

capital outflow of the United States in 1960 and 1961 was actually \$2.5 billion each year rather than the \$1.3 billion which was recorded. Still since the recorded short-term outflow seems to be reduced by factors other than interest-rate differentials, there is no reason to suppose that this is not true of the unrecorded flows as well since the two were closely related one to another.

Mr. Chairman, to summarize, so far as the evidence that we have been able to find in our studies, we can find or they suggest—let me say this—they do not lend support to those who attach great importance to the role of interest rates in inducing short- or long-term capital flows. The data do not suggest that no importance should be attached to interest rates or, more generally, to the degree of looseness or tightness of money markets. They suggest that interest rates play a relatively minor role in and of themselves, although under certain circumstances when interest-rate differentials favorable to the movement of the capital are combined with more influential considerations such as speculation, the role of interest rates may be more significant.

Thank you.

(Mr. Bell's prepared statement follows:)

STATEMENT OF PHILIP W. BELL, PROFESSOR OF ECONOMICS, HAVERFORD COLLEGE

The outflow of private capital from the United States in recent years has become a matter of considerable concern to those formulating national economic policy. In the last 5 years the outward flow of private long-term capital has approximated the total of Government loans and grants (other than military grants, which do not directly affect the balance of payments), which we hear so much about, and there has been a substantial outflow of private short-term capital as well. More important, there has been a substantial increase in private capital moving abroad in the last 5 years as compared with the previous 5 years, as shown in table 1.

I understand that this committee is interested this afternoon primarily in the question of what role interest rates and interest-rate policy has played and might play in the future in influencing these private capital movements. I have been studying this question this summer and hope that some of my preliminary, very tentative findings may be of some use to the Congress and the administration in formulating policy. I emphasize that what I say this afternoon must be of a very tentative nature—it is based primarily on a careful but still incomplete study of the data available. I mistrust this approach by itself just as I mistrust sweeping conclusions based simply on "personal experience." But I have not yet had a chance to test the hypotheses that are posed by study of the data against the judgments of people in the field, and I cannot attach great significance to them until this is done, especially since private international capital movements comprise a complex and tricky field, and while I have studied around it, so to speak, for a number of years, I have been deeply immersed in it for only 2 months.

Be that as it may, the evidence which I have been able to put together thus far does not lend support to those who attach great importance to the role of interest rates in inducing either short- or long-term capital flows, or both, into and out of the United States. The data do not suggest that no importance should be attached to interest rates, or more generally to the degree of looseness or tightness in money markets. They suggest rather that interest rates and interest-rate changes play a relatively minor role in and of themselves, although under certain circumstances, when interest rate differentials favorable to the movement of capital are combined with certain other, in many ways more influential considerations such as speculative fear of devaluation, the role of interest rates may be more significant.

I would like to divide my testimony into four parts, the first concerned with long-term portfolio investment—our purchases of foreign stocks and long-term bonds; the second with changes in our short-term claims on foreigners; i.e., what is reported in balance-of-payments statistics as "U.S. short-term capital (net)"; the third with changes in our short-term liabilities to foreigners; i.e., their