

ments. This would be most helpful if you, or any of the other gentlemen here, could give us some notion of those dimensions.

You have already made a very strong case. There is a payback of 2½ years in our investment abroad. If you can also make a case that this is somewhat equalizing.

Mr. BEHRMAN. I am not sure that Fritz had the paper earlier. Let me just brief a point. Fritz, you probably have been working on it much more than I, but what we are getting into now are the secondary and tertiary effects of capital flows among nations. This has not been thoroughly studied, I think, even on the theoretical basis.

Chairman PROXMIRE. Doesn't it assume a rigid monetary policy?

Mr. BEHRMAN. Yes; it assumes a given monetary policy.

Chairman PROXMIRE. Which is not realistic?

Mr. BEHRMAN. Which is not realistic.

Chairman PROXMIRE. In other words, it can be offset?

Mr. BEHRMAN. Yes, sir; it can be offset on either side.

Chairman PROXMIRE. Yes.

Mr. BEHRMAN. But as long as the United States is not itself inflating, a capital outflow is advantageous to the United States, initially. Now, what happens with it in the various flows and in the various offsets, as you say, becomes quite complex, and that is why I cannot get into the ball park, because it does yield to varying monetary policies in various places, various countries and there is also a possible flow of funds among foreign countries.

Chairman PROXMIRE. I want to ask Mr. Machlup about this, in just a minute, but I would like to ask you one more point in connection with this, and that is, what you are telling us is that on the assumption that the so-called temporary factors will last more than a couple of years, then the action taken is unwise. It is only on the assumption that the temporary factors might evaporate within a year or so that you can justify the kind of temporary action that is being taken; is that correct?

Mr. BEHRMAN. Yes, sir. That was the administration position, itself, in 1965, but what I asked then and what I ask now, Senator, is, What are the temporary factors?

Chairman PROXMIRE. You list the copper strike. North Vietnam is another one—perhaps temporary we hope—and there are others. I would like to ask Professor Machlup to comment.

Mr. MACHLUP. I would invite you to turn to table 1 of my prepared ent (p. 415). In the fourth column you find the balance of goods and services excluding military expenditures. I show military expenditures separately in the next column, as one of the financial transfers.

I have arranged all financial transfers to foreign countries under four headings: Military expenditures abroad, remittances and pensions, U.S. Government grants and capital (net), and private U.S. capital (net). If you add up these four items, you get the total which I show in the next column and which I call total of financial transfers to foreign countries. Now, we can compare this total with the fourth column previously mentioned; namely, the balance on goods and services excluding military expenditures. This balance may be called real transfer to foreign countries. I invite you, now, to compare the lows and the highs.

In 1953, the total of our financial transfers was \$5.6 billion.