

Mr. KLOPSTOCK. This substantial improvement has to do with the deterioration of the Canadian position. A lot of U.S. capital left Canada and came to the U.S. because of the difficulties the Canadians got into. They have resolved these difficulties and there is again an outflow of American capital to Canada since the beginning of July.

Similarly, acceptance credits to Japan have eased off somewhat.

Senator PROXMIRE. Nevertheless, the fact is that with interest rates generally lower here than abroad, not only Canada but Europe and elsewhere, the fact is that we greatly improved our short-term position vis-a-vis capital flows despite the interest rate situation. I recognize that short-term interest rates of some kinds are even lower still in Switzerland and Germany and the Netherlands. When we raise this argument, they say that this pertains to only some official securities and is broadly not typical, particularly in Germany.

So it would seem to me that this is a pretty persuasive indication that differentials in interest rates are overbalanced now by other factors.

Mr. KLOPSTOCK. That is correct, but there are also long-term outflows that have to be taken into account. For instance, our long-term loans have been quite sizable even in the first half of 1962. Long-term loans have been amounting to \$150 million in the first two quarters of 1962.

Also, I believe as to the statistics on the short-term outflows that you quoted—I would have to study them more carefully—they may have something to do with the fact that one Canadian corporation floated an issue here and used the proceeds of that issue to repay short-term loans. Mr. Pizer, I believe, can confirm this.

Mr. PIZER. Yes, about \$100 million was a refunding.

Senator PROXMIRE. This is on the order of being one-fifth of what it was in the second half of 1962, seasonally adjusted; \$300 million as compared to \$1.6 billion.

Mr. BELL. I would like to say a couple of things. The Gemmill study relates to our short-term liabilities to foreigners. It doesn't have anything to do with U.S. short-term capital going overseas. It is foreign holdings of liquid liabilities in this country.

The other thing I wanted to comment on was that I don't understand the London-New York interest rate differential expanding sharply from the early part of 1961 on. Mr. Klopstock says that our holdings of British Treasury bills increased substantially. But banks reported each quarter in 1961 that they fell steadily. I must stress that doesn't necessarily mean that our short-term claims in British pounds, which were 97 million at the end of 1960 and steadily dropped to 60, to 30, to 26, throughout the year, it doesn't necessarily mean they came back to this country.

Unfortunately we get a figure at the end of the month. For all we know, that drop may mean that they went out into some other securities purchased through a foreign security dealer, which never enters into our statistics but will crawl into the errors and omissions column in the balance of payments. You get an increase and a decline, and the decline in the stock at the end of each month may simply mean you put a deposit abroad and you bought a British long- or short-term security as an individual, and there is no way to get it into