

a clear statement that this policy would be kept in force only as long as is required by the U.S. balance-of-payments situation. From FY 1963 through FY 1967, based only on cases where foreign source bids were received, approximately \$13 million in procurements which normally would have been foreign were returned to U.S. sources at an additional budgetary cost of approximately \$4 million, or about 31%.

With respect to purchases of POL, in FY 1967 the Department of Defense returned to the U.S. somewhat over \$100 million of the approximately \$570 million which normally would have been earmarked for overseas procurement; thus, about 20% of Department of Defense overseas procurement requirements in FY 1967 were purchased in the U.S. Additional returns have been determined to be infeasible, principally on economic grounds, *e.g.*, the additional budgetary cost involved would greatly exceed any benefits in foreign exchange savings.¹

Thus, the U.S. Defense Department does place a "feasibility" limit on the extent to which wastage of resources for the sake of serving foreign exchange should go. It favors, therefore, the exploration of other methods for reducing the balance-of-payments impact of U.S. defense expenditures.

The balance-of-payments impact of the U.S. defense program can also be reduced either by cutting back overseas defense commitments, or by altering the techniques of financing these commitments, or by a combination of the two approaches. So far as the approach of cutting back defense commitments is concerned, the Defense Department itself has stated:

It is always possible to save on defense budgets or on balance-of-payments costs attributable to defense at the cost of adequate military resources to support an optimum strategy. For example, with greater limitations, we might be forced to give up political opportunities which might otherwise be available, or we might be obliged to cut back on the strategy of defending the United States at the frontiers of the non-Communist world, or we might accept increased risks of major war.²

In this study we shall assume that U.S. defense policy is outside the purview of the Joint Economic Committee and that, therefore, U.S. defense strategy must be taken as determined by those charged with this responsibility. Accordingly, the approach to be used will be that of alerting the techniques of financing the defense commitments and not that of altering the defense commitments themselves.

The financing of overseas defense commitments of the United States imposes two kinds of burden upon the United States: (a) the balance-of-payments burden; and (b) the budgetary burden. The balance-of-payments burden has come to be the object of international negotiation at least since 1959. On the other hand, the budgetary burden of these commitments has not, at least publicly, been explored as an object of international negotiation thus far. Instead, the approach adopted by the U.S. Government has been one of seeking agreements with allied nations to offset, at least partially, the foreign-exchange cost

¹ U.S. Treasury Department, *Maintaining the Strength of the United States Dollar in a Strong Free World Economy* (January 1968), pp. 140-141.

² U.S. Department of Defense in *The U.S. Balance of Payments—Perspectives and Policies*, staff materials and other submissions prepared for the use of the Joint Economic Committee, U.S. Congress (U.S. Government Printing Office, 1963), p. 79.