

With respect to the flow of our capital abroad, when one breaks it down into its relevant components and analyzes those carefully, as I have tried to do in table 5 for the period 1960-61, the tremendous amount of short-term outflow in those 2 years is summarized by the basic categories of changes and claims.

First, there are bank loans to foreign official, and second, bank credit which consists of collections outstanding and other loans by banks. Then a category which is listed as "Other" in the data reported by U.S. banks. That really consists, I believe, of two parts. (Mr. Klopstock knows more about this and may add to what I say or correct me.) It seems to consist both of trade credit for our export and of dollar deposits which may have nothing to do with trade credit. The latter has been a big item in recent years. The other category consists of reports of dollar claims by nonfinancial corporations. These are the short-term claims which are payable in dollars. In addition, there are short-term claims, both on the part of banks and nonfinancial corporations, which are payable in foreign currency.

If one looks at the general developments for 1960-61, one can see that about 60 percent of the recorded outflow of that 2-year period, which was so large and has caused so much consternation on the part of so many people, actually was related to financing our growing volume of exports. Of the remaining 40 percent, only a very small fraction could be said to be primarily induced by high rates of interest abroad. This tentative conclusion is drawn by relating each of these separate categories of short-term capital movement to different areas of the world, to relevant interest rates and exports and trend factors and so on, to see which variables seem to move together.

It would seem that loans by U.S. banks to foreign banks and official institutions, the trade credit, and the large amount of other bank short-term capital which is payable in dollars to the rest of the world are related closely to exports. Japan comprises a great, big chunk of that large 2-year outflow, given the special Japanese acceptance credits.

Those three add up to 60 percent. Then when you take apart the other items, so to speak, I can find only about 4 percent which seems consistently to be related to short-term interest rates here, in London, and in Canada. So one has to ask oneself, if interest rates are not the dominant factor, what else is involved?

There has been a substantial upward trend throughout the 5-year period, 1957 to 1961. Two trend factors would appear to be important. One, the need for growth and working balances consequent upon convertibility and the general increase in activities between the United States and Common Market countries. Two, the long-run stimulus of artificial tax inducements because of tax-haven operations and the opportunity to invest in securities which yield tax-free or nearly tax-free income because of the building up of excess tax credits on income earned abroad.

I believe that the provisions of section 13 in H.R. 10650, as amended in the Senate, and the other provision added in the Senate with respect to interest income earned abroad by foreign corporations so that it will not be applicable to the excess tax credits, should cut down on the movement of short-term capital which may be related to that factor.