When we turn to the foreign short-term capital in the United States, which is invested in liquid liabilities of this country, we have again tried to see whether there has been any switching of balances over a 5-year period, using quarterly data for the most part, between the United States and other areas of the world on the basis of changes in interest rates.

Our general conclusion is that it has been very, very small indeed. What we did, detailed in the statement here, is to take the ratio of dollar assets to total foreign exchange reserves in toto and for various individual countries and tried to see whether that was geared to interest rates or whether it was geared to the total reserves of that country or simply to a trend factor and so on.

In only one period between 1957 and 1961 did substantial switching occur in the case of the world as a whole. If I can refer you to table 7 at the very back of the statement, one can see that, for example, in the case of official holdings of dollar assets, there has been very little response as one would expect. In the case of commercial banks, if you look at the next to last line, you will see that commercial banks in general remained holding about 60 percent of their foreign exchange assets in dollars and about 40 percent not.

But these percentages both took a very sharp drop in the fourth quarter of 1960 and the first quarter of 1961, the ratio for commercial banks remaining down through June 1961. I have not been able to get data yet to continue that series.

This material indicates that a substantial amount of switching occurred, presumably from here to London, but a switching occurred at only that one stage of the game. That switching would not be directly interest rate induced because the interest rate margin between London and New York was relatively high in the early part of the 1960's. The interest rate differential narrowed during this fourth quarter of 1960 and into the middle of 1961, and then widened. So I think there is good reason to suspect that this was really a speculative switching of funds against the dollar in anticipation that the dollar might devalue, and this switching had relatively little to do with the factor of interest rates.

So I find very little interest effect on short-term liabilities. One very good study by the Federal Reserve Board has come up with generally the same sort of conclusion.

We turn finally to one other factor. I have tried to discuss thus far both long- and short-term recorded capital movements. There is, however, a very substantial error and omissions item in balance-of-payments data. Many people feel that this is probably closely related to short-term capital movements. Again, what I have done is to try to see if I can find any consistent relationship between the errors and omissions item and other short- or long-term capital movements.

Indeed, one does find that the errors and omissions item throughout the 1950's has behaved in a very consistent fashion with short-term capital movements in particular, and it may be that direct investment and/or long-term securities are related as well. If one looks at this relationship closely, one can at least arrive at an estimate of how much of the errors-and-omissions item may actually be short-term capital outflow, but not recorded as such. If the relationships which I tried to establish here are correct, then it would suggest that the short-term