

A FURTHER SIMPLIFICATION AND INTEGRATION OF TRANSFER MECHANISM

RICHARD I. LEIGHTON

PROFESSOR METZLER in his classic paper entitled "The Transfer Problem Reconsidered"¹ discusses the consequences of income adjustments for real capital transfer. The model contains two income-determination equations and an equation of the balance of trade for the paying country. The real capital outflow, as opposed to a money transfer, is measured by the deficit in the balance of payments of the paying country. The income equations contain the marginal propensity to consume domestic goods, marginal propensity to invest, and a marginal propensity to import. Three parameters are also included in the equations: (1) effects which transfers have directly on the paying-country's income only, (2) effects which transfers have directly on receiving country only, (3) effects which transfers have directly on income of both countries. The equations are differentiated with respect to the three parameters. From these three equations come his conclusions on the transfer of real capital.

The degree of generalization achieved by the Metzler approach is somewhat limited. His conclusions apply to the three possible conditions of stability in isolation (both stable, only paying country stable, and only receiving-country stable, where stability in isolation is defined as the sum of the marginal propensities to consume and invest is less than one) and the three possible effects which transfers have directly on income. The results are summarized in a three by three matrix.

Vanek has expanded this approach and made the analysis more general; his discussion is considerably more sophisticated.² The object of this paper is to simplify the discussion by deriving algebraically investment multipliers, which are used to ascertain the real

¹ A.E.A., *Readings in the Theory of International Trade*, Philadelphia: The Blakiston C., 1950, pp. 179-200.

² VANEK, J., *International Trade: Theory and Economic Policy*, Homewood: Richard D. Irwin, 1962, ch. 7.