

military expenditures, making sure that such procurement will be in addition to their normal purchases in the United States; or a lend-lease concept of paying military costs within the NATO Alliance where each country would contribute the local national costs of troop presence.

If our allies in Europe still refuse to go along with equitable sharing of these costs, then we should be prepared to reduce these expenditures unilaterally. It is not likely that either the Soviets or the NATO countries will ever agree to this or make it easy for us if we make the solution conditional upon their agreement and reciprocity.

The situation in Asia, particularly the larger part of the costs relating to Vietnam, differ from those in Europe. The economic base of the countries involved could not afford to support the activities which we have undertaken. On the other hand, most of those countries are dollar-deficit countries and they are in need of growing amounts of imports from the United States. Hence, it should be possible to make specific arrangements with countries like Japan, the Philippines, Republic of China, Thailand, and South Korea to increase their procurement in the United States on a current basis with the accretion of dollar reserves due to military expenditures. This would require payment in blocked dollars in American banks acceptable for U.S. procurement upon specific administrative arrangements, assuring additionality of imports from the United States over a base period.

Defense-support grants to South Vietnam amounted to \$587 million in 1966. This is widely recognized as one of the more conspicuous forms of dollar drain. The use of these grants to fight inflation due to military expenditures by means of massive import programs is a strange way of managing what should be essentially a mobilized war economy. Many Congressional investigations and reports have been critical of this program as wasteful and hurtful to our balance of payments. It would seem to us that a better system of allocation and utilization of resources applicable to a wartime economy can be devised than this free-for-all import assistance program.

The government account is the major area in which fundamental corrective action must be taken. We must reduce the foreign exchange costs of the government to a level which can be met by the foreign exchange earnings of the private sector. Failure to move in this area will mean continuing deficits and permanent, probably more stringent, restrictions on the private sector.

Conclusion

Mr. Chairman, there are certain lessons to be drawn from this analysis. The first is that it is not possible to run a war economy internationally any more than domestically on a business-as-usual basis. Internally, as well as externally, we must make sacrifices. The only thing we can hope for is that the sacrifices are evenly and fairly distributed.

In the case of the international deficits, I do not believe the sacrifices have been evenly distributed. Ever since the foreign tax proposals of 1961, through the Interest Equalization Tax, voluntary restraint programs, and to the present mandatory programs, the private lender and investor has been singled out as a special sacrificial offering. This is not only unfair, but is contrary to the long-range national interest. We are willing to penalize the prudent investor, who will bring back over the years several times the money sent out, in favor of consumption expenditures both in the government and private account. In terms of equity, I fail to see the opprobrium visited upon a company or a bank, entrusted with the savings of millions of people, whose funds may be invested abroad to earn a dollar for his company and his country. Why single them out, in contrast to those, both in public and private life, who spend larger amounts on nonremunerative and nonrecoverable expenditures?

A second lesson is that a wartime economy cannot operate within the framework of unlimited freedom. It is the irony of the present situation that world communism and our determination to resist it in the name of preserving freedom and independence of other nations, is forcing the United States into a controlled economy and serious curtailment of traditional personal freedoms. Our NATO allies, as well as Japan, should recognize that lack of cooperation on their part, throwing the whole burden of sacrifice on the American public, may lead this nation into a revulsion and inward withdrawal, which will revive the isolationism of the 1920's and 1930's. They should come forward of their own accord, just as the United States did in the Lend Lease Program of 1941 and the Marshall Plan of 1948, and offer to consider the equitable distribution of our burdens in budgetary and foreign exchange terms. I can think of nothing that