

eign requirements for short-term financing—especially by Japan and several Latin American countries—rose sharply. While the outflow of short-term U.S. capital was slightly larger in 1961 than in 1960, the rate of outflow thus far this year seems to be running somewhat lower than in the comparable year-earlier period.

BALANCE-OF-PAYMENTS EFFECTS

Viewed as isolated transactions, movements of U.S. short-term capital worsen the country's balance-of-payments position when the funds flow out and improve it when they return. But when short-term capital movements are considered in their relationship to other transactions in the balance of payments, the problem of their net effects becomes more complicated. The availability of credit is as much a factor in the competitiveness of our exports as prices or design. Credits extended to foreign purchasers of U.S. exports yield a net gain to our balance of payments, not only when they produce interest income, but also when they finance exports that would not have otherwise been made. The balance-of-payments gains, however, are not realized until the credits are repaid, whereas if the exports had been sold for cash the gains would have been immediate. Furthermore, the benefits to this country's balance of payments may be offset by a rapid growth of new credit extensions.

Short-term capital movements, however, should not be judged by their balance-of-payments effects alone. While they have at times been a vehicle for speculation, they normally serve constructive purposes. The credit facilities provided by U.S. banks and exporters to countries short of capital have helped to sustain the flow of international trade and therefore have been of great benefit to the growth of the world economy. Consequently, the United States, as the world's leading financial center, must make every effort to maintain an appropriate position as a supplier of short-term funds. The measures taken to reduce our balance-of-payments deficit promise to assist in achieving this objective.

The reestablishment of external convertibility by major European countries, by facilitating the international flow of funds, has contributed to the increased efficiency of the international financial mechanism. At the same time, however, convertibility has given rise to sudden and occasionally disruptive shifts of international reserves and thus has added to the tasks of international monetary management. In the face of these new problems, major steps have been taken over the past 2 years to strengthen the international monetary system through the expanded resources made available to the International Monetary Fund, through closer cooperation among central banks and governments, through expanded operations to stabilize the exchange markets, and through the new Organization for Economic Cooperation and Development. At the individual country level, efforts are being made to design policy measures which will more effectively serve both internal and external requirements. Among the latter requirements is the clear need to encourage active participation in the provision of international capital, including short-term funds, by more countries with ample monetary reserves and fundamentally strong currencies. The hallmark of an efficiently functioning international financial system is its ability to channel short-term and long-term capital to those countries where it will contribute most effectively to promoting international monetary stability and accelerating economic growth.

Mr. KLOPSTOCK. It is called "Short-Term Capital Movements in the United States." This is one of several studies that are going on at the Federal Reserve bank in New York.

As I explained during your absence, our studies tentatively do show a substantial, though perhaps not dominant, influence of interest rate movements on both short-term and long-term capital outflows from the United States.

Senator PROXMIRE. Let us start with Mr. Gemmill's paper. He is a Federal Reserve economist in Washington?

Mr. KLOPSTOCK. Yes, sir. I believe the study was made some time ago.

Mr. BELL. It covered through the middle or late quarter of 1961.