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INTERNATIONAL CAPITAL  
MOVEMENTS

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WALTHER P. MICHAEL

## SUMMARY

The purpose of this study is to construct integrated accounts of international capital flows, including grants, between individual countries by type of capital. The basic data on capital movements are the balance-of-payments data reported to and published by the International Monetary Fund. These data were supplemented by estimates from other sources for transactions not covered by the IMF. The period chosen for this exercise was the five years, 1950 to 1954, for which the reported data were sufficiently detailed to undertake this project. The flows of capital and grants between all countries and nonterritorial organizations are covered, with the exception of the transactions between the countries of the Soviet Bloc and communist Asia. The countries were divided into four groups by level of economic development: Group 1 includes the industrial countries, Group 2 the other advanced countries, Group 3 the more advanced underdeveloped countries, and Group 4 the least developed countries.

The reported balance-of-payments statistics on capital transactions, when aggregated into global or area totals, reveal considerable disagreements between changes in assets and changes in liabilities (and between grants extended and grants received); these remain when the estimates of the accounts of the nonterritorial organizations and of countries not covered by the IMF data are added. In order to arrive at fairly accurate estimates of the flows it is, therefore, necessary to ascertain the sources of these discrepancies and to reconcile the statistics as far as possible. For this purpose, the transactions reported by each country were broken down by type, and the data of the partners to each type of transaction were compared. In cases where no breakdown by type of transaction was available in the balance-of-payments statistics, the composition of the flows was identified from partner data or other sources. These comparisons revealed the extent of the discrepancies

between the data of each two partners and usually in which type of capital they occurred.

The discrepancies in the global and area totals were found to be largely due to the failure of countries to report certain transactions, or whole types of transactions, which their partners reported, and not the result of some systematic bias. Often, the country that omitted the transaction could be identified, and its account was then adjusted accordingly. If the country could not be identified, no adjustment could be made, and the reported amount remained unallocated. However, the reporting country often identified the area, or groups of countries, with which the transaction took place. The amount could then be allocated to a group, even though unidentified by country. However, discrepancies were also found in many cases where both sides reported the transaction but disagreed on the amount. These discrepancies are due to time lags in reporting or to different calculations underlying the reported figures. Inadequate coverage (or overestimates) may also be involved in some cases, but frequently this could not be discerned.

Although the figures from both sides were taken into consideration, the matrix tables presented in Appendix B for each type of capital show only one figure for transactions between any two partners: if there was agreement, or the discrepancy was removed by an adjustment, there was only one figure; if the discrepancy could not be reconciled, the more reliable figure was taken, but the discrepancies with the partner's figures were recorded and, except when negligible, are given in the notes to the matrix tables. Amounts not allocated by country were included and, as far as possible, assigned to the groups of countries with which the transactions took place (if there were unallocated amounts on both sides presumably covering the same transactions, the larger of the two was taken).

The final estimate of the total supply of capital and grants, net of repayments, exceeds by more than 20 per cent the totals of changes on both the asset and the liability side of the balance-of-payments data as reported to the IMF. The major part of the excess is accounted for by estimates of transactions of nonterritorial organizations and of countries without balance-of-payments reports. Additions for transactions omitted in the reported data were, however, also substantial.

While adjustments for nonreported amounts were necessary in many records, the Continental European countries (called Continental OEEC during this period) were found to be the one group that most seriously understated its capital transactions, particularly the amounts supplied. Apart from the adjustments made in the records of these countries individually, there are also a great many transactions in balance-of-payments reports allocated to the Continental OEEC area as a group (but not identifiable by country), and these exceed substantially the unallocated amounts in the records of these countries that could cover the same transactions. Because of these unallocated amounts, the extent of underreporting can be measured only for the Continental OEEC countries as a group; namely, by counting both the adjustments made in the accounts of the Continental OEEC countries and the amounts allocated to the Continental OEEC group in all records in excess of the corresponding unallocated amounts in the records of the Continental OEEC countries. Measured in this way, the Continental OEEC group accounts for 85 per cent of the total understatement of the reported net increase in assets (including grants extended), and the group understated the gross amounts of the capital it supplied by 43 per cent. These deficiencies in reporting, largely revealed by partner data, occurred not only in transactions of the OEEC countries with each other and with other advanced countries, but also in transactions with many underdeveloped countries.

There is some indication that the deficiencies of the Continental OEEC records are not unique to this early period. An IMF study of discrepancies in balance-of-payments statistics during the early 1960's found that total net capital outflows reported by the member countries of the Organization for Economic Cooperation and Development (OECD) fell considerably short of total net inflows from the OECD reported by all countries. These results are consistent with our findings. Since we found the records of the other countries that became OECD members to be fairly complete (some deficiencies in the United Kingdom record were removed in 1958), it seems that the Continental countries still understated the amounts they supplied in more recent years. The presumption that the statistics of the capital suppliers have better coverage of capital transactions than those of the underdeveloped countries is not borne out for the Continental countries by our findings.

The results regarding the distribution of capital for the five years are shown in the summary Table 1, covering all types of capital, and in Matrix Tables I to VII in Appendix B, which show the flows of each type of capital between individual countries. The bulk of all capital was provided by the industrial countries (Group 1), and among these the United States was the largest supplier. Since postwar reconstruction still played a considerable role during the years 1950-54, the larger part of government capital was in the form of aid to advanced countries, mainly to those in Group 1. The advanced countries also attracted by far the greater part of private investment, although it was Group 2 in this case that received the largest share—almost one-half of total investment. The underdeveloped countries represent, however, two-thirds of the world population (excluding the Soviet Bloc and communist Asia), and Group 4 alone makes up one-half, while Group 2 accounts for only 6 per cent. On a per capita basis the receipts of Group 2 were thus the highest, not only of private capital but of government capital as well; per capita receipts declined with per capita income, Group 4 receiving the smallest amounts of both investment and aid. There were considerable differences, it is true, between the per capita receipts of various regions within groups. Receipts of government aid by the countries close to the communist blocs in Southeast Europe and the Far East were relatively high. Likewise the receipts of the colonies were substantial, particularly those of the French territories, since French colonial aid was especially large. But, measured per capita, receipts of both aid and investment by most of the independent underdeveloped countries, particularly those of the populous countries in Southern Asia, amounted to only fractions of the receipts of Group 2.

The pattern of capital movements whose main features have been briefly indicated here covers only the period of the early 1950's. For a more thorough analysis a longer period would be required. A continuation of this study would, therefore, be desirable. The data for later years have been improved in many respects, and much additional information in supplementary sources has become available, which should facilitate the identification of capital flows. On the other hand, it still appears that the records of some of the main suppliers, the Continental European countries, are inadequate in coverage. The

procedure employed in this study, involving a detailed comparison of the country data by type of capital, will be necessary also in deriving estimates for later years. This paper demonstrates that, by this method, it is feasible to reconstruct international capital transactions in matrix form showing the flows by sources and destinations.