

tunity and the results to date have been most encouraging. Total deposits under this legislation in the first 3 months (September-November 1966) totaled \$23.4 million.

In the construction area, special procedures have been put into effect to minimize the balance of payments costs of our large building program in southeast Asia, again with gratifying results to date. For example, during fiscal year 1966, only about one-fifth of the \$372 million paid our principal contractor in Vietnam entered the balance of payments. The rest in effect was "returned" to the United States to buy American goods and services, including transportation on U.S.-flag vessels. Most important, this was accomplished without impeding in any way the progress of the construction work itself.

With respect to military receipts, the decrease in fiscal year 1966 can be traced almost entirely to the phasing of actual receipts from the Federal Republic of Germany, with whom we have had an agreement to offset U.S. military expenditures in that country. The basic agreement called for the Germans to make payments in fiscal year 1966-67 of \$1,350 million for purchases of U.S. military goods and services required to meet their defense needs.

With regard to our military sales program, I have the impression that our policies and objectives in this area are not very well understood, either at home or overseas. For example, allegations have been made:

That we are forcing unwanted arms on countries.

That we are selling arms to countries which have no legitimate use for them and which could better use their scarce resources to improve the lot of their people.

That by indiscriminately selling arms, we are promoting the arms race and undermining the peace.

That in some cases our military sales efforts are thwarting the objectives of our own economic aid programs.

That our military sales efforts are motivated primarily by balance of payments considerations, abetted by the desire for profits on the part of U.S. manufacturers.

All of these allegations are false and are based on a misunderstanding or lack of knowledge of the facts involved. I believe it would be useful, therefore, to review briefly the background and origin of the present foreign military sales program.

It has been widely recognized in our country, at least since the Korean war, that the collective defense of the free world required armed allies, and somewhat more belatedly, that the internal security of most countries requires some armed forces. Circumstances of history, in particular the greatly weakened economic condition of most countries following World War II, forced on the United States the role of major armament supplier to the free world. Accordingly, during the decade of the 1950's, the United States had to meet the legitimate armament needs of its friends primarily through a large grant aid program. Indeed, of the \$22 billion of U.S. military exports during the 1950's, \$17 billion were financed by Congressional appropriations.

By the latter part of the decade, however, many of these countries had become prosperous again, enabling them to produce more of their own arms or buy them abroad. At the same time, this rising affluence allowed several of these countries to rebuild their monetary reserves.