

measures that aid the longrun economic well-being of the host country rather than merely the U.S. bank's shortrun profit position.

It is not clear that restrictions on interest rates and capital flows from the United States have affected decisions of American banks to increase foreign activities. As already mentioned, banks go abroad for the long pull and not to avoid the policies of their home nations. Here, too, appropriate action to change restraints is often indicated. On the other hand, if there are capital controls on funds leaving the head-office nation, it is often easier to service customers abroad with banking operations overseas. Also, domestic restraints on interest rates may encourage the acceptance of deposits abroad.

An ancillary problem, once a bank is already abroad, is the decision as to whether to expand foreign operations to other countries or within the same country. A decision may be based on a bank's desire to broaden its geographic spread for the many reasons already mentioned, including the provision of global service. In addition, a bank may wish to diversify its risk in foreign operations; certainly, considering the risks involved in overseas business, it is prudent to have investments in many different areas. Also, a bank may wish to take advantage of new opportunities as they present themselves in areas other than those already covered by a branch. New branches may also be opened to round out a package; for example, if a bank has offices in some of the Common Market nations, it may wish to expand its operations to the others to have the EEC fully covered.

Basically, longrun profit offers the primary stimulus for a bank to go abroad. It is, of course, this long-term consideration which helps explain why banks demonstrate their ability to make positive long-term contributions to the economies of host nations, including, among other things, loans to foreign governments. In fact, U.S. banks have remained overseas in areas where conditions have not been conducive to the orderly conduct of business and have weathered storms, both political and financial, in problem countries, in order to evidence their desire to be a long-term partner in the continuing economic environment of the host nation. While American banks may hesitate to enter countries threatened by war, they seldom leave merely because of conditions of personal danger. Only when banking becomes physically impossible do American banks disband operations overseas.

One fundamental problem of American commercial banking abroad has been the concern of most nations, including the United States, over their own balance of payments and the role foreign banking operations play in determining it. One relevant consideration here is that in general, American banks follow the principle of a balanced position. The most obvious example of the balanced-position principle is the matching of the maturity of assets with the maturities of liabilities within broad ranges. Thus, for example, banks often limit their term loans, long-term tax-exempt bonds and mortgages to the amount of their time deposits. Likewise, in their international positions, it is prudent for financial institutions to balance their liabilities in particular currencies with assets denominated in those currencies. Similarly, there is a longrun tendency for deposits held by American banks, including head offices, branches, and affiliates in foreign countries to equal roughly the loans made in these countries.

In the short run, of course, deviations from a balanced position in currencies, in the amount of deposits versus the amount of loans and