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"Bernstein on the Dollar" -- A Correction

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"Bernstein on the Dollar" -- A Correction

A. B. Hersey

In my June 16 paper reviewing E. M. Bernstein's article on the "International Position of the U.S. Dollar," I pointed out (pages 11-13) that adding together the two balance-of-payments items "military expenditures abroad" and "military grants" involves some duplication, on account of procurement abroad of some of the equipment, supplies, and services transferred to foreign countries under military assistance programs. Any saving for the U.S. balance of payments through curtailment of "offshore procurement" occurs at the balance-of-payments stage of "military expenditures"; the associated reductions of grants (on the "payments" side) and transfers (on the "export" side) then follow automatically, with no further benefit to the balance of payments.<sup>1/</sup> I expressed the opinion, however, that perhaps the main opportunity for shifting the financial burden of our military expenditures abroad would lie in this sector of offshore procurement.

In the June 16 paper I gave too high an estimate for the yearly amounts of military expenditures abroad associated with military assistance programs. Offshore procurement contracts made since mid-1954 have been much smaller than those placed earlier, and expenditures for offshore procurement have therefore declined, especially since 1956.

On the basis of a comparison of military grant totals as given in the balance of payments with Census data on actual shipments from the United States of grant-aid military equipment and supplies, I had concluded that purchases of goods and services abroad in connection with military assistance were close to \$1 billion a year in each of the past five years. (In 1958, for example, military grants were \$2,522 million,<sup>2/</sup> shipments from the United States \$1,543 million. These are the world totals, not the figures for Western Europe.) Actually the yearly expenditures on offshore procurement for military assistance were never much over a half billion, and by 1958 the amount was down to about a quarter billion.

In the June 16 paper I referred to a table on page 118 of the Balance of Payments Statistical Supplement, 1958, dealing with the world

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<sup>1/</sup> The statistical treatment is as follows; offshore procurement is included in "military expenditures abroad" on the basis of current expenditures, including progress payments, while military-grant transfers of supplies so procured are entered in the balance of payments on the basis of deliveries. It is likely that in the most recent years deliveries have exceeded current expenditures.

<sup>2/</sup> As revised, Survey of Current Business, June 1959. I used the preliminary figure, \$2,510 million.

totals of U.S. military expenditures abroad. I did not quote from this table the figures given there for "offshore procurement under military assistance programs" in the years 1953 to 1956, because I assumed that those figures gave an incomplete measure of the full overlap between "military expenditures abroad" and "military grants." A footnote to the table stated that "other foreign outlays for goods and services to be transferred to foreign countries under aid programs are included in the other categories." Mr. Lederer, Chief of the Balance of Payments Division, tells me that in fact the figures for "offshore procurement" given in this table do represent the bulk of the overlap between the balance-of-payments items "military expenditures abroad" and "military grants."

The figures in question are as follows:

1953	\$326 million
1954	593
1955	649
1956	504
1957	393 $\frac{1}{2}$
1958	242 $\frac{1}{2}$

A report published by the Department of State in April 1959, "The United States Economy and the Mutual Security Program," provides some additional information. Table N-3 of this report shows military assistance offshore procurement contracts and expenditures on a fiscal year basis, through fiscal year 1958. Contracts in fiscal year 1958 were only \$41 million, and the four-year total of contracts from July 1, 1954, to June 30, 1958, was only \$423 million. The text of the report (p. 41) contains an estimate of the program of contracts for fiscal year 1959 as about \$70 million. Evidently much of the expenditure in recent years has related to the large contracts made before mid-1954.

Table N-2 of the State Department report indicates that military assistance deliveries include -- besides shipments from the United States and deliveries from offshore procurement-- deliveries from excess stocks, provision of services ("largely expenditures in U.S."), and administrative costs. Items such as these would apparently account for several hundred million dollars a year, corresponding roughly to the downward revisions that have to be made in my June 16

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1/ Unpublished but available from the Balance of Payments Division, Office of Business Economics, Department of Commerce.

estimate of a billion dollar yearly overlap between "military expenditures abroad" and "military grants." (The figures in Table N-2 cannot be directly reconciled with the figures in the balance of payments, because of differences in timing and coverage.) Any immediate relief for the U.S. balance of payments on items such as these -- just as on the larger item of physical shipments of military supplies procured within the United States -- would depend, as I noted in the June 16 paper, on the recipient countries' finding it possible to agree to continue taking from us the goods and services involved and to pay us for them in cash. Mere discontinuation of our providing goods and services involving expenditures within the United States would have no immediate effect on the balance of international payments.