imposition of a resource misallocation on its friends and allies, and this has been recognized in the new agreement. On the other hand, obtaining an intermediate-term loan is in the long run substantially less favorable to the U.S. balance of payments than would be the receipt of proceeds from the outright sale of American export products. For one thing, the payment of interest by the U.S. Government is in the nature of a U.S. expenditure in the U.S. balance of payments. For another, the principal of the loan itself must be incurred as a capital outflow upon maturity of the loan, if not sooner. Thus, while the pre-1967 offset agreements supposedly provided for a permanent offset, the 1967 agreement is in its entirety a temporary offset.

Accordingly, the latest "offset" agreement turns out to be a substantial retrogression of principle from the U.S. standpoint not only because $500 million is less than $675 million. The U.S. Government has acceded to the position of debtor to the German Bundesbank, thereby not solving, but only deferring the solution of, the problem posed for the United States by its defense expenditures in Germany. Yet, as already indicated above, the U.S. Government would be ill advised to revert in the future to the "offsetting by purchasing" formula in place of the "offsetting by lending" formula. Let us see why.

C. *Four kinds of "offsetting."*—Under the "offsetting by purchasing" formula, a complete and permanent offset to U.S. defense expenditures in Germany would imply an equivalent amount of German Government expenditures on U.S. goods and services over and above German imports from the United States that would occur anyway. It turns out that there is inherent in this very notion of full (i.e., complete and permanent) offsetting a misallocation of resources, namely, the waste of purchasing power that the offsetting government incurs in buying goods and services *over and above the imports that it would have bought even in the absence of the "offset" agreement.* Goods and services that country A buys in country B in excess of what country A would have bought in country B anyway are uneconomical purchases: such goods were outright unwanted or available more cheaply elsewhere. Thus, the very notion of "offsetting by buying" is an uneconomic notion. And to insist on full "offsetting by buying" instead of partial "offsetting by buying" is to insist on a full absurdity in place of a partial absurdity.

On the other hand, "offsetting by lending" is a misnomer and a misleading formula for two reasons. The first reason has already been mentioned above, namely, that the "offset," being a loan, is temporary. Secondly, even within its temporary duration the offset is also a misallocation of resources. For, under the "offsetting by lending" formula, a complete offset to U.S. military expenditures in Germany would imply an equivalent amount of German Government lending to the United States Government over and above any German Government lending to the United States that would have occurred in the absence of the "offset" agreement. Loans that country A makes to country B in excess of what country A would have lent to country B anyway are uneconomical capital exports: such capital would have been used to greater advantage by investment in country A itself or by being lent at more favorable terms to third countries.

So "offsetting by lending" also implies a misallocation of the offsetter's resources but is more palatable than "offsetting by buying,"