

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. Many congressional studies have shown that this is a major source of dollar drain. It would seem to me that the policy of giving import assistance in order to fight inflation due to military expenditures is a bottomless pit and in a wartime economy it should be possible to arrange a more effective way of introducing consumer goods without just pouring them in, with rather unhappy speculative profit-making effects.

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.

In 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 international deficits, I do not believe the sacrifices have been evenly distributed. Ever since the foreign income 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 the consumption expenditures both in the Government and the private account, and this is done on the theory that the deficits are temporary.

As late as January 14 I heard Mr. Walter Heller on "Meet the Press" say that he approved of these measures to meet a temporary situation. Well, we have had balance-of-payments deficits since 1950. When does it become permanent instead of temporary under these conditions?

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.