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Bernstein on the "International Position of the U.S. Dollar" 14 pages

A. B. Hersey

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A. B. Hersey

E. M. Bernstein has recently written an article on the "International Position of the U.S. Dollar" for a New York stock exchange firm. The article, which has had wide private circulation, contains a cogent analysis of the U.S. balance of payments during the past nine years and other data to back up Mr. Bernstein's opinion that "the dollar is not ... basically weak in the sense that the United States will be unable to maintain a well-balanced payments position over a longer period."

In most respects the article is fully up to Mr. Bernstein's high standards of accuracy, clarity and sound judgment. People ought to be told, as he does tell them, that "the United States is an enormous capital creditor in the world economy," that "there is no imminent danger that our monetary reserves will prove inadequate," that "the apparent weakness of the U.S. dollar [arises] from the restoration of the naturally strong economic position of other areas," and that "the United States is a country with enormous productive capacity whose costs remain sensitive to business conditions." It is right to say, too, that "in one way or another, means will have to be found to bring the outflow of gold to a halt."

The article does have two weaknesses. Any reader of the newspapers over the past year must know that there is a good deal of evidence that some U.S. products are probably in serious competitive difficulties. Bernstein may be right, or he may be wrong, in his over-all judgment that "there is no justification for the pessimistic view that the competitive position of the United States in world trade has been seriously impaired," but the article suffers in persuasiveness, at least, from a failure to give much attention to the unfavorable evidence.

The other weakness in the article comes in its analysis of what can or should be done to promote adjustment in the balance of payments. Most of what Bernstein has to say here is eminently sensible, but he leaves some important things unsaid. He asserts, without much discussion of the point, that "to attempt to strengthen the current account surplus ... would entail deflation in the United States." (He rightly observes that "such a policy would be unwise and uncalled for.") While it must be granted that we cannot count on any realistically conceivable sort of monetary and fiscal action bringing a quick adjustment of the U.S. international current account, Bernstein is silent on the longer-run importance of our avoiding price inflation. He says nothing either about the short-run possibilities of contractive adjustment in the capital account. Here is an obvious means of gaining time for the more desirable expansive adjustments in export trade that conceivably may take several years to achieve.

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Bernstein's positive recommendation is that U.S. Government aid and expenditures for Europe, now largely for military purposes, should be greatly reduced. He makes a reasonable argument for this recommendation, but the extent to which the balance of payments could be helped in this way does not appear to be nearly as large as he suggests.

Description and explanation of the decline in the current account surplus

Bernstein discusses exports in 1958 against the background of earlier years, makes brief comments on the growth of imports, and concludes the first half of his paper with an observation that the current account surplus (which he defines so as to exclude U.S. military expenditures abroad on the payments side, as well as military aid supplies and services on the export side), though smaller in 1958 than in 1956 and 1957, was larger than in any other year from 1950 on.

Exports -- Bernstein's discussion of export changes is almost entirely in terms of foreign demand developments. He tries to dispose of the problem of U.S competitiveness by showing that the U.S. share in total world exports was a little larger -- he says "considerably larger" but the data he quotes do not bear that out -- in the "depression year" 1958 than in 1953-55, and by showing that U.S. exports of manufactures in 1958 were virtually as large in relation to exports of other industrial countries except Germany and Japan as they were in 1951, when the world volume was much smaller.

There is little to question in what Bernstein says, so far as it goes. "The fall in U.S. exports in 1958 (and the first quarter of 1959), although large," he says, "was in an environment of decreasing world trade." While he emphasizes the cyclical forces, and is confident that U.S. exports will increase in 1960 if not in 1959, he apparently would not expect our exports to regain the 1957 peak very soon. Like many other writers, he fails to explain clearly and accurately just why exports became so large in the latter part of 1956 and first half of 1957; he puts too much weight, I think, on Suez and on other "special circumstances," rather than on what might be called, broadly, cyclical influences. But I would agree with a conclusion that seems to be implicit in his analysis, namely that the growth of productive capacity in other industrial countries makes it unlikely that demand for U.S. goods will be quite so strong in the next period of world boom as it became in 1956-57.

The weakness in Bernsteins's discussion of exports lies, as I indicated earlier, in his failure to pay much attention to unfavorable evidence about U.S. competitiveness. Granting that much of this evidence applies only to bits and pieces of the export picture, and granting that pessimistic views of some U.S. producers and exporters are likely to get more publicity than optimistic hopes of others, we do have to question, now that data for the first four months of 1959 are available, the flat statement that "if the U.S. competitive position has been impaired, it is not reflected in the export and import data." It is one thing to say that "the large decline in U.S. exports in 1958 is due primarily (my underlining) to the disappearance of ... unusual circumstances," but another to state flatly, on the same page, that "the fall ... was entirely due to special circumstances."

The following tabulation of U.S. foreign trade data for the first quarters of each of the years 1955 to 1959 shows that Bernstein should have been more cautious in drawing conclusions from the over-all statistical results. If he had been able to carry his Tables I and II into this more recent period he would have had to show the U.S. share of world exports at a new low for the decade, percentagewise.

U.S. Foreign Trade
(First quarters)
(In millions of dollars)

	1955	1956	1957	1958	1959
Finished manufactures					
Exports a/	1,955	2,275	2,534	2,424	2,273
Imports b/	592	733	839	892	1,109
Other					
Exports a/	1,486	1,640	2,514	1,624	1,527
Imports b/	2,121	2,422	2,398	2,238	2,413
Total					
Exports a/	3,441	3,915	5,048	4,048	3,800
Imports b/	2,713	3,155	3,237	3,130	3,522

a/ Excludes military aid exports and re-exports.
b/ Excludes excess of "general" over "consumption" imports.

I do not argue from this that the figures disprove an explanation of the 1957-58 change as "primarily" cyclical, nor even that they rule out a somewhat similar explanation, in part, of the 1958-59 change. On the contrary, I believe that the interpretation in terms of general demand conditions abroad (and in terms of the balance-of-payments situations of particular foreign countries) is supported by the following facts among others: (1) that exports to Canada and Japan, where recovery has been rapid, have risen some this year, while (2) exports to Latin America, which lagged considerably on the initial downturn in 1957-58, now explain a very large part of the decline in total exports since the first quarter of 1958. But it does seem likely that this interpretation in terms of foreign demand is not the whole story, and that growing competition from Germany, Japan and perhaps a number of other countries, may still be shrinking our share of the market on both downswings and upswings. Just how important a development this may be I do not think we can tell until more time has elapsed for this year's new expansion of world trade demand to cumulate, both in the industrial countries and in those primary producing countries that now find their own balances of payments improving.

Imports -- Bernstein's brief discussion of U.S. imports, including a table comparing imports with GNP, does little more than underline the fact that U.S. imports still absorb only a very small share — and a relatively stable share -- of aggregate U.S. expenditures domestically and abroad. Inclusion of first-quarter data for 1959 would not change this picture. Merchandise imports in the first quarter, though up sharply from last year, were again only about 3.0 per cent of GNP, i.e., within about 0.1 of a percentage point of all but one of the yearly ratios for 1952 to 1958.[1/] As Bernstein says, "foreign exporters generally do not find it easy to compete in the U.S. market."

Again, this is an incomplete picture. As one can see in the figures I have tabulated above, imports of "finished manufactures" — the statistical classification is not an entirely satisfactory one — increased 87 per cent from the first quarter of 1955 to the first quarter of 1959, while other imports increased only 14 per cent. Over this interval the value of U.S. GNP rose 22 per cent, and total world trade apparently something between 15 and 20 per cent. I can agree with Bernstein that "there is no convincing evidence that the United States is pricing itself (my underlining) out of world markets." Still, these figures of manufactured imports, when taken together with the trouble-some evidence on the export side, make the problems of meeting Western European and Japanese competition look a good deal harder than Bernstein seems to admit them to be.

The current account surplus -- Finally, four comments should be made on Bernstein's picture of the total surplus on current account.

1/ Bernstein's Table III contains an incorrect ratio for 1954. Imports of goods (balance-of-payments basis) were $10.35 billion, or 2.85 per cent of the $363.1 billion GNP that year.

In the first place, extension of the figures into the first quarter of 1959 makes them look less encouraging. Seasonally adjusted trade figures for this latest period will show an annual rate of trade surplus of not much over $1 billion, compared with $3.9 billion for the first quarter of 1958 and $3.3 billion for 1958 as a whole (the last figure in the first column of Bernstein's table). The total current account surplus (with services and remittances included but leaving out for the moment, as Bernstein does, U.S. military expenditures abroad) may prove to be at a rate of something like $3-1/2 billion in this period (though not necessarily for 1959 as a whole), i.e., smaller than in every year but two (1950 and 1953) of the last nine.

Secondly, this reduced current account surplus (or the trade surplus itself) is a much less convincing indicator of U.S. ability "to compete in supplying commercial goods and services in world trade" now than it used to be.

Several years ago, the question of how best to measure the U.S. current account surplus hinged on whether or not to include as exports military goods transferred under military assistance grants. (See the leading article, "United States Balance of Payments in 1952-53," in the Federal Reserve Bulletin of October 1953 for a brief discussion of this question.) It has become standard practice not to count military aid exports as contributing to the surplus. At that time, the parallel question of whether exports financed by economic aid grants should or should not be included in measuring the current account surplus was not often raised. Such exports were invariably included. Although it was clear that U.S. exports would have been smaller in the absence of economic aid, it was obvious (1) that there was strong demand abroad for the U.S. exports made possible by aid, and (2) that there was no close correspondence between year-to-year changes in aid and changes in either the ability of foreign countries to purchase U.S. goods or their demand for them. Thus, when economic grant aid was diminishing between 1949 and 1954 from $5 billion to less than $2 billion a year, it would have been misleading for us to have shown a shrinkage of only about $1 billion in our current account surplus instead of the decline of over $4 billion that occurred according to the standard measurement. The latter interpretation was clearly the better one, for European recovery was reducing the part of world demand that could be satisfied only by exports from the United States.

Under present circumstances, it has become somewhat more questionable whether exports financed by nonmilitary grant aid should continue to count, in toto, as part of our export surplus and of our current account surplus, especially if the resulting quantities are to be thought of (as Bernstein thinks of them) as indicators of our competitive strength. A good part of our $1.6 billion yearly total of nonmilitary grant aid now goes to countries that are in chronic deficit in their international payments because, among other things, their economies are unbalanced by the roles they play in our defense arrangements. In these cases, and also in some others, a close relationship exists between U.S. exports and the grant and "soft loan" aid the countries receive from us. In 1958, Turkey, Spain, and Yugoslavia received 60 per cent of the net new nonmilitary grants of just over \$300 million made to "Western European" countries, and Korea, Vietnam, and Pakistan received nearly half of the remaining \$1.3 billion.1/

Questions may also be raised about counting in the current account surplus exports of wheat and other agricultural commodities financed in the first instance by our taking local currencies that we agree not to convert into dollars. These sales have amounted to roughly \$1 billion a year (export value plus transportation costs charged to the foreign countries) in each year from 1956 on. A small part of the proceeds is used for U.S. Government expenditures that would otherwise cost us dollars directly, but the remainder is disbursed eventually as grants or soft loans. Of the \$1.6 billion total of nonmilitary grants in 1958, about \$300 million was financed in this way. Long-term credits under these programs and residual temporary accumulations of local currencies in 1958 amounted to over \$500 million of aid additional to the grants.2/

These sales for local currencies are already priced at our standard export prices, which for grains and cotton (though not for vegetable oils and oilseeds) are lower than our domestic prices. It might therefore be thought we are in effect giving away something we ought to have been able to sell for hard cash. No doubt at the still lower prices we could achieve if U.S. agricultural supports were lowered drastically enough, we would in fact be able to sell for hard cash, somewhere or other in the world, a volume of agricultural exports comparable to the total volume we now ship out commercially and otherwise (valued at a yearly average of \$3.9 billion in the past four years). The conclusion seems unavoidable, however, that maintenance of the present total value of agricultural exports does depend upon continuance of these currency sales arrangements.

From this consideration of the relationship of nonmilitary grants and local currency sales to U.S. exports, it would seem conservative to estimate that at least half of the \$2.1 billion total aid involved in these programs ought to be deducted from the current account surplus when anyone uses it as an indicator of U.S. export competitiveness.

1/ See Survey of Current Business, April 1959, page 20, Table 3, column 3, and compare with regional totals of "other grants" as given in the U.S. balance of payments.

2/ Survey of Current Business, April 1959, page 18, under "Agricultural sales."

The third comment to be made on Bernstein's treatment of the current account surplus relates to his exclusion of U.S. military expenditures abroad, as an "import" item. Some part, at least, of these expenditures will undoubtedly continue for many years, with no chance either of their being replaced by U.S. expenditures at home or of their cost being assumed by foreign governments. The following tabulation shows the rapid rise of U.S. military expenditures abroad from 1950 to 1953 and the subsequent slower increase, and it also compares Bernstein's measurement of the current account surplus with the standard measurement. In the latter measurement the full amount

U.S. Military Expenditures Abroad
and the Current Account Surplus

(In millions of dollars)

	Military expenditures	Current account surplus	
		Bernstein	Standard
1950	576	1,856	1,280
1951	1,270	4,534a/	3,264
1952	1,957	3,757	1,800
1953	2,535	2,355	- 180
1954	2,603	3,849	1,246
1955	2,823	4,304	1,481
1956	2,910	5,981	3,071
1957	3,120	8,195b/	5,075
1958	3,365	5,053b/	1,688
1959-Ic/	3-1/2?	3-1/2?	0?

a/ Bernstein's figure, 3,534, contained a typographical error.
b/ Bernstein's figures for 1957 and 1958 (8,354 and 5,232) omitted a deduction for "pensions and other transfers."
c/ Estimated seasonally adjusted annual rate for first quarter of 1959, in billions of dollars.

of these expenditures is treated as equivalent to U.S. imports. It will be seen that the current account surplus, as usually measured, virtually disappeared in the first quarter of 1959 -- even before any deduction to take out exports related to nonmilitary aid grants or local currency sales of agricultural surpluses. Very possibly this may prove to be the extreme low point in the present cyclical movement, but the fact is that it is disconcertingly low, even as a temporary event.

Fourthly and finally, the whole idea of using the absolute level of the current account surplus as a measure of a country's competitive ability may be questioned. There is no reason why a country should have a current account surplus of any particular size, positive or negative, except to provide the country with a real counterpart for its outflow (or inflow) of capital investments and transfer payments, so that chronic one-way shifting of currency balances or of gold can be avoided. Seen in this light, the question of how to define the current account surplus becomes a subsidiary one; whatever is excluded as a receipt or payment in one half of the accounts will be counted in the other half. For the United States, the important questions are these: how large do we want the component items on the two sides of the accounts to be? and how far are we now from holding the two sides in balance with each other? The larger a capital flow we think we can afford, the larger we will have to make our current account surplus.

Adjustment of the balance of payments

Of all the great trading nations, the United States has the least ability to strengthen its foreign trade balance quickly through monetary and fiscal action.

This is not to say that monetary and fiscal action is unduly circumscribed in this country. On the contrary, whatever our difficulties in selling long-term Government securities might portend if they were to remain unsolved, the present situation is that we have a large and adequate market outside the banks for short-term Treasury debt; the Federal Reserve thus has an ability, unparalleled in other countries, to intensify, maintain, or relax pressure on member bank reserve positions through open-market operations. Because we have a decentralized unit banking structure and an efficient system of member bank borrowing from the Federal Reserve to give individual banks a safety valve for temporary cushioning of severe impacts on their liquidity, the over-all pressure exerted by central banking action works effectively to influence both credit availability and the rate of growth of the money supply. The tightening of credit conditions that occurs when money supply rises less rapidly than demand for credit, and the pressure on business and personal liquidity that is reflected in a speeding up of the velocity of circulation of money, serve to modify the time shape and amplitude of the business cycles that are constantly in flux in an advanced industrial economy with freedom of enterprise and of consumer choice, and help to check the development of inflationary pressures. Equally, easing of credit in a recession serves to check contractive tendencies in the economy.

But fluctuating pressures of domestic demand, modified in these ways by monetary action — and by fiscal action as well — tend in this country to have less certain and foreseeable effects on foreign trade transactions than the same pressures would have in other countries. This is simply because of the size of our domestic economy and the relatively small proportion of external trade activity in our economy. Whereas in Japan yearly merchandise imports (c.i.f.) in 1953-58 amounted to 10 to 15 per cent of GNP, in Britain to 17 to 20 per cent, and in the Netherlands to 37 to 44 per cent, the ratio here is only 3 per cent.

In other countries, variations in the presure of domestic demand, whether arising from cyclical developments more or less independently of monetary action or reflecting directly the actions of fiscal and monetary authorities, tend inevitably to exert much of their impact on the flow of imports or on the availability for export of goods that are in demand both at home and abroad. Typically, the inventory cycle in other industrial countries expresses itself in large part in swings in the trade balance rather than mainly in cumulative contraction of domestic expenditures, as in the United States. Recessions in steel and textiles abroad in 1957-58 did have cumulative internal impacts, but they also led to sharp reductions in imports of raw and semifinished materials.

In this country, year-to-year changes in our trade are dominated by specific supply and demand (and competitive) situations here and abroad for particular products that happen to bulk largest in our import and export trade, rather than by the variations in over-all pressure of domestic demand. This is well illustrated by the 40 per cent expansion of our exports from the second half of 1954 to the second half of 1956, which reflected overwhelmingly the pressures of foreign demand for particular commodities we could supply, not current income developments within the United States. It is illustrated also by the tremendous increase in our imports of automobiles in recent years.

All this is not to deny that fiscal and monetary policies in the United States can influence the foreign trade balance over a longer period, especially through price developments. A still better way of putting it is that all government and private policies that affect the long-run movement of U.S. prices are bound to have an influence on the trade balance in the long run.

Bernstein, in asserting that "to attempt to strengthen the current account surplus by generating a larger volume of exports and a smaller volume of imports ... would entail deflation in the United States," seems to me to be saying in brief what I have taken several paragraphs to say in another way. I assume that by "deflation" he means both a severe contraction of domestic incomes and expenditures and the cutting of prices that would be an integral feature of such a contraction. I agree with him that "deflation" is not an appropriate policy for us to use. What I find missing in Bernstein's paper at this point is an adequate reminder for his readers that what happens to our price level, in the absence of this unwanted "deflation," will have important effects on the longer-run development of our export and import trade.

Adjustment of the U.S. balance of payments, so far as it is to take place within the current account for goods and services, is likely to work itself out in considerable part through mechanisms of income and expenditure in the economies of other countries. Rising monetary reserves in other countries are bound to influence ambitions for economic expansion and to bring a rising trend in aggregate world trade demand, underlying the shorter-run cyclical fluctuations that will always be occurring. But our exports will not share adequately in the fruits of this long-run expansion -- our balance of trade will not get the full benefit of the workings of this slow adjustment mechanism -- unless at the same time we can prevent a continual slow inflation of the U.S. price level.

We need also to cultivate, in one way or another, more enterprise and initiative on the part of U.S. producers in developing and pushing into foreign markets the kinds of products that foreign buyers will want to buy, and in developing products that domestic consumers will prefer over imports. Possibly our present competitive difficulties are helping to generate awareness of this side of the problem.

The enlargement of the U.S. trade balance that will be needed to let us translate large capital exports into correspondingly large movements of goods and not just into transfers of dollar balances or gold, may conceivably take several years. As Bernstein suggests, in the meantime we may have to take corrective measures affecting other types of payments. His own recommendation is for "a reduction in U.S. Government transfers to and expenditures in Western Europe." Before commenting on this recommendation, I must call attention to one other sort of adjustment that Bernstein overlooks. This is typified by the contraction in outflow of U.S. private investment capital and loans that has occurred since mid-1958. Here is an area in which monetary policy actions that may be needed anyhow to check or prevent domestic inflation can also have quick direct effects upon the balance of payments.

Changes in the private capital outflow are influenced by many factors, just as exports and imports are. Capital expenditure programs of U.S. companies abroad are a factor, and borrowing needs of foreign companies or governments may also affect the levels of their new issues or of medium-term and short-term bank loan borrowing in the United States. Persistence of foreign borrowing demands in the first half of 1958 was partly a reflection of efforts abroad to build up liquidity and of needs for financing the balance-of-payments deficits of some of the primary producing countries. But low interest rates in the United States at that time accentuated the flow of long-term capital and loans, and higher rates since then have undoubtedly dampened it and diverted demands for funds to financial markets in other countries. In the first quarter of 1959, when there were net repayments on short-term U.S. private credits, the seasonally adjusted annual rate of outflow of U.S. private capital may have been as low as $1-1/2 billion, compared with a $3 billion total for the year 1958 and an even higher rate in the first half of 1958.

Even though we may expect, and want, a larger capital flow in the future, short-run adjustments in the capital account can clearly play an important part in minimizing drains of gold and dollars during periods when the current account surplus is smaller than we want it to be.

Bernstein's specific suggestion for adjustment of the balance of payments is that certain Government payments no longer appropriate in the present world economic situation should be reduced. The suggestion applies, as he puts it, to "transfers and payments (military expenditures, grants of military supplies, other grants, and U.S. Government net capital outflow)" to "the industrial countries of Western Europe," which no longer need the help these outlays have been giving them. He cites a total of $3.4 billion for such transfers and payments in 1958. If any such sum as this could be taken out of the present drain of gold and dollars, it would obviously be an extremely useful adjustment to make.

The $3.4 billion total apparently is derived from the $3.7 billion total of the following items for "Western Europe,"1/ minus an allowance for nonindustrial countries.

Military expenditures	$1,863 million
Grants of military supplies and services	1,487
Other grants	316
Net U.S. Govt. capital	40
	$3,706 million

The major items are the military ones. I have already noted that over half of the $300 million item of nonmilitary grants went to three nonindustrial countries.

The first point to note about the two military items is that they involve a duplication of about three-quarters of a billion dollars of offshore procurement (included as a U.S. "import" under "military expenditures") of equipment and services subsequently transferred to European countries (as part of the "export" counterpart of the "grants"). It is only the remaining three-quarter billions of the grant item that

1/ U.S. balance of payments, 1958, preliminary.

represents the gift to Europe of actual shipments from the United States of military equipment and supplies.1/

The military grant item as a whole, together with its counterpart on the "export" side (representing both the goods actually exported and those transferred to foreign ownership from procurement abroad), is excluded from the U.S. balance of payments as ordinarily analyzed. Bernstein makes a real error in combining the military grants with other balance-of-payments items, not only at this point in discussing transactions with Europe, but also earlier in discussing the world totals. The following tabulation shows the makeup of the total figures for "U.S. Government expenditures and transfers" that he uses in his Table VI.

	Bernstein's total	Nonmilitary grants and credits	Military expenditures	Military grants
		(In millions of dollars)		
1950	4,742	3,640	576	526
1951	5,931	3,191	1,270	1,470
1952	6,940	2,380	1,957	2,603
1953	8,844	2,055	2,535	4,254
1954	7,318	1,554	2,603	3,161
1955	7,359a/	2,211	2,823	2,325
1956	7,836	2,321	2,910	2,605
1957	8,136	2,576	3,120	2,440
1958	8,449	2,574	3,365	2,510

a/ Bernstein's figure, 7,259, contained a misprint.

The last two columns here contain the duplication of offshore procurement and related transfers I have mentioned above. In the world totals this duplication amounts to a few hundred million a year at first and close to $1 billion a year in each of the past five years.

1/ Approximately half of the $1,487 million military grant total for Europe in 1958 had its counterpart in $704 million of shipments from the United States. The corresponding world totals were $2,510 million and $1,543 million. For the shipments figures, see Department of Commerce, World Trade Information Series, Part 3, No. 59-13, Total Export and Import Trade of the United States, January-December 1958, p. 9 and explanatory notes on p. 2.

The balance-of-payments impact comes from the sum of the second and third columns above; the grants in the last column — both those that represent transfers of offshore procurement and the unduplicated part that represents gifts of U.S.-produced military supplies -- involve no cash transactions whatever. Bernstein gives a misleading impression when he points to the increase in his total (the first column) from $4.7 billion in 1950 to $8.4 billion in 1958. Actually, the increase that is relevant for the net balance of payments (sum of columns 2 and 3) was only from $4.2 billion in 1950 or in 1954 to $5.9 billion in 1958. (Incidentally, the increase in this sum after 1954 was associated in considerable part with the buildup of local currency sales of agricultural products, as well as with the further growth in military expenditures abroad.)

In addition to this increase that affected the net balance of payments, U.S. grant-financed military shipments from the United States (part of column 4) rose from a small figure in 1950 to $3.5 billion in 1953 and then fell to $1.5 billion in 1958. Cutting out the grant financing of these military shipments from the United States would help the U.S. balance of payments only if the recipient countries would agree to continue taking such shipments and to pay for them in cash. If they were to shift to procurement in Europe, or were to pay us under long-term credits, the balance of payments would not be helped.

Cutting out the other grants of military supplies — those procured abroad for transfer to foreign governments — can not help the balance of payments at all. Any saving for the balance of payments on these transactions would have to take place at the stage of procurement, under the balance-of-payments head of "military expenditures."

Let us go back now to the item for "military expenditures" in Europe. Most of this has been spent in the industrial countries. The latest available country breakdown of U.S. military expenditures in "Western Europe" that I know of relates to 1956, when the total for the area was $1,676 million. Spain, Turkey, Greece, and Yugoslavia accounted for only $142 million of that figure. The major sums were spent in France, Britain, Germany and Italy, with a total for these four of $1,358 million. The total for all Western European countries other than the four nonindustrial ones named above was $1,534 million. These figures are net of Allied support payments received from Germany.1/

To save any such sum as $1.5 billion without significant loss to the defense effort would require drastic revisions of present arrangements for international sharing of costs. Could foreign countries be

1/ Balance of Payments Statistical Supplement, 1958, p. 119. See notes, p. 118.

asked to take over the entire local expenditure component of U.S. troop and civilian personnel pay in Western Europe, our share of which cost us in 1956 several hundred million dollars?1/ Much, but not all, of the remaining military expenditure in Western Europe in 1956 was apparently for offshore procurement of supplies and services to be transferred to foreign ownership and use. Perhaps it is in this sector that the main opportunity for shifting the financial burden would lie.

I conclude that Bernstein's suggestion, which is clearly not an unreasonable one on economic grounds, is probably much overstated in magnitude. Action along the line he suggests would help the balance of payments, but it does not constitute anythink like a full solution for our problem.

1/ Balance of Payments Statistical Supplement, 1958, p. 118. Total "expenditures by troops, civilian personnel, post exchanges, etc.," for the world total (not broken down by areas) were $817 million in 1956, 28 per cent of the world total of U.S. military expenditures in that year, $2,910 million. "The data do not include expenditures in Deutschmarks received from the Federal Republic of Germany as Allied support payment, or expenditures in yen received from the Government of Japan as contributions to the support of U.S. forces stationed there."