

for southeast Asia. For fiscal year 1968 we are requesting a total of \$75.3 billion in new obligational authority. Expenditures are now estimated at \$67.95 billion for fiscal year 1967 (\$9.65 billion above the original budget estimate) and \$73.1 billion for fiscal year 1968.

IMPACT OF THE DEFENSE PROGRAM ON THE BALANCE OF PAYMENTS

During the past year the progress that the United States has been making in its efforts to eliminate the troublesome deficit in its international balances of payments was arrested. By 1965, the overall "liquidity" deficit was slightly over \$1.3 billion, down substantially from the \$2.8 billion level of the previous year, and we were hoping for a further improvement in 1966. However, we now expect that when final data are available for that year, they will show that on a liquidity basis the deficit was roughly the same as the year before. The chief factors in this development were some deterioration on the trade accounts stemming from the rapid domestic economic expansion during the period and higher Defense expenditures abroad.

As you know, for many years the Department of Defense has been making a vigorous effort to reduce the net impact of its program on the U.S. balance of payments while still maintaining all necessary combat capabilities and avoiding undue hardships for the individual serviceman or his dependents. Figure 1 summarizes the results of this effort over the fiscal year 1961-66 period.

FIGURE 1

[In billions]

	Fiscal year—					
	1961	1962	1963	1964	1965	1966
Expenditures:						
U.S. forces and their support (excluding increase in SEA expenditures over fiscal year 1961).....	\$2.5	\$2.4	\$2.4	\$2.5	\$2.3	\$2.4
Military assistance.....	.3	.2	.3	.2	.2	.2
Other (AEC, etc.).....	.3	.3	.3	.1	.1	.1
Total.....	3.1	3.0	3.0	2.8	2.6	2.6
Receipts.....	-.3	-.9	-1.4	-1.2	-1.3	-1.2
Net adverse balance (excluding increase in SEA expenditures over fiscal year 1961).....	2.8	2.1	1.6	1.6	1.2	1.4
Increase in SEA expenditures over fiscal year 1961.....			.1	.1	.2	.7
Net adverse balance.....	2.8	2.1	1.7	1.7	1.4	2.1

As you can see, between fiscal year 1961 and fiscal year 1965 we succeeded in reducing the net adverse balance on the "Defense" account by half, from \$2.8 billion to \$1.4 billion. This reduction was achieved through a dramatic rise in receipts from sales of U.S. military goods and services to foreign countries, coupled with a successful effort to hold down overseas expenditures in face of substantial increases in foreign prices and wages and in the pay of U.S. Defense Department personnel. For example, in Europe the cost of living went up about 16 percent and wage rates rose more than 30 percent. However, during fiscal year 1966 the requirements of the southeast Asia conflict, together with a modest though, hopefully, temporary decline in military sales receipts, combined to raise the net adverse balance to \$2.1 billion.