

of the U.S. military presence in such nations whenever these nations are in persistent surplus position in their own balance of payments. The most substantial case in point by far is that of the Federal Republic of Germany, where in excess of 200,000 American troops have been stationed for a generation.

II. THE MEANING OF "OFFSETTING"

A. *The record.*—The most detailed breakdown by area of the U.S. balance of payments, published by the U.S. Department of Commerce, does not provide separate data for the Federal Republic of Germany or for the Republic of Vietnam. Apparently for security reasons, both of these countries are lumped together with other countries in their respective geographic areas. Thus Germany is listed in the category of "Other Western Europe," where the "other" means Western Europe, excluding the United Kingdom of Great Britain and Northern Ireland. In turn, Vietnam is in the category of "Other Countries in Asia and Africa," where the "other" means Asia and Africa, excluding Japan and South Africa.

In 1966, U.S. military expenditures abroad amounted to \$3.7 billion, of which \$1.4 billion was in "Other Western Europe" and \$1.3 billion was in "Other Countries in Asia and Africa." In 1963, the U.S. Defense Department stated that "U.S. defense dollar outlays * * * in West Germany currently amount to about \$700 million per year."³ Under the impact of a rising general price level in Germany since 1963, it can be surmised that U.S. military expenditures in Germany have risen by at least 10 percent to a current level of \$770 million per year. As these words are being written on January 19, 1968, a press report in the Washington Post⁴ includes this statement: "The U.S. Government will begin talks with West Germany in March in a new attempt to recover the full foreign exchange costs of \$800 million annually for its military establishments in that country, sources here said yesterday." Incidentally, the periodic leaking of the foreign-exchange cost clearly suggests that the security reasons for U.S. failure to disclose the U.S. balance of payments with West Germany are not compelling. In any case, we shall consider \$800 million as the correct figure for U.S. military expenditures in Germany.

In recognition of the balance-of-payments impact of U.S. military expenditures in West Germany, a series of agreements was concluded between the United States and the West German Governments for the offsetting of such U.S. expenditures by the German Government. The first three agreements call for the offsetting of U.S. military expenditures in Germany by German expenditures in the United States for military procurement for the German Bundeswehr. The following are the offset target figures specified in the first three agreements:

Offset target figures in German-United States agreements, 1961-66

	<i>Million</i>
Calendar years 1961-62-----	\$1, 375
Calendar years 1963-64-----	1, 375
Calendar years 1965-66-----	1, 350

As there is typically considerable leadtime between the placing of orders for military equipment and its delivery, the transfer of funds from the German Government to the U.S. Treasury lagged the placing

³ Ibid., p. 96.

⁴ The Washington Post, Jan. 19, 1968, p. A-5.