

in maturities of assets and liabilities, occur frequently in international banking. Furthermore, these positions can change with daily shifts in money market conditions, as well as those shifts that take place seasonally and cyclically and as longer run changes occur in development of nations.

For purposes of this study, therefore, this very broad and general principle means that there is a tendency toward a balanced position in international transactions on the part of financial institutions as a result of the fact that the countries that are the most heavy users of funds are also likely to be those which, in the long run, will generate the heaviest volume of bankable funds. On the other hand, this is a statement of longrun tendency only, and is not intended to deny that the shorter the time period under consideration the greater are the departures from this norm. Moreover, obviously, it is less true for particular countries and areas than it is for all overseas activities of U.S. banks taken as a group. U.S. bank lending to Japan, for example, may be expected for many years to exceed deposits generated there because of the present stage of development of that nation.

There, is however, a tendency both here and abroad to judge international financial institutions on the basis of whether they contribute to or alleviate balance-of-payments problems. In some cases the welcome extended American banks by foreign countries may be determined by a country's belief that a U.S. banking facility may act to bring funds into the country and, at times, the range of services that are permitted to be offered can be determined by such attitudes. Yet, it must be obvious that the flows of funds between countries result from fundamental conditions in each country, that is, their ability to generate savings and to use capital, and only secondarily from the presence or absence of banking facilities of particular types. Moreover, the physical presence of banking facilities in a particular country seldom can be construed to mean that the entire volume of bank funds flows through these channels. For example, not only may foreign loans be extended by the head offices of the banks, but frequently foreign deposits are held there, irrespective of the presence of branches or affiliates. Moreover, loans for foreign purposes may be made by the parent bank, while the overseas deposits of the borrower are held at the branches or other facilities. Thus, one is always faced with the problem of determining what flows would have occurred if foreign facilities had not been available.

In this connection, there is a temptation to determine the balance-of-payments contribution of financial institutions on the basis of simple balance sheet data which may be misleading. For example, an uncritical examination of table 2 in chapter II indicates foreign branches of Federal Reserve member banks, i.e., all U.S. banks with branch facilities abroad hold more deposits than they have loans and other assets. The balance is made up by a large volume of "due from head office and branches." Yet, it is fairly obvious that a conclusion that U.S. banking facilities abroad result in an outflow of funds from foreign countries is erroneous. First, not all U.S. overseas banking is included in such a comparison: neither home office activities nor the activities of affiliates are included. Second, the branches themselves can seldom be considered a banking entity unrelated to the parent bank on whose assets they depend in part for liquidity. Finally, as a single snapshot in time, the balance sheet at year end is unreliable