

serving at home as well as overseas; (b) improved stocking of American goods in military exchanges overseas; (c) increased promotion of the use of American sales facilities; (d) re-emphasis of American controlled recreation facilities overseas; and (e) renewed emphasis on current savings programs.

It is recognized, however, that owing to price increases overseas as well as pay increases to American personnel, the ability of DOD to achieve substantial reductions in personal spending overseas depends primarily on the reduction of the number of personnel. Accordingly, DOD has undertaken new efforts, particularly in the areas of reducing staffs in overseas headquarters and streamlining overseas support and administrative operations in an effort to reduce the number of persons employed overseas.

2. Actions to Offset United States Expenditures by Encouraging Foreign Procurement in the United States of Military Equipment

As a part of the Action Program, we have intensified our efforts, particularly with the financially capable countries of Western Europe, to enlist their balance of payments cooperation through procurement of more of their defense needs in the United States. Additional military sales arrangements were consummated with a number of countries in Europe and elsewhere during the year. These sales will provide balance of payments benefits to the United States during the next several years. DOD receipts, stemming primarily from sales of military equipment, will decline about \$300 million from the 1967 level but will nevertheless total approximately \$1.2 billion on a global basis in 1968. In 1967, our receipts benefited from an unusually high level of payments from Germany to complete the existing offset arrangements.

3. Financial Neutralization

In order to assist in further neutralizing the deficit on the military account, we increased our efforts in 1968 to obtain special financial arrangements, principally through sales of long-term United States securities. We have made considerable progress in this area, particularly in Western Europe, and have commitments for about \$1.4 billion of cooperation in this form from other countries this year. If these materialize fully (through November about \$1 billion had been realized), we would reduce our net adverse balance in the military account to about \$2 billion. This would be an improvement of over \$600 million as compared to 1967. It should be noted, however, that these special transactions cannot be regarded as a satisfactory long-term solution to the deficit in our military account.