

Unilateral International Transfers: Unrequited and Generally Unheeded

Among the major categories of international transactions, some, such as trade in goods and services, often garner headlines in the financial press. Others receive less attention. Perhaps none is usually farther from the limelight than unilateral, a.k.a. unrequited, transfers. To be sure, extraordinarily large or controversial transfers, such as those generated by the 1990–91 Persian Gulf conflict, do take their place on center stage, but these are exceptions.

This obscurity is somewhat puzzling, because countries' net receipts or payments of unrequited transfers often exceed their international balances on both trade and current account and sometimes amount to sizable fractions of their national incomes. Moreover, in many countries the bulk of unrequited transfers, unlike most other international transactions, is paid or received by governments, which could directly reduce or enlarge those transfers as part of any effort to correct troublesome overall imbalances in international payments. Finally, the "transfer problem"—maintaining equilibrium in international payments in the face of sizable transfers—remains a challenging issue, both for policymakers and for analysts.

This article discusses the singular nature of unrequited transfers, recalls an historic, and still relevant, controversy over their economic impact, and recounts an effort by the United States to neutralize their balance-of-payments consequences. The size of these transfers in recent years, and some plausible explanations for them, are then evaluated, with most attention given to those of the United States.

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I. The Nature of Unrequited Transfers

Unrequited transfers are unique among international transactions in that, by definition, they entail no quid pro quo. Generally they are gifts,

as their name implies. Examples are grants of cash or food from one country to another.

By contrast, the great preponderance of international transactions do entail a quid pro quo, and because they do, they conform well to the double-entry bookkeeping system used in balance-of-payments accounting. For example, the quid pro quo for a country's commercial export of items priced at, say, \$25 million, might be a promise from the foreign recipient to make payment within 90 days. In that case, the country's trade account would be credited for \$25 million, while its capital account would be debited

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for \$25 million to reflect the increase in the country's outstanding claims on foreign residents. Thus, the equality of total debits and total credits required by the double-entry system would be preserved.¹

Unrequited transfers pose a problem for this bookkeeping system, a problem that well illustrates their nature. If the exports discussed in the preceding paragraph were a gift instead of a sale, the donor country's trade account would still be credited for \$25 million, but no debit could be recorded to reflect a quid pro quo of material value from the recipient country. In order to balance the books in such cases, the convention followed has been to debit an account called unrequited (or unilateral) transfers. (For some transfers, such as some grants of foreign aid, this debit might represent not merely a balancing item but, at least in part, the acquisition of good will implying some future reciprocal action by the foreign recipient.) The accounting treatment in the recipient country would be symmetrical: a debit to the trade account to reflect the imports, and a credit to unilateral transfers to recognize the complimentary nature of the imports.

An unrequited transfer may, of course, be made or received by the private or the public sector. Among those between private parties, the major categories

include transfers by migrants of their possessions from their former to their new residences, remittances by migrant workers from their new residences to relatives or others in the countries the migrants have departed, and gifts, contributions, and pension payments between individuals and private organizations residing in different countries. Among the transfers in which official organizations participate, either with each other or with private parties, the major categories include financial grants or grants of material or technical assistance, cancellation of debt, and payment of pensions, taxes, and fees.

II. An Historic Controversy

Unrequited transfers in the form of foreign aid have often sparked controversy in the United States, but by far the most renowned intellectual debate on the subject focused not on foreign aid but on reparations. Following wars, the defeated have often been obligated to make reparations payments for damages or expenditures sustained by others because of the hostilities. Such payments were demanded of France after the Franco-Prussian War of 1870–71, of Germany after World War I, and, in recent times, of Iraq after the Persian Gulf conflict of 1990–91.

It was the reparations sought from Germany that provoked the famous debate, a debate that yielded a framework for analyzing transfers that remains applicable today. In the Versailles Treaty of 1919, Germany acknowledged war guilt and promised to compensate the victims of her aggression.² By 1921 a Reparation Commission had determined Germany's obligation to be about \$31.5 billion, to be paid in yearly installments, with more than half the money going to France.

The Allies found it much easier to demand than to collect these payments, and in 1929 the eminent economist John Maynard Keynes argued that the reparations sought from Germany were too onerous. In a brief article entitled, "The German Transfer Problem," Keynes maintained that the true burden on Germany was greater than the nominal reparations payments. He noted that Germany had to make the payments not in its own currency but in foreign currency and that it had, therefore, to generate a surplus of exports over imports sufficient to earn the

¹ For an exposition of balance-of-payments accounting, see Fieleke (1996).

² The historical detail in this section is taken chiefly from Yeager (1976), especially pp. 313–17.

required foreign currency. Germany could do so, he believed, only by substantially lowering the real wages of its work force, and thus the cost and price of its exports, so as to induce enough added foreign purchases.

The required reduction in export prices would have to be substantial, Keynes argued, partly because purchasers in other nations were not very responsive to price reductions—their demand was not very price-elastic. In addition, competing producers in other nations would seek higher trade barriers in order to resist increased German penetration of their markets. As a consequence, the necessary decrease in German wages would be so great that German workers were unlikely to accept it until millions had been thrown out of work.

In a rebuttal to Keynes, Bertil Ohlin, another distinguished economist, maintained that Keynes had underestimated the favorable impact on Germany's trade balance of the reparations payments themselves (Ohlin 1929). The payments would reduce German buying power and German spending, while raising buying power and spending in the recipient countries. According to Ohlin, these changes in spending would prompt several adjustments, which would operate more powerfully than Keynes had recognized to improve Germany's trade balance without reductions in German export prices.

Specifically, some of the reduction in German spending resulting from the reparations payments would fall on imports, as Keynes had acknowledged; some would also fall on German merchandise that, going unpurchased by Germans, could then be exported, a point that Keynes gave little emphasis; and some would fall on German goods that were not internationally traded, allowing resources to shift from producing such goods to producing goods that could be exported or substituted for imports, a phenomenon that Keynes seemed to overlook. The reverse of this process would occur in the recipient countries. Some of the increased spending there would go for imports from Germany, again as Keynes had noted; but some would also go for goods that would otherwise have been exported to Germany; and some would go for nontraded goods, drawing resources into their production and away from the production of goods that could be exported to Germany or substituted for imports from that country. Because of all these spending adjustments, Germany's trade balance might improve substantially without the need for much decline in German export prices relative to the prices of goods that Germany imported.

Ohlin also argued that this process of adjustment had not yet been put to the test, because Germany had been borrowing from abroad twice as much as it had paid in reparations, thereby augmenting rather than reducing its buying power. He did, however, agree with Keynes that Germany would find it more difficult to generate the required export surplus if other countries raised their barriers against German goods.

Among other things, the debate served to highlight the difficulty of determining the impact of unrequited transfers—and of capital movements as well—on the relative prices of internationally traded goods. Theorizing alone, however elegant, will not yield a definitive answer. It provides only a launching pad for tough case-by-case empirical research.

As for the case of German reparations, the process of adjustment, which Ohlin declared untested as of 1929, was to remain largely untested in the years to follow. The Allies lowered their demands, and German payments essentially ended in the early 1930s. According to the Reparation Commission, Germany may have paid a total of only about \$5 billion, while receiving foreign loans and transfers of \$8 billion or \$9 billion.

III. Easing the Adjustments Required by Unrequited Transfers

Concern over the adjustments that unrequited transfers might require has sometimes prompted policies tailored to ease the process. One noteworthy case is that of the United States during the 1960s, a period when the then-fixed exchange rate of the dollar was coming under increasing downward pressure because of large and persistent deficits, as variously measured, in the nation's overall balance of payments. To avoid devaluing the dollar, the government undertook, among other actions, to mitigate any downward pressure on the exchange rate arising from governmental foreign aid and related spending abroad.

One measure was the "tying" of foreign aid, that is, requiring that monetary aid provided directly to other countries be spent in some sense on U.S., rather than foreign, goods and services. (A U.S. good was defined as one in which the "foreign components" did not exceed 10 percent of the price of the good.) So thoroughgoing was this policy that the Treasury Department could report, in 1968, that "The only significant elements in the A.I.D. program not specifically tied to U.S. goods and services are salaries and payments to A.I.D. overseas personnel and contractors

(only part of which is spent abroad) and limited off-shore procurement for A.I.D. administrative purposes" (U.S. Department of the Treasury 1968, Tab C, p. 1).

Despite this and other measures, the balance-of-payments deficits persisted; and government outlays abroad, including unrequited transfers, continued to arouse concern. For example, in January 1969, Frank E. Morris, then President of the Federal Reserve Bank of Boston, argued that "... the U.S. economy, as such, has not been a deficit economy in its international accounts, it is simply that the private U.S. economy has not been able to generate sufficiently large surpluses since 1949 to finance the foreign exchange costs of the enormous military and aid programs of the United States Government around the world" (Morris 1969, p. 42). Unlike in the years immediately following World War II, foreign producers, Morris reasoned, had become capable of supplying the great bulk of foreign demand; no longer was it true that "any dollar cast adrift in Europe or Asia will come home in the form of a demand for U.S. goods" (p. 46). That, of course, was one way of rephrasing the traditional "transfer problem" addressed by Keynes and Ohlin.

However one analyzes the source of the U.S. balance-of-payments deficits in those years, the policy measures taken proved inadequate to defend the dollar, and on August 15, 1971, the Nixon Administration formally suspended its willingness to convert foreign official dollar balances into gold or other reserve assets. Such outcomes help to demonstrate that manipulations of particular balance-of-payments transactions, such as the tying of foreign aid, seldom succeed in resolving overall balance-of-payments disequilibria. Much more efficacious are comprehensive macroeconomic policy measures, perhaps including exchange-rate changes, that reduce a country's overall absorption of goods and services, including imports, relative to the country's output.

Nonetheless, "tying" policies persist. And as one measure of their efficacy, official presentations of U.S. balance-of-payments statistics continue to divide "U.S. Government grants and transactions increasing Government assets" into "Estimated transactions involving no direct dollar outflow from the United States" (\$9.9 billion in 1995), on the one hand, and "Estimated dollar payments to foreign countries and international financial institutions" (\$5.6 billion in 1995), on the other hand.³

³ See *Survey of Current Business*, vol. 76 (July 1996), p. 86.

Table 1
Leading Recipients of Net Unrequited Transfers, 1959 to 1993

Period and Country	Annual Averages in Millions of Dollars (Ranks in Parentheses)					
	Total		Private		Official	
1989-93:						
Israel	6,262	(1)	2,367	(7)	3,896	(1)
Portugal	6,113	(2)	4,293	(2)	1,820	(5)
Egypt	5,818	(3)	4,680	(1)	1,139	(6)
Greece	5,572	(4)	2,036	(8)	3,536	(2)
Spain	5,060	(5)	2,548	(5)	2,512	(4)
1984-88:						
Israel	4,686	(1)	1,152	(11)	3,534	(1)
Egypt	4,155	(2)	3,417	(1)	738	(5)
Portugal	3,085	(3)	2,782	(2)	303	(9)
Pakistan	3,023	(4)	2,574	(3)	449	(8)
Greece	2,470	(5)	1,154	(10)	1,315	(2)
1979-83:						
Egypt	2,855	(1)	2,692	(1)	163	(11)
Israel	2,848	(2)	1,034	(8)	1,815	(1)
Pakistan	2,654	(3)	2,380	(3)	274	(7)
Portugal	2,645	(4)	2,634	(2)	11	(62)
Syrian Arab Republic	2,121	(5)	582	(13)	1,539	(2)
1974-78:						
Israel	2,110	(1)	781	(6)	1,330	(1)
Spain	1,300	(2)	1,314	(1)	-13	n.a.
Turkey	1,251	(3)	1,224	(2)	26	(33)
Portugal	1,177	(4)	1,183	(3)	-6	n.a.
Egypt	884	(5)	884	(4)	0	n.a.
1969-73:						
Israel	1,028	(1)	635	(2)	393	(1)
Spain	847	(2)	855	(1)	-8	n.a.
Turkey	625	(3)	597	(3)	28	(22)
Greece	480	(4)	478	(5)	2	(50)
Italy	242	(5)	536	(4)	-294	n.a.
1964-68:						
Spain	401	(1)	398	(2)	2	(38.5)
Israel	384	(2)	277	(3)	107	(2)
Italy	319	(3)	486	(1)	-168	n.a.
Greece	226	(4)	219	(4)	7	(26.5)
Korea	213	(5)	83	(5)	130	(1)
1959-63:						
Israel	324	(1)	193	(2)	132	(2)
Italy	287	(2)	339	(1)	-52	n.a.
Korea	250	(3)	30	(10)	220	(1)
Spain	156	(4)	132	(4)	24	(9)
Phillippines	107	(5)	76	(5)	31	(8)

n.a.: Not applicable.

Note: A minus sign indicates a net payment rather than a receipt. Some countries had to be omitted from the analysis for lack of data, and no country for which 1993 data were lacking was included. For each 5-year period, differing numbers of countries were identified as recipients and included in the ranking, ranging from 37 in 1959-63 to 91 in 1989-93.

Source: IMF data base on DRI/McGraw-Hill.

IV. The Magnitude of Recent Transfers

Despite the balance-of-payments problems that unrequited transfers may present, they occur in significant volume between many countries. For example, they have often exceeded the aggregate current-account deficit or surplus of the industrial countries as a group. In 1991, 1992, and 1993, the aggregate balance of the industrial countries in current-account transactions with the rest of the world amounted to -\$31 billion, -\$40 billion, and \$19 billion, respectively, while their corresponding net unrequited transfers amounted to -\$48 billion, -\$84 billion, and -\$79 billion.⁴

Which countries are the major beneficiaries of these transfers, and which are the major donors?⁵ As reported in Table 1, Israel has ranked first or second among the recipients ever since 1959. Egypt and Portugal have also been in the front ranks since the late 1970s.

Even greater consistency prevails in the ranking of the leading donors. Germany, the United States, Saudi Arabia, France, and the United Kingdom have composed the top five donor countries since the mid 1970s, and Germany and the United States have alternated in first and second places ever since 1959 (Table 2). However, the differences between the amounts contributed by the leading donors are much greater than the differences separating the leading recipients.

By no means do all unrequited transfers take the form of governmental

⁴ International Monetary Fund, *World Economic Outlook*, October 1994, p. 153. A caveat: It is well known that balance-of-payments statistics are imprecise. For example, for the 144 countries for which data are reported for 1987 by the IMF, the grand total of all net unrequited transfer payments is \$75.3 billion, while the grand total of all net unrequited transfer receipts is only \$53.2 billion.

⁵ Countries paying unrequited transfers are donors in the sense that they receive nothing of material value in return at the time of payment. They may have received something of value in the past, as in the case of pensions they are paying to persons who previously resided and worked within their borders but who then resettled abroad.

Table 2
Leading Donors of Net Unrequited Transfers, 1959 to 1993

Period and Country	Annual Averages in Millions of Dollars (Ranks in Parentheses)		
	Total	Private	Official
1989-93:			
Germany ^a	-29,358 (1)	-7,368 (3)	-21,990 (1)
United States	-23,442 (2)	-13,312 (1)	-10,130 (2)
Saudi Arabia	-15,634 (3)	-12,528 (2)	-3,106 (8)
France	-8,925 (4)	-2,649 (4)	-6,276 (4)
United Kingdom	-7,123 (5)	-489 (10)	-6,634 (3)
1984-88:			
United States	-23,148 (1)	-10,388 (1)	-12,760 (1)
Germany	-13,464 (2)	-4,964 (3)	-8,500 (2)
Saudi Arabia	-8,476 (3)	-5,346 (2)	-3,129 (4)
France	-4,440 (4)	-1,760 (4)	-2,680 (5)
United Kingdom	-4,280 (5)	65 n.a.	-4,345 (3)
1979-83:			
United States	-12,174 (1)	-4,848 (2)	-7,326 (1)
Germany	-11,128 (2)	-5,034 (1)	-6,094 (2)
Saudi Arabia	-9,458 (3)	-4,758 (3)	-4,700 (3)
France	-4,172 (4)	-2,144 (4)	-2,028 (5)
United Kingdom	-3,556 (5)	-36 (27)	-3,520 (4)
1974-78:			
Germany	-7,352 (1)	-3,942 (1)	-3,410 (2)
United States	-5,640 (2)	-904 (4)	-4,736 (1)
Saudi Arabia	-4,335 (3)	-1,282 (3)	-3,053 (3)
France	-2,690 (4)	-1,463 (2)	-1,228 (5)
United Kingdom	-1,777 (5)	-188 (10)	-1,588 (4)
1969-73:			
United States	-3,720 (1)	-1,102 (2)	-2,618 (1)
Germany	-3,358 (2)	-2,080 (1)	-1,278 (2)
France	-1,315 (3)	-848 (3)	-466 (4)
United Kingdom	-636 (4)	-95 (6)	-540 (3)
Switzerland	-439 (5)	-380 (4)	-59 (11)
1964-68:			
United States	-3,052 (1)	-732 (2)	-2,320 (1)
Germany	-1,582 (2)	-734 (1)	-848 (2)
United Kingdom	-742 (3)	-80 (4)	-661 (3)
Switzerland	-262 (4)	-246 (3)	-16 (10)
Japan	-128 (5)	-6 (14)	-122 (5)
1959-63:			
United States	-2,608 (1)	-498 (1)	-2,110 (1)
Germany	-1,064 (2)	-260 (2)	-804 (2)
United Kingdom	-308 (3)	-3 (11)	-305 (3)
Canada	-105 (4)	-121 (3)	17 n.a.
Venezuela	-83 (5)	-83 (4)	0 n.a.

n.a.: Not applicable.

Note: A minus sign indicates a net payment and a positive sign a receipt. Some countries had to be omitted from the analysis for lack of data, and no country for which 1993 data were lacking was included. For each 5-year period, differing numbers of countries were identified as donors and included in the ranking, ranging from 14 in 1959-63 to 46 in 1984-88.

^aFour-year averages including 1989, 1991, 1992, and 1993 because appropriate data for 1990 are not available.

Source: IMF data base on DRI/McGraw-Hill.

Table 3
Leading 20 Recipients of Net Unrequited Transfers Relative to GNP in 1992–93

Country	Transfers as Percent of GNP (Ranks in Parentheses)					
	Total		Private		Official	
Lesotho	12.9	(1)	.1	(42.5)	12.8	(1)
Israel	8.8	(2)	3.6	(4)	5.2	(5.5)
Mali	7.4	(3.5)	1.7	(10)	5.7	(4)
El Salvador	7.4	(3.5)	6.1	(1)	1.3	(22)
Greece	7.4	(3.5)	2.7	(7)	4.6	(7)
Portugal	7.1	(6)	4.2	(3)	2.9	(12.5)
Burkina Faso	6.6	(7)	1.4	(12.5)	5.2	(5.5)
Ireland	6.4	(8)	-.1	n.a.	6.5	(2)
Jordan	6.3	(9)	4.5	(2)	1.9	(18)
Guinea-Bissau	6.1	(10)	-.1	n.a.	6.2	(3)
Tanzania	4.9	(11)	1.6	(11)	3.3	(10.5)
Ethiopia ^a	4.7	(12)	1.8	(9)	2.9	(12.5)
Jamaica	4.4	(13)	3.4	(5)	1.0	(25.5)
Burundi	4.1	(14)	.3	(31.5)	3.8	(9)
Chad	3.8	(15)	-.6	n.a.	4.5	(8)
Mauritania	3.4	(16.5)	.1	(42.5)	3.3	(10.5)
Egypt	3.4	(16.5)	2.8	(6)	.6	(30.5)
Benin	3.0	(18.5)	1.2	(17.5)	1.8	(19)
Nicaragua	3.0	(18.5)	.2	(37.5)	2.8	(14)
Morocco	2.9	(20)	2.6	(8)	.3	(38.5)

n.a.: Not applicable.

Note: A minus sign indicates a net payment rather than a receipt. Some countries had to be omitted from the analysis for lack of data. Underlying GNP data are purchasing power parity estimates.

^aData for Ethiopia include 1992 only.

Source: World Bank, *World Development Report 1995*, pp. 220–21; *World Development Report 1994*, pp. 162, 220, and 221; and IMF data base on DRI/McGraw-Hill.

foreign aid or other official transactions. To be sure, for most of the leading donors, official transfer payments have exceeded private, except for the period 1969–73. However, for most of the leading beneficiaries, private transfer receipts have exceeded receipts of official transfers.

For some countries, unrequited transfers have amounted to noteworthy fractions—as much as one-eighth—of their total income and output, as indicated in Tables 3 and 4. Although most of the leading recipients by this measure have relatively less developed economies, some are comparatively well-to-do. Specifically, Israel and Ireland are classified as “high-income” economies by the World Bank, and Greece and Portugal as “upper-middle-income.” The major donors of transfers relative to GNP have enjoyed comparatively high incomes per capita.

Although the United States ranks low in net transfer payments relative to GNP, the nation has

been consistent in its donor role. Its unrequited transfer payments have exceeded its receipts for decades, except in 1991 (Figure 1). In that year the country received cash contributions of \$42.5 billion from its coalition partners in Operation Desert Storm, carried out during the conflict with Iraq following Iraq’s invasion of Kuwait.

These “contributions” nicely illustrate the occasionally misleading nature of the term, “unrequited.” It would be hard to make the case that the U.S. coalition partners received little or nothing of material value, not to mention political value, in return for their contributions; had they not valued the role played by the United States in subduing Iraq, they would hardly

Table 4
Donors of Net Unrequited Transfers, in 1992–93, Ranked by Size of Transfers Relative to GNP

Country	Transfers as Percent of GNP (Ranks in Parentheses)					
	Total		Private		Official	
Saudi Arabia ^a	-7.9	(1)	-7.1	(1)	-.8	(6.5)
Oman	-6.9	(2)	-6.9	(2)	^c	n.a.
Kuwait ^b	-5.1	(3)	-3.9	(3)	-1.2	(4.5)
Germany ^b	-2.3	(4)	-.6	(9.5)	-1.7	(1)
Norway	-2.0	(5)	-.5	(13.5)	-1.5	(2)
Netherlands	-1.9	(6)	-.6	(9.5)	-1.3	(3)
Switzerland	-1.8	(7)	-1.5	(5)	-.4	(12.5)
Sweden	-1.4	(8)	-.2	(16.5)	-1.2	(4.5)
Singapore	-1.3	(9)	-.9	(8)	-.4	(12.5)
Côte d'Ivoire	-1.2	(10)	-2.3	(4)	1.1	n.a.
United Kingdom	-.9	(11.5)	^c	(27)	-.8	(6.5)
Finland	-.9	(11.5)	-.2	(16.5)	-.6	(8.5)
Denmark	-.7	(13.5)	-.1	(22.5)	-.6	(8.5)
France	-.7	(13.5)	-.2	(16.5)	-.5	(10.5)
Congo	-.7	(13.5)	-1.2	(6)	.6	n.a.
Austria	-.6	(16)	-.5	(13.5)	-.1	(15.5)
Italy	-.5	(17.5)	^c	(28)	-.5	(10.5)
United States	-.5	(17.5)	-.2	(16.5)	-.3	(14)
Japan	-.2	(19.5)	-.1	(22.5)	-.1	(15.5)
Venezuela	-.2	(19.5)	-.2	(16.5)	^c	(22)
Trinidad and Tobago	-.1	(21)	-.1	(22.5)	^c	(24)

n.a.: Not applicable.

Note: A minus sign indicates a net payment and a positive sign a receipt. Some countries had to be omitted from the analysis for lack of data. Underlying GNP data are purchasing power parity estimates.

^aData for Saudi Arabia include 1992 only.

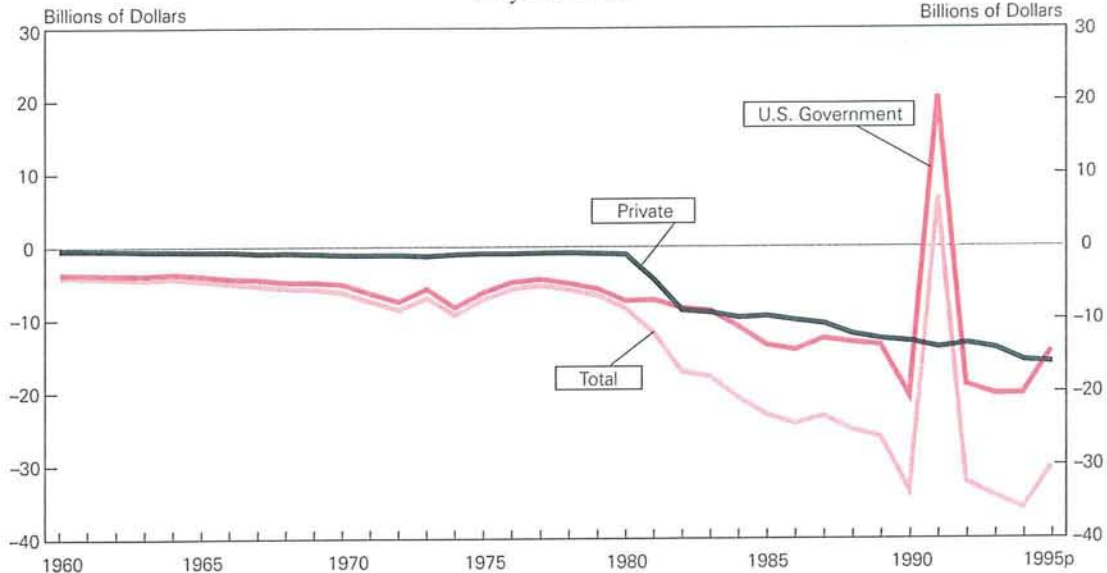
^bData for Kuwait and Germany include 1993 only.

^cLess than 0.05 in absolute value.

Source: World Bank, *World Development Report 1995*, pp. 220–21; *World Development Report 1994*, pp. 162, 220, and 221; and IMF data base on DRI/McGraw-Hill.

Figure 1

U.S. Net Unrequited Transfers, 1960-95
(Payments (-))



Note: Because of differences in classification, these unrequited transfers data, taken from *Survey of Current Business*, differ somewhat from those elsewhere in this article that were taken from the International Monetary Fund.
p: Preliminary.
Source: *Survey of Current Business*, vol. 76, no. 4, April 1996, p. 69; vol. 75, no. 6, June 1995, pp. 84-85; vol. 74, no. 6, June 1994, p. 94; and vol. 73, no. 6, June 1993, p. 70.

have contributed so substantially. However, because they received no goods, services, or financial assets in exchange for their contributions, those contributions, by balance-of-payments accounting rules, had to be classified as unrequited.

Although U.S. net transfer payments have increased substantially over the years, they rose less rapidly than GNP between 1960 and 1980, as indicated in Figure 2, then rose relative to GNP through the mid 1980s, and subsequently more or less stabilized at only about 0.5 percent of GNP. Their composition has also varied, as was illustrated in Figure 1. During the 1960s and 1970s, U.S. government net transfer payments consistently exceeded net private payments, as then recorded, by a wide margin. But during the early 1980s, private payments soared, as changes in reporting were instituted; net taxes paid by U.S. residents to foreign governments came to be included in the category, and estimates of personal remittances by the foreign-born population in the United States were improved, and thus increased.⁶ Thereafter, net private payments have fairly consistently accounted for more than two-fifths of all U.S. net transfers, compared to

only one-tenth in the early 1960s. The corresponding decline in the government share has occurred in grants to foreigners, which recently have comprised roughly two-fifths of all net transfer payments, only half the share of the early 1960s.⁷ Of these grants, roughly one-third have been designated for military assistance in recent years.

V. Some Explanations for Unrequited Transfers

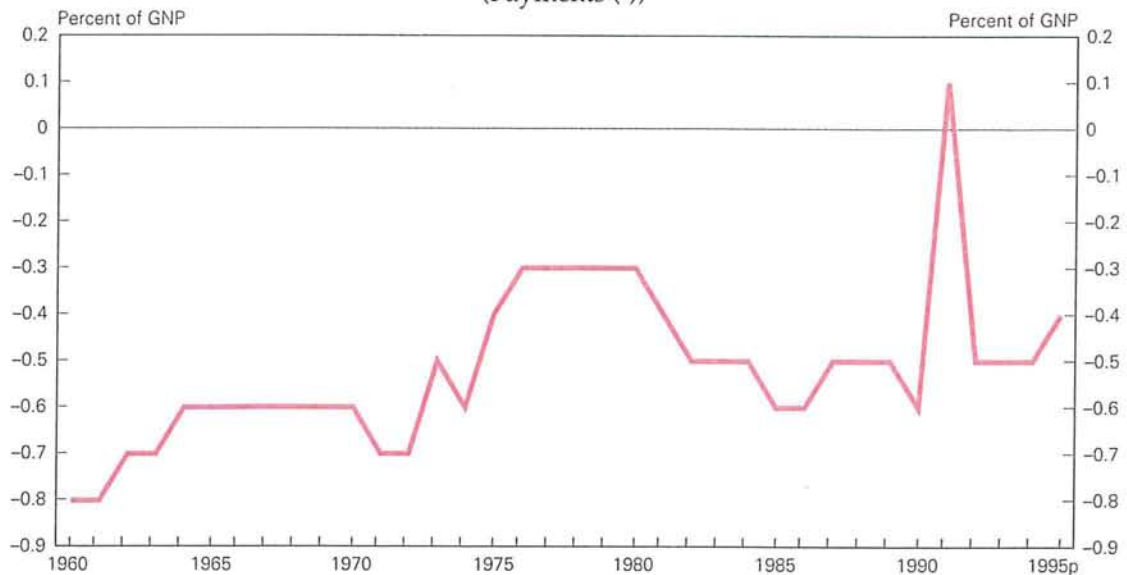
To explain transactions, economists traditionally have appealed to somewhat selfish motivations. They have assumed, for example, that households spend on goods so as to maximize their welfare as consumers, and that firms channel their outlays so as to maximize their profits as producers. Unrequited transfers present severe difficulties for this mode of analy-

⁶ See *Survey of Current Business*, vol. 72 (June 1992), pp. 68-69.

⁷ For more detail on U.S. unrequited transfers, see section I in the appendix.

Figure 2

U.S. Net Unrequited Transfers as a Percent of GNP, 1960-95
(Payments (-))



Note: Because of differences in classification, these unrequited transfers data, taken from *Survey of Current Business*, differ somewhat from those elsewhere in this article that were taken from the International Monetary Fund.
p: Preliminary.
Source: *Survey of Current Business*, vol. 76, no. 4, April 1996, p. 69; vol. 75, no. 6, June 1995, pp. 84-85; vol. 74, no. 6, June 1994, p. 94; vol. 73, no. 6, June 1993, p. 70; IMF data base on DRI/McGraw-Hill; and Haver.

sis, for, by definition, a party making a transfer payment receives nothing of material value in return. To explain unrequited transfers, one must consider noneconomic motives, such as national defense—which, as Adam Smith observed, “is of much more importance than opulence”⁸—or even altruism. Such motives, especially national security, have inspired sizable unrequited transfers from the United States to Israel and Egypt, and largely account for the leading positions of those countries among the recipients of such transfers.

Even though noneconomic considerations may motivate some unrequited transfers, economics—or, more generally, political economy—may still yield some insights. For example, we might expect countries with high incomes per capita to be net payers of transfers, and those with low incomes per capita to be net recipients, other things equal. Indeed, some support for this hypothesis was found in our examination of the leading donors and recipients in Tables 3 and 4. As it turns out, however, a more comprehensive analysis—illustrated in Figure 3—suggests that this hypothesis explains very little of the variation in net

transfer payments from country to country; the tendency for net transfer payments to increase with per capita incomes is extremely weak.⁹

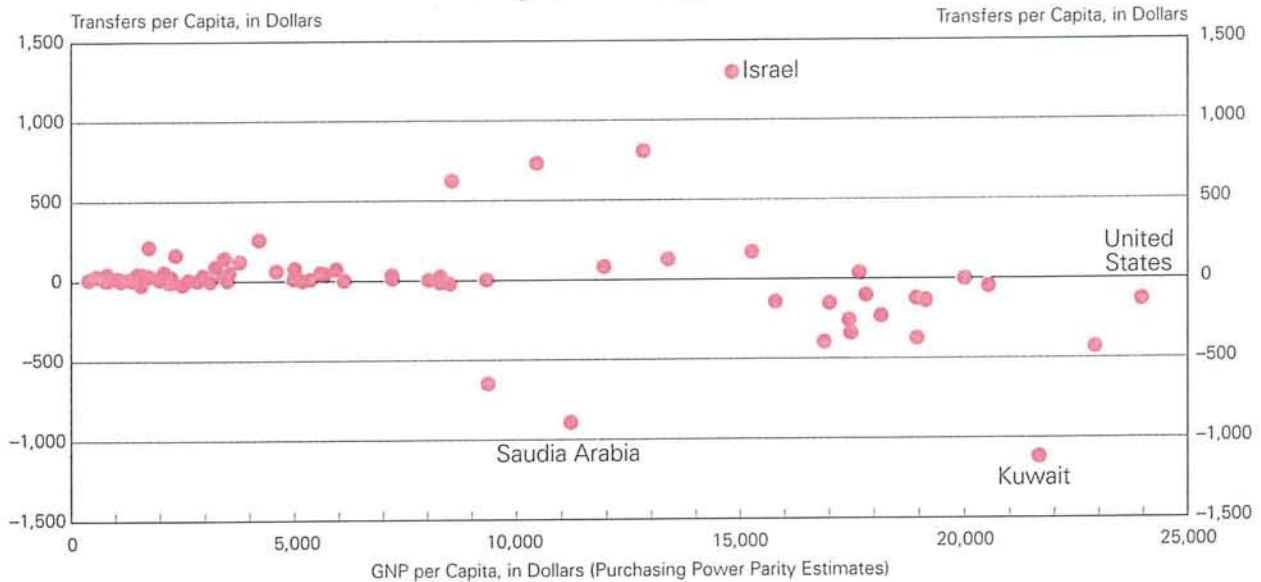
For the United States, some further, albeit limited, analysis is possible. Two issues on which some data are available seem especially worthy of investigation. First, are the nation’s net transfer payments to, or receipts from, another country generally larger, the larger the population born in that country but residing in the United States? Such an outcome would seem likely, since remittances, gifts, pensions, and the like between such populations and their former homelands probably tend to increase with the size of those populations. In addition, larger foreign-born populations may be more successful than smaller ones in influencing governmental policy on transfers. Second, are net U.S. transfer payments to another country typically larger, the greater the excess of U.S. per

⁸ *The Wealth of Nations* [1776]. New York: The Modern Library, 1937, p. 431.

⁹ The simple coefficient of correlation is -0.27 (where net payments carry a minus sign), significant at the 0.02 level.

Figure 3

Relationship between Net Unrequited Transfers per Capita and GNP per Capita, Annual Averages, 1992-93, for 82 Countries



Note: Data for Bulgaria, Ethiopia, Lao P.D. Rep., and Saudia Arabia include 1992 only; and data for Germany and Kuwait include 1993 only. Source: World Bank, *World Development Report 1995*, Table 30, pp. 220-21; and *World Development Report 1994*, Table 30, pp. 162, 220, and 221; and IMF data base on DRI/McGraw-Hill.

capita income over per capita income in that country (and conversely for net U.S. transfer receipts)?

Standard statistical analysis yields results highly consistent with the first of these propositions, but not the second. The results, reported in section II in the Appendix, are only tentative, being based on very limited data (for the United States and only seven other countries) and, therefore, on a less than comprehensive analytic model. Nevertheless, the results merit attention, as the first proposition has strong statistical support, and the second—the finding that U.S. net transfer payments bear little relation to differences in per capita income—accords well with the pattern displayed in Figure 3.

VI. Summary and Conclusion

Unrequited transfers between nations usually receive relatively little attention, even though they often exceed trade and current-account balances and sometimes amount to sizable fractions of national incomes. Exceptional transfers, however, have attracted excep-

tional attention. Thus, between the world wars, extended negotiations, and intensive debate, took place over the amount of reparations that Germany should, and could, pay to the victorious allies. Again, as the dollar's exchange rate came under strong downward pressure during the 1960s, the U.S. government adopted intensive measures tailored to reduce such pressure from the government's unrequited transfer payments in the form of foreign aid and related spending abroad. Still more recently, in recognition of the resources it devoted to Operation Desert Storm, the United States obtained sizable unrequited transfer payments from its coalition partners in 1991.

Among the net recipients of such transfers, Israel has ranked at or near the top ever since 1959, with Egypt and Portugal also in the forefront since the late 1970s. Among the net payers, or donors, Germany, the United States, Saudi Arabia, France, and the United Kingdom have been in the vanguard since the mid 1970s. If countries are ranked instead by their net receipts or payments in relation to their national incomes, most, but by no means all, of the leading recipients have relatively less developed economies,

while the leading donors have comparatively high incomes per capita. Although the United States ranks low in net payments of unrequited transfers as a percent of national income, it has been, with the exception of 1991, a net payer for many years.

Evaluating the forces that motivate unrequited transfers is a daunting task, since the motivations may be primarily noneconomic, such as national defense or

altruism, and highly imponderable. Thus, differences in per capita income between countries seem to account for little or none of the variation in net transfer payments from country to country. On the other hand, a substantial portion of that variation may perhaps be explained by the dimensions of the various foreign-born populations residing in the paying or receiving countries, if the case of the United States is typical.

Appendix

I. Appendix Table

U.S. Unrequited Transfers, Net, 1960 to 1995

(Payments (-); in millions of dollars unless otherwise indicated)

Year	Total	As Percent of GNP	U. S. Government			Private
			Total	Grants	Pensions and Other Transfers	Remittances and Other Transfers
1960	-4,062	-.8	-3,640	-3,367	-273	-423
1961	-4,127	-.8	-3,693	-3,320	-373	-434
1962	-4,277	-.7	-3,800	-3,453	-347	-477
1963	-4,392	-.7	-3,818	-3,479	-339	-575
1964	-4,240	-.6	-3,626	-3,227	-399	-614
1965	-4,583	-.6	-3,907	-3,444	-463	-677
1966	-4,955	-.6	-4,301	-3,802	-499	-655
1967	-5,294	-.6	-4,415	-3,844	-571	-879
1968	-5,629	-.6	-4,793	-4,256	-537	-836
1969	-5,735	-.6	-4,796	-4,259	-537	-939
1970	-6,156	-.6	-5,060	-4,449	-611	-1,096
1971	-7,402	-.7	-6,285	-5,589	-696	-1,117
1972	-8,544	-.7	-7,435	-6,665	-770	-1,109
1973	-6,913	-.5	-5,663	-4,748	-915	-1,250
1974	-9,249	-.6	-8,232	-7,293	-939	-1,017
1975	-7,075	-.4	-6,169	-5,101	-1,068	-906
1976	-5,686	-.3	-4,769	-3,519	-1,250	-917
1977	-5,226	-.3	-4,368	-2,990	-1,378	-859
1978	-5,788	-.3	-4,944	-3,412	-1,532	-844
1979	-6,593	-.3	-5,673	-4,015	-1,658	-920
1980	-8,349	-.3	-7,304	-5,486	-1,818	-1,044
1981	-11,702	-.4	-7,186	-5,145	-2,041	-4,516
1982	-17,075	-.5	-8,338	-6,087	-2,251	-8,738
1983	-17,718	-.5	-8,676	-6,469	-2,207	-9,043
1984	-20,598	-.5	-10,855	-8,696	-2,159	-9,742
1985	-22,954	-.6	-13,406	-11,268	-2,138	-9,549
1986	-24,189	-.6	-14,064	-11,867	-2,197	-10,126
1987	-23,107	-.5	-12,508	-10,287	-2,221	-10,599
1988	-25,023	-.5	-13,014	-10,513	-2,501	-12,009
1989	-26,016	-.5	-13,408	-10,892	-2,516	-12,698
1990	-33,393	-.6	-20,351	-17,417	-2,934	-13,042
1991	6,869	.1	20,733	24,194	-3,461	-13,864
1992	-32,184	-.5	-18,818	-15,083	-3,735	-13,330
1993	-34,084	-.5	-20,096	-16,311	-3,785	-13,988
1994	-35,761	-.5	-20,061	-15,814	-4,247	-15,700
1995p	-30,095	-.4	-14,141	-11,027	-3,114	-15,954

Note: Because of differences in classification, these unrequited transfers data, taken from *Survey of Current Business*, differ somewhat from those elsewhere in this article that were taken from the International Monetary Fund.

p: Preliminary.

Source: *Survey of Current Business*, vol. 76, no. 4, April 1996, p. 69; vol. 75, no. 6, June 1995, pp. 84-85; vol. 74, no. 6, June 1994, p. 94; and vol. 73, no. 6, June 1993, p. 70; IMF data base on DRI/McGraw-Hill; and Haver.

II. Following is the estimated regression equation discussed in the section entitled, "Some Explanations for Unrequited Transfers." T-statistics are in parentheses and, if starred, are significantly different from zero at the 0.01 level.

$$T_i = 307.90 + 0.02245Y_i + 0.0008F_i; \bar{R}^2 = 0.88; 7 \text{ observations};$$

(0.78) (0.41) (5.05)*

where

T_i = net unrequited transfers between the United States and country i , in millions of dollars;

Y_i = excess of U.S. GNP per capita over GNP per capita in country i , in dollars (purchasing power parity estimates);

F_i = number of persons born in country i living in the United States in 1990, with the same algebraic sign as T_i .

Data for T_i and Y_i are annual averages for the period 1988–93.

Sources of Data:

T_i : *Survey of Current Business*, various issues; and Statistical Office of the European Communities, EuroStat, *Geographical Breakdown of the Current Account*, EUR 12, 1984–93, pp. 139 and 181.

Y_i : OECD Statistics Directorate, *National Accounts, Main Aggregates 1960–1994*, 1996 edition, vol. I, p. 149.

F_i : U.S. Bureau of Census, *1990 Census of Population, The Foreign-Born Population in the United States*, 1990 CP-3-1, Table 1.

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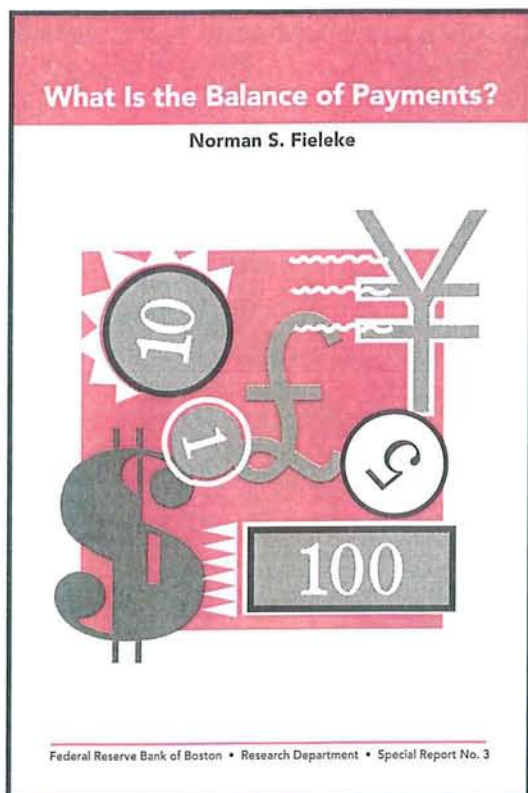
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