

Also, between fiscal year 1957 and the end of fiscal year 1961, the United States lost about \$5 billion of its gold holdings while its liquid liabilities to foreigners (which represent potential claims on our gold) had risen from about \$15 billion to about \$22 billion.

The increasing prosperity of many of our allies was reflected in our military assistance policies. Grant aid by fiscal year 1961 had already declined from an average annual level of \$2 billion plus during the 1950's to about \$1.5 billion. Since fiscal year 1961, this downward trend has continued with grant aid declining both absolutely and relatively. Whereas in fiscal year 1961, there were two dollars of grant aid for every dollar of military sales to foreign recipients, by fiscal year 1966 the ratio had been reversed. Moreover, I think it is important to note that, in terms of total value, U.S. military exports in the 10-year period, fiscal year 1962-71, are not expected to be measurably higher than in the decade, fiscal year 1952-61; the big change will be in the shift in the way these exports are financed—from grant aid in the 1950's to military sales in the 1960's.

With this shift in emphasis from grant aid to sales, it was decided to organize the latter on a more formal basis within the Department of Defense, indeed, to make it a separate program. The principal objective of this foreign military sales program is, however, basically the same as that of the grant aid program, i.e., to promote the defensive strength of our allies in a way consistent with our overall foreign policy objectives. Encompassed within this objective are several specific goals:

To further the practice of cooperative logistics and standardization with our allies by integrating our supply systems to the maximum extent feasible and by helping to limit proliferation of different types of equipment.

To reduce the costs, to both our allies and ourselves, of equipping our collective forces, by avoiding unnecessary and costly duplicative development programs and by realizing the economies possible from larger production runs.

To offset, at least partially, the unfavorable payments impact of our deployments abroad in the interest of collective defense.

Three basic standards were established to govern the conduct of our foreign military sales program:

We will not sell equipment to a foreign country which we believe it cannot afford or should not have.

We will never ask a potential foreign customer to buy anything not truly needed by its own forces.

We will not ask any foreign country to purchase anything from the United States, which it can buy cheaper or better elsewhere.

These standards are fully consistent with the spirit of the provision added to the Foreign Assistance Act last year, which calls for the sales program to be administered in such a way as to encourage reciprocal arms control and disarmament agreements and discourage arms races.

Over the next 5 years, we estimate that the countries of the non-Communist world will have legitimate requirements for substantial amounts of new military equipment. Based on past experience, we believe that many of these requirements can be most effectively met by purchases from us. However, our ability to realize this potential will depend on one major condition: we must convince our allies that