

against the cost of the loan, while each lender must decide whether making the loan would be more advantageous than alternative uses of his funds. If the borrower's needs are compelling and if he does not have access to other sources of funds, he will be inclined to pay whatever interest rates the market requires. The lender will meet the loan demand if he is in a relatively liquid position and rates the borrower as a good credit risk. But, if the lender is short of funds, he will tighten his lending terms and perhaps scale down the amount he will be willing to provide. In all these respects, international lending is essentially the same as domestic lending.

Nevertheless, there are also some important differences between international and domestic short-term lending, apart from the obvious intrusion of foreign exchange considerations in the former. In the first place, the needs of foreign borrowers for capital are determined by developments in their respective countries and are largely unrelated to internal developments in the supplying country. This means that the total loan demand from abroad is unlikely to follow definite cyclical patterns of the sort that characterize domestic financing. Some countries will experience balance-of-payments strains, while others are in a comfortable payments position; internal growth rates or the behavior of prices will often vary markedly from country to country. For these reasons, foreign borrowers' demands tend to be sporadic and difficult to anticipate in advance.

Secondly, foreigners' decisions as to where and how much to borrow are influenced by international differences in interest rates as well as by the relative availability of loanable funds in different centers. These differences are determined by the prevailing monetary policies in the respective countries. Generally speaking, a country where monetary conditions are easy will attract foreign borrowers away from countries where monetary conditions are tight. It is true, however that many foreign borrowers have close and long-established business relationships with lenders in only one country and, therefore, prefer not to shop around to find the country where interest rates are lowest. Furthermore, the position of the United States as an international financial center is in many ways unique. Not only do U.S. financial markets permit borrowing on a scale not possible elsewhere, but foreigners also have complete freedom of access, which is not always the case in financial centers abroad.

Thirdly, some forms of international capital movements are independent of the borrowers' needs. Covered interest arbitrage transactions, described above, are one example; the initiative for such investments rests almost entirely with the supplier of capital. Their volume will depend, not only on the interest rate spreads and the price of foreign exchange cover, but also on the availability of liquid funds in the lending country. Speculative capital transactions are an example of capital movements which may be initiated by lenders as well as by borrowers.

The strength of the various causal influences bearing on short-term capital movements fluctuates widely over time. The 1955-57 spurt of our exports, for example, was paralleled by marked increases in acceptance financing and in bank lending, as well as by some growth in collection items and commercial credits to foreigners. The extension of new export financing in that period exceeded the repayment of maturing claims. The subsequent decline of exports was accompanied by reductions in several types of claims, but not in bank lending which experienced another large rise in 1958 because of easy monetary conditions here and strong credit demands from abroad.

The resumption of export gains after mid-1959 carried all types of short-term lending to foreigners to new high levels. However, the 1960-62 increases in claims, particularly in bankers' acceptances, were more than in proportion to the export rise, partly because of the huge borrowing by Japan as a consequence of that country's balance-of-payments difficulties and its decision to liberalize the restrictions on external borrowing by its residents. Furthermore, sizable interest arbitrage outflows occurred in the second half of 1960, when the business downturn in the United States led to relatively low interest rates compared with rates in other industrial countries that were still experiencing boom conditions. As these outflows contributed to a substantial worsening of our payments position, the continued stability of the dollar itself came to be questioned in some quarters; the weakened confidence in the dollar in late 1960 led to speculative outflows in addition to the transfers that were motivated by higher rates of return abroad. Early in 1961, on the other hand, speculation against the dollar ceased, as the speculators became aware of the determination and ability of the U.S. monetary authorities to defend the dollar. Meanwhile, however, for-