

Senator PROXMIRE. He indicated, to try to put this in quantitative terms, some \$600 million to \$1 billion maximum, and he claimed it was swamped by other factors.

Mr. KLOPSTOCK. It is now some time since I studied the paper of Mr. Gemmill. Meanwhile we have seen what happened in 1961. We witnessed very sizable outflows from the United States, both on short-term and long-term accounts. Many of these outflows are difficult to study purely on the basis of statistics because many important components are not identified in our statistics on capital outflows.

Let me mention, for instance, one important type of outflow which makes quite a bit of difference and which is not identified in our capital movements statistics. That is the short-term financing by American corporations of working capital needs of their affiliates abroad. Movements on that account are not identified. At least until recently they have not been identified. They are mingled with other figures in the direct investment account in our balance of payments.

Whenever Treasury bill rates in this country are very low or show a tendency to decline, many corporations that have substantial operations abroad find it profitable to back out, so to speak, loans to their affiliates from European banks made at relatively high interest rates. It then becomes profitable to them to use their own liquid funds to finance their affiliates on short-term account.

I believe substantial movements of that type have taken place, though the statistics do not permit us to identify them.

Senator PROXMIRE. What amount is involved?

Mr. KLOPSTOCK. It can amount to very substantial aggregates. I can't offer any figures because we really don't know.

Senator PROXMIRE. On the order of a billion dollars?

Mr. KLOPSTOCK. Several hundred million dollars, I would say off-hand. The short-term indebtedness and the working capital needs of some of these affiliates of American corporations are very sizable. It is expensive for them to borrow abroad, and often cheaper for these affiliates to employ funds of their parent companies. The parent companies are much more willing to transfer funds to their European affiliates in periods of low interest rates.

Another component which I mentioned previously is the purchase of money market paper abroad. Currently in the last few weeks we know that substantial investments have been made in Canadian Treasury bills and other Canadian money market paper. In 1961 there was a very sizable movement of capital into the British Treasury bill market. Large movements of short-term funds have been going during 1961 into the Canadian banks. American corporations have put time deposits into Canadian banks because interest rates offered by these banks to U.S. corporations were more attractive than interest rates in this country.

Senator PROXMIRE. In the first half of 1962, on the basis of the Survey of Current Business, U.S. Department of Commerce, there was a very sharp improvement in private short-term capital flow. Whereas the adverse position was \$500 million in 1958-60 on the average, in 1961 it was \$2.1 billion. In the second half, on an annual seasonally adjusted basis, \$1.6 billion. It was only \$300 million adverse in the first half of 1962, a very substantial improvement.