ponent, also roughly $2 billion, was made up of bond offerings, either straight bond offerings or convertible bond offerings, by American companies who were financing their overseas investments through borrowings. These borrowings were primarily in dollar market, but either in the Eurodollar market or other markets abroad.

Representative WIDNALL. To what extent was that true?

You said it was largely made up of what type of funds? How large an amount?

Mr. VOLCKER. There are about $2 billion of issues that are identifiable for the latter purpose, American companies financing their operations abroad. This is, in good part, a response to the foreign direct investment program of the Department of Commerce, although, as it turned out, the relative market conditions in the United States and in the European market last year meant that this large volume of financing could be done in Europe at rates and on terms not all that much more costly than might have been done by the same company in the United States. There has been a major shift in relative conditions of the American market and the European market in this respect. Apart from the direct impetus of the Commerce program which certainly was the stimulus for this large amount of bond offerings in Europe, the basic market conditions themselves were more favorable toward this increased amount of foreign borrowing by large American companies.

Representative WIDNALL. How large was the official flow?

Mr. VOLCKER. The official flow referred to was made up by a variety of instruments held by foreign central banks or Governments—so-called, "Roosa" bonds, agency issues of various types, longer-term time deposits—which, in total, approximated something like $2½ billion last year. A portion of those transactions were directly related to the continuing military offset programs that we negotiate with our allies. They undertake on their part to offset at least a portion of the balance of payments' cost of our military expenditures through various kinds of neutralization procedures, some if which involve an inflow of foreign official capital to this country.

Representative WIDNALL. A lot of that inflow is attracted by the interest rates.

Mr. VOLCKER. There is no question that tight money in the United States has attracted a great deal of money to this country in recent months and the last year.

Representative WIDNALL. If that condition should change abruptly, how much of a problem would be posed almost overnight by a rapid outflow?

Mr. VOLCKER. Well, there is no question that the balance of payments position in general has been supported by the tightness of money in this country, and a change in that situation could well lead to a change in the volume of these capital flows. It is awfully hard to make any estimate, and I will not try, as to what the response might be under different conditions, because so much then depends, too, on what happens in European markets or other foreign markets at the same time. A lot of the money attracted here by the tightness of credit is short term funds initially lodged in the Eurodollar market. American banks are large buyers of that money now. But even if conditions eased in the United States, they would prob-