proceeds going into official Vietnamese reserves where their use can be controlled by the Government of Vietnam and observed by the U.S.

The charge that the U.S. in either its military on nonmilitary program pays out dollar currency to local civilians is incorrect. Furthermore, the large part of the AID program does not represent payments of any kind in Vietnam but involves the importation of goods, most of which come from the United States. Imports other than from the U.S. are primarily limited to developing countries in the area and are financed with letters of credit the proceeds of which in turn can be used only for imports from the United States.

Of the foreign exchange which accrues to the Vietnam National Bank a relatively small part, estimated between $10–$15 million, is used to import goods from France but both Vietnamese and French sources indicate a substantial portion of this outflow is offset by income from exports from Vietnam to France. There are also some invisible remittances to France such as for travel, study, debt payments, etc., but it is our understanding that remittance of current profits by foreign businesses in Vietnam allowed for nationals of most nations have not been permitted to those of France.

We have also examined the problem from the standpoint of French dollar accumulation. If the allegations were true we should see a sharp rise in French dollar gains beginning in 1965. The contrary is true. French reserve gains, on which their gold purchases are based, were about $200 million less in 1965 than in the two preceding years and it appears fell approximately another $200 million in 1966.

Further, the French balance of payments gains are fully accounted for by their surpluses with other areas.

It might also be noted, as a separate matter, that Vietnam holds its reserves almost entirely in U.S. dollars and holdings of French francs are now negligible.

In summary it appears clear that as far as the U.S. expenditure of official funds and those of official personnel in Vietnam are concerned, for both military and non-military activities, no benefit accrues to France. Similarly it appears that official and commercial transactions between Vietnam and France give rise to only a relatively small gain of dollars to France.

Consequently, any significant flow of funds to France would have to be the result of illegal transactions. Obviously no statistics can be gathered on blackmarket transactions, let alone what portion may be of benefit to France. Certainly such transactions do take place in a war-torn country such as Vietnam but in view of the measures taken to curb blackmarketing and the fact that many participants would have no ties with France it is reasonable to assume that any benefits to France are small.

Representative Reuss. Let me turn to the proposed 6 percent tax increase.

Last year we tried super-tight money, and that didn't work. It played havoc with the housing industry and with small business. It is now proposed to increase the tax on everybody right down to the poverty level, exempting poverty cases, at the rate of 6 percent, in order, I gather, to take some of the heat off monetary policy.

Secretary Fowler. No. There are three reasons.

Representative Reuss. Three reasons. One, dampen inflation by slowing down—you tell me the three reasons.

Secretary Fowler. The first is to pay for the war. Our estimate is that in fiscal 1968 the war in Vietnam is going to cost between $5 and $6 billion more than it cost in fiscal 1967.

Representative Reuss. One, pay for the war.

Secretary Fowler. That is right.

Number two, we want to hold the deficit, both in the administrative budget and in the NIA budget, into a measured confine.

Representative Reuss. Why? For cosmetic reasons?

Secretary Fowler. No, no.

Representative Reuss. Well, why? I mean why is this reason additional to paying for the war?