There are offsets against these government expenditures; about $3 billion of exports resulting from tied aid, including P.L. 480, and $1.2 billion of military hardware sales, and a few other smaller items. But these receipts on government account have always fallen far short of its total expenditures. Thus the government's needs for net transfers of resources to foreign countries for political, economic and military reasons have been in deficit by between $2.9 and $3.9 billion in the years 1960 to 1965, and then jumped to $4.1 billion in 1966 and $4.7 billion in 1967.

Private international transactions, including capital movements and tourism, have consistently earned a surplus for the United States. This has been true, more specifically, in foreign investment and income. Unfortunately, these surpluses have not been sufficient to satisfy the government's mounting needs for transfer or acquisition of resources abroad. The shortfall up to 1966 has been between $2.9 and $3.9 billion, if one excludes special transactions, such as prepayments of debts and shifting liabilities from less-than-one-year to more-than-12-month notes, devices which are statistical deferments of the day of reckoning. If one disallows similar temporary statistical reallocation of items, the 1967 picture was much worse than generally known.

[The fact that the U.S. balance of payments statistics reflected an overall deficit of about $1.3 and $1.5 billion in 1965 and 1966, in spite of the Vietnam conflict, did not in any way leave room for optimism. (How little room can be seen in the fact that preliminary estimates put our deficit for 1967 at $3.6 billion.) The improvement in 1965 and 1966 over the previous deficits of $3 and $3¼ billion was due basically to special factors centering about higher interest rates in this country, the Interest Equalization Tax, and the voluntary restraint programs. In 1965, there was an inflow of short-term capital amounting to $761 million, as contrasted with an outflow of $2,146 million in 1964. In 1966 foreigners purchased $909 million worth of U.S. securities. They also deposited on long term another $930 million with U.S. banks. In balance of payments statistics these funds are recorded as an inflow of long-term capital, even though they often involve a switch from, say, 90-day Treasury Bills to more than one-year Time Certificates of Deposits. These "inflows" were the result of higher interest rates in this country and are, therefore, subject to a quick and substantial reversal. Table 2 shows the effects of special transactions in making the balance of payments appear in better shape than it really has been.]

The United States has been financing this shortfall in its earnings by selling gold, over $11 billion since December 1957, and increasing our current liabilities (borrowing short abroad) by over $17 billion.

TABLE 2.—EFFECT OF TEMPORARY FACTORS AND SPECIAL TRANSACTIONS ON BALANCE OF PAYMENTS

[In billions of dollars]

	1964	1965	1966	1967 [1]
Overall deficit [2]	−2.8	−1.4	−1.4	−1.71
Debt prepayments	0.1	0.2	[3] 0.4	
Advance payments for military sales	0.5	0.2	[4] 0.4	
Inflow of long-term capital:				
U.S. corporate securities	−0.1	−0.4	0.9	1.0
Long-term bank deposits	0.2	0.2	0.9	0.8
Short-term capital transactions:				
Bank	−1.5	0.3	−0.1	−0.5
Nonbank (corporate)	−0.6	0.4	−0.3	0.05
Total special or temporary transactions	−1.4	0.9	2.2	1.35

[1] First 3 quarters of 1967.
[2] Liquidity basis of measurement.
[3] Includes reported prepayment by West Germany in fourth quarter of $196 million.
[4] Includes reported advance payment by West Germany in fourth quarter of $250 million.

Source: Survey of Current Business, U.S. Department of Commerce, June 1966, December 1966, September 1967, and December 1967.