

feedbacks may be small or large, but will rarely be zero. They can be zero only if the reduction in the flow of capital does not affect the use of funds either in the domestic or in the foreign markets. Assume that an American, A, is prevented from lending his money to a foreigner, F; only if A then decides to sit on his money and not to spend, lend, or invest it at all, and if F manages to disburse abroad exactly the same amount of money that he would have disbursed, thanks to the receipt of A's funds, only then will imports and exports be unaffected by the financial corrective. In all probability, A will use some of his funds at home and F will have less to spend abroad, and the United States will have larger imports and smaller exports as a result.

FOREIGN PROGRAMS OF THE GOVERNMENT

In the search for "guilty items" in the balance of payments, foreign disbursements by the U.S. Government are the most popular targets. According to one's political philosophy, one will argue for cutting military expenditures abroad or for cutting foreign aid. The question whether these funds for fighting wars and fighting poverty abroad are desirable expenditures is often confused with the question whether the reduction of these funds would cure the imbalance of payments.

Both hawks and doves are inclined to exaggerate the effects which a reduction of expenditures for military operations in Viet-Nam would have on the payments deficit. If the war ends and military expenditures in Viet-Nam are reduced, there will probably be an increase in economic aid to Viet-Nam, in an effort to rebuild what has been destroyed and to show the world that our intentions all along had been to help the country maintain its freedom and develop its economy. If, nonetheless, total expenditures abroad are reduced when military operations cease, then the Vietnamese will have less money to purchase goods and to import from abroad. The reduction of their imports may not always directly reduce exports from the United States, but through triangular trade and multilateral repercussion our exports may still be affected.

In addition, there is the probability that defense expenditures in the United States will be replaced by expenditures for other purposes. Programs in our domestic war against poverty have been cut because of the rising cost of the war in the Far East. If, with the end of military operations, we escalate expenditures for domestic programs, imports from abroad are likely to increase above the volume they would have otherwise. Hence, with all these repercussions on the flow of goods and services, one must not count on an improvement of the balance of payments by anything near the full amount by which our military expenditures are reduced.

THE INEXORABLE DEFICIT

I may well be accused of undue pessimism. Is there any historical or theoretical support for my warnings about the ineffectiveness of the various corrective measures adopted or proposed? Is the deficit really impervious to all efforts to deal with it through corrective measures?

Our actual experience can really make us rather fatalistic. Year after year, at least since 1960, we have done all sorts of things to work on the balance of payments; we have picked one item after another for special treatment; yet, we have failed. I have prepared a list of quotations from statements by our Presidents and Secretaries of the Treasury expressing their assurances and confident expectations that balance was just around the corner, that the deficit would disappear within the year, or the next one. Yet, the deficit is still with us and one cannot even say that it is substantially smaller than it used to be.

I am not including this list of assurances in my testimony, because to do so would not be charitable. After all, the President and the Secretary of the Treasury were courageously battling a Hydra: they did not realize that for every head cut off two grew in its place. They did not know that you cannot decapitate a Hydra; you have to dehydrate her if you want to get rid of her. (Incidentally, the metaphoric dehydration need not be an absolute reduction of domestic liquidity. It suffices to reduce liquidity relative to foreign countries, calculated at current exchange rates.)

I am, however, offering you a tabulation of statistical figures illustrating the problem. In Table 1, some of the strategic items of our balance of payments are so arranged that we can see at a glance the remittances that can give rise to a transfer problem. The table shows side by side our military expenditures abroad, remittances and pensions, grants and net capital exports of the U.S. Govern-