Senator PROXMIRE. I put it in the record on the floor. It would be very useful here.

(The following was later received for the record:)

SHORT-TERM CAPITAL MOVEMENTS AND THE U.S. BALANCE OF PAYMENTS [1]

Since the principal European currencies became externally convertible at the end of 1958, short-term capital flows have come to exert a major impact on the U.S. balance of payments. In 1960 and 1961, the recorded outflows of short-term U.S. funds soared to unprecedentedly high totals and contributed, respectively, from one-third to over one-half of our large balance-of-payments deficits of those 2 years. In addition, unrecorded short-term capital outflows are believed to have been exceptionally large in both years.

Short-term capital transactions are among the least understood items in our balance-of-payments accounts. A common misconception, for example, is to think of short-term capital as merely a stock of footloose money, hopping from country to country only because relative interest rates vary or in search of gains from exchange rate speculation. Some short-term capital transactions clearly conform to that description, but most of the U.S. short-term capital outflow in our balance of payments is related to the financing of international trade and to the need of foreign banks, businesses, and even foreign governments for funds to meet their immediate payments requirements. And while interest rates and, at times, uncertainty over exchange rates are important in influencing the volume and direction of such short-term capital flows, many other factors also play a role.

As recorded in U.S. balance-of-payments statements, short-term capital movements are shown as net flows of U.S. capital to or from foreign countries and net flows of foreign-owned capital to or from this country. Movements of U.S.-owned capital are measured by changes in short-term claims of U.S. residents on foreigners, while movements of foreign-owned short-term capital are measured by changes in foreign-owned deposits and short-term securities held in U.S. banks and by changes in other types of U.S. short-term liabilities to foreigners. Net outflows of U.S. capital tends to add to the aggregate liquid dollar holdings of nonresidents in U.S. banks. Changes in these holdings are considered "settlement" items in the U.S. balance of payments and, hence, any rise in these holdings contributes to an increase in our payments deficit. (The deficit or surplus as a whole is commonly measured by changes in foreign holdings of liquid balances in the United States, together with changes in the gold and convertible currency holdings of our monetary authorities.) The additional claims on foreigners that arise as U.S. short-term capital flows out, on the other hand, are not treated as an offset to this country's balance-of-payments deficit but are regarded as one of its causes.

This article describes in broad terms the various types of private short-term capital flows between the United States and other countries, investigates the factors influencing these flows, and reviews their recent behavior. Although the article's main emphasis is on the movement of U.S. capital, much of the discussion is also relevant to shifts of private foreign-owned funds to and from this country. It is worth noting, however, that such shifts do not affect our balance-of-payments deficit directly, inasmuch as ordinarily they are offset by opposite changes in holdings of foreign monetary authorities. The factors influencing these official holdings are not discussed here. Since these holdings are part of the monetary reserves of other countries, they are in a different category from privately owned short-term capital and therefore respond to different forces. Official institutions may, for example, use their dollar holdings to purchase gold from the United States, a choice that is not available to other dollar holders.

REPORTING OF SHORT-TERM CAPITAL MOVEMENTS

Because of the need for a practical criterion of measurement, short-term capital is defined in the balance-of-payments statistics as that capital which is held in the form of assets (including bank deposits) with an original maturity of not more than 1 year. Neither the owner's intention nor the actual duration of the holdings affect this definition. Consequently, a number of capital trans-

[1] George H. Bossy and Haskell P. Wald had primary responsibility for the preparation of this article.