

IV. An Intensified Program to Moderate the Foreign Exchange Costs of Government Expenditures Abroad for Security, Development and Other Activities

A. Military

1. Measures to Reduce the Net Impact of Military Expenditures Abroad

The Department of Defense has continued its efforts to minimize the net impact of its expenditures on our balance of payments. (These efforts were detailed in Tab B of the Treasury publication, "Maintaining the strength of the United States Dollar in a Strong Free World Economy," January, 1968.) Nevertheless, owing primarily to the continuing Vietnam conflict and wage and price increases overseas, DOD expenditures continued to increase during 1968. This increase, however, is expected to be markedly less than those experienced during 1966 and 1967. Defense expenditures worldwide increased from \$3.8 billion in 1966 to \$4.4 billion in 1967 and are expected to increase by some \$200 million in 1968 to a level of about \$4.6 billion. These increases have appeared largely in the Far East area. In Western Europe, we expect to achieve a slight decrease in expenditures during the year; nevertheless, these expenditures are still running at about \$1.6 billion annually.

In its efforts to restrain expenditure increases, DOD has continued programs in effect prior to 1968. Construction and subsistence expenditures abroad have been held down as a result of special efforts. In addition, new programs were undertaken to reduce the number of American civilians working overseas and the expenditures for official travel overseas as a part of government-wide efforts in these areas. During the year DOD also completed a redeployment of about 35,000 United States military personnel from Germany under previously announced plans.

Special efforts also were made during this past year to limit the foreign exchange impact of personal spending by American forces and their dependents in Europe. Primarily, DOD has encouraged individuals stationed overseas voluntarily to contain their spending on the local economy and to increase savings. Working within these guidelines, DOD undertook a general re-emphasis of its existing voluntary programs relating to personal spending, including (a) an expanded internal information program on the balance of payments problem and DOD programs, reaching military and civilian personnel