Chairman PROXMIRE. What year is that again?

Mr. MACHLUP. 1953. The total of the financial transfers in 1953.

Chairman PROXMIRE. Yes.

Mr. MACHLUP. $5.6 billion. Our financial transfers then increased, and the high was in 1964, of $13.9 billion. Now, if you look at the real transfers, the net transfers of goods and services, shown in the fourth column, you find that these were $3 billion in 1953, but $11.4 billion in 1964.

This indicates to me that the financial transfers created, so to speak, the real transfers. There was, to some extent, an adjustment taking place, a self-adjustment.

Most of the financial transfers were independent of the state of the balance of payments. Military expenditures were surely not increased because of an improved balance of goods and services; likewise, capital movements, governmental or private, were not induced by the trade balance. They were autonomous transactions. But these financial transfers, through economic forces, created their own offset, the improvement in the balance of goods and services. Unfortunately, these improvements were never big enough. They always left us with a transfer gap. The third column from the right shows you the transfer gap.

I want you to note, the transfer gap in 1953 was $2.6 billion, and in 1964, despite the enormous increase in financial transfers, the transfer gap was still only $2.5 billion. This indicates, at least to me, that the rise in financial transfers brings with it a rise in real transfers, and likewise, and—this is the point that Mr. Behrman has been making—a reduction in financial transfers is likely to bring with it a reduction in real transfers. So, if we transfer less to foreign countries in the form of dollars, they will also buy less from us and we will buy more from them.

Representative BOGGS. May I ask you a question about those figures?

Mr. MACHLUP. Yes.

Representative BOGGS. I notice you do not have 1967.

Mr. MACHLUP. That is right. They are not yet available in full detail.

Representative BOGGS. Obviously, one of the big items in your whole table are military expenditures abroad. How much increase was there in 1967 over 1966?

Mr. MACHLUP. I called Walter Lederer this week, and he could not yet give me the final figure. There was an increase.

Representative BOGGS. How much?

Mr. MACHLUP. I could not tell. I think the increase was less than $1 billion.

Representative BOGGS. That is probably what is wrong with your figures. They do not reflect the increase in Vietnam, which is certainly a most significant element.

Mr. MACHLUP. These figures come from the Department of Commerce, and 1967 is not yet included. The Economic Report has a figure which is only for the first three quarters of 1967. Taking the first three quarters at an annual rate, you see an increase of between $500 and $600 million for 1967 over 1966. It was from $3.7 to $4.2 billion, hence, a little over $500 million. There may have been a further increase in the fourth quarter.