

because of the large number of purely financial transactions at that time and the lack of ability of these data to convey any information about the flows over time.

There are other types of underlying considerations that may create problems for American banking in entering foreign countries. First, because of balance-of-payments difficulties, the basic legislative and regulatory thrust of most countries in the last several years has been to decrease the ease of practices that could facilitate capital flows that have in the past caused so much trouble. For many countries this means domestic banks are not encouraged to expand abroad and, thus, there is relatively little pressure to assure that reciprocity is granted to foreign banks. Second, and perhaps more important, is a basic difference in character of American banks and those of many other countries. U.S. banks are known around the world as intense competitors with any and all other banks, whereas in many foreign countries, not only is the competitive drive between banks more difficult to detect, but legally recognized cartel associations fix and enforce many of the terms under which deposits are received and loans and other services are provided. Branches or subsidiaries of American banks, for the most part, must operate under such agreements in host countries, and violations of the agreements seem much more hazardous to commit for the nonhost country bank, whose operation is entirely at the sufferance of the host country central bank or banking authority, than it is for indigenous institutions.

American banking may encounter difficulty abroad simply because of differences in views as to the function of commercial banks. In the postwar period, American banks have generally been more willing than their foreign counterparts to extend long-term loans.¹ While this is perhaps a mark of a capital-rich country, it is also a point of dissent with foreign banks, which generally like to see longer term funds come from the capital market (through equities) or from retained earnings. The result is likely to be that foreign business customers are sharply divided between those that value an arm's length transaction with sources of financing, and those that are so firmly attached to their own country's banking connections that they are unable to consider an American bank under any circumstance.

Recently, an American banker pointed out a basic difference in American and foreign banking practices that undoubtedly affects U.S. banking abroad, though his point was that such practices were a deterrent to capital formation. The American banker criticized foreign banks for buying stocks of corporations to which they also lend money. In his view, the foreign practice of depending more upon bank lending for capital than does American business means that fully developed capital markets have not been permitted to grow. In particular, he scored the lack of attention abroad to the American principle that borrowers should be encouraged to get out of debt quickly. Though he did not say it, his remarks pointed up the difficulty of U.S. banks in dealing with foreigners on the basis of American principles of finance.² Indeed, it may be that the lesser development of indigenous capital markets abroad makes more important the role of larger banks, both American and foreign, in economic development of foreign countries.

¹ J. Louis Robertson, "Banks and the Balance of Payments Problem," Excerpts from Crotonville Conference, December 1965, published in *The Atlantic Community and Economic Growth*, p. 52.

² Speech by George C. Scott reported in the *New York Times*, Nov. 23, 1966, p. 53.