

actions that are classified as short term may actually be akin to long-term transactions because they are regularly renewed at maturity. It is not infrequent, for instance, for maturing short-term bank loans to be extended or replaced by new loans. On the other hand, marketable securities maturing in more than a year may serve as a medium for short-term investments. Similarly, a portion of the capital flows between parent companies and their foreign subsidiaries may in fact be no more than short-term financing, but in the existing statistics such flows are all counted as direct investment, a form of long-term capital movements. For these and other reasons, the accepted definition of short-term capital is not ideal from a conceptual point of view. Its adoption was determined by the need for a criterion that is statistically manageable. Even so, the task of gathering the necessary data is difficult, and the burdens on the reporting banks and businesses are large.

The statistics on private short-term capital movements are derived from monthly and quarterly reports filed by U.S. banking institutions and other businesses with the Federal Reserve banks of their districts under regulations established by the Treasury Department. The reporting firms provide a breakdown of their outstanding claims on, and liabilities to, foreigners by major categories and by more than 50 foreign countries and geographical areas. The reports for banking institutions also include the foreign claims and liabilities held by them on behalf of their domestic customers. The data that are collected are published in consolidated form in the Federal Reserve Bulletin and the Treasury Bulletin. The quarter-to-quarter changes in the reported claims on, and liabilities to, foreigners—adjusted for certain other transactions—constitute the short-term capital movements incorporated by the Department of Commerce in its balance-of-payments statistics. The table on page 96 presents a summary of the changes in the outstanding amounts of U.S. short-term claims on foreigners in recent years.

This reporting system, although comprehensive in conception, does not catch all short-term capital movements. It is widely believed, for example, that the substantial shift of "errors and omissions" in the balance-of-payments accounts from net receipts in the period prior to 1960 to net payments in 1960 and 1961 reflects an increase in unrecorded short-term capital outflows. This would not be surprising, in view of the freer convertibility recently achieved by the principal foreign currencies. Various factors may be responsible for the incompleteness of the reporting. One conspicuous source of omission is that no reports are collected from individuals. Moreover, firms with foreign claims or liabilities below prescribed levels are exempted from filing.² It is also possible that some institutions fail to file because of ignorance of the requirements, although the extensive publicity given to the reports in recent years has broadened the coverage of the reporting system substantially.

In contrast to the U.S. long-term and overall international investment position, in which this country is a substantial net creditor, its recorded short-term capital position is that of a net debtor; this country's short-term liabilities to foreigners exceeded its short-term claims on them by \$17 billion at the end of 1961. This short-term debtor position results from the combination of the wide use of the dollar as an international currency and the U.S. payments deficits of recent years. Foreign central banks and governments hold substantial portions of their official reserves in the form of dollar assets which, because of the need for liquidity, are almost entirely composed of deposits, U.S. Government securities, and bankers' acceptances. In addition, foreign commercial banks and corporations hold sizable working balances in the United States, since they settle in dollars not only their transactions with this country but frequently also transactions with third countries.

TYPES OF SHORT-TERM CAPITAL MOVEMENTS

The short-term capital movements reflected in the U.S. balance of payments are the net result of many individual transactions made for different purposes and responding in varying degrees to economic forces. When analyzing such a complex aggregate, it is useful to attempt to classify the transactions according to the major purposes and motives for which they are undertaken.

² Banking institutions are exempted from filing a report for a particular month if their month-end claims on (or liabilities to) foreigners average less than \$500,000 in the 6-month period ending with the reporting date. Nonfinancial institutions are exempted from filing for a particular quarter if their claims on (or liabilities to) foreigners at the end of that quarter and of the preceding one average less than \$100,000.