

Mr. PIZER. My objective is the limited one of describing where our figures come from and saying something about what these capital flows have been doing in the last few years.

The data we have on short-term capital movements are collected by the Treasury from the banking system on a monthly basis and from nonfinancial concerns on a quarterly basis. The Treasury Department, through the Federal Reserve banks, also collects information on securities transactions between this country and foreign countries. The other important class of capital flows is that between American companies and their subsidiaries and branches abroad, and that information is collected directly by the Commerce Department from the companies who have the investments, both with respect to capital flows, and earnings, and income remittances.

Our job at the Balance of Payments Division is to correlate the different kinds of capital flow information that exist with information on all the other kinds of international transactions into a coherent picture of our international transactions.

I can best describe what has been happening to our short-term capital outflows by referring to table 1 of the statement. That shows in the right-hand group of columns that our short-term capital outflow, which averaged only about \$200 million a year in the period 1951-59, reached \$1,300 million or more in 1960 and over \$1,400 million in 1961.

In that table we have broken the capital flow down into its principal components because this tells us something about the kinds of flow that are taking place and possibly about the motivations. There are many different kinds of flows included under the overall title of short-term capital.

In the first place, we have a flow by American banks which increased very sharply in 1960 and 1961 to a rate of about a billion dollars a year. The table shows that not very much of that flow went to the major financial centers, which would be principally European countries and Canada. There was a rise in 1960 to a rate of about \$300 million, of which a considerable part went to the United Kingdom, and this perhaps could be identified with the interest rate differential that developed at that time and that is shown on this chart which is displayed here in the bottom panel.

At the middle of 1960 the interest rate differential after covering exchange risks reached about 2 percent. This is one of the few episodes perhaps where one can find a good relationship between the differential interest rates and the money markets. One can see from the figures in the table that this capital flow was not a major part of the capital in 1960. By far the largest capital flow from banks went to countries other than the major financial centers.

As Professor Bell has already mentioned, a very large part of that flow went to Japan. Another large part of the short-term capital flow, which also became larger in 1960 and 1961 than it had been before, was the flow by nonfinancial concerns. This in 1960 was directed mainly to the United Kingdom and some of that possibly was also connected with the interest rate differential. In 1961 it was mainly directed to Canada.

The information supplied by nonfinancial concerns does not show the types of assets that they are acquiring, but it is assumed that in