

He says that Japanese exports to South Vietnam, most of these exports were either purchased by the U.S. Government or by the South Vietnamese Government with U.S. funds totaling \$138 million in 1966 compared to \$36 million in 1965. I have seen statements in the press which I understand are accurate that Japanese economists believe Japanese exports in fiscal year 1967 to the United States, South Vietnam, and other Southeast Asian nations directly related to the conflict will total between \$1.4 and \$1.7 million.

Now, this is a phenomenal increase in sales of commodities by Japan to the United States and South Vietnam, which is purchasing these things with U.S. funds.

Now, when you come before the committee here to plead the cause that you must deal with every day, the balance of payments, and you see in the log industry one way to solve that, let me ask you now, what is included here in these figures that I have just related that represents a possibility of reducing outflow of American dollars and what specific recommendations has your agency made to the Defense Department and its procurement program to resolve that problem in their agency as you have specifically made recommendations to the forestry agencies to resolve their policy to help in the balance-of-payments problem?

Mr. PETTY. On the first question, Senator Hatfield, what specific costs, I believe it was, the largest item as I recall, pertains to recreation expenditures of the U.S. forces in Japan. The cutting of that does pose morale issues. There are some repair facilities in some naval ports, but much of that is getting back to the States. If I may, I would like to give you more detail subsequently.

Senator HATFIELD. Fine.

Mr. PETTY. With respect to the second aspect of your question, at this moment, Assistant Secretary Solomon and Assistant Secretary Knowlton are engaged in a joint conversation with the Japanese with respect to balance of payments, with respect to the total relationship of the United States and Japan, and related to the question you raised. This aspect is involved in their negotiations.

Senator HATFIELD. Well, I want to thank you, Mr. Petty.

(Mr. Petty subsequently furnished a supplementary statement for insertion at this point, as follows:)

A program for reducing defense procurement abroad has been in effect since 1961. This program is described in some detail in the recent Treasury report entitled *Maintaining the Strength of the United States Dollar in a Strong Free World Economy*, under Tab B, "Summary of Actions by the Department of Defense to Reduce Net Foreign Exchange Costs, 1961-1967." See particularly pages 140-142 of the printed version, where there is a section headed, "Expenditures for Materials, Supplies and Services and Major Equipment," and to page 143 under the heading "Military Assistance Program." As stated there, the general policy, where the procurement source is determined on price differential grounds, is that the Department of Defense buys U.S. end products unless the U.S. price is more than 50 percent above the foreign cost. Even in the latter case, decisions to buy abroad are referred to the Deputy Secretary or the Secretary of Defense if the amount exceeds \$10,000.

In the three important categories of Materials and Supplies, Contractual Services, and Procurement for the Military Assistance Program our expenditures were very substantially reduced during the period through FY 1965 in spite of substantial wage and price increases in Japan. Thereafter increased operations in Vietnam caused our spending in Japan for these purposes to rise again.

The Treasury has not recommended that the Department of Defense should apply an even higher price differential because it is believed that the additional budgetary costs would be excessive.