The major factor underlying this rise, of course, has been the war in Vietnam. Military expenditures abroad are closely related to the size of our deployments overseas. Between June 1965 and June 1966, the total number of U.S. military personnel in south Vietnam rose from 59,900 to 267,500, an increase of 207,600. In addition, it was necessary to undertake very large construction and logistics efforts in support of operations in southeast Asia, both of which added to the payments deficit. These additional foreign exchange costs were not unexpected (once the dimensions of our commitment there became apparent), and I reported to you a year ago that the conflict might raise such costs several hundred million dollars above prebuildup levels; indeed, we now estimate that there were approximately $500 million of such additional expenditures in fiscal year 1966.

We recognized this threat to our balance of payments from the beginning and we have taken extraordinary measures to minimize its impact. Nevertheless, we must expect that the higher southeast Asia deployments planned over the next year and a half will inevitably cause our overseas spending to rise still higher in the months ahead. Indeed, it now appears that Vietnam-related foreign exchange costs in fiscal year 1967 will run over $1 billion higher than the prebuildup year of fiscal year 1965.

In previous years I have described in some detail the Defense Department's actions to limit the balance of payments effects of our overseas programs, including:

The prompt withdrawal of U.S. forces from overseas areas whenever changes in circumstances, our own capabilities, or those of our allies permit such action.

A continuing review of the requirement for and the efficient utilization of overseas installations with a view to eliminating or consolidating these facilities in order to reduce their costs to a minimum.

Acceptance of up to 50 percent cost penalties (in some cases more) in order to favor procurement of U.S.-produced goods and services over those of foreign countries. Through fiscal year 1966, nearly $300 million of such procurement was diverted to U.S. sources.

The virtual cessation of new offshore procurement for the military Assistance Program. In fiscal year 1966, expenditures for such procurement were less than a third the fiscal year 1963 level.

Efforts to encourage Defense Department personnel to reduce their overseas spending and, conversely, to increase their personal savings.

Sharp curbs on the size of U.S. headquarters staffs abroad and on the number of foreign national employees.

With the escalation of the conflict in southeast Asia, a number of special measures have been added. For example, in the area of personal spending, disbursement procedures were modified to make it easier for a serviceman to leave his pay "on the books" or increase the size of the allotment sent home. A most promising step was the enactment by the Congress last August of the uniform service savings deposit program which authorizes interest rates of up to 10 percent to encourage savings by servicemen overseas. We have initiated a vigorous educational program to complement this new savings oppor-