Travel abroad by U.S. businessmen is essential to the expansion, even the maintenance, of earnings of foreign exchange by private business. If the government wants business to expand exports, particularly without direct investments, it must tolerate a great deal of travel by salesmen, not to mention auditors, accountants, and the like to make sure that the Department of Commerce regulations are complied with. Any tax on foreign travel should not put a further onerous burden on businessmen engaged in such necessary activity. The tax imposed on expenditures abroad should apply only to direct outflows from U.S. sources and not to expenditures in local currency or services provided by foreign affiliates which do not cause an expenditure of U.S. dollars.

The Government Account

It was pointed out earlier that the government's expenditures abroad had risen from $7.5 billion to $8.5 billion in the early 1960's to over $11 billion in 1967, and that $4.7 billion of the latter went unrequited by any offset arrangements. The President proposes to save $500 million in this account by reduction of civilian personnel and expenses ($100 million), by reducing the balance of payments impact of foreign aid ($100 million), and by sale of long-term Treasury Bonds to offset military expenses ($300 million). Is this adequate under the circumstances?

I must say, in all fairness, that the Administration has taken many actions, at the behest of the Treasury Department, to reduce the incidence of foreign aid on the balance of payments. The proportion of tied aid has increased. The "substitution effect" of foreign aid on commercial sales has come under scrutiny and machinery has been set up to insure additionality of sales. Reluctantly the international institutions have come to accept the imperative of using U.S.-contributed dollar resources for procurement in the United States. The Inter-American Development Bank and the Asian Development Bank have accepted this principle. It is reported that the new financing proposed for the International Development Association will yield on this point. These are all measures that our organization has advocated. The logic of events has forced their acceptance, and much credit goes to the Treasury Department. Without these changes in the way aid funds are spent, the payments deficits, in view of escalation of other foreign costs, would have been so much higher that the national credit might have been in jeopardy this very moment.

Our military expenditures in Western Europe are mostly in the context of the NATO common defense commitments; about half—between $700 and $800 million—in Western Germany.

The Department of Defense has undertaken many activities in Western Europe to reduce these foreign exchange costs in amount. The principal ones have been: first, offset procurement of defense equipment by Germany, and, more recently when Germany declined to continue these offset purchases of military hardware, in the form of the purchase of $500 million in the United States medium-term securities in Fiscal 1968. An attempt is now being made to continue these arrangements to offset or immunize these military expenditures as an immediate claim on gold. News reports from Bonn seem to indicate that the German Government is not disposed to buy long-term bonds from us.

The sale of Treasury securities to the German Government, which may in the future still be converted into gold, is not an adequate or wise means of meeting the costs of stationing U.S. troops in Western Europe. It is not an offset againts these expenditures, but is simply mortgaging the future and it does not directly ease our balance of payments deficits and the claim on gold.

It seems to us that our Western European presence, within the context of the NATO Alliance, is part of a collective security arrangement and, therefore, the cost must be shared in such a way as to eliminate the impact on the U.S. balance of payments. The United States contributes to this collective security not only its troops in Europe, but also the total military capability of the United States as expressed in our total military budget. Generally, this country is allocating 10 to 12 percent of its gross national product for defense, as compared with 5 to 6 percent in most Western European countries. The assumption of the foreign exchange cost of our troop presence in Germany and other NATO countries, equitably divided, would add but a fraction to their military budget. The problems that have been raised are political, rather than the capacity to pay. The objections from European countries have been the tax burden, the limits on their military budget, and the public relations aspects of paying for the presence of U.S. troops in their midst. These objections may be overcome if the NATO Alliance could develop either of two alternative approaches: First, procurement of goods and services in the United States in the equivalents of our