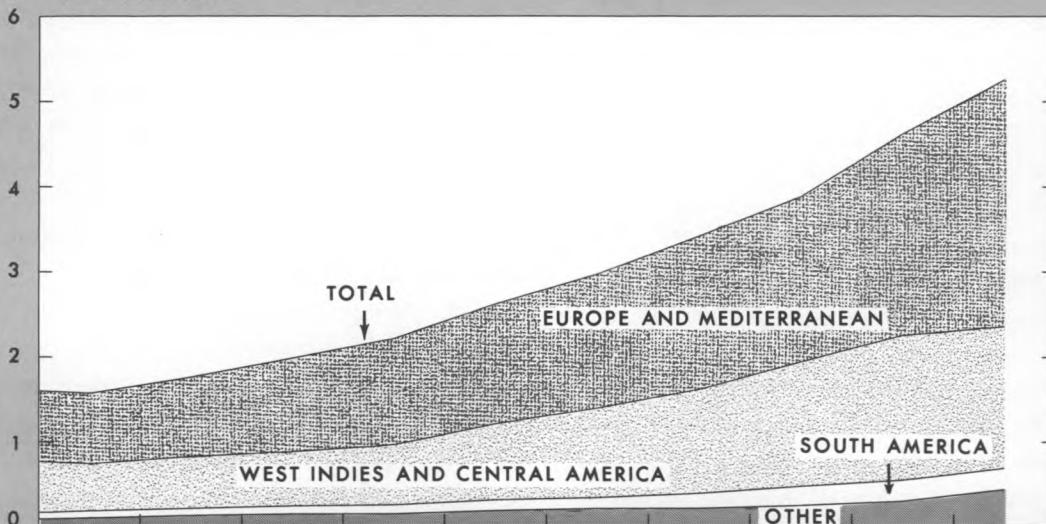
Although the total number of United States residents traveling abroad increased dramatically during the 1961-1970 period, both the number and the proportion traveling by ocean declined (see Chart 1). In 1961, 17 percent traveled by ocean; while in 1970, ocean travel accounted for only slightly more than 2 percent of the total number of Americans traveling abroad. As a result of this shift, which reflects the easing in air fares and a sharp increase in charter flights and package tours, United States residents have been taking more, but shorter, trips abroad. For example, the average length of stay of American travelers to the European-Mediterranean area dropped from 45 days in 1963 to 27 days in 1970 (see Table III). This, of course, also influenced the average expenditures of these travelers. In 1963, each United States traveler to the European-Mediterranean area spent an average of \$680,

OCTOBER 1971

Chart 1.

**U. S. TRAVELERS\* TO OVERSEAS COUNTRIES,  
BY DESTINATION AND MEANS OF TRANSPORTATION**

Millions of travelers



Last entry: 1970

\*Excludes cruise travelers and border areas of Canada and Mexico.

Source: U. S. Department of Commerce

## ECONOMIC REVIEW

TABLE III

**Length of Stay and Expenditures  
of United States Travelers  
European-Mediterranean Area  
1961-1970**

Year	Average Stay (Days)	Average Expenditures (Dollars per Stay)
1961	n.a.	\$757
1962	n.a.	692
1963	45	680
1964	41	637
1965	39	611
1966	37	583
1967	33	563
1968	30	512
1969	29	490
1970	27	490

n.a. Not available.

Source: U. S. Department of Commerce

exclusive of transatlantic transportation costs. In 1970, the average expenditure dropped to \$490 (see Table III).

The type of individual traveling abroad is reflected in passport statistics. In 1970, 2.2 million United States passports were issued.<sup>2</sup> Of the passport recipients, 43 percent lived in just seven metropolitan areas, including New York, Los Angeles-Long Beach, Chicago, Washington, D. C., Boston, Detroit, and San Francisco-Oakland; 16 percent alone indicated they lived in the New York Metropolitan Area. By occupation groups, students made up 20 percent of total passport recipients in 1970; and students, housewives, teachers, and clerk-secretaries combined accounted for nearly 48 percent. Through June 1971, approximately 9.3 million valid passports were outstanding, which represents a large pool of potential foreign travelers.

<sup>2</sup>For further details on passport recipients, see "Summary of Passport Statistics Calendar Year 1970 Supplement No. 1," Passport Office, Department of State, Washington, D. C.

The number of foreign visitors to the United States, excluding those from Canada and Mexico, increased more rapidly during the 1961-1970 period than overseas travel by United States residents (267 percent compared with 234 percent). However, the number of foreign visitors to the United States was still less than one-half the number of United States travelers abroad (see Charts 1 and 2). The largest number of foreign visitors to the United States arrived from the European-Mediterranean area. The most rapid increase, however, has been in the number of visitors from "other areas;" that is, areas other than Europe and Central and South America.

In an attempt to alleviate the basic travel imbalance, efforts were made to encourage foreign travel to the United States, rather than limit American travel abroad. In 1961, the *International Travel Act* was passed for the purpose of strengthening domestic and foreign commerce by establishing the United States Travel Service within the Department of Commerce. In 1965, the Cabinet Committee on Travel Planning and Promotion and Discover America, Inc. (formed as a private, nonprofit organization) were established by President Johnson to bring the various elements of the United States travel industry together in an effort to increase the size of the United States tourist market.

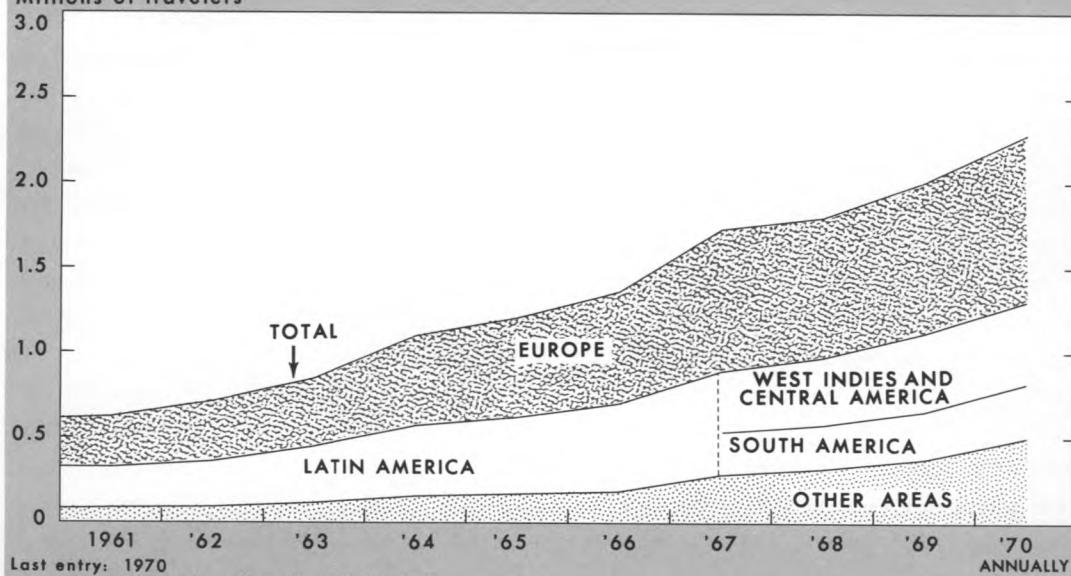
The "gap" between the number of United States residents traveling abroad and the number of foreign visitors to the United States can be attributed to a variety of factors, including: (1) higher per capita income in the United States, which tends to stimulate foreign travel; (2) the language barrier and relatively higher cost of tourism in the United States; and (3) the fact that the United States travel industry is not structured to handle large numbers of middle-income, non-

OCTOBER 1971

Chart 2.

### FOREIGN VISITORS\* TO THE U. S. BY AREA OF ORIGIN

Millions of travelers



English speaking visitors. Although travel by residents of other countries is expanding rapidly as a result of improved income levels, particularly in Europe, they appear to prefer traveling to countries other than the United States because of lower costs and fewer language problems.

**Geographic Distribution of Travel Payments and Receipts.** Reflecting the ease of travel to and from Canada and Mexico, United States travel payments to and receipts from these countries are larger than those with other individual countries. Travel payments to both Canada and Mexico accounted for 45 percent of total United States travel outlays in both 1961 and 1970; however, the proportion paid to Canada increased during the period, while Mexico's share declined. Travel receipts from these countries accounted for 68

percent of total travel receipts in 1961 and 61 percent in 1970. During the 1961-1970 period, travel payments to Canada increased at a faster pace than travel receipts, but the opposite was true in the case of Mexico (see Table II).

In 1962, the United States shifted into a deficit position in the travel account with Canada. This shift resulted, in part, from a devaluation of the Canadian dollar, which stimulated United States travel to Canada and made Canadian visits to the United States less attractive, and a reduction of the duty free exemption for Canadians who were traveling abroad. In addition, the 1962 Seattle Fair stimulated United States travel payments to Canada by attracting millions of Americans who also visited the western provinces of Canada. Since 1962, the United States has continued to run a

## ECONOMIC REVIEW

deficit with Canada—the deficit taking a sharp jump in 1967 as a result of Expo-67 in Montreal.

United States travel payments to the group of countries that make up Western Europe represent another large part of total payments, while travel receipts from this geographic area are relatively small compared with travel receipts from Canada and Mexico. As a result, a major share of the deficit in the United States travel component of the balance of payments has been due to travel deficits with Western Europe. In 1961, 56 percent of the deficit in the United States travel account was due to imbalances with Western Europe; and by 1970, the travel deficit with Western Europe represented 61 percent of the total deficit in the travel account of the United States balance of payments. In only two of the last ten years (1966 and 1968) has the deficit in this account with Western Europe been smaller than during the previous year.

Many obstacles stand in the way of overcoming the deficit with Western Europe. Comparative incomes are lower in Europe than the United States, and Europeans are less able to pay the cost of transatlantic flights. Many potential European visitors fear high United States prices, problems associated with exchanging currencies, and a language barrier. As a result of these problems, the deciding factor for many foreign visitors is whether or not they have friends or relatives in the United States with whom they can stay.

Although the number of United States residents traveling abroad continued to increase in both 1966 and 1968, there was some diversion of travel away from Europe toward Mexico, the Caribbean, and South America. An economic slowdown in the United States in 1966 also may have influenced the dollar amount of average tourist expenditures in Europe. The 1968 slowdown in travel payments

to the Western European countries reflects, in part, civil disturbances abroad during the first half of the year. United States travel expenditures in France were affected the most by these disturbances, which also had an influence on travel to other European countries, particularly those in the Mediterranean area.

In the remainder of the world, a slight surplus in the travel account of the United States balance of payments has persisted with Australia, New Zealand, and South Africa as a group. A small surplus also developed in 1970 with Japan, reflecting the increase in foreign travel by the Japanese, which resulted, in part, from the rapid growth rate of the Japanese economy and the stimulus that affluence gives to both personal and business foreign travel.

## TRANSPORTATION COMPONENT

**Definitions.** As with the travel component, payments associated with foreign transportation expenditures are recorded in the United States balance of payments account as imports of goods and services (outflows of funds) and receipts of transportation expenditures of foreigners are recorded as exports of goods and services (inflows of funds). The transportation component of imports measures passenger fares paid to foreign ocean and air carriers by United States residents for transoceanic transportation; freight payments to foreign-operated ocean, air, and other carriers (including rail and Great Lakes shipping in Canada) for the international transportation of United States imports; operating expenditures by United States carriers in foreign ports; and payments made to foreign owners for the charter of vessels and the rental of freight cars. Passenger fares for travel between the United States and Canada and between the United States and Mexico

are not included, and freight payments on United States exports carried by foreign carriers are not included since they do not result in transportation payments to or from United States residents. Foreign port expenditures (both ocean and air) by United States carriers are payments for landing services, fuel, and a variety of other expenses such as wages to foreign personnel and passenger food and services in foreign ports.

United States receipts for transportation services are composed of passenger fares received by United States ocean and air carriers from foreign residents traveling between the United States and foreign countries and between two foreign countries. The transportation component also measures the freight revenues of United States ocean, air, and other carriers (including rail, pipeline, and Great Lakes shipping) for the movement of United States exports; freight payments on goods transported between two foreign countries; port expenditure receipts from goods and services purchased in the United States by foreign transportation companies; and receipts from foreign operators for the charter of vessels and the rental of freight cars.

**Transportation Payments and Receipts.** United States transportation payments and receipts are directly related to the volume of merchandise exports and imports, the number of United States and foreign residents traveling abroad, and the nationality of the carrier that provides the transportation services. Between 1961 and 1970, the value of United States merchandise exports increased from about \$20 billion to \$42 billion, and the value of imports advanced from about \$15 billion to nearly \$40 billion. As previously noted, the number of international travelers also advanced sharply during this period. As a result of

these factors, total United States transportation payments increased from \$1.9 billion in 1961 to \$4.0 billion in 1970, and total transportation receipts advanced from about \$1.8 billion to nearly \$3.7 billion during the same period (see Table IV).

The various transactions measured by the transportation component of the United States balance of payments are interrelated. For example, during the past two decades, there has been a sharp decrease in the proportion of United States exports and imports transported by United States carriers (see Table V). This tended to increase the size of freight payments to foreign carriers. However, because more foreign ships were calling at United States ports, United States receipts from port expenditures of these foreign carriers increased (see Table IV). Also, the rapid growth in the number of United States residents traveling abroad has greatly increased passenger fare payments to foreign air carriers (foreign travelers tend to patronize their own countries' airlines, while United States travelers tend to be fascinated by the experience of flying on a foreign airline). This increase has been somewhat offset by the port expenditures paid by these foreign carriers and also by some growth in airfreight receipts of United States carriers. Both transportation payments and receipts have, however, been influenced by higher costs, both in the United States and abroad.

Despite these counterbalancing forces, the deficit in the transportation sector of the United States balance of payments trended upward during the 1961-1970 period (see Table IV). The continuous increase in the surplus of the port expenditure component has not been sufficient to totally offset growing deficits in the other components, however.

## ECONOMIC REVIEW

TABLE IV

**United States Transportation Transactions**  
**Selected Years**  
**(Millions of Dollars)**

	<u>1961</u>	<u>1964</u>	<u>1967</u>	<u>1970</u>
Total transportation payments	-\$1,943	-\$2,464	-\$2,993	-\$4,004
Total transportation receipts	<u>1,805</u>	<u>2,317</u>	<u>2,790</u>	<u>3,659</u>
Net	-138	-147	-203	-345
<b>By Type of Transportation</b>				
Ocean transportation payments	-1,382	-1,717	-1,879	-2,319
Ocean transportation receipts	<u>1,331</u>	<u>1,732</u>	<u>1,851</u>	<u>2,258</u>
Net	-51	15	-28	-61
Air transportation payments	-481	-641	-1,020	-1,588
Air transportation receipts	<u>383</u>	<u>476</u>	<u>820</u>	<u>1,255</u>
Net	-98	-165	-200	-333
<b>By Type of Transaction</b>				
Passenger fare payments	-506	-635	-830	-1,215
Passenger fare receipts	<u>183</u>	<u>234</u>	<u>371</u>	<u>553</u>
Net	-323	-401	-459	-662
Freight payments	-768	-984	-1,222	-1,508
Freight receipts	<u>625</u>	<u>820</u>	<u>800</u>	<u>987</u>
Net	-143	-164	-422	-521
Port expenditures abroad	-399	-512	-598	-808
Port receipts in United States	<u>898</u>	<u>1,146</u>	<u>1,493</u>	<u>1,942</u>
Net	499	634	895	1,134
Other payments	-270	-333	-343	-473
Other receipts	<u>99</u>	<u>117</u>	<u>126</u>	<u>177</u>
Net	-171	-216	-217	-296

Source: U. S. Department of Commerce

## SUMMARY

The travel and transportation components of the United States balance of payments have been in persistent deficit during the last decade, with the deficit growing from about \$1 billion in 1961 to nearly \$2 billion in 1970. The upward trend in numbers of international travelers has resulted from a growth of personal income in the United States and in foreign countries, coupled with decreases in air fares, which have attracted a larger

segment of the population to overseas travel. The rapid growth in world trade during the 1961-1970 period also contributed to the increase in transportation payments and receipts.

The advent of lower air fares, charter flights, and special tours has brought about a trend toward shorter overseas stays and, consequently, lower average expenditures per trip. Economic slowdowns during the period did not appear to hinder the growth in numbers of United States residents

OCTOBER 1971

TABLE V

**Net Registered Tonnage in United States Ports  
Selected Years  
(Millions of Tons)**

Year	Tonnage			Percent United States
	Total	United States Register	Foreign Register	
<b>Entered</b>				
Average 1946-1950	87	46	41	51%
1955	128	34	94	27
1960	162	30	132	19
1965	209	34	175	16
1967	221	31	190	14
1968	230	30	200	13
<b>Cleared</b>				
Average 1946-1950	87	45	42	52
1955	129	34	95	27
1960	167	31	136	19
1965	209	34	175	16
1967	220	31	189	14
1968	230	31	199	14

Source: U. S. Department of Commerce

traveling abroad, but did appear to have an influence on average expenditures, and resulted in some shifts in the destination of travelers.

Despite the growing deficit, the travel and transportation components of the United States balance of payments cannot be viewed independently from the other components of the

account. There are, for example, some offsetting influences such as increased purchases of United States goods and services by nations that earn United States travel dollars. The travel and transportation component of the United States balance of payments must, therefore, be viewed as an integral part of the overall balance of payments account.

