

out at an alarming rate in 1960 and this continued in 1961, and further, the statistics showed that European short-term interest rates were substantially above short-term rates in the United States, people quickly put two and two together and concluded that "The emergence of significant differentials in short-term interest rates has resulted in an enormous outflow of U.S. private short-term funds."²

Study of the components of the recorded outflow during those 2 years, and of movements in the 3 years previous to that period—what types of capital moved and where they went—as well as of the timing of the various movements in conjunction with the timing of interest rate changes, does not support the hypothesis that U.S. short-term capital has been moving in recent years primarily, or even significantly, in response to changes in short-term interest rates. (I emphasize the term "recorded" capital movements; I shall come to consideration of what I believe to be a very substantial amount of "unrecorded" short-term capital shortly.)

The basic components of movements in the U.S. short-term capital account during the past 5 years are compiled in table 4. There are two main reporting groups providing information on outstanding short-term claims on foreigners: U.S. banks, and some 600 large U.S. nonfinancial corporations with operations abroad. The data in the table have been grouped to show six basic categories of flows, with a regional breakdown for each. The four basic types of recorded U.S. short-term claims are (1) loans by U.S. banks to foreign banks and official institutions; (2) a composite of other bank loans and collections outstanding which I will call "trade credit"—the amounts outstanding tending to move closely with the level of our exports; (3) "other dollar claims" reported by U.S. banks, which contains two quite different types of claim: special arrangements, such as those with Japanese banks and others, that appear to be closely geared to our level of exports, as is the "trade credit" total; and dollar deposits, presumably of U.S. banks and individuals, in Canada and Europe; (4) dollar claims of U.S. nonfinancial corporations. The two other categories of claims shown consist of amounts payable in foreign currency as reported by banks, and by nonfinancial corporations. They consist of deposits in foreign banks (other than dollar deposits) and an "other" category which includes accounts, notes, bills, and drafts receivable, as well as short-term foreign security holdings.

In table 5, the 2-year outflow of 1960-61 is broken down into these six basic categories regionally subdivided. It can be seen right away that almost 60 percent of the nearly \$3 billion total outflow was of a type which would not be expected to be moving primarily in response to changes in interest rates, viz, bank loans to foreign banks and official institutions, bank "trade credit," and the "other" category reported by banks, vis-a-vis the rest of the world, consisting primarily of very large acceptance arrangements made with Japanese banks and corporations. The latter two items are "export finance," and presumably are in part responsible for our \$4 billion increase in merchandise exports between 1959 and 1961. It is doubtful that a change of 1, 2, or even 3 percentage points in our short-term interest rates would have affected these short-term outflows.

But what of the other 40 percent of the short-term capital outflow which amounts to well over \$1 billion over the 2-year period? I have tried to trace the responsiveness of five of the basic categories of short-term capital to various determinants, using quarterly data for the last 5 years. The results are summarized in table 6, with the technical apparatus on which these conclusions rest, tucked away in the appendix. I tried to test, in each case, the general relationship between claims on the one hand, the relevant interest rates and/or level of exports on the other, and deviations from the general trend in claims with interest rates and/or level of exports.

The evidence summarized in table 6 supports the view that bank loans to foreigners other than banks and official institutions and collections outstanding do indeed comprise a short-term capital outflow which is very largely determined by export levels. There is also strong evidence that the "other" category payable in dollars as reported by U.S. banks, vis-a-vis the rest of world (the item which includes the special Japanese acceptance arrangements) is closely related to exports. These two items, with bank loans to foreign banks and officially comprise the 60 percent of total figure referred to previously. Interest rates appear to play no role whatsoever in determining either the level or the timing of these movements of U.S. short-term capital.

² Edward M. Bernstein, "Interest Rates and the U.S. Balance of Payments," in Carl J. Friedrich and Seymour E. Harris, *Public Policy, a Yearbook of the Graduate School of Public Administration*, Harvard University, 1961, p. 173.