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FOREIGN OPERATIONS APPROPRIATIONS FOR 1963

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON FOREIGN OPERATIONS APPROPRIATIONS

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FRANCIS G. MERRILL, *Staff Assistant to the Subcommittee*

PART 1

Export-Import Bank
Inter-American Development Bank
International Development Association
Military Assistance Program
Peace Corps
Ryukyu Islands, Army

Printed for the use of the Committee on Appropriations

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FOREIGN OPERATIONS APPROPRIATIONS FOR 1963

MONDAY, MARCH 12, 1962.

RYUKYU ISLANDS—DEPARTMENT OF THE ARMY

WITNESSES

OFFICE, CIVIL AFFAIRS

MAJ. GEN. J. E. THEIMER, CHIEF, CIVIL AFFAIRS
EDWARD W. O'FLAHERTY, CHIEF, ECONOMIC AFFAIRS DIVISION
EDWARD J. McLAUGHLIN, ECONOMIC AFFAIRS DIVISION
JOSEPH S. HARBISON, PUBLIC AFFAIRS DIVISION
ILY BRATINA, BUDGET OFFICER

OFFICE OF THE HIGH COMMISSIONER, RYUKYU ISLANDS

EDWARD K. SHULTZ, DEPUTY CIVIL ADMINISTRATOR
MAJ. HARVEY A. LEGATE, JR., BUDGET AND FISCAL OFFICER

OFFICE, COMPTROLLER OF THE ARMY

MAJ. GEN. CHARLES B. DUFF, DIRECTOR OF ARMY BUDGET
COL. LEWIS E. MANESS, CHIEF, MILITARY PERSONNEL AND CIVIL FUNCTIONS DIVISION
STUART H. D. FREED, BUDGET ANALYST

ADMINISTRATION

Object classification

[In thousands of dollars]

		1961 actual	1962 estimate	1963 estimate
	ADMINISTRATION			
11	Personnel compensation:			
	Permanent positions	1,343	1,336	1,427
	Positions other than permanent	7	18	7
	Other personnel compensation	17	9	11
	Total personnel compensation	1,367	1,363	1,445
12	Personnel benefits	96	109	117
21	Travel and transportation of persons	128	114	121
22	Transportation of things	46	39	39
23	Rent, communications, and utilities	24	26	32
24	Printing and reproduction	15	14	19
25	Other services	348	392	426
26	Supplies and materials	35	43	49
31	Equipment	26	22	45
32	Lands and structures	50		32
41	Grants, subsidies, and contributions	3,924	4,967	5,575
	Total, administration	6,059	7,089	7,900
	ALLOCATION TO THE U.S. INFORMATION AGENCY			
22	Transportation of things	3		
26	Supplies and materials	2		
31	Equipment	4		
	Total, U.S. Information Agency	9		
	Total obligations	6,068	7,089	7,900

Personnel summary

	1961 actual	1962 estimate	1963 estimate
Total number of permanent positions	421	418	430
Full-time equivalent of other positions	1	2	1
Average number of all employees	406	407	423
Number of employees at end of year	404	410	428
Average GS grade	9.1	9.1	9.0
Average GS salary	$7,856	$7,835	$7,819
Average salary of ungraded positions	$815	$866	$866

Comparative summary of obligations by projects and fiscal years

Project No.	Purpose of project	Actual obligations, fiscal year 1961	Estimated obligations, fiscal year 1962	Estimate, fiscal year 1963	Fiscal year 1963 over fiscal year 1962 increase (+) or decrease (−)
8710	Administrative activities	$1,718,722	$1,722,000	$1,900,000	+$178,000
8711	Pay of civilian employees	1,463,224	1,472,000	1,562,000	+90,000
8712	Travel of civilian employees	88,797	82,000	80,000	−2,000
8713	Information materials and services	73,624	75,000	100,000	+25,000
8714	Incidental operating expenses	93,077	93,000	158,000	+65,000
8720	Construction of USCAR facilities	49,980			
8740	Support of Government services and projects	4,299,187	5,367,000	6,000,000	+633,000
8741	Reimbursement for Government services	825,000	890,000	945,000	+55,000
8742	Contribution to Government projects	3,098,997	4,077,000	4,630,000	+553,000
8743	Transportation of commodities	5,453	5,000	5,000	
8745	Technical education and training	260,877	270,000	295,000	+25,000
8746	Technical cooperation	108,860	125,000	125,000	
	Total	6,067,889	7,089,000	7,900,000	+811,000
	Unobligated balance	21,111			
	Total appropriation or estimate	6,089,000	7,089,000	7,900,000	+811,000

Mr. PASSMAN. This marks the beginning of the hearings on what is generally referred to as the mutual security program, before the Foreign Operations Subcommittee of the House Committee on Appropriations, which also handles the money requests for the Ryukyu Islands.

We have with us this afternoon Maj. Gen. J. E. Theimer, Chief of Civil Affairs of the Army, and a group of other witnesses.

General Theimer, do you have a statement to make to the committee in relation to the justification of funds for fiscal 1963 for the Ryukyu Islands?

General THEIMER. I do, Mr. Chairman.

Mr. PASSMAN. We shall be pleased to hear from you.

STATEMENT OF GENERAL THEIMER

General THEIMER. Mr. Chairman and gentlemen, it is a privilege to appear before this committee to present the requirements for economic assistance for the Ryukyu Islands and for support of the administrative activities of the High Commissioner of the Ryukyus for fiscal year 1963.

To place this request in proper focus, I would like to read the following statement in the President's budget for fiscal year 1963:

To protect the security of the United States and of the free world, the United States will continue responsibility for the administration of the Ryukyu Islands as long as conditions of threat and tension in the Far East require the maintenance of military bases in these islands.

You are familiar with the mission assigned by Executive Order 10713 of June 5, 1957—

to improve the welfare and well-being of the inhabitants of the Ryukyu Islands—

and—

to promote the economic and cultural advancement of the inhabitants.

Public Law 86–629 states that—

every effort shall be made to improve the welfare and well-being of the inhabitants of the Ryukyu Islands and to promote their economic and cultural advancement, during such time as the United States continues to retain authority over the Ryukyu Islands.

In a joint communique dated June 22, 1961, issued on the occasion of the visit to Washington of Prime Minister Ikeda of Japan, the President—

* * * affirmed that the United States would make further efforts to enhance the welfare and well-being of the inhabitants of the Ryukyus * * *.

ECONOMIC WELFARE OF RYUKYUANS

Significant during this past year has been the report of the High Commissioner of the concern of the inhabitants of the Ryukyu Islands over their economic welfare. As you know, the Ryukyuans are poor and their land, especially their arable land, is overcrowded. They depend on assistance from outside and they are not economically self-sufficient.

Despite our past financial assistance to the Ryukyuan people their economic welfare leaves much to be done and has resulted in dissatisfaction among the inhabitants, especially when they look at the greater prosperity and better supplied and cared for condition of their cousins in Japan. This is natural and logical, and a real consideration for the United States and its representative, the High Commissioner, in providing for the welfare of the islands to assure the unhampered use of our vital military base on Okinawa.

Of the major issues in the Ryukyus, their economic welfare individually and collectively is as critical as any and one that it is in our interest to improve.

Although the government of the Ryukyu Islands is limited in its ability to provide for itself because of the nature of the Ryukyuan economy and the sources of income available, it has moved in the right direction. It has increased its own revenues from $21.7 million in fiscal year 1960 to an estimated $26.6 million in fiscal year 1962. On the expenditure side, Ryukyuan government direct outlays for capital investment have increased from $2.3 million in fiscal year 1960 to $3.7 million in fiscal year 1962 or by 59.7 percent; its investment in lending institutions has increased by 68 percent, while outlays for government operations show an increase of only 9.7 percent. These are indications that the government of the Ryukyu Islands is making a real effort to develop itself.

However, these activities are not adequate to accomplish our mission and responsibility in the Ryukyus and to provide an atmosphere where the necessary use of our Okinawa base is assured.

Great deficiencies continue to exist in land development and in the construction of highways and farm roads. Livestock raising must be promoted through education and experimental facilities. Disease remains a major problem in the islands and we have a pressing responsibility in this sensitive area. Educational facilities including classrooms and school equipment remain in short supply.

It will be recalled that the Congress on its own initiative provided $1 million for an increase in salaries of native Ryukyuan teachers in the fiscal year 1962 Ryukyuan Island appropriation. This, the High Commissioner reports, is assisting greatly in obtaining the quality of teachers and motivation needed.

ADMINISTRATIVE COSTS OF RYUKYU ISLANDS

The first part of this request for fiscal year 1963 provides the costs of our administration in the Ryukyus. The activities of the administration are constantly increasing with the growth and increasing activity of the government of the Ryukyu Islands and as additional fields of activity are developed or expanded. The High Commissioner has stated a need for an increase in his staff which is believed modest and well justified. The total request for this administration for fiscal year 1963 is $1.9 million. The second part of the request is for economic assistance to the Ryukyus for the purposes referred to above. This request for fiscal year 1963 includes and continues the provision for increased pay for Ryukyuan teachers in the amount of $1 million. Increases are requested for public safety to be reimbursed to the Ryukyuan government, for education, for medical facilities and assistance, roads and bridges, agricultural land development, and livestock experimental facilities. The total of this request in this category is $6 million.

As a result of the High Commissioner's concern for the welfare of the Ryukyus and maintaining conditions which will assure our free use of our vital base, a Presidential task force was established to look into what could be done to assist the Ryukyus and to improve our position there. They have spent some time on this job and their recommendations for increased economic assistance for the Ryukyus should be available in the near future.

It is believed that this budget request for $7.9 million which is limited by the provisions of Public Law 86–629 to $6 million for economic aid, is the minimum which can be provided for our important mission and stake in the Ryukyus.

Thank you, Mr. Chairman and gentlemen, for the opportunity of appearing before you.

Mr. PASSMAN. Thank you, General.

INCREASE REQUESTED FOR 1963

The budget estimate for fiscal 1963 is in the amount of $7,900,000 as compared to $7,089,000 in the fiscal year 1962, which represents an increase of $811,000.

AREA AND POPULATION OF ISLANDS

Would you insert in the record at this point a table showing the population and the land area of the Ryukyu Islands?

General THEIMER. Yes, sir.

(The requested information follows:)

Land area, Ryukyu Islands

	Acres	Square miles	Population (Jan. 12, 1960)
Okinawa Gunto	348,411	544.4	759,341
Miyako Gunto	54,115	84.6	72,339
Yaeyama Gunto	140,106	218.9	51,442
Total	542,632	847.9	883,122
Okinawa Island	290,555	454.0	744,970
Other Islands in the Ryukyus	252,077	393.9	138,152

Mr. PASSMAN. When you speak of the Ryukyu Islands, the reference is to a chain of islands under that name?

General THEIMER. That is correct, sir.

Mr. PASSMAN. You might, along with the other table, show the population changes during the past 5 years.

General THEIMER. Yes, we will be glad to do that.

(The requested information follows:)

Population increase in Ryukyu Islands

Year	Population	Increase for year	Percent of increase
1955	798,514	17,641	2.26
1956	816,155	18,033	2.26
1957	834,188	15,860	1.94
1958	850,048	18,071	2.17
1959	867,369	17,321	2.04
1960	883,122	15,753	1.78

PARTICIPATION OF JAPAN IN ADMINISTRATION OF RYUKYU ISLANDS

Mr. PASSMAN. Have you heard or read recently that the President was considering, in effect, inviting Japan to resume participation in the control of the islands?

General THEIMER. I read a newspaper item some days ago, Mr. Chairman, which had a similar statement in it. I do not know whether that is the one to which you refer.

I do not think there is much that I can say along that line. I believe that, before long, the recommendations of this task force that I just spoke of will be presented to the Congress, and I am sure that this will come up in that connection.

Mr. PASSMAN. About 3 years ago, if I recall correctly, we switched over from the local currency. Was it the yen?

General THEIMER. The special "B" yen.

Mr. PASSMAN. From the yen to the dollar. That action indicated to me that we were going to be there a long time. Do you still use dollars as the currency there?

General THEIMER. The dollar is still the currency, sir. And we are still concerned, of course, about maintaining our U.S. position, since, as you know, we have a particular advantage in our base there not being subject to the desires or limitations of a foreign power.

Mr. PASSMAN. General, I think the members of this subcommittee understand and appreciate fully the importance of that base. I think we have repeatedly demonstrated that fact through our recommendations. So, I think you have a friendly committee here.

IMPROVEMENT IN ECONOMY

I have been to Okinawa, and I thought it looked prosperous—new roads, light plants, new typhoon-proof buildings, and seafood and caviar.

Have you been out there?

General THEIMER. Yes, sir.

Mr. PASSMAN. Lately?

General THEIMER. Yes; I have, Mr. Chairman. I was there last June.

And I would certainly agree that we have made progress out there.

Mr. PASSMAN. So far as I am concerned, it has been tremendous progress.

General THEIMER. I am sure that you would agree, since you know the islands well, that there is still much to be done, and the people are relatively poor.

I might say, too, that it strikes me that we have a somewhat different responsibility and approach probably to the Ryukyus than we have to other foreign countries, in that we have a legal responsibility, of which, of course, you are well aware.

Mr. PASSMAN. Yes, sir.

General THEIMER. As well as our interest in our base there since Okinawa really constitutes a U.S. base.

Mr. PASSMAN. General, we are dealing with relatively small figures here—$7.9 million. But, we are going to be talking about $5½ billion before we get through with this foreign aid program.

Are those people not enjoying the highest standard of living in the history of the islands?

General THEIMER. There is no question about the fact that the Ryukyus' income and their economy has improved.

The difficulty in this becomes a fact which, of course, affects us.

The political climate affects the attitude there. Income and economy has increased throughout the world.

And particularly when these people look to Japan, a prefecture of which they used to be, and to whom they are related by blood, of course, there is a natural concern on their part.

Mr. PASSMAN. Are we in accord that they are enjoying the highest standard of living in the history of the islands?

General THEIMER. That is a statement of fact, sir.

Mr. PASSMAN. We have provided attractive typhoon-proof school buildings and modern facilities, and a new, beautiful typhoon-proof courtroom building, and innumerable other improvements.

General THEIMER. They look to Japan——

Mr. PASSMAN. We thought there might possibly be a letup if we did all those things.

General THEIMER. Their income is relatively not as good as Japan's; and, in addition, as you know, I believe, there is the feeling that if the Ryukyus were to revert to Japan, they would obtain grants from the Government of Japan which would exceed the assistance that they receive from us. They feel that very strongly.

Mr. PASSMAN. Maybe it would be a matter of second-hand aid—that we would give aid to Japan, and Japan then would turn around and give Okinawa something. I wonder if it might not work out in some such manner?

General THEIMER. I have no idea, sir.

Mr. PASSMAN. What is the amount of the per capita income for the Ryukyu Islands?

General THEIMER. For the last figure that we have got, Mr. Chairman, for fiscal 1961 it is $240 per person.

Mr. PASSMAN. That figure is based upon their standards there, is it not?

General THEIMER. That is right.

Mr. PASSMAN. If you should take their unit production and apply American dollars to the unit production, then what would the per capita income figure be? That is where we have been missing the boat along the way.

General THEIMER. I am afraid I do not follow you, sir.

Mr. PASSMAN. I was at Hong Kong, and I bought some beautiful white shirts for $1.95. Here in Washington, I bought some white shirts downtown for $8.95. This shirt moves into the American economy at $8.95, that shirt moves into the Hong Kong economy at $1.95. They are of comparable quality.

I am speaking about unit production. If you take the unit production on the islands and apply American prices, then I wonder what the gross national product and the per capita income would be?

Mr. O'FLAHERTY. This national income is in terms of U.S. dollars.

Mr. PASSMAN. Their income is in terms of U.S. dollars, but you are applying their unit price standards.

General THEIMER. I do not believe——

Mr. PASSMAN. There is a different unit price standard there than here. When you figure Japan's gross national product, you figure it by their pricing standards, do you not?

Mr. O'FLAHERTY. That is correct, yes.

Mr. PASSMAN. That is what I wanted to hear. Do you have information dealing with that subject?

General THEIMER. Just offhand, I do not believe we have, Mr. Chairman; but we would be very happy to try to get them.

Mr. PASSMAN. You can see where it would be an advantage to try to get the unit production. There are people who talk about the income being $70 per capita. Well, we know you could not pay 1 month's rent with that amount. So you have to figure out what they are paying for comparable goods and services in those countries.

General, this request has been going up and up and up every year since I have been on the committee.

STRATEGIC IMPORTANCE OF OKINAWAN BASE

General THEIMER. Well, what we are concerned about, obviously, Mr. Chairman, is that we have got a big investment, not only in dollars—in our base and facilities there, and the ability to use our military forces and facilities. But we have got, in addition to a big investment of dollars, we have got a big investment as far as our military security and strategy is concerned.

Mr. PASSMAN. The last time you were before the committee, one or two Communists had been elected to the local parliament. Has that number increased?

General THEIMER. The "Communists" in the assembly are a minor factor, as far as that goes. There are a number of political factors among both Communists and non-Communists, of course, which can affect the ability to use our facilities and freedom to use our forces there.

Mr. PASSMAN. It is no real threat at this time?

General THEIMER. It is not a question of there being a great problem. It is something, as the High Commissioner pointed out, that we cannot take for granted.

In other words, we are inclined to relax and say everything is fine there, when, as a matter of fact, we ought to be willing to pay, as he put it, the insurance premium in regard to our base.

STEADY INCREASE IN COST OF PROGRAM

Mr. PASSMAN. Mr. Taber has frequently said that there is usually an asking price and a taking price, and we have to take that fact into account.

But, the President says—

to improve the welfare and well-being of the inhabitants of the Ryukyu Islands—

and—

to promote the economic and cultural advancement of the inhabitants.

Page 2, another paragraph:

Of the major issues in the Ryukyus, their economic welfare individually and collectively is as critical as any and one that it is in our interest to improve.

It has been my impression that we have been making improvements every year since we occupied the islands. In fiscal 1956 your asking price was $3 million and we appropriated $3 million. For the fiscal year 1963, you are asking for $7,900,000, which is 2½ times as much as you requested for fiscal 1956. Why such an increase in such a short period of time?

General THEIMER. Well, I am not prepared to compare this request this year to the one in 1955. I will be very glad to provide that comparison for the record.

Mr. PASSMAN. But you will observe that this is a tremendous increase, although back in 1955 we thought we were providing adequate funds and could level off at around that figure.

General THEIMER. We are aware of the attitude of the committee in the past, and of the fact that the Congress, in fact, increased our appropriation last year over our request.

Mr. PASSMAN. Did our generosity of last year get us into this increased request for fiscal 1963?

General THEIMER. Well, as a matter of fact, Mr. Chairman, there is some factor there that must be taken into account. This is a very critical area, as you know—teachers, and increasing their pay. And there is one factor that we have not mentioned here which I am sure is obvious to the committee, which is the necessity for continuing the same increase. In other words, we cannot increase it one year and then take it back.

Mr. PASSMAN. Do you pay teachers on a 12-month basis in the Ryukyus?

General THEIMER. It is on an annual basis.

Mr. PASSMAN. What amount do you pay annually?

General THEIMER. Well, it varies.

Mr. PASSMAN. Let us take your top—a teacher with a master's degree.

General THEIMER. I do not believe I have got the figures on the teachers with a master's degree.

Mr. PASSMAN. Give us the figure for the average teacher's salary there.

General THEIMER. The primary and junior high school teacher has a base pay of $72.70 a month, Mr. Chairman.

Mr. PASSMAN. That is the minimum, is it not?

General THEIMER. Then the increase is added to that.

Mr. PASSMAN. What we were trying to get is the average that you pay the teachers. What base are you using here, General?

General THEIMER. Let me see; I would say it is probably a primary and junior high school teacher, whose base pay is $114.80. And adding in all the possible increases, we come up with a total of $155.90. That includes a credit for separation allowance.

Now, as a matter of interest, if you want to compare that to a comparable Japanese teacher, they get $180.72.

Mr. PASSMAN. This is the total, is it not, General, $155.90 per month?

General THEIMER. Right, sir.

Mr. PASSMAN. That is $1,870.80 per year, whereas the per capita income for the islands is $240.

Now, what is the per capita income in America?

General THEIMER. I do not happen to have that, sir.

Mr. PASSMAN. Is it not about $2,500?

Mr. O'FLAHERTY. About that; yes.

Mr. PASSMAN. Does this not mean that we would have to pay our schoolteachers about $12,000 a year to bring them on a par with the Ryukyuan scale? We have a per capita income of about 10 times the amount of that in the Ryukyu Islands.

You do discern the mechanics I am dealing with, do you not?

General THEIMER. I understand the philosophy of it.

Mr. PASSMAN. I can certainly agree with you there.

Last year the Congress appropriated a million dollars you did not ask for, and which evidently you did not feel that you needed. Now, we have got to continue it into another year or there will be some dissatisfaction among the teachers?

Mr. GARY. Will the gentleman yield?

Mr. PASSMAN. Yes, of course.

Mr. GARY. Is it true that with that million you did raise teachers' salaries?

General THEIMER. That is correct, sir.

Mr. GARY. And if you do not get that million this year, you will have to reduce them?

General THEIMER. That is correct, sir.

Mr. GARY. So it will be a reduction in salary if you do not get the million dollars, is that right?

General THEIMER. That is correct, sir.

Mr. PASSMAN. The Congress appropriated the million you did not ask for, and that had something to do with this ratio that was established earlier.

What is the situation with regard to school construction, General?

General THEIMER. We have a request in here for school construction again.

RYUKYU DEVELOPMENT LOAN CORPORATION

Mr. PASSMAN. Would you give us a brief explanation of the operations of programs of the Ryukyu Development Loan Corporation?

General THEIMER. I would be very happy to, Mr. Chairman. Do you want a verbal statement here, or do you want a statistical statement?

Mr. PASSMAN. You might give us a brief verbal statement now, and then supplement it with information for the record.

General THEIMER. The Ryukyus Development Loan Corporation operated for the benefit of the Ryukyuans, is a U.S. Civil Administration corporation and, in effect, operated by it.

It provides a source of loanable cash for enterprises and for individuals who cannot otherwise get the money, which is provided in the charter of the Ryukyu Development Loan Corporation. It performs a great deal of good; it has, both it and its predecessor organization. And they have been doing a good business over there, which has improved the economy and increased the capital investment.

Mr. PASSMAN. Of course, they deal only with dollars, as the dollar is the legal currency?

General THEIMER. That is right, sir.

INCREASE IN CAPITAL

Mr. PASSMAN. Last year's budget indicated anticipated investment in fiscal year 1962 of $30,176,000. This year's budget indicates an estimate for fiscal year 1962 of $32,324,000—an increase of $2.1 million. From what source are you getting the increased capital?

General THEIMER. The loanable cash in the Ryukyu Development Loan Corporation is generated, obviously, by repayments which include repayment of principal and also interest. I am not prepared to put my finger on the figures that you just cited, Mr. Chairman.

Mr. PASSMAN. Out of last year's budget you indicated that the investment in the corporation would be $30,176,000, but this year's budget indicates—making it applicable to fiscal 1962—that it would be $32,324,000. You found an additional $2.1 million. Where did you find it?

Mr. MCLAUGHLIN. May I answer to that, General?

General THEIMER. Yes.

Mr. MCLAUGHLIN. From the general fund of the High Commissioner.

With the augmentation of the $1.5 million in the fiscal year 1962.

Mr. PASSMAN. That is an increase of about 8 percent.

Mr. MCLAUGHLIN. It is a sizable increase, yes, sir.

Mr. PASSMAN. From what source did the High Commissioner obtain the money for the general fund?

Mr. MCLAUGHLIN. The General Fund is the residue of the old GARIOA appropriation which had been plowed into these corporate activities.

Now, in this particular case here, the GARIOA receivables were turned over to form the capital of the Ryukyuan Development Loan Corporation (RDLC) and approximately in December 1961, the capital that had been so turned over was about $22 million. The balance, of something in excess of $7 million, was retained earnings of the corporation.

Mr. PASSMAN. This was an underestimate of the available capital. Last year you estimated $30,176,000, but the corporation actually wound up with $32,324,000.

Mr. MCLAUGHLIN. In this particular year here, an additional augmentation of capital was authorized by the Bureau of the Budget under Public Law 86–629. We proposed to increase that capital in order that the RDLC might have a larger loaning program. So out of the miscellaneous receipts of this general fund, they put another $1.5 million into the Ryukyuan Development Loan Corporation.

Mr. PASSMAN. This is the first time we have gone into this Ryukyuan Development Loan Corporation. You asked for $30,176,000, and I assume that was the amount you felt you would have to operate the Ryukyuan Development Loan Corporation. Yet, this year you say the capital was $32,324,000. Who authorized the additional capital?

Mr. MCLAUGHLIN. The Bureau of the Budget.

Mr. PASSMAN. The Bureau of the Budget authorized the additional capital out of what fund?

Mr. MCLAUGHLIN. Out of the general fund of the High Commissioner.

Under Public Law 86–629, these funds can be expended in accordance with the directive of the President.

Mr. PASSMAN. Could the committee assume that maybe you are just as far off this year as last year? This year you are requesting $36,188,000, are you not?

General THEIMER. I am not sure we are talking about the same thing, Mr. Chairman. May I take a moment here?

Mr. PASSMAN. I refer you to page 65 of the justifications.

This is the capital stock of the Ryukyuan Development Loan Corporation?

Mr. O'FLAHERTY. Right.

Mr. PASSMAN. Would you have access to additional funds, without coming to the Congress for fiscal year 1963, for this Corporation?

Mr. MCLAUGHLIN. Well, they are printed in the President's budget, sir, and we consider that to be a submission to the Congress, because the Congress reviews it when they review the appropriation.

Mr. PASSMAN. Are you getting this out of the profits of the Corporation, or are you finding it elsewhere?

General THEIMER. May I either provide for the record or look up the reason for this increase, Mr. Chairman? I cannot explain this particular increase just offhand.

Mr. PASSMAN. Yes.

(The information subsequently supplied follows:)

Ryukyu Development Loan Corp. reconciliation: Capital investment for fiscal year 1962 as estimated in President's budgets for fiscal years 1962 and 1963

			Millions
Net worth, fiscal year 1962, estimated in December 1961 and reported in President's fiscal year 1962 budget			$30.176
Revisions in estimate:			
(1) Difference in fiscal year 1961 earnings:			
Actual earnings		$1.670	
Estimated in December 1961 for President's budget		1.203	
Increase		.467	
(2) Write off of GARIOA receivables in fiscal year 1961		[1] .178	
		.289	
(3) Increased capitalization in fiscal year 1962, not included in President's budget		[2] 1.500	
(4) Difference in fiscal year 1962 earnings:			
Estimate in December 1962	[3] $1.652		
Estimate in December 1961	1,293		
	.359	.359	
Total changes		2.148	2.148
Net worth, fiscal year 1962, estimated in December 1962 and reported in President's fiscal year 1963 budget			32.324

[1] Writeoff directed by auditors.
[2] Capital augmentation made to provide increase in lending program from approximately $6,000,000 to $7,000,000 to $8,000,000.
[3] Reflects increase due to increases in capital and lending program.

Mr. PASSMAN. Could you explain the increase you are talking about now, the increase for fiscal year 1963 over fiscal year 1962, or are you discussing the actual increase over the increased estimate of last year?

General THEIMER. Well, both.

Mr. PASSMAN. There might be some pipeline out there that we would like to hook onto, if you can work magic such as this—and I do not mean to be critical. Without getting any additional funds from Congress, you are running this corporation capital from $30,176,000 up to $36,188,000. I wonder where the money is coming from, as you could not make that kind of profits.

General THEIMER. These are total assets, Mr. Chairman.

Mr. PASSMAN. I know, but you are increasing your capital stock in 2 years by some $6 million. That is 20 percent net in 2 years. You do not make that kind of profit in a loan company.

SOURCE OF CAPITAL CONTRIBUTIONS

General THEIMER. Well, no. The initial cash was from the sale of U.S. aid goods capitalized as the Ryukyuan Development Loan Corporation. There are other contributions. Contributions have

been made to the capitalization of the Ryukyuan Development Loan Corporation.

Mr. PASSMAN. What kind of contributions, General; from where and from the sale of what?

General THEIMER. Well, I believe from a number of sources.

Have you got that there?

Mr. O'FLAHERTY. I think we can submit that.

General THEIMER. I think from a number of sources.

In addition to which, as I said, capitalization does benefit from the repayment of interest. We can give that figure to you.

Mr. PASSMAN. But you are not making this kind of profit from interest on loans, are you?

Mr. O'FLAHERTY. No, sir.

Mr. MCLAUGHLIN. No, sir.

Mr. PASSMAN. What source do you have available for obtaining funds?

Mr. MCLAUGHLIN. The general fund of the High Commissioner, as I explained before.

Mr. PASSMAN. Which means, perhaps, that we are giving the High Commissioner too much money in other appropriations. Would it be that simple?

Mr. MCLAUGHLIN. No, sir. You cannot make that comparison. It does not come out of an appropriation.

Mr. PASSMAN. Out of what profits does the High Commissioner get the money?

General THEIMER. He gets it out of those corporations that are listed [below]. The General Fund, sir, is the capitalization of the Ryukyuan Development Loan Corporation, and the other Ryukyuan corporations—the Electric Power Corporation and those others listed.

Mr. PASSMAN. Are you plowing back in a part or all of the profits?

Mr. MCLAUGHLIN. All of the profits.

Mr. PASSMAN. Is it necessary to do this?

Mr. MCLAUGHLIN. Yes, sir. To expand the Loan Corporation.

Mr. PASSMAN. Where are your financial statements on these operations?

Mr. MCLAUGHLIN. I have them right here, sir.

Here is the most recent balance sheet and the most recent profit-and-loss statement, sir.

Mr. PASSMAN. You are, of course, generating this profit from a series of U.S. grants?

Mr. MCLAUGHLIN. Correct, sir.

Mr. PASSMAN. If the grants should be leveled off as a result of your use of some of the profits, would the operations in the Ryukyu Islands suffer?

General THEIMER. If I might express an opinion on that, Mr. Chairman?

Mr. PASSMAN. Please do so.

General THEIMER. These appropriation requests and appropriations, annually, of course, have been made in the light of the existence and the operation of these corporations for years. In other words, we have put this material in the President's budget, and I am sure that you have been aware of it.

What we have asked for in appropriated funds was what we needed in that particular category. It really was not a question of trying to

shrink the operation to be provided only by the profits of the corporations.

In other words, I think these corporations, a couple of which do make a profit, have provided a definite assistance to the Ryukyuan economy, and of course it is our desire and our recommendation that it so continue.

And that we have, in accordance with the law and Congress' desire; we have come up here with our recommendations for appropriations each year.

Mr. PASSMAN. General, it is not your fault. In the past, we have been dealing with a relatively small figure, and we just let it go at that. But this is getting into rather large proportions. And the fact that you are asking for more money, plus the fact that the people out there are complaining, even with a thriving economy, it simply means that the committee will have to face up to its responsibility and go into the matter in more detail.

LIMITATION ON CAPITAL STOCK

Do you have any limitation on the capital stock of this bank, sir?

Mr. MCLAUGHLIN. No, sir.

Mr. PASSMAN. It could go on and on and on?

Mr. MCLAUGHLIN. Well, it can, theoretically, yes, sir. There is no limit.

Mr. O'FLAHERTY. This is a Government loan operation, Mr. Chairman.

Mr. PASSMAN. But the Government is not making any money out of it. The profit is being plowed back into this bank.

Mr. O'FLAHERTY. That is correct.

Mr. PASSMAN. And you are making the loans to the residents of the islands, are you not?

General THEIMER. That is correct.

Mr. PASSMAN. As it is operating in the manner of a commercial bank, so far as the islands are concerned, I am wondering if there should not be a limitation on the amount of capital you put in. You are making your loans to the same people to whom the commercial banks would make the loans?

Mr. O'FLAHERTY. But not if they can obtain loans from commercial banks.

General THEIMER. As I said a moment ago, the Ryukyu Development Loan Corporation only loans when the borrowers or the requesters of loans cannot obtain a loan from the other sources.

And I think that obviously it has been to our advantage to continue this operation. It has been well known for 10 years.

Mr. PASSMAN. It was generated from American grant capital originally; and we do know that this year, in 1 year's time, the amount of profits from the other corporations plowed back into this bank exceeded your estimate by more than $2 million. And, by the same figures, it would appear that the profits from these corporations in the Ryukyu Islands will make it possible for you to add another $4 million in the fiscal year 1963, which will bring it up to $36,188,000. Is that a statement of fact?

Mr. MCLAUGHLIN. That is correct.

STATUS OF LIQUID ASSETS OF CORPORATION

Mr. PASSMAN. How much cash did they have on hand as of December 31?

Mr. MCLAUGHLIN. On December 31, they had cash on hand of $5,620,000.

Mr. PASSMAN. What is the total of the annual repayments per year to the bank, in dollars?

Mr. MCLAUGHLIN. I think I can find that, sir.

General THEIMER. On collection of loans—this is a total of principal and interest: in fiscal 1961 it was $5,371,000. The year before, it was—in 1960—$4,199,000. Before that, about $4 million.

OPERATION OF OTHER RYUKYUAN BANKING FACILITIES

Mr. PASSMAN. We are speaking now, of course, of the Ryukyuan Development Loan Corporation. You also have a bank out there, do you not, for which we put up 51 percent of the capital?

General THEIMER. Yes, sir.

Mr. PASSMAN. At what amount is it capitalized?

General THEIMER. Initial capital $250,000, of which general fund subscription was $127,000.

Mr. PASSMAN. Does the bank make the same type of loan as the loan corporation?

Mr. O'FLAHERTY. No, sir.

Mr. PASSMAN. What type of loans does it make?

Mr. O'FLAHERTY. Short-term loans.

LOANS MADE BY CORPORATION

Mr. PASSMAN. What is the average term of loan of the Ryukyuan Development Loan Corporation?

Mr. O'FLAHERTY. Five years.

General THEIMER. It varies with the type of loan, Mr. Chairman.

Mr. PASSMAN. But 5 years is about the average?

Mr. O'FLAHERTY. Well, that is in the main. Housing loans run 15 to 20 years.

Mr. PASSMAN. Do you have any other corporations out there making loans to the Ryukyuans?

Mr. O'FLAHERTY. Not under U.S. jurisdiction.

Mr. PASSMAN. Do you have others, though, which are not under our jurisdiction; do you have other banks in the islands making these types of loans to the population?

Mr. O'FLAHERTY. There are no other banks that make long-term loans such as the Ryukyuan Development Loan Corporation.

Mr. PASSMAN. Do other banks make loans?

Mr. O'FLAHERTY. There are two commercial banks.

Mr. PASSMAN. Are they similar to the bank in which we own 51 percent of the stock?

Mr. O'FLAHERTY. That is considered a commercial private bank now, and it is operating on a short-term loan basis.

DISPOSITION OF RYUKYU DEVELOPMENT LOAN PROFITS

Mr. PASSMAN. Under the charter, would profits over and above the amount needed to run this Development Loan Corporation go back into the Ryukyus' economy or would it go toward defraying the expenses of our Government over there?

Mr. O'FLAHERTY. That, sir, would go into the general fund cash account, and would be programed, in accordance with the provisions of section 3 of Public Law 86–629, for the development of the Ryukyuan economy and used subject to the approval of the President.

Mr. PASSMAN. Then, regardless of the amount of profits that may be made out of these operations, these profits go back into the Ryukyuan economy; none of the profit ever goes to defray the expense of our Government?

Mr. O'FLAHERTY. That is correct, sir. And that is in accordance with the ruling of the Comptroller General of the United States.

Mr. PASSMAN. Regardless of the profits they get, none of it comes back this way?

Mr. O'FLAHERTY. That is correct. The Comptroller General said none of these public funds could be used for U.S. purposes.

Mr. PASSMAN. The charter would have to be amended in order to ever turn the pipeline in this direction, would it not?

Mr. O'FLAHERTY. Well, Mr. Chairman, I think the point of it all is that these funds were generated from U.S. contributions which it was not intended to levy a claim on.

Mr. PASSMAN. Nevertheless, there is nothing in the present charter to reverse the pipeline, regardless of the profits made from this investment?

Mr. O'FLAHERTY. They remain as the corpus of a trust.

SALE OF BUILDINGS AND FACILITIES

Mr. PASSMAN. Last year the budget indicated you were to sell a refrigeration plant and seven warehouses. Did you dispose of that property?

General THEIMER. Yes; we did. There is a small amount left in the warehouse corporation, which is just a couple of thousand dollars.

Mr. PASSMAN. How much did you realize from this sale?

General THEIMER. The sale of the refrigeration company and warehouse——

Mr. MCLAUGHLIN. The refrigeration company is expected to be sold in February this year, and we have not heard, but the price was $240,000.

Mr. PASSMAN. What disposition is to be made of that money?

Mr. MCLAUGHLIN. That goes into the general fund of the High Commissioner to be available for expenditure in accordance with programs approved by the President.

Mr. PASSMAN. Is the situation the same with respect to the warehouses?

Mr. MCLAUGHLIN. Right, sir.

Mr. PASSMAN. You answered the question previously, that the pipeline will never be reversed and that any money that you acquire

in the operation out there goes back into their economy, through the bank or the Development Loan Corporation?

Mr. McLaughlin. Right, sir.

OPERATION OF HOUSING CORPORATION

Mr. Passman. What is the amount of the U.S. investment in the housing corporation?

Mr. McLaughlin. In the housing corporation, the current investment, at June 30, 1961, is $1,340,696.

Mr. Passman. Is it operating at a profit?

Mr. McLaughlin. No, sir. The housing corporation is not operating at a profit.

Mr. Passman. Operating at a loss?

Mr. McLaughlin. Yes, sir.

Mr. Passman. Why is it operating at a loss?

Mr. McLaughlin. It is operating at a loss because it is subject to the military requirements for housing. The way Topsy grew, so to speak; there was a shortage of housing when these houses came on the market, and the military had used them for military housing, and the rules and regulations prescribed for housing did not allow for profit, did not allow them to recapture depreciation. Therefore——

Mr. Passman. Did you break even on it?

Mr. McLaughlin. If you disallowed depreciation on the houses, they were pretty close to breaking even. But there is still some loss.

Mr. Passman. The contract did not call for recouping the depreciation?

Mr. McLaughlin. Well, we recoup depreciation on the balance sheet, but that is why we have this loss.

Mr. Passman. You are not allowed to add it into the rent?

Mr. McLaughlin. That is correct, sir.

Mr. Passman. So, you practically break even on your balance sheet?

Mr. McLaughlin. That is right.

Mr. Passman. What are the total losses to date for the housing corporation? Depreciation is just as much an expense as the light bill, so give it to us.

Mr. McLaughlin. Our total loss to date, including the depreciation charge, is about $2,272,000.

Mr. Passman. Your loss is greater than your investment, then, is it not?

Mr. McLaughlin. Well, the total investment today, the balance that is left, is $1,239,000. Of course, those houses have been depreciated since about as of 1952 or 1953, when they came on the line.

Mr. Passman. Thank you, sir.

ESTIMATE OF HIGH COMMISSIONER GENERAL FUND INCOME FOR 1963

General, how firm is your estimate of income of $7,800,000 for fiscal year 1963?

General Theimer. Into what category, Mr. Chairman?

Mr. Passman. That is on cash receipts and expenditures, on page 65—"Income from operations, liquidation of investments, fines, and forfeitures."

Mr. McLaughlin. Your question, sir; was how firm?

Mr. Passman. How firm is your estimate? You estimated $7,804,000 in fiscal 1963. Last year, for fiscal 1962, it was $3,160,000. Then, if we move on to this year, the 1962 column indicates $8,260,000.

General Theimer. I do not have those 1962 figures here, sir. What was last year's estimate?

Mr. Passman. The estimate last year for fiscal 1962 was $3,160,000. This year, the 1962 column indicates $8,260,000. That is why I asked the question: How firm is your estimate of income of $7,804,000 for fiscal 1963?

General Theimer. I have no explanation for that offhand, Mr. Chairman. I would like to look into that further and provide it for the record, if I may.

Mr. Passman. All right, sir.

(The requested information follows:)

Statement Concerning Estimated Receipts of the Hicomry General Fund for Fiscal Year 1963

Receipts of the HICOMRY general fund for fiscal year 1963 are estimated at $7,804,000. This estimate, which is based on past performance and is reasonably firm, is calculated as follows:

Income from operations:	
Ryukyu Development Loan Corporation	$1,864,000
Petroleum distribution fund	4,654,000
Ryukyu Electric Power Corporation	976,000
Ryukyu Domestic Water Corporation	160,000
Interest income on time deposits	49,000
Dividend income, Bank of Ryukyus	18,000
Rent income—Tugboat	3,000
Subtotal	7,724,000
Liquidation of investments:	
Petroleum distribution fund	20,000
Okinawa Housing Corporation	35,000
Sale of POL facilities	5,000
Subtotal	60,000
Other receipts: Fines, fees, and forfeitures	20,000
Total receipts	7,804,000

ACTUARIAL SURVEY FOR RETIREMENT SYSTEM

Mr. Passman. I notice that you propose a grant of $75,000 from the general fund to cover the cost of an actuarial survey. What kind of survey is that?

General Theimer. That is a survey to provide primarily a basis for the institution of some kind of a retirement program for Ryukyuan employees of the GRI and U.S. employees.

Mr. Passman. U.S. employees. Are they not under the retirement system?

General Theimer. For Ryukyuan——

Mr. Passman. The Ryukyuans?

General Theimer. Employees of the United States; right, sir.

Mr. Passman. Are the Ryukyuan employees not now under any kind of a system?

General Theimer. They are not, sir.

Mr. PASSMAN. Do they pay taxes?

Mr. MCLAUGHLIN. Yes, they do.

Mr. PASSMAN. But they have no type of retirement system. Are they under civil service?

General THEIMER. No, sir, they are not under civil service.

Mr. PASSMAN. Speaking now about American citizens?

Mr. MCLAUGHLIN. Oh, American citizens, yes.

Mr. PASSMAN. Your reference is to Ryukyuans who are employed by the United States?

Mr. O'FLAHERTY. Yes.

General THEIMER. We have been there 15 or 16 years, and some of these people have been working for us that long, and we have no provision for retirement service.

Mr. PASSMAN. What kind of retirement system did they have before we went there?

General THEIMER. I do not know, sir. I doubt they ever had one.

Mr. PASSMAN. Is this proposal something else to get us into involvements and entanglements?

General THEIMER. Just like our own U.S. civil service system, Mr. Chairman.

Mr. PASSMAN. That is quite a bit of money for a survey, expecially with the information that you already have. Why do you need that much money?

Mr. MCLAUGHLIN. It was an estimate, Mr. Chairman.

Mr. PASSMAN. Was it a pie-in-the-sky estimate? How many employees do you have out there?

U.S. EMPLOYMENT OF RYUKYUANS

Mr. MCLAUGHLIN. I think we have 10,000 or 12,000 in the military services; then when you consider domestic——

Mr. PASSMAN. I am talking about the employment of Ryukyuans.

Mr. MCLAUGHLIN. About 47,000.

Mr. PASSMAN. Do you have that many?

Mr. MCLAUGHLIN. Yes, sir.

Mr. PASSMAN. What is the population of the Ryukyu Islands?

General THEIMER. About 880,000.

Mr. PASSMAN. How did those people find out about a retirement system or of the possibility for establishment of such a plan?

General THEIMER. May I comment a minute? They have not advocated, or they have not pressed for it so much as we realize our own obligation. We have been working on this, oh, I guess for over a year and a half, to generate some kind of a retirement system to carry out our obligations, what we believe to be our obligations for them.

Mr. PASSMAN. Can we not let some of these things wait until they ask for them.

Mr. SHULTZ. I might mention that the government of the Ryukyuan Islands has a study of its employees going on too. And it is pretty much patterned after the Japanese Government.

ACTUARIAL SURVEY

Mr. PASSMAN. How did you arrive at this figure? Is it a "guess" figure?

General THEIMER. No; I am sure it was not a guess figure.

Mr. PASSMAN. We are getting answers two ways.

Mr. McLaughlin. I was going to say it was an estimate. Sorry.

Mr. Passman. Upon what factors did you base your estimate?

General Theimer. The estimate, I feel sure, Mr. Chairman, is based on contacting firms; and I believe that they use Japanese firms to make these actuarial surveys out there.

And it is based on talking to people in business like that as to what that kind of a survey would cost. I cannot assure that this is provided on a specific appraisal of the job at hand or the job in question. But I am sure that certainly it is not in the neighborhood of a guess or wild-eyed pie-in-the-sky estimate.

Mr. Passman. How long is the project to last?

General Theimer. How long would it take?

Mr. Passman. Yes.

General Theimer. It would take several months, Mr. Chairman. And it seems to me, as I recall the paper of the High Commissioner's in this connection, it would probably take the major part of a year.

Mr. Passman. How many employees will be used for the study?

General Theimer. This would be a contract job performed——

Mr. Passman. With whom are you going to contract?

General Theimer. A Japanese——

Mr. Passman. Have they given you an estimate in writing?

General Theimer. I am sure they will, sir. That is the practice out there in the Ryukyus.

Mr. Passman. There ought to be some pattern in arriving at these costs. I believe that before this Congress adjourns, we are going to find that our Government is going to spend about $8 billion more than we take in for this fiscal year and that we are going to spend many billions more than we take in next year.

Are any of your witnesses able to tell us how you arrived at the $75,000?

General Theimer. We do not have the specifics as to how this estimate was arrived at. We will get it for you, Mr. Chairman.

Mr. Passman. All right, sir.

(The information supplied follows:)

Actuarial Services

The $75,000 estimated for actuarial services was based on personal knowledge by Office of High Commissioner officials of cost of similar studies conducted by U.S. actuarial firms.

Mr. Passman. Of course, this comes right out of the general fund. If it happened to cost $150,000, you could pay it without any additional authority, could you not?

Mr. McLaughlin. Yes, sir.

Mr. Passman. And if it cost $200,000, you could pay it without any additional authority?

Mr. McLaughlin. Correct, yes, sir.

Mr. Passman. You still would not mind our knowing something about it, would you?

Mr. McLaughlin. We have to testify before the Bureau of the Budget before it even appears in the President's budget.

Mr. Passman. You are dealing with something out of a general fund in the Ryukyus, and you would not require any additional authority here or an additional appropriation.

Mr. McLaughlin. That is correct.

Mr. PASSMAN. But if you do not spend it, if you could save some of the money, you could stop up a little hole somewhere else; could you not?

Mr. MCLAUGHLIN. It would go back to the general fund.

Mr. PASSMAN. The general fund is used to pay bills and expenses and for improvements out there.

Mr. MCLAUGHLIN. That is correct, sir.

ADDITIONAL U.S. COSTS FOR RETIREMENT SYSTEM

Mr. PASSMAN. Why do you anticipate the need for further U.S. assistance? I am talking about for the actuarial service.

Mr. MCLAUGHLIN. It is anticipated that any retirement system may have retroactive provisions in it. Those people have been working for us since the end of the war.

Mr. PASSMAN. We are talking about a retirement plan that we did not ask for, had not decided about, and which was not asked for by the inhabitants. Now, is there something going to have to be made retroactive?

General THEIMER. The provisions for it will be decided in several ways, Mr. Chairman. The Department of the Army and the Department of Defense will have to develop a recommendation for a system.

Mr. PASSMAN. Do you have any idea as to what the plan might cost?

General THEIMER. The system has not been developed at this time. The actuarial survey is needed to develop the system. And after we finally get the system planned and see what it is going to cost, then, of course, it will be necessary to come to the Congress for the funds to carry it out.

Mr. PASSMAN. The Ryukyuans are familiar with the fact that we are making this survey; are they not?

General THEIMER. I am sure they are, sir.

Mr. PASSMAN. This could go into tens of millions of dollars, could it not?

General THEIMER. The government of the Ryukyu Islands are going into their own system, Mr. Chairman.

Mr. PASSMAN. I am speaking of our system, though. Could you not come up with some kind of an estimate before we get involved with the locals?

General THEIMER. And then I am sure that we and the High Commissioners we have had out there have all been aware of our responsibility for the improvement of the Ryukyus' economic and cultural development.

Mr. PASSMAN. I am clearly convinced that most of those people are getting along a lot better than ever before. I have been out there, and I think I have visited but few places that appeared to be more prosperous than the Ryukyus. Very substantial improvements have been made there in the last few years.

CONSTRUCTION OF POWER GENERATION FACILITIES

Several years ago, Congress approved an appropriation for loan purposes and the construction of a power generating plant. What progress has been made with that project?

General THEIMER. The bids have been advertised, Mr. Chairman, and we expect that the bids will be reviewed and will be ready to let bids by the end of June.

Mr. PASSMAN. That appropriation was made 3 or 4 years ago, if I recall correctly.

General THEIMER. Three years ago.

Mr. PASSMAN. Why the time lag?

Mr. CONTE. Three years ago.

Mr. PASSMAN. That project was presented to us on an emergency basis.

Mr. MCLAUGHLIN. If I may review for you, the act was passed on the 28th of November 1959, and immediately they went out to negotiate for a design contract. They ran into a little difficulty on that; they were not able to let the design contract until approximately May of 1959. The initial bids that came in for the contract were rejected by the district engineer as being too high, and we finally negotiated a contract for the design with an American firm here.

That was undertaken in May of 1960, and it ran about a year before the design was completed. At that time there was another delay, due to the fact that—well, it was a question of the procurement policy, that is, domestic preference as against foreign procurement and we made a policy determination on that score.

We had to hold up the invitation to bid until that policy was determined. And it has just been completed, and we are now proceeding with the bidding.

Mr. PASSMAN. Would it appear at this time that the original estimate for the construction of the powerplant was a sound one?

Mr. MCLAUGHLIN. As far as we have any information. We will be able to tell better, sir, when the bids come in on the initial plant. We are asking for bids on a three- and four-unit basis so we can compare these costs on a unit basis.

Mr. PASSMAN. It could be that, even if you had a firm estimate, it may not be sufficient, on account of the delay, to complete the plant.

Mr. LAUGHLIN. It does not look that way, sir.

Mr. PASSMAN. It looks as if you may have sufficient money?

Mr. MCLAUGHLIN. Yes, sir.

PAY OF CIVILIAN EMPLOYEES

Mr. PASSMAN. For the pay of civilian employees, your 1963 estimate is $1,562,000, an increase of $90,000.

Would you discuss briefly the reason for the increase?

General THEIMER. Yes, sir.

There are a number of categories involved in this increase. The one of particular note is a request for an augmentation of the High Commissioner's staff for people that he needs quite a bit.

You may recall that both the GAO and also the Army Auditing Agency made inspections and audits of the activities of the High Commissioner in 1960 and 1961. Both of those organizations criticized the lack of, or the incompleteness of the supervision of the financial institutions over there and financial advice to the Government of the Ryukyus Islands.

The principal reason for the request of these 12 individuals, 5 of whom are Department of the Army civilians under Civil Service, and

7 Ryukyuans, is to provide financial and audit personnel, both for the financial section over there and also for his own controller's office for internal audits.

Mr. PASSMAN. Thank you, General.

We shall insert in the record pages 7 and 8 of the justifications.

(The justification pages referred to follow:)

Project 8711—Pay of civilian employees

	Actual obligations, fiscal year 1961	Estimated obligations, fiscal year 1962	Estimate, fiscal year 1963
Total for project	$1,463,224	$1,472,000	$1,562,000

Requirements	Fiscal year 1961		Fiscal year 1962		Fiscal year 1963	
	Total Number	Total salary	Total Number	Total salary	Total Number	Total salary
OFFICE OF THE HIGH COMMISSIONER, RYUKYU ISLANDS						
Permanent positions	410	$1,380,865	407	$1,349,839	419	$1,407,875
Deduct lapses (net)	−15	99,484	−12	78,080	−7	45,895
Net permanent positions	395	1,281,381	395	1,271,759	412	1,361,980
Positions other than permanent, temporary and intermittent employees		7,252		16,874		5,800
Payment in excess of 52-week base		4,457				
Overtime and holiday pay		10,161		6,780		8,450
Additional pay for service abroad		1,569		1,500		1,930
Total personnel compensation		1,304,820		1,296,913		1,378,160
Quarters allowance		11,236		25,700		26,429
Contributions to civil service retirement fund		64,729		64,000		70,000
Subsidy to employees life insurance		3,678		3,390		4,000
Contribution to employees health insurance		6,021		5,900		6,900
Subsidy to FICA		1,407		1,447		1,600
Accident compensation						311
Employees unemployment compensation		2,365		1,950		2,600
Cash incentive awards		3,105		2,700		
Total personnel benefits		92,541		105,087		111,840
Total pay of civilians, Ryukyu Islands		1,397,361		1,402,000		1,490,000
OFFICE, CHIEF OF CIVIL AFFAIRS						
Permanent positions	11	67,573	11	69,765	11	70,095
Deduct lapse (net)	−1	6,085	−1	6,000	−1	5,505
Net permanent positions	10	61,488	10	63,765	10	64,590
Positions other than permanent: Intermittent employment				1,500		1,700
Regular pay above 52-week base		235				
Overtime and holiday pay		137		385		550
Total personnel compensation		61,860		65,650		66,840
Contribution to civil service retirement fund		3,341		3,350		4,130
Subsidy to employees life insurance		220		270		280
Contribution to employees health insurance		298		490		500
Contribution to FICA		144		240		250
Total personnel benefits		4,003		4,350		5,160
Total pay of OCCA employees		65,863		70,000		72,000
Total for Project 8711		1,463,224		1,472,000		1,562,000

EXPENSE FOR NONPERMANENT POSITIONS

Mr. PASSMAN. For fiscal 1962, you budgeted $4,000 for positions other than permanent. Now, this year the 1962 column of the justifications indicates obligations of $16,874 for that purpose. This is a 300-percent increase over the budget estimate of last year.

General THEIMER. I do not know the reason for this increase during the year, Mr. Chairman. There must have been some unusual requirement on the part of the High Commissioner.

Mr. PASSMAN. I say respectfully that this seems to be in line with the pattern of increases.

Will you give us some information for the record, sir?

General THEIMER. Right, sir; we will.

(The information supplied follows:)

"POSITIONS OTHER THAN PERMANENT" IN THE FISCAL YEAR 1962 ARIA BUDGET ESTIMATES

The increase in the fiscal year 1962 budget estimates for "Positions other than permanent," from the $4,000 estimated in fiscal year 1962 as against the $16,784 currently estimated, is accounted for by requirements which were unforeseen when the initial submission was made. These requirements consist of $9,750 paid for an expert consultant in the area of local banking practices; plus $3,124 for intermittent employment of Department of Army civilian and Ryukyuan civilians to meet the peak workload in the USCAR administrative area (typing and clerical assistance).

AVERAGE EMPLOYMENT

Mr. PASSMAN. What was the average number of employees on the rolls in 1957?

General THEIMER. We do not have that information here, Mr. Chairman. May we provide it?

Mr. PASSMAN. Please provide it for the record.

(The requested information follows:)

AVERAGE NUMBER OF EMPLOYEES

Year 1957: Authorized, 366; actual, 346.

Mr. TABER. May I ask a question?

Mr. PASSMAN. Yes, sir.

NUMBER OF EMPLOYE

Mr. TABER. How many employees do you have over there right now?

General THEIMER. About 402, Mr. Chairman.

Mr. TABER. 402?

General THEIMER. Right, sir.

Mr. TABER. How many have you added during the year?

General THEIMER. There was none added to the authorization. The number on board—let me see if I can get that information for you.

It was a minor amount. Have you got that?

Mr. TABER. Is there anybody here who keeps up-to-date track of it?

General THEIMER. Well, we keep track of it, Mr. Chairman. What we come in for is the number of authorized positions plus the average slippage—the average number that are not filled, which is what we call the lapse rate, as you are aware. And we ask for the balance in

what amounts to man-years for the number that we expect to have on board during the year.

HEALTH EDUCATIONIST

Mr. PASSMAN. General, what are the duties of a health educationist?

General THEIMER. As you are aware, health sanitation is a critical area in the Ryukyus. This individual is to act in the double capacity, we are advised, both as an adviser to the Government and also to provide some kind of part-time assistance to schools.

Mr. PASSMAN. This is a new position?

Mr. MCLAUGHLIN. Yes; it is.

Mr. O'FLAHERTY. May I comment on this?

Mr. PASSMAN. Surely.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE SURVEY

Mr. O'FLAHERTY. In 1961, the Department of Health, Education, and Welfare, at the request of the Secretary of the Army, sent a team to the Ryukyus to review the greatest needs in health.

Mr. PASSMAN. Was that one of those task forces?

Mr. O'FLAHERTY. Well, this was an HEW team sent in by the Department. I quote from its report:

> The team found no health educators in USCAR or GRI, nor did it find in either USCAR Department of Health and Welfare, USCAR Department of Education, or USCAR Department of Social Affairs, much knowledge or active interest in the health education content of the grade, high school, or university curriculum. Inquiries through the GRI public health nurses elicited the information that decisions as to what health education is to be done in the schools are made in Japan, since all textbooks are printed there. If funds were available for USCAR, it would then be possible to recruit and assign additional professional personnel skilled in the technique of working with other countries and other, agencies in an advisory and consultative capacity. Priority should be given to the acquisition of a nurse educator with public health training, a health educator, a sanitary engineer, a rehabilitation worker, and additional public health trained physicians.

This, sir, is from the report of the unbiased group from the Department of Health, Education, and Welfare.

Mr. PASSMAN. I am not quarreling with you, but do you have it on good authority that this was an unbiased group?

Mr. O'FLAHERTY. I have no reason to assume and——

Mr. PASSMAN. You did not send for them, did you?

Mr. O'FLAHERTY. We did not know them personally at all before they went, sir.

Mr. PASSMAN. They went out there all on their own, without your inviting them, without the Ryukyuan people inviting them, and came up with this new position?

Mr. O'FLAHERTY. That is right, unbiased, sent by the Secretary of Health, Education, and Welfare.

Mr. PASSMAN. You have nurses and doctors and a sanitary department out there, and you have the Army.

Mr. O'FLAHERTY. There is a great dearth of health facilities and personnel.

Mr. PASSMAN. How many are in the GRI health department?

General THEIMER. There is a great shortage of doctors, Mr. Chairman, as I am sure you are aware.

Mr. PASSMAN. With reference to the sanitation and public health sections?

General THEIMER. The High Commissioner or of the Government of the Ryukyus?

Mr. PASSMAN. Give us both of them.

General THEIMER. The Government of the Ryukyus is what actually runs the Ryukyuan population; it is the local government.

Mr. PASSMAN. I only asked you the question because you asked me which one, as though there were two.

General THEIMER. Yes, sir.

Then the High Commissioner is our U.S. representative out there who assists the Government.

Mr. PASSMAN. These were new on the scene?

Mr. O'FLAHERTY. They were new.

Mr. PASSMAN. And you did not send for them?

Mr. O'FLAHERTY. The Secretary of the Army requested the Secretary of Health, Education, and Welfare to make some persons available.

Mr. PASSMAN. You folks out there running it did not request them?

Mr. O'FLAHERTY. No; they came with the concurrence of the High Commissioner.

Mr. PASSMAN. Is this going to be a man or a woman?

Mr. O'FLAHERTY. This is a woman, I believe, sir.

She will serve under the High Commissioner in the medical department.

Mr. PASSMAN. Sent there as a representative of the Health, Education, and Welfare Department?

General THEIMER. No, sir; as a member of the High Commissioner's staff.

Mr. PASSMAN. Would she have any assistants with her?

General THEIMER. The High Commissioner will provide her with whatever transportation or assistance she needs.

Mr. PASSMAN. She is going to be out there specializing in a field by herself, with the exception, of course, of the Ryukyuans employed by the local government?

General THEIMER. Yes.

Mr. O'FLAHERTY. The Ryukyuans who are charged with this activity. She will be there in terms of training them; she will be occupied with training them, with advising them, showing them techniques which, fortunately, we have in this country.

Mr. PASSMAN. These things have a way of growing.

Mr. TABER. Was she employed by HEW or by you?

Mr. O'FLAHERTY. She has not yet been employed, Mr. Taber. She may be a former HEW public health nurse, or someone else that has the qualifications.

Mr. PASSMAN. But she is going to be alone in this particular field?

Mr. O'FLAHERTY. That is correct.

Mr. PASSMAN. What is the salary going to be, including the other assistants?

General THEIMER. The grade is GS–11, Mr. Chairman, about $9,000.

Mr. PASSMAN. One said $8,000; one said $9,000; and one said $11,000. Which figure is it?

Mr. MCLAUGHLIN. $8,000 for grade 11.

Mr. PASSMAN. Is there any additional compensation?

Mr. O'FLAHERTY. No, sir.

Mr. PASSMAN. How does that salary compare with what we pay other personnel in comparable positions?

General THEIMER. Under civil service they would get the same pay for the same grades, sir.

(NOTE.—Additional information may be found beginning on p. 48.)

GENERAL TRAVEL, CIVILIAN EMPLOYEES

Mr. PASSMAN. "General travel, civilian employees, 1963 estimate $82,000." The 1960 program was $82,000. Last year you budgeted for fiscal 1962 342 trips at a cost of $82,000. This year, the 1962 column indicates 43 less trips, but the dollar amount stays at $82,000.

General THEIMER. This is a combination of the actual travel costs together with the per diem for the time that the individual must stay wherever he is sent. Consequently, the number of trips by itself is not conclusive.

Mr. PASSMAN. The cost would be related, would it not?

General THEIMER. There would be a general relation, yes, sir; but not specifically. It would depend on how long overseas, as well as the number of trips that are made.

Mr. PASSMAN. Again, this is just an estimate, though?

General THEIMER. Yes, sir.

Mr. PASSMAN. How much do you budget for essential travel of experts and consultants?

General THEIMER. The travel of members of the HICOM staff to other points in the theater would be about $4,000. To and from Washington—we always have a group going back and forth for various reasons—about $5,000.

Mr. PASSMAN. I repeat, you budgeted 342 trips last year for $82,000. This year the 1962 column indicates 43 less trips, but the dollar amount stays at $82,000. You said there was some relationship between the travel and the other costs. But it would appear that with 43 trips less, the total cost would be less.

General THEIMER. I am afraid our figures don't match yours, Mr. Chairman. We have got 293 trips in 1963 versus 299. Are you speaking of the estimate in the 1962 request?

Mr. PASSMAN. Last year you budgeted for fiscal 1962 342 trips at a cost of $82,000. That is on page 15 of the fiscal 1962 justifications.

General THEIMER. The 1962 request?

Mr. PASSMAN. Yes.

General THEIMER. That is another difference between the two requests that I can't explain.

Mr. PASSMAN. Please supply an explanation for the record.

(The information supplied follows:)

COST OF TRAVEL FISCAL YEAR 1962

In the fiscal year 1962 budget request to Congress, the total of all trips including movement of household goods was shown as 342, at a cost of $82,000.

During the fiscal year, per diem rates for Department of Army civilians increased from $12 to $16; while traveling within Ryukyus, from $4 to $5.40. This increase in per diem rates, plus increases in the cost of MATS travel and shipment of household goods, made it necessary to reduce the number of trips to meet

fund availability which remained at $82,000. A comparative schedule of detailed estimated costs follows:

Requirements category	Fiscal year 1962 estimate as submitted to Congress in 1961		Fiscal year 1962 estimate as submitted to Congress in 1962	
	Number of trips	Cost	Number of trips	Cost
1. Temporary duty travel:				
(a) Within Ryukyus (interisland)	117	$2,985	97	$2,633
(b) To other points in theater	24	5,232	23	3,879
(c) To and from Washington, D.C	6	6,288	6	6,980
(d) Travel OCCA personnel within Ryukyus		1,500		1,500
2. Permanent change of station:				
(a) Within theater	26	2,349	18	1,982
(b) To and from Conus	42	14,884	40	15,162
Travel of dependents:				
(c) Within theater	25	2,068	25	2,500
(d) To and from Conus	64	18,753	62	18,522
3. Movement of household goods and hold baggage:				
(a) Individual (bachelor) shipments:				
Within theater	9	1,462	5	677
To and from Conus	5	1,171	3	1,115
(b) Family shipments:				
Within theater	8	3,160	7	3,319
To and from Conus	16	22,148	13	23,731
Total	342	82,000	299	82,000

Information Material and Services

Mr. Passman. "Information material and services, 1963." You are asking for $100,000. In 1962 you had a program of $75,000.

We shall insert the top half of page 14 in the record at this point.

(The information referred to follows:)

Project 8713—Information materials and services

Requirements category	Actual obligations, fiscal year 1961	Estimated obligations, fiscal year 1962	Estimate, fiscal year 1963	Fiscal year 1963 over fiscal year 1962, increase (+) or decrease (−)
1. Press and publications	$31,878	$25,400	$30,700	+$5,300
2. Cultural centers	26,649	26,800	35,000	+8,200
3. Audiovisual	15,097	21,800	33,300	+11,500
4. Research and evaluation		1,000	1,000	
Total, information, materials, and services	73,624	75,000	100,000	+25,000

LEFTIST AGITATION

Mr. Passman. We would like for you to comment briefly concerning the two statements on page 14—"Stepped-up leftist agitation" and "Increasing estimates of teachers' needs under U.S. administration."

General Theimer. Yes, sir; the activity referred to is not solely leftist agitation. There is still leftist agitation, which is a concern. For example, in a town called Itoman over there, they elected a leftist mayor this year, much to our surprise and much to our concern. This is always a matter of concern.

The activities there, as we have brought out in a number of connections previously this afternoon, are of course a concern to us in that it is not only leftist but it might be other activities which could create an atmosphere which might serve in some way to interfere with the utilization of our activities and our forces in Ryukyu.

INCREASED COST FOR TEACHERS

In regard to teachers, this statement was prepared prior to our preparing or being prepared to increase the pay of Ryukyu teachers. Our indications now are that the Ryukyuan teachers are in a better position; they feel better. The funds that were made available by the Congress on its own volition this last year, which are being paid to the teacher, are serving a good and useful purpose, which will help our U.S. position in the islands.

INCOME OF RYUKYUANS WORKING FOR UNITED STATES

Mr. PASSMAN. What do you pay the average islander who is working there?

General THEIMER. The average per capita income is $240 per year.

Mr. PASSMAN. I am speaking about those who work for Uncle Sam—the local employees.

General THEIMER. $860.

Mr. PASSMAN. $860 would be the average?

General THEIMER. An employee of U.S. forces.

Mr. PASSMAN. What is the highest pay, approximately?

General THEIMER. Around $1,000.

Mr. PASSMAN. What is the lowest?

General THEIMER. About $460.

Mr. PASSMAN. In what capacity are they employed, the personnel in the $1,000 bracket?

Mr. BRATINA. Accountants, auditors.

Mr. PASSMAN. They are auditors, accountants, and people who are educated and can assume responsibility?

Mr. BRATINA. Yes, sir.

Mr. PASSMAN. Are they not complaining at receiving only $1,000 while the teachers get $1,870?

Mr. BRATINA. Very much.

Mr. PASSMAN. The auditors, technicians, accountants—educated people—are getting top pay of $1,000 a year, and the teachers are getting $1,870. The reason for concern is obvious.

INCREASE FOR PUBLICATIONS

In what manner do you propose to utilize the requested increase of $5,300 for publications?

General THEIMER. This is an important area for activity in the Ryukyus to get the U.S. story over. The principal increase in this category goes into a pamphlet which is put out and made available to various Ryukyuan activities and to the general public.

There is another sizable increase in this area in making material, particularly photographic coverage available to the local public information media over there.

They have a number of television stations, radio stations, as well as quite a few newspapers and magazines. The principal increases here are to provide for a larger coverage for all of these media and for increased stepup in their activities.

Mr. PASSMAN. Can you give us an estimate of the native population on Okinawa?

Mr. SHULTZ. On Okinawa? It is about 725,000.

RADIO AND TV STATIONS

Mr. PASSMAN. You spoke of several TV and radio stations. Do you have several TV stations there?

General THEIMER. Yes, sir.

Mr. SHULTZ. We have three Japanese-speaking radio stations and three English-speaking radio stations.

Two Japanese language television stations and one television station by the Armed Forces.

Mr. PASSMAN. The total is six radio and three TV stations?

Mr. SHULTZ. That is correct.

Mr. PASSMAN. Do they manage to operate at a profit, or are they subsidized?

Mr. SHULTZ. They are not subsidized. I assume they are operating at a profit, since I haven't heard any comments to the contrary.

Mr. PASSMAN. How would they ever get money to buy TV and radio sets on that small island for that many stations to operate at a profit? If they are not subsidized, then they have to get the money from the advertisers; and the advertisers would not be entering into contracts if they did not have a civilian population to buy what they are advertising, would they?

Mr. SHULTZ. That is true.

Mr. TABER. Do they get the money from us?

Mr PASSMAN. This is a free enterprise system, is it not?

Mr. SHULTZ. That is right.

Mr. PASSMAN. Knowing a little about advertising, if they are supporting their four radio stations and three television stations, and not a one of them is subsidized, and they are making a profit, they are making a profit from their advertisers, and the advertisers are advertising only because there is a population buying what they advertise.

I think they might not be quite as poor, perhaps, as the statistics would indicate.

General THEIMER. Some of them are operating this purely on a private enterprise system. Two of the Japanese language stations are Ryukyuan owned. One Japanese language station is American owned.

Mr. PASSMAN. But they are not subsidized. They are operating under the free enterprise system.

General THEIMER. One English language station is a Ryukyuan privately owned radio station. In other words, the Ryukyuans are operating an English language radio station.

Mr. PASSMAN. A lot of those people speak English. My point is this, if you have four radio stations and three television stations, all operating in free enterprise, and they are not subsidized, they have to make a profit in order to stay in business. They make their profit from the advertisers?

General THEIMER. Correct, sir.

Mr. PASSMAN. And the advertisers would not advertise if they did not have a population purchasing their goods and services in sufficient volume for them to make a profit.

Do you have any idea as to the number of TV sets on the island?

Mr. SHULTZ. I don't have any idea.

Mr. PASSMAN. Radios?

Mr. SHULTZ. No, I don't.

Mr. PASSMAN. A lot of money is required to support four radio stations and three TV stations, when you are doing it strictly out of profits.

General THEIMER. A radio set is not very expensive.

Mr. PASSMAN. It depends on how long it stays on. It takes personnel to operate it.

General THEIMER. A radio set.

Mr. PASSMAN. I am speaking of the stations. If you are operating four radio stations and three TV stations at a profit, you have to have a lot of advertisers, and those advertisers have to sell a lot of merchandise.

Mr. MCLAUGHLIN. I would say, in this country, yes.

BOOK PRESENTATIONS AND PUBLICATIONS PURCHASED FROM USIS

Mr. PASSMAN. Do you have any funds budgeted for book presentations and publications, General?

General THEIMER. Yes. We obtain book presentations and publications from the USIS under that first category.

Mr. PASSMAN. Does the USIS have a library there?

General THEIMER. As I understand it, the USIS provides the publications. We get them from USIS. I don't believe the USIS actually operates any library on Okinawa.

Mr. PASSMAN. Are the publications you get from the USIS shipped from the States or from Japan?

Mr. SHULTZ. They come in from Japan mostly. Most of these are in the Japanese language. They are Japanese language types and they are primarily directed at providing anti-Communist-type literature.

Mr. PASSMAN. They are procured, though, from the USIS?

Mr. SHULTZ. That is correct.

Mr. PASSMAN. On a loan or purchase basis?

Mr. SHULTZ. They are purchased from the USIS.

Mr. PASSMAN. Do you have personnel assigned to this particular department?

Mr. SHULTZ. Do you mean to distribute these?

Mr. PASSMAN. Yes, distribute on a loan basis, or is it on a gift basis?

Mr. SHULTZ. The Office of Public Affairs, of the Office of the High Commissioner, takes care of the same type of program.

Mr. PASSMAN. Do you have any idea as to the sum the High Commissioner, by contract, pays the USIS annually for this service?

General THEIMER. The U.S. program, I think, was $5,000.

Mr. PASSMAN. Do you have any idea as to the number of publications they ship in?

Mr. SHULTZ. I don't have that figure offhand.

Mr. PASSMAN. Such a procedure makes the bookkeeping a little bit complicated. The State Department is getting an appropriation for this service, and they in turn sell to some other branch; and that branch sells to some other, all on a reimbursable basis.

Could you get for us a statement showing the number of publications shipped in there?

Mr. SHULTZ. Yes, sir.

(The information supplied follows:)

PUBLICATIONS PURCHASED FROM USIS

	Copies per year
(1) Kokusai Niusu (International News), a tabloid newspaper, 10,000 copies 3 times monthly	360, 000
(2) Reader's Digest (Japanese edition), 250 copies monthly	3, 000
(3) Amerikana (Japanese language magazine based on reprints from American magazines for selected group), 50 copies per month	600
(4) Beisho Dayori (monthly review of American books), 50 copies per month	600
(5) Japanese translations of U.S.-approved books. These are used in a book presentation program	2, 500

Mr. PASSMAN. How much is the total cost for the books?

Mr. BRATINA. For 1962, Mr. Chairman, it is $9,700.

Mr. PASSMAN. For what purposes are you going to use that money?

Mr. BRATINA. There are some filmstrips and some pamphlets and posters from Tokyo.

Mr. PASSMAN. From what source do you get the films and the posters?

Mr. BRATINA. They produce them.

Mr. PASSMAN. The USIS?

Mr. BRATINA. Yes, sir.

Mr. PASSMAN. You actually pay the USIS $9,700 for what they provide?

Mr. BRATINA. Yes, sir.

Mr. PASSMAN. Try to get for the record, if you please, the number of films and all publications which are supplied to the High Commissioner from the USIS appropriation.

(The information on films follows:)

FILMS PURCHASED FROM USIS

(1) Twenty separate subjects in black and white, 16-millimeter, two prints each
(2) Five separate subjects in color, 16-millimeter, one print each.
(3) Five separate subjects in black and white, 35-millimeter, one print each.

INCREASE FOR CULTURAL CENTERS

Mr. PASSMAN. How do you propose, General, to utilize the proposed increase of $8,200 for the cultural centers?

General THEIMER. The purpose of this, Mr. Chairman, is to provide more material for the centers themselves. We are buying one additional mobile unit this year. As you know, we are buying one in fiscal year 1962, which will provide one for each of the five centers.

Mr. PASSMAN. How many, altogether, do you have now?

General THEIMER. Mobile units?

Mr. PASSMAN. Yes, sir.

General THEIMER. We have three—one under the procurement in 1962, and this one in 1963 will make a total of five.

Mr. PASSMAN. What is the total cost of the mobile unit set-up?

General THEIMER. It is about $2,500, as I recall it.

Mr. PASSMAN. As small as the island is, why is this necessary? You could almost walk from one end of the island to the other in a day, with an early start; could you not?

General THEIMER. It would be a several days' walk. As you recall, it is not very wide. Then we have units down on those two southern islands.

Mr. PASSMAN. Is the island about 30 miles long?

General THEIMER. It is about 60 or 70.

Mr. PASSMAN. Is it 65 miles long?

Mr. MCLAUGHLIN. I believe it is.

Mr. PASSMAN. What is the width of it?

Mr. SHULTZ. About 17 miles.

General THEIMER. On the average; it varies. We have units, too, down on Miyako and Yaeyama, which are two of the southern islands—very good activities. I am sure you have seen them.

Mr. O'FLAHERTY. The island of Okinawa is 544½ square miles in area.

The population of Okinawa is 750,000.

BUILDING REPAIR AND MAINTENANCE

Mr. PASSMAN. How much do you have budgeted for "Building repair and maintenance" for fiscal 1963?

General THEIMER. $5,000.

Mr. PASSMAN. What was the actual amount in 1960?

Mr. O'FLAHERTY. Estimated obligations, $3,000.

Mr. PASSMAN. In 1960?

Mr. O'FLAHERTY. I am sorry, sir.

Mr. PASSMAN. Subject to your correction, I think it was $1,374. The estimated obligation for 1962 is $3,000?

Mr. O'FLAHERTY. Estimated obligation; correct.

Mr. PASSMAN. You are asking $5,000 for fiscal 1963?

Mr. O'FLAHERTY. That is correct.

Mr. PASSMAN. All these items are up substantially.

Mr. O'FLAHERTY. Well, an increase in the maintenance and repair of the buildings—unfortunately it was planned but not possible to do these things in prior years.

AIR CONDITIONING

Mr. PASSMAN. I thought you got more than you really wanted. We provided some money for extra air conditioning a couple of years ago.

Mr. O'FLAHERTY. This was not done, as a matter of fact.

Mr. PASSMAN. Did that go into the capital account?

General THEIMER. No, sir; the request was reduced. We didn't get the request. The air conditioning that you have in mind has never been allowed.

Mr. PASSMAN. I thought the conference agreed that you could go ahead and take it out of certain unexpended funds, and it had to do with one section of the building.

Mr. O'FLAHERTY. That was the administration building.

Mr. PASSMAN. The main office, and you did go through with that?

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. I do not know what other air conditioning you are talking about.

Mr. O'FLAHERTY. These are some of the auxiliary offices.

Mr. PASSMAN. I had reference to the main building.

General THEIMER. That particular item for the two auxiliary buildings was requested in the last 2 fiscal years before this one.

PROPOSED EXPANSION OF AUDIOVISUAL PROGRAM

Mr. PASSMAN. Are you going to expand the audiovisual program in 1963?

General THEIMER. Right, sir. Primarily to obtain additional equipment which will permit getting away from certain procedures that detract not only from their presentations, but also hold down the ability of the High Commissioner to present his stories, news stories, and informational items in a good way.

This would go into equipment to permit him to put on motion pictures, HICOM activities, civil administration activities such as the presentation of wharves, buildings, the building of retaining walls, things of that sort.

In addition, it will permit him to put on Japanese language soundtracks so that they don't have to have some fellow announcing over a microphone what is going on.

Mr. PASSMAN. At what additional cost?

General THEIMER. The total additional cost in that category, Mr. Chairman, is $11,500.

COOPERATION OF JAPAN IN U.S. POLITICAL CONTROL OF ISLANDS

Mr. PASSMAN. I wonder to what extent Japan is cooperating with us to stabilize conditions on Okinawa.

General THEIMER. This is an acute political question and has been for years, as you are aware, in both the Ryukyus and in Japan. The Japanese have been very particular about reminding us all the time that they have residual sovereignty there.

I suppose they are afraid that by mistake the islands might be given away to somebody else or something of that sort. But anyway, they have been consistent in reminding us of this.

This is a question that they not only feel about themselves, but also the opposition to the Administration in Japan keeps reminding them of and putting them on the defensive about, on every possible occasion they bring this up.

I would say that there are indications that the government of Japan has cooperated in helping us to maintain our Administration there. Naturally, they have to pay attention to their political pressures, too.

COMPETITION WITH JAPANESE FOR TV PROGRAMS

Mr. PASSMAN. I notice here, on page 16:

> The Ryukyu people compel the United States to improve the types of programs it presents if it is to compete with the more professional Japanese programs. This not only involves the purchase of more radio and TV time, but also additional equipment essential to make our production become more effective and compelling—

at an increase of $11,500.

Mr. GARY. Mr. Chairman, why is the Japanese program more professional than ours?

Mr. PASSMAN. It says "to compete with the more professional Japanese programs." I do not know.

Mr. GARY. Can somebody answer that? I would like to know.

Mr. SHULTZ. Because the equipment which they are using is more professional.

Mr. PASSMAN. How does the person listening know whether it is a 1962 broadcasting station or 1958 equipment?

Mr. SHULTZ. They really don't know. The difference is the question of the reception they can get. That is how they are impressed.

Mr. PASSMAN. I just do not believe that will stand up under close scrutiny.

But another question has been answered, and that refers to the radio and TV time. It simply means that the High Commissioner and other interests out there are buying radio and TV time from these stations; are they not?

General THEIMER. Right, sir.

Mr. PASSMAN. How much are we paying annually to buy TV and radio station time for this purpose?

General THEIMER. I would like to go back to this question on the equipment, if I may. The point on the professional-type equipment is that the Japanese can put on a regular full-fledged newsreel or informational type program showing what they are doing and with their Japanese language right along with it.

We don't have this. If we want to do something, we have got to dub in our sound. We have to send a fellow along with a microphone or put it on tape and let this tape recorder play along and hope that one doesn't stop when the other keeps on going, and so on.

That—I gather from considerable discussion with Mr. Shultz here, who is from the High Commissioner's staff—is the difference between the equipment.

USIS FILMS SHOWN

Mr. PASSMAN. What types of films does the USIS produce?

General THEIMER. I think we get all kinds.

Mr. PASSMAN. Why do we not send American films rather than Japanese films?

Mr. SHULTZ. We do take certain American films——

Mr. PASSMAN. Why does the USIS send any Japanese films?

Mr. SHULTZ. It is a question of variety, sir. The thing to do is to try to get the attention of the people on the island. You have got to satisfy the public as to what they want.

Mr. PASSMAN Are these Japanese programs?

Mr. SHULTZ. Some of them are Japanese.

Mr. PASSMAN. But we are paying for them?

Mr. SHULTZ. We are paying for the films that we buy; yes, sir.

Mr. PASSMAN. They are Japanese and other programs, but we are paying for them with U.S. dollars?

Mr. SHULTZ. Yes.

General THEIMER. Not necessarily Japanese——

Mr. PASSMAN. I believe you said you do have some Japanese films.

Mr. SHULTZ. We do get some with Japanese language; that is true.

Mr. PASSMAN. The whole story is, you are trying to give them what they want?

Mr. SHULTZ. That is correct.

Mr. PASSMAN. That is a pretty big job to fill.

NEW EQUIPMENT REQUESTED

General THEIMER. If I may say a word, Mr. Chairman, this is also to provide U.S. information, for example. We want to get equipment here that will permit filming and showing and presenting the High Commissioner's activities, too, so we can tell them what we are using this money for, the land we are reclaiming, retaining walls we are building, piers, and so on down the line.

Mr. PASSMAN. I imagine they are going to be rather spoiled before we finish with them. I say that respectfully. You have a right to a difference of opinion.

Mr. SHULTZ. As General Theimer pointed out earlier in the hearing, sir, primarily looking at the condition of the economy in Japan, that is what they are comparing it with.

Mr. PASSMAN. What if the people of the State of Louisiana started looking at the State of New York and started clamoring: "We want to have the same income, the same shows, and the same boat rides as New York?"

That seems to be what you are trying to do, though—trying to get them Paris.

General THEIMER. No, sir, Mr. Chairman, we don't have any expensive ideas.

Mr. PASSMAN. What additional equipment are you proposing to purchase?

General THEIMER. That is what we were discussing—new movie-type equipment that they can take pictures of the civil administration activities over there, preferably with sound so they can get our story over to the people to show them what we are doing, and at the same time tell them what is going on.

Then they also need equipment to take documentary-type films and things of that sort and put on a Japanese soundtrack so these people can understand it.

ELECTRIFICATION SYSTEM

Mr. PASSMAN. Do you supply electricity to the entire island?

General THEIMER. We have five distribution companies out there.

Mr. PASSMAN. Five distribution companies for electricity on this little island that is 65 miles long and 17 miles wide. What percentage of the homes are electrified?

Mr. SHULTZ. I think that will vary.

Mr. PASSMAN. What percentage of the total for the island?

Mr. SHULTZ. Seventy-five percent.

Mr. PASSMAN. What was the percentage before we went there?

Mr. SHULTZ. Considerably less.

Mr. PASSMAN. Five percent? Ten?

Mr. SHULTZ. I frankly don't know, sir, at this stage.

Mr. PASSMAN. What I am trying to find out is what you are trying to get over to those people. If we have not made our story

clear with the billions of dollars we have spent there on a little island, 65 miles long and 17 miles wide, in all these years—if we have been unable to get our story over by this time, I wonder if we will ever get it over?

Mr. O'FLAHERTY. May I say, Mr. Chairman, we are not trying to get lighting in every home; we are trying to get electrical central power for development——

Mr. PASSMAN. I know that. My question concerned the percentage of the homes which are electrified. At least you are getting that point over to me. They have radios, TV's, refrigerators, deep-freeze units, vacuum cleaners, washing machines. They have all those modern appliances out there for sale in the stores. And they are being used. I am glad they have them.

But, with all the progress that has been made and the billions of dollars we have spent, if we have failed to get our story over to that little island in the 18 or 20 years we have been there, do you think we are ever going to get it over to them?

General THEIMER. It is important, I am sure you will agree, Mr. Chairman——

Mr. PASSMAN. Very important.

General THEIMER. To present our activities over there. It is certainly in our interest. I think when you look at a place like Naha and that area around there, it is quite different when you get away from Naha and when you get down to places like the little islands of Yaeyama and Miyako, where the standard of living is very low. It is marginal.

What you can see in a few of the better spots around there, of course, as you well know, is not indicative of the entire economy of the people.

INCIDENTAL OPERATING EXPENSES

Mr. PASSMAN. For "Incidental operating expenses," you have the estimate for 1963, $158,000, as compared to a 1962 program of $93,000. This is an increase of $65,000.

We shall insert page 17 in the record.

(The information referred to follows:)

Project 8714—Incidental operating espenses

Requirements	Actual obligations, fiscal year 1961	Estimated obligations, fiscal year 1962	Estimate, fiscal year 1963	Fiscal year 1963 over fiscal year 1962, increase (+) or decrease (−)
1. Operation of buildings	$12,059	$15,800	$61,300	+$45,500
2. Equipment and supplies	24,220	17,200	33,600	+16,400
3. Communications	10,711	10,900	11,100	+200
4. Transportation	13,924	17,000	18,700	+1,700
5. Printing and publication	1,294	500	1,000	+500
6. Representation allowance for High Commissioner	3,000	3,500	4,000	+500
7. Administration of justice	1,046	1,100	1,300	+200
8. Administrative support	26,823	27,000	27,000	
Total, incidental operating expenses	93,077	93,000	158,000	+65,000

BUILDING RENOVATION

Mr. PASSMAN. What are the dimensions of the two buildings which you plan to air condition out of this increase?

General THEIMER. These are two auxiliary buildings, Mr. Chairman. I will have to see if we have the statistics on the square footage. This is an item, as I said a minute ago, which has been discussed in the previous 2 years.

Since the request was reduced, the High Commissioner never had the funds to carry out his request for the air conditioning, nor for the repair of that elevator mechanism, which is in this same item.

NEED FOR DARKROOM

Mr. PASSMAN. Why is a darkroom needed?

General THEIMER. These, I assume, are for the High Commissioner's official photographic activities. In other words, the activities of the civil administration—the High Commissioner's activities.

Mr. PASSMAN. His hobby?

General THEIMER. No, sir.

Mr. SHULTZ. For the Office of Public Affairs.

Mr. PASSMAN. What have you been doing in the past to take pictures of visitors?

Mr. SHULTZ. They did it under the circumstances they had at that time. This is a question of trying to improve them.

Mr. PASSMAN. To try to pin this down, what does he need it for and what is the cost?

Mr. SHULTZ. The cost, according to what I have here, is about $1,100.

Mr. PASSMAN. Specifically, what is he going to do with it?

Mr. SHULTZ. It is just a renovation of a photographic laboratory.

Mr. PASSMAN. You already have one.

General THEIMER. A large sink with a building cabinet and building tables. He has a considerable activity out there. He is our representative in the islands. The civil administration has extensive activities, obviously.

That is what we have been discussing in part here, as well as the High Commissioner's activities.

There are a lot of activities around there.

I would vouch for this darkroom—the modest amount that is asked for here.

Mr. PASSMAN. I do not care how modest it is, if he could get along without it. It has nothing to do with the Army operation. They have their own facilities. This is strictly for the High Commissioner?

Mr. SHULTZ. This is stricly for the Office of the High Commissioner.

It is for his staff, actually. This is for the Office of Public Affairs, which is concerned with the public relations aspect.

Mr. PASSMAN. Did the other one deteriorate to the point that it cannot be used?

Mr. SHULTZ. I can't speak first hand. But this is a renovation.

General THEIMER. This is undoubtedly for his Army position, too. He is the commanding general of the U.S. Army, Ryukyus; and these two activities have always been conducted together, you know.

ALLOCATIONS FOR EQUIPMENT AND SUPPLIES

Mr. PASSMAN. How much money has been allocated for equipment and supplies each year since fiscal 1959?

General THEIMER. He had to reduce his estimate for last year, and I have $24,000 for 1961.

Mr. PASSMAN. Was it reduced because he did not have need for it, or because he did not get the money?

General THEIMER. Because he didn't get the money. His initial request is considerably more than this. I don't have the figure here. Here he is trying to take care of his regular maintenance as well as to catch up with what had to be deferred from last year.

Mr. PASSMAN. We did not provide the money last year, so he is asking for money this year to pick up checks on what he spent last year?

Mr. SHULTZ. No, sir. As an example, with respect to some of these areas, we have had an elevator which was out of commission for 5 months. He couldn't use it because he didn't have the money——

Mr. PASSMAN. He did not have the money, with all the millions of dollars we have out there, all the expert personnel—Army, Navy, Marines, and Air Force? He did not have anybody to repair an elevator because he did not have the money?

Mr. SHULTZ. Actually the only way we could get it repaired is by convincing them. There are some people to take care of the elevator at the hospital. We prevailed on them to look at it.

Mr. PASSMAN. How many floors are in the building?

Mr. SHULTZ. We have four flights there.

Mr. PASSMAN. How much does it cost to fix the elevator?

Mr. SHULTZ. Currently we are in for $12,000.

Mr. PASSMAN. You said that for 4 months the elevator could not be used because the Commanding General—the High Commissioner—did not have enough money to pay for the repairs. Do you want to leave that in the record? If you want to leave it in, it is all right with me. What did it finally cost to repair the elevator?

Mr. SHULTZ. I don't know, sir. It had to do with getting a cable.

Mr. PASSMAN. Was it a question of not being able to get the cable or that there was no money to pay for it?

Mr. SHULTZ. It was a question of getting someone down there on a contract basis to repair it.

Mr. PASSMAN. I thought you said he did not have the money. Now you say it is a question of getting somebody down there.

I have very high regard for your integrity, but somebody has misinformed you. With all the money they have floating around out there, I just do not believe you have a High Commissioner, who also is the commanding general, walking up four floors because he did not have enough money to pay for the repairs.

General THEIMER. I discussed this with Mr. Shultz. This was a temporary repair. He said that they had been quite concerned because they have got a couple of cardiac fellows who had a deuce of a time walking up these flights. The repair that was made that he spoke of is supposed to be a very temporary job. In other words, this can go out at any time.

Mr. PASSMAN. Is it some kind of complicated elevator?

Mr. SHULTZ. It is just an old elevator. It is about 10 years old.

Mr. PASSMAN. A 10-year-old elevator is not old. I have been dealing with the board of directors of an 18-story office building. We have been using the elevators for 28 years, and they are still good elevators.

Do you have money in here for a new elevator?

General THEIMER. No, sir; only for the repair of the mechanism—not the elevator itself; for the elevator mechanism.

Mr. PASSMAN. How much are you asking for it?

General THEIMER. $12,000.

Mr. PASSMAN. For repairs?

General THEIMER. For the replacement of the elevator mechanism in the main building.

Mr. PASSMAN. For a new elevator.

General THEIMER. I guess that is most of it.

Mr. PASSMAN. You would use the rails, no doubt.

(NOTE.—Additional testimony may be found beginning on p. 43.)

VEHICLE HIRE

You have here an increase of $400 for hire of vehicles.

General THEIMER. Yes, sir.

Mr. SHULTZ. This is primarily to reimburse the Transportation Corps for the use of their buses and heavy equipment, for unloading equipment for the civil administration from ships and hauling large equipment from port and from the quartermaster.

Mr. PASSMAN. What is the total estimate for hire for vehicles for fiscal 1963?

General THEIMER. I have here, Mr. Chairman, the overall transportation costs are equal for both 1962 and 1963 except for increased cost of $400 for hire of vehicles and $1,300 for shipping of supplies and equipment.

Mr. PASSMAN. What is the total?

Mr. SHULTZ. $2,100 for hire of vehicles.

Mr. PASSMAN. Will you have a deficit in this account for fiscal 1962?

Mr. SHULTZ. Not that I know of.

Mr. PASSMAN. Why are they asking for a $400 increase?

General THEIMER. He must foresee that he is going to have greater requirements. Regardless of how he got around it this past year, and expects to get around it, his requirements are going to be greater in 1963.

Mr. PASSMAN. That is an estimate, though?

General THEIMER. Yes, sir; it is the High Commissioner's best estimate.

Mr. PASSMAN. The little items add up to big ones. For fiscal 1962 can you estimate the expenditures in this account?

Mr. SHULTZ. We have some $1,700.

General THEIMER. And $2,100 for 1963.

Mr. PASSMAN. Do you show that you are going to be able to meet your obligations out of this amount?

General THEIMER. That is his estimate. He has to take care of his transportation funds by some means.

ENTERTAINMENT EXPENSE

Mr. PASSMAN. What amount are you requesting for representation for fiscal 1963?

General THEIMER. $4,000, Mr. Chairman.

Mr. PASSMAN. What amount did you have in fiscal 1962?

General THEIMER. We had something less than the request—$3,500.

Mr. PASSMAN. And you are asking how much this time?

General THEIMER. $4,000. I think that has been the request for the last 3 fiscal years. As you know, there are a great many people, members of Government as well as Members of Congress and a lot of people, who go through there, for whom I think it is incumbent on the High Commissioner to provide at least minimum essential entertainment.

Mr. PASSMAN. I have no particular quarrel with this account. I agree that it is a tool of the trade. Even though I want to hold expenditures down, I do not try to capitalize on the fact that you buy some bourbon and scotch with the money. I am told that our expenditure for this purpose is one of the lowest among the major nations. So long as this is held down to $3,500, I actually do not think that we would have much reason to quarrel. I am going to try to get the committee to support that amount.

General THEIMER. May I say something for the record, sir?

Mr. PASSMAN. Please do.

General THEIMER. I have talked to both the High Commissioner and the civil administrator, who were told about their entertaining, not only our U.S. visitors but also foreigners, including a number of Japanese and many Ryukyuans.

I think, really, both have done a splendid job over there. Both have assured me very frankly and honestly that they spend large amounts out of their own pockets for entertaining these people and it is in our national interest to do it.

This amount of $4,000 will not cover the amount of entertaining that they will really be called on to do.

Mr. PASSMAN. I am in sympathy with them. The amount that Congress makes available to its members is not quite sufficient. We get exactly zero per year, and are limited to a $3,000 allowance for tax purposes for living expenses in Washington. It is a problem.

What has been the amount of the representation allowance appropriated for the military in the preceding 5 years?

General THEIMER. All the military forces on Okinawa?

Mr. PASSMAN. Yes, per year.

General THEIMER. I don't have that figure at hand, Mr. Chairman. I will be glad to get it for the record.

(The information supplied follows:)

REPRESENTATION ALLOWANCES

Funds programed to the U.S. Army, Pacific, for the use of the Ryukyuan Command are as follows:

1958	$3,000	1961	$800
1959	1,000	1962	800
1960	800	1963 (estimate)	800

Mr. PASSMAN. If there is no objection, the subcommittee will recess until 10 a.m. tomorrow, at which time we shall get into the main part of the bill, dealing with the actual aid to the Ryukyus.

TUESDAY, MARCH 13, 1962.

Mr. PASSMAN. The committee will come to order.

We shall continue this morning consideration of the request for funds for the Ryukyu Islands.

OPERATING COST OF BUILDINGS

General, if we may return to the discussion of yesterday on the operating cost of the administration building, what was the amount of funds allocated for the operation of the buildings for fiscal year 1962?

General THEIMER. The amount of the estimate that we show here of funds to be obligated for operation of these buildings, Mr. Chairman, is $15,800.

Mr. PASSMAN. Does that figure include the costs for maintenance and repairs?

General THEIMER. That includes the essential operation of the building. And I assume it includes maintenance and repair.

Mr. PASSMAN. Could we separate them?

General THEIMER. I have only one figure here, Mr. Chairman. Let me see if I have the breakdown.

It runs for building repairs and maintenance, $3,000; electricity, $11,000; and water, $1,800.

Mr. PASSMAN. What is the square footage of the main building?

Mr. O'FLAHERTY. It is a four-story building.

Mr. PASSMAN. I am talking about the area of floor space.

Do you have the right, out of this appropriation, to transfer from one fund to another?

General THEIMER. Yes, sir.

Mr. PASSMAN. Out of the total of $93,000 for fiscal year 1962, those funds can be used for the general operating expenses as illustrated here on page 17?

General THEIMER. The High Commissioner has some authority in that area, yes, sir. He has the obligation to expend the funds as they were appropriated.

Mr. O'FLAHERTY. Mr. Chairman, I can provide the square footage of the building; 18,000 square feet.

Mr. PASSMAN. So, it is actually a relatively small building.

Mr. O'FLAHERTY. This is the portion used by the civil administration. There are two floors in this building which are occupied by the GRI executive department. So, it would be double that. It would be 36,000 square feet.

Mr. PASSMAN. 36,000 square feet in the total?

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. How much has been obligated to date of the $93,077?

Major LEGATE. $62,612 as of February 28.

Mr. PASSMAN. Is this the item that is supposed to finance repairs to the elevator in the building?

General THEIMER. This is the account, yes, Mr. Chairman.

I would like to add one thing. This is for the maintenance of all of the civil administration's buildings, and not just the one executive building we have been talking about.

Mr. PASSMAN. Yes. You have eight items listed on page 17.

General THEIMER. Yes, sir.

OBLIGATIONS, INCIDENTAL OPERATING EXPENSES

Mr. PASSMAN. What is that figure again, the amount obligated?

Major LEGATE. $62,612.

Mr. PASSMAN. Out of the $15,800 operation of the building, what is the total of your obligations for the last date?

Major LEGATE. I have for building maintenance and operation $11,233.

Mr. PASSMAN. Which would leave approximately $4,600 unobligated in that particular account?

Major LEGATE. That is right, sir.

REPAIR OF ELEVATOR

Mr. PASSMAN. We were discussing yesterday repairs to an elevator which, in large part, I believe, it is planned to replace.

General THEIMER. Replace the mechanism.

Mr. PASSMAN. At what cost?

General THEIMER. $12,000.

Mr. PASSMAN. What make elevator is it?

General THEIMER. As I remember, it is an Otis elevator. I don't remember where I saw that.

This is an item that we have asked for, I think, for the past 2 fiscal years before this one.

Mr. PASSMAN. You do not have a maintenance contract with the Otis Co.?

Major LEGATE. No, sir; we have no contract with them. The only representative is in Tokyo, Japan.

To the best of my knowledge, there are two elevators on the island; one is at the U.S. Army hospital; the other one is in our building.

Mr. PASSMAN. We had some afterthoughts on this discussion of yesterday about not having the money to repair the elevators. I have been riding elevators here in the Capitol—I believe they are Otis elevators—for 16 years, and I understand that some of these elevators were in operation for 22 years before I came here. That is 38 years, and they are still operating. So, there apparently is something unusual about this elevator to have to be replaced, as to the mechanism, when the elevator is only 10 years old. That is not considered old for an elevator. This subcommittee is trying to help you find places to save money, and this may be one place you can do so.

I am sure that you get my thinking along these lines.

General THEIMER. I understand.

Mr. TABER. Do you have anything with you to tell whether there is anybody whose job it was to service these elevators and check them a little bit?

General THEIMER. As the major just indicated, Mr. Taber, this is a job of the civil administration over there. They don't have a contract with Otis. So, it would be for their own engineers to do.

Mr. TABER. I still would like to know the answer to the question I asked. Is there anybody that makes it his business to service these elevators and provide them with the proper lubrication?

Major LEGATE. If I may answer: The people from Japan from Otis Elevator did visit us about the time we did our temporary repairs on the elevator. I believe they did give us an estimate.

Mr. TABER. They gave you an estimate?

Major LEGATE. Yes, sir. It is based upon their figures that we came up with the $12,000. They say that to be able to repair in a permanent position, it will take $12,000.

The paperwork I do not have with me. However, we can send off for it from Otis Elevator.

Mr. PASSMAN. What did the elevator cost originally?

Major LEGATE. I cannot answer that question, sir. It was part of the building when it was put in some 10 years ago.

General THEIMER. To go back to answer your question, Mr. Taber, there are people whose job it is to grease them and take care of them. They are part of the regular maintenance crew of the civil administration on Okinawa.

Mr. TABER. They do it?

General THEIMER. Yes, sir.

Mr. TABER. Are they natives?

General THEIMER. I imagine the supervisor is probably a Department of Army civilian and some of the maintenance people are undoubtedly Ryukyuans.

Mr. PASSMAN. I wish, General, that you would get us some more information concerning the types of repairs to this elevator.

General THEIMER. All right, sir.

Mr. TABER. How much did these elevators cost originally?

Mr. PASSMAN. I asked that, and it was a part of the building originally, included in the contract price, But, at least, you could ask the Otis Co. the price of an elevator of that size and capacity.

Mr. SHULTZ. I was given to understand part of the difficulty is they no longer make spare parts for this elevator. So, there is a difficulty in getting the estimate.

Mr. PASSMAN. You cannot manufacture something and put it on the market and then immediately stop manufacturing replacement parts. There is a law, I believe, to protect buyers against an act of that type.

I am just going to rest the case on the fact that those elevators are only 10 years old. The life of an elevator is probably considered to be about 40 years. You depreciate on the basis of 2 or 2½ percent a year; 5 percent, at the maximum, for a new elevator.

You will please give us some figures on the elevators.

I cannot understand what would make a $12,000 repair job necessary.

General THEIMER. We will get you the information, Mr. Chairman. The request which has been made has been for the replacement of the entire elevator mechanism which was originally made 3 years ago as I recall it. But we will get you this information. I just want to

assure you, sir, that it is the Army's policy to use equipment to the fullest. We never buy new equipment as long as we have old equipment that will do the job.

Mr. PASSMAN. In some places that may be the policy. But it is not the policy in many places. The record is clear on that point.

(The following was subsequently submitted for the record.)

REPAIR AND REPLACEMENT SCHEDULE AND COST OF ELEVATOR IN THE EXECUTIVE BUILDING, OKINAWA

1. The elevator presently installed in the executive building of the civil administration is a 10-year-old, 1952 model, a.c.-geared passenger elevator manufactured by the Toyo Otis Elevator Co. in Japan. The original cost of the elevator which was installed at the time the building was constructed was $18,300. The Toyo Otis Elevator Co. is an affiliate of the U.S. Otis Elevator Co. Manufacturing changes are made to fit oversea local manufacturing conditions. Replacement parts for the present elevator are no longer manufactured or available in stock but have to be manufactured to special order.

2. A recent inspection by Otis engineer reveals a complete overhaul of entire elevator including motor and replacement of governor ropes will be required within next few months or elevator will be condemned as unsafe. Labor and shipping costs of equipment plus additional work required has increased some item costs. Present estimate is broken down as follows:

(*a*)	Repair of machine, motor, and replacement of brake	$340
(*b*)	Replace controller and addition of selector and relay panel	2,240
(*c*)	Replace car operating panel and repair of concerned parts	320
(*d*)	Addition of counterweight	950
(*e*)	Repair safety device	50
(*f*)	Repair and refinish hoistway entrances	810
(*g*)	Renew wiring and conduit; repair hoistway enclosure equipment	1,440
(*h*)	Installation expenses: Labor, traveling allowance, lodging, transportation, and erection	4,150
(*i*)	Shipping cost for equipment	500
(*j*)	Profit	1,200
	Total	12,000

3. Complete modernization of the equipment would cost an additional $6,500 and is not included in this request.

4. The estimate furnished by the Toyo Otis Co. of Japan for labor and materials, furnished at job site; transportation of two Toyo Otis employees from Japan and return, and their maintenance for 30 days; profit and contingencies totaled $12,000. The local representative of the Otis Elevator Co. indicated that the cost in the United States of a repair and replacement job similar to that proposed in Okinawa would be $18,000 to $20,000.

AID TO THE RYUKYUAN ECONOMY

Mr. PASSMAN. We shall move now to the program of aid to the Ryukyu economy.

In 1962 you had a program of $5,367,000. Using round figures, you request for fiscal 1963 an amount of $6 million. That is an increase of $633,000.

We shall insert at this point in the record pages 22 and 23 of the justifications.

(The information referred to follows:)

Project 8740—Aid to the Ryukyuan economy

	Requirements category	Actual obligations, fiscal year 1961	Estimated obligations, fiscal year 1962	Estimate, fiscal year 1963	Fiscal year 1963 over fiscal year 1962, increase (+) or decrease (−)
	Total, project 8740	$4,299,187	$5,367,000	$6,000,000	+$633,000
8741	Reimbursement for government services	825,000	890,000	945,000	+55,000
	1. Public safety	500,000	550,000	600,000	+50,000
	2. Public health and sanitation services	325,000	340,000	345,000	+5,000
8742	Contribution to government projects	3,098,997	4,077,000	4,630,000	+553,000
	1. Educational facilities	1,074,999	1,117,000	1,180,000	+63,000
	(a) Public school construction	550,000	550,000	600,000	+50,000
	(b) Vocational education equipment	299,999	382,000	225,000	−157,000
	(c) University of Ryukyus	225,000	185,000	205,000	+20,000
	(d) Equipment for public schools	----------	----------	150,000	+150,000
	2. Assistance to Ryukyuan teachers	----------	1,000,000	1,000,000	----------
	3. Public health and medical programs	475,000	425,000	662,000	+237,000
	(a) Disease control program:				
	(1) Tuberculosis control	400,000	300,000	300,000	----------
	(2) Poliomyelitis control	----------	----------	25,000	+25,000
	(3) Encephalitis control	----------	----------	80,000	+80,000
	(b) Construction of medical facilities:				
	(1) Hospitals	----------	----------	150,000	+150,000
	(2) Leprosaria	----------	50,000	90,000	+40,000
	(3) Health centers	75,000	75,000	----------	−75,000
	(4) Leprosy rehabilitation center	----------	----------	17,000	+17,000
	4. Public safety facilities: Police patrol boat	----------	----------	50,000	+50,000
	5. Social welfare activities: Construction of houses for aged	----------	----------	45,000	+45,000
	6. Public works and economic development	1,548,998	1,535,000	1,693,000	+158,000
	(a) Roads and bridges	524,698	445,000	525,000	+80,000
	(b) Retaining walls	99,830	75,000	100,000	+25,000
	(c) Piers and harbors	299,894	300,000	300,000	----------
	(d) Productivity centers	99,894	----------	30,000	+30,000
	(e) Agricultural land development	524,682	400,000	493,000	+93,000
	(f) Livestock experimental facilities:				
	(1) Livestock experimental station	----------	----------	95,000	+95,000
	(2) Veterinary serum laboratory	----------	----------	50,000	+50,000
	(g) Urban development	----------	230,000	100,000	−130,000
	(h) Weather facilities	----------	85,000	----------	−85,000
8743	Transportation of commodities	5,453	5,000	5,000	----------
8745	Technical education and training	260,877	270,000	295,000	+25,000
8746	Technical cooperation	108,860	125,000	125,000	----------

Mr. PASSMAN. Will you give us some reasons why you consider it necessary to increase this item by more than 10 percent for fiscal year 1963?

General THEIMER. We will go into the detailed projects and programs, Mr. Chairman, as we go along which I know you are going to be interested in and ask questions about.

I would say in general that this is a recognition of the increasing importance of the Ryukyus, the recognition of the fact that they have a deficit economy, that they are poor people, and that it is our obligation, our legal obligation, and our charge and our mission to improve their economic welfare as well as in other categories such as their cultural advancement.

We note that this has been a matter of cognizance not only by the Army and the executive department but by the Congress as well.

Mr. PASSMAN. We recognize the conditions, General. We appreciate your statement. But we do not want to advance the program too rapidly.

COST OF RYUKYUAN AID SINCE 1957

What was the amount of the allocation for this program in each of the past 5 years?

General THEIMER. The overall for the——

Mr. PASSMAN. Let us take it by year.

General THEIMER. All right, sir.

Mr. PASSMAN. How far back do you have the information?

General THEIMER. We have the justifications going back to the customary third budget year. In fiscal year 1961 the total appropriated and obligated was $4,299,000. In fiscal year 1962, our estimate is $5,367,000. And this year, it is $6 million, which is the limitation of the Price bill.

Mr. PASSMAN. The story goes something like this:

In fiscal year 1958, actual, $854,501.

Fiscal year 1959, $1,087,985.

Fiscal year 1960, $3,335,000.

Fiscal year 1961, $4,299,187.

Fiscal year 1962, estimate, $5,367,000.

Fiscal year 1963, $6 million.

Maybe there is some reason for it. We are going to try to determine what it is.

REIMBURSEMENT FOR GOVERNMENT SERVICES

Under the item "Reimbursement for Government services," there is an increase in the requested amount of $55,000. Why is this increase necessary?

General THEIMER. This consists of two items, Mr. Chairman. The smaller of the items is a $5,000 increase in public health and sanitation which it is incumbent upon us to provide for and to assure for several reasons.

In the first place, we have our obligation and our interest in the Ryukyus. It is to our interest to assure that these people have as healthful a background as we could reasonably provide. There is nothing fancy about this. But these are minimum essential sanitation provisions.

Mr. PASSMAN. What is the relationship between the people in this department and the health educationist sent by HEW?

General THEIMER. In the High Commissioner's organization, he supervises and watches over the sanitation measures and the steps taken by the Government of the Ryukyus to maintain a healthful environment over there, and what steps they take for the necessary rodent and insect control and spraying and all that.

The individual you were referring to yesterday will assist in advising in this field as well as providing education at the local level, in the schools, communities, and places like that.

HEALTH EDUCATIONIST

Mr. PASSMAN. What will happen if you get an expert not so expert as some of the experts already there?

General THEIMER. That gets into the personnel field.

Mr. PASSMAN. I just asked, if the expert is not as expert as some of the experts out there, will you dispense with his, or her, services or will you have to use the person? This idea did not originate in the Ryukyus.

General THEIMER. The recommendation may have been made someplace else, but this is the High Commissioner's recommendation. I am sure General Caraway has considered all these recommendations of his thoroughly, and he figures that there is a real need for this individual or he would not have requested us and the Congress to provide it.

As to the person's qualifications, I would assume undoubtedly that the chances are greater than 9 out of 10 that the individual would be qualified to discharge his or her responsibilities. And, of course, in a very exceptional circumstance, if he or she were not, I suppose the necessary action would be taken.

Mr. PASSMAN. They are going to operate in the same field, in the health field?

General THEIMER. I feel sure that all of us, including yourself, can rely on the High Commissioner not to just ask someone to do a job that was being performed by someone else.

Mr. PASSMAN. These are usually ideas that are passed along. Sometimes it is a little difficult to find out whose ideas they are.

Mr. TABER. I wonder, Mr. Chairman, if at this point we couldn't develop specifically whether or not this so-called expert that they are going to add to the payroll and send out there was requested by the authorities that were already there, or whether HEW put the pressure on them to put somebody in there.

Mr. PASSMAN. It could very well be true that they are out soliciting business, looking for customers.

Mr. TABER. I know it is so.

Mr. PASSMAN. We want to find out where the request originated. We know it came through the High Commissioner. So, if you would get that information for us, I think it would be helpful.

General THEIMER. We will get you that information, Mr. Chairman.

Mr. PASSMAN. Thank you.

(The requested information follows:)

STATEMENT CONCERNING HEALTH EDUCATIONIST

The U.S. Civil Administration of the Ryukyu Islands recommended the addition of a health educationist to the staff. Both the director and his predecessor of the USCAR public health and welfare department urged the addition of a health educationist to the USCAR staff.

General THEIMER. Again I would like to say that these are the High Commissioner's requests and his recommendations. And he wouldn't make them if he didn't wholeheartedly approve them, even if they were recommended by someone else.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

APPROPRIATIONS FOR PUBLIC SAFETY

Mr. PASSMAN. With relation to the appropriation for "Public safety," page 24 indicates that for the fiscal years 1955 through 1960 the total was $832,000. However, last year's justification indicated that the appropriation for the fiscal years 1955–60 was $1,051,500. The question is, How did you lose $219,000 in 1 year?

General THEIMER. If I understand it correctly, Mr. Chairman, it is that in last year's justification the figure for 1955–60 was $1,051,000. And in this year's justification, the same years are shown as $832,000. I don't have last year's justification here. And I don't know the reason for the difference between the two.

I will be happy to get the information on it.

Let me ask Major Legate to answer the question.

Major LEGATE. I have the figures from 1955 through 1960, actual appropriation, which adds up to $831,500, which is now rounded to $832,000. In the past we had some appropriations shown as requested, not actual. So that amount was the difference. I have the background for all of these.

Mr. PASSMAN. Thank you.

General THEIMER. It included some requested amounts rather than actual.

INCREASE FOR COST OF POLICE AFFAIRS

Mr. PASSMAN. What is causing the increase in the cost of the police affairs category?

General THEIMER. This is an important activity, the police activities of the Ryukyus. We not only have our legal obligation to assure that police activities are as well carried out as we can reasonably carry them out within our limited means, but it is also to our interest to assure a good environmental background, as good as we can reasonably do, for the benefit of our activities and the presence of our own troops and forces over there.

Mr. PASSMAN. Does the increase for fiscal year 1963, or for fiscal 1962, correspond with prior years, say for the past 5 years, one year over the other?

General THAIMER. There has been an increase the past 3 fiscal years; that is, 1961, 1962, and 1963, of roughly 10 percent.

Mr. PASSMAN. Per year?

General THEIMER. That is correct, sir. And in addition to these factors that I have mentioned, our own obligations, interest, and

desire in it, there is, of course, the factor that the tab has to be picked up for these particular activities.

It is in our interest to do so. I wouldn't put this forth as a reason for this particular increase, but if we carried some of the load here, it permits the Government of the Ryukyus to put some of their money into economic development.

INCREASED COST FOR PENAL INSTITUTIONS

Mr. PASSMAN. Why has the cost for penal correction increased?

General THEIMER. May I ask, Mr. Chairman, are you comparing this figure against the 1962 justification?

Mr. PASSMAN. Yes.

General THEIMER. Do you have a reason for any change in the 1962 estimate?

Mr. SHULTZ. No, sir; I don't.

Mr. PASSMAN. How much is the increase?

Mr. SHULTZ. It is based upon the Government of the Ryukyus Island increasing the budget. They increased it $2 million. We have taken a percentage of that across the board based upon what we think is related to the U.S. Forces there.

Mr. PASSMAN. I think the increase is $31,000 for 1963 over fiscal year 1962.

Mr. SHULTZ. In public safety——

General THEIMER. No. The item "Penal correction."

Mr. SHULTZ. I see.

General THEIMER. It undoubtedly is a result of an increase in activities contemplated for 1963.

Mr. PASSMAN. Should the committee not have some information other than merely the fact that the increase has been requested. Usually we do want justifications, such as that there are more in the penal institution or that it is costing more to feed them.

The purpose of holding hearings is to determine the need for the funds requested.

Will you try to get us some information on that matter.

General THEIMER. We will be happy to, sir.

May I say that we have provided the amount of detail of justification that we thought the committee wanted. This is the same amount, the same information, that we have provided in the past years.

(The information supplied follows:)

The increase in penal correction costs is due to an employee pay increase ($21,000) and the recent transfer of a juvenile home to penal correction operations ($10,000).

INCREASE FOR PUBLIC HEALTH AND SANITATION

Mr. PASSMAN. Last year you requested $330,000 for public health and sanitation services. The balance necessary to complete this was shown as $1,050,000. The book shows that $330,000 was appropriated for fiscal 1962. The request for fiscal year 1963 is $345,000. Yet, the balance to complete remains the same—$1,050,000. How does that add up?

General THEIMER. The fundamental change here, Mr. Chairman, is that it appeared to us last year that some of the funds we were

requesting for public health and sanitation more properly belonged in our direct assistance to the Ryukyus for our health assistance projects such as tuberculosis.

Mr. PASSMAN. I am looking at this particular item. The balance necessary to complete the project was $1,050,000. We appropriated $330,000 last year. But to complete the project, even after that appropriation, you still need $1,050,000. I refer you to page 34 of the justifications.

General THEIMER. I see the item that you refer to. We always extend this figure by one fiscal year, Mr. Chairman; and, consequently, the balance to complete it is substantially the same if your requirements remain substantially the same and your appropriations during a year remain substantially the same.

In other words, this is a continuing project of public health and sanitation services that are going to have to be provided for a number of years. That is, there is really no end to it. The artificial aspect of this, I think, is introduced by the implication or assumption that really this might be stopped at some time, in other words, that there would be an end to the project.

This is really a forecast for the period really instead of an end to the project.

Mr. PASSMAN. This reminds me of a letter I received from a person who had borrowed $300 from one of these "loan shark" financing companies. He had been paying on it for 2 years, but when he went in to pay it off, he then owed $340. I think there is a reasonable comparison between that loan and this item; however, this did not go up, but remained the same.

General THEIMER. That is right, sir. This is a rather standard amount. It will cost about the same for us to maintain a reasonable level of public health and sanitation.

ACQUISITION OF LAND IN OKINAWA

Mr. PASSMAN. General, on page 27, it is indicated that the United States has acquired some 38 square miles of land in Okinawa since last year.

General THEIMER. We are acquiring some additional land, Mr. Chairman, in small amounts. We are acquiring some small amounts of land at this time. I don't have right here the figures that we are acquiring, the amounts that we are acquiring. But they are small amounts.

Mr. PASSMAN. We found this 38 square miles in your own justifications. Of course, we could accept the answer of a "small amount" as being 38 square miles.

I think that last year you mentioned 117 square miles, in addition to providing 79 square miles of land for U.S. Government facilities. If you subtract 79 from 117, it leaves 38; is that correct?

General THEIMER. Yes, sir.

Mr. PASSMAN. That is a lot of real estate.

General THEIMER. We have not acquired 38 square miles of land during this past year, Mr. Chairman. There is a difference here in the justification. I don't know how the discrepancy occurred.

Mr. PASSMAN. It is on page 27 of one book and 35 of the 1962 book. We are looking at two books; 1963, on page 27, and on page 35 of the justifications for fiscal year 1962.

(The following information was subsequently submitted for the record:)

As of December 15, 1961, the United States had been provided 75,514.73 acres or 117.99 square miles of land for facilities. As of December 15, 1960, 75,209.37 acres or 117.51 square miles had been provided. In the year period, therefore, additional requirements were 305.06 acres or 0.48 square mile.

U.S. CONTRIBUTION TO GOVERNMENT PROJECTS

Mr. PASSMAN. For the U.S. contribution to government projects you are requesting $4,630,000.

General THEIMER. $4,630,000 for contribution to government projects.

Mr. PASSMAN. That does not include the profit from the Loan Corporation or any operations which return their money to the general fund?

General THEIMER. That is correct. This is a request for appropriations.

Mr. PASSMAN. Direct?

General THEIMER. Yes, sir.

Mr. PASSMAN. How much is being contributed by the government of the Ryukyus for the same purpose?

General THEIMER. For these particular purposes it will take me a couple of minutes to have this added up. But I will be glad to provide the information directly.

AID TO EDUCATION

Mr. PASSMAN. While that is being prepared, let me refer to this: For aid to education for fiscal year 1963, you are requesting $1,180,000. Of that amount, $600,000 is for public school construction.

General THEIMER. That is right, sir.

Mr. PASSMAN. What has been the total for public school construction since we embarked upon this program?

Mr. HARBISON. $3,320,000, sir.

Mr. PASSMAN. Do you have a projected figure taking it to completion?

Mr. HARBISON. Through 1966 it will be $2,282,000.

General THEIMER. Including fiscal year 1963?

Mr. HARBISON. Including 1963, yes.

Mr. PASSMAN. I believe your justification on page 28 indicates the balance to complete, fiscal year 1964–66, $1,682,000.

General THEIMER. That is correct, sir.

Mr. PASSMAN. How firm are these figures?

General THEIMER. These are our best estimates at this time, Mr. Chairman, to liquidate or to reduce the requirements.

Mr. PASSMAN. Did you have an estimate last year?

General THEIMER. We did, sir.

Mr. PASSMAN. What was the estimate last year?

General THEIMER. Well, the estimate or request last year for fiscal year 1962 was $550,000. Are you asking for the balance to complete?

Mr. PASSMAN. Yes; of last year.

General THEIMER. I believe that the answer, Mr. Chairman, is in the same category. It is for the same reason that I explained a minute ago in connection with public health and sanitation. These appear now to be continuing requirements.

Mr. PASSMAN. When this estimate has been used up, there will be another estimate taking its place?

Mr. HARBISON. Yes. This is a summarized financial statement for the fiscal years 1955–66.

Mr. PASSMAN. Do you have any estimate as to the amount required to finally round out the public school building program on Okinawa?

General THEIMER. We have not tried to foresee when the end of this might be, Mr. Chairman. In our processes here we have come in through the customary budget request machinery and this format and these particular figures.

Mr. PASSMAN. The committee would like to know just about what the total requirement would be to finally round out the program? Most of these schools are typhoon-proof buildings; it is almost a lifetime construction program.

About all you would have to think of would be taking care of the increase in population.

SCHOOL ENROLLMENT INCREASES

Mr. HARBISON. That is what I was going to say. The school population increases every year by about from 12,000 to 13,000 students at the present rate.

General THEIMER. The total population which this request covers is about 880,000.

Mr. PASSMAN. And you have an annual school population increase of about what number?

Mr. HARBISON. Twelve to thirteen thousand a year.

Mr. PASSMAN. Is this, then, a continuing, a never-ending program?

General THEIMER. I believe so, Mr. Chairman. Just as we find in our own country, there is the question of having to replace those facilities which are worn out.

Mr. HARBISON. I might add, Mr. Chairman, that we must take into consideration the fact that 9 years of compulsory education are strictly enforced; whereas prior to our time of entry into the island there was only 6 years of compulsory education.

Mr. PASSMAN. That was under the Japanese?

Mr. HARBISON. That is correct.

We were responsible for the implementation of 9 years' education in Japan as a result of the occupation.

RYUKYUAN CLASSROOM CONSTRUCTION COSTS

Mr. PASSMAN. General, why is there such a difference in the cost of construction of classrooms, if I am reading the justification correctly, between those provided by the United States and by the Government of the Ryukyus? The United States has $600,000 for 210 rooms, at $2,857 each; the Ryukyus, $984,000, 271 rooms, $3,631 each. Is it a joint endeavor or are they building classrooms in addition to those which we are providing?

General THEIMER. They are building classrooms in addition to what we provide. And this program each year is developed by the government of the Ryukyus. It is presented to the civil administration. They review these projects and determine—or the High Commissioner decides which part the United States will undertake and fund and

which part should be undertaken and funded by the government of the Ryukyus.

Mr. PASSMAN. Is it the same type of building?

General THEIMER. The cost of these buildings and classrooms varies, depending on where they are, the type of construction, and so on.

Mr. HARBISON. Also the type of the building. Elementary schools would have one; high schools will have others. And that includes laboratories and workshops.

Mr. PASSMAN. Are they constructing buildings that are better than those we are providing?

Mr. HARBISON. I wouldn't say so.

Mr. PASSMAN. Why is the cost about $774 more per room?

Mr. O'FLAHERTY. Mr. Chairman, they are building larger structures, larger classrooms for shops. A substantial amount of their construction is for vocational education type schools.

Mr. PASSMAN. Are we not doing similarly?

Mr. O'FLAHERTY. They are building more of the larger type classrooms for such things as laboratories, workshops, and the like.

Mr. PASSMAN. Is there no U.S. contribution to the classrooms they are building?

General THEIMER. This contribution here, sir.

Mr. PASSMAN. One group of classrooms is costing $2,857 per unit, and the other group is costing $3,631 per unit.

If we are making a contribution, we should have the right of certain supervision, at least to know whether or not this price is right, because $774 per classroom is a lot of difference.

Mr. HARBISON. My assumption, Mr. Chairman, is that the schoolrooms which we are proposing to finance of the elementary type are of cheaper construction, not of the larger buildings where they would have a greater unit cost.

General THEIMER. As a matter of fact, the civil administration, Mr. Chairman, works very closely with their activities and has a considerable influence on what they put in.

CLASSROOM EQUIPMENT

Mr. PASSMAN. I note, on page 34, that the High Commissioner proposes to embark on a new program of providing equipment for 6,000 classrooms. Am I reading the justification correctly?

General THEIMER. Yes.

Mr. PASSMAN. Why is this to be done?

Mr. O'FLAHERTY. Because of the condition of the present crude furnishings in the classrooms which are in part at least made up from scrap. About the only modern type of equipment—if it could be so-called—are blackboards and the teachers' desks. This averages $25 a classroom; and, consequently, it couldn't provide anything very much in the way of elaborate equipment.

Mr. PASSMAN. This is a new program. You did not have the request last year, did you?

Mr. O'FLAHERTY. No, sir.

Mr. PASSMAN. This is the first year in which you have requested funds for this purpose?

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. It is a new program.

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. You may be off on your figures there. It may be $250 per classroom, rather than $25. Would you like to have another look?

Mr. HARBISON. It is $150 divided by 6. That gives $25, according to my arithmetic.

Mr. PASSMAN. The total estimate of cost is $1,520,000. Now if you divided that amount by 6,000 what figure do you get?

General THEIMER. You get about $250.

Mr. PASSMAN. Which is it: $250 or $25 per classroom?

Mr. O'FLAHERTY. We are speaking, sir, of the U.S. request.

Mr. PASSMAN. I am talking about the total.

Mr. O'FLAHERTY. The government of the Ryukyu Islands is providing $1,145,000 toward the total cost.

General THEIMER. I believe the civil administration working closely with the government of the Ryukyus discusses needs for things like this. And as I stated a minute ago, working closely together, the High Commissioner decides how much the United States might provide to assist the Ryukyus to carry out this particular need, which I am sure you will agree is an important area.

Mr. PASSMAN. It looks as if we would let them do something on their own. However, I think we should still work on our mathematics. I believe our cost is actually going to be $62, is it not?

Mr. HARBISON. $62.50.

Mr. PASSMAN. Over the period of the contract.

Mr. HARBISON. Three years.

Mr. PASSMAN. Where does the $25 come in?

Mr. HARBISON. We were just using $150 divided into $6,000.

Mr. PASSMAN. So the $25 figure can be forgotten?

Mr. HARBISON. Yes, sir; $62.50.

General THEIMER. $25, Mr. Chairman, was Mr. O'Flaherty's figure for the percentage or rather the per classroom figure for fiscal year 1963.

Mr. PASSMAN. Of course, there is always a possibility that future estimates will increase this figure? I think that has been true in the past with relation to estimates. They usually go up, because this is a long-range program.

General THEIMER. I certainly would expect some change, Mr. Chairman.

Mr. PASSMAN. At this time it is impossible to determine what our actual cost will be.

Mr. HARBISON. Definitive cost, yes.

Mr. PASSMAN. Now what type of equipment do you propose to furnish through this account?

Mr. HARBISON. It would be blackboards, teachers' desks. You see, the buildings we have furnished have had nothing in the way of equipment at all.

Mr. PASSMAN. Did they stand up?

Mr. HARBISON. They sit down on the floor in many cases.

Mr. PASSMAN. We are getting them out of that habit now?

Mr. HARBISON. This is for blackboards and teachers' desks and chairs. I think it is a very minimum requirement that they would have.

Mr. PASSMAN. Is the equipment similar to that which we have in our own classrooms?

Mr. HARBISON. It would be much, much less.

Mr. PASSMAN. But it will be similar equipment?

Mr. HARBISON. Yes.

Mr. PASSMAN. Where are you procuring it?

General THEIMER. Can you answer that, where this school equipment would be obtained?

Mr. SHULTZ. It would be generally obtained locally.

Mr. PASSMAN. On a competitive bid proposition?

Mr. HARBISON. Yes.

Mr. PASSMAN. Do you have a list of the firms that bid on this equipment?

Mr. HARBISON. We can give you that.

Mr. PASSMAN, I wish you would.

Mr. HARBISON. Yes, sir.

(The requested information follows:)

LIST OF LOCAL SUPPLIERS FROM WHOM SCHOOL EQUIPMENT AND FURNITURE WOULD BE OBTAINED

Kokuba Construction Co.
Furugen Bros. Co.
Nakada Industrial Co.
Yamato Rika-Keiki Co.
Bunkyo-Tosho Co.
Yasukiya Co.

TUBERCULOSIS CONTROL

Mr. PASSMAN. Will the entire $330,000 requested for the tuberculosis control program be used to purchase drugs and the type of equipment necessary to administer the drugs?

General THEIMER. That is correct, sir.

Mr. PASSMAN. What degree of success is being achieved in controlling this dread disease, which was rampant at one time in the Ryukyus?

Mr. HARBISON. Tuberculosis?

Mr. PASSMAN. Yes.

General THEIMER. We are having success, Mr. Chairman. I believe that our job has increased probably because of more complete reporting. But our report of the number of deaths from tuberculosis shows that they have constantly been decreasing.

The number of deaths in 1952 was 485, and that number has reduced steadily. In 1960 the figure was 160, or just about a third of what it was 8 years before.

Mr. PASSMAN. The number of registered cases may be increasing because of more accurate reporting?

General THEIMER. I believe so.

Mr. PASSMAN. But the number of deaths resulting from tuberculosis is decreasing?

General THEIMER. Decreasing, yes.

Mr. HARBISON. You must understand that in this area of the world tuberculosis is not looked upon as having to be even spoken of to your doctor. It is very difficult to get a proper registration of these people.

RYUKYUAN TEACHER SALARIES

General THEIMER. Mr. Chairman, could I back up one minute on this subject of Ryukyuan teachers which you covered yesterday?

Mr. PASSMAN. Certainly.

General THEIMER. I gave you a figure yesterday which was the pay of a primary and junior high school principal. I think you might be interested in the figures for a senior high school teacher, which are somewhat less. Their monthly pay, including their proportion of the $1 million increase, is $107.15, or in annual pay for them, that would be about $1,285.

Mr. PASSMAN. Reaching a high of——

General THEIMER. $1,285.

Mr. PASSMAN. That is the maximum?

General THEIMER. That is correct, sir.

Mr. PASSMAN. Do they have a teachers' retirement program?

General THEIMER. This includes a factor for separation allowance. It does not include a retirement program, which we do not have, which again is one of the things that Japanese teachers have in their favor.

They have a generous retirement system. They have lower tax rates and their cost of living expenses in Japan are lower.

RYUKYUAN TAX SYSTEM

Mr. PASSMAN. Maybe the Japanese pay taxes on what they actually earn. In some places of the world people pay taxes only on a small percentage of what they earn, and it is not a violation of the law not to pay.

Is there a tight tax-collection system in the Ryukyus?

General THEIMER. I can't assure you how tight their system is, but they have a system which the High Commissioner is always pressing them to tighten up and to make effective.

Mr. PASSMAN. Would that fact indicate it may be just a little loose?

Mr. HARBISON. I wouldn't say that.

Mr. PASSMAN. I would, because I think I am familiar with it. What are their penalties for fraud with regard to the reporting and payment of taxes?

General THEIMER. They have a withholding tax system over there, Mr. Chairman. As I noted in my opening statement, their own sources of income have increased here during the last several years.

Mr. PASSMAN. How about the companies, the businesses, where there is no withholding, and you have to rely upon the company or the individual who is self-employed to do his own reporting?

And, what is the highest tax rate on that income?

Mr. O'FLAHERTY. For personal income taxes, sir, the rate is highly progressive. It ranges from 10 percent on net income of $83 to 60 percent on net incomes of $5,833.

As to the corporations, there is imposed a fixed rate of 35 percent on all corporate income.

Mr. PASSMAN. It is a 52-percent minimum here for corporations, and we go on up to about 90 percent in the individual brackets. What is the penalty for filing incorrectly?

General THEIMER. We don't have that information.

Mr. PASSMAN. We do know that the tax systems are rather loose in some parts of the world.

ENCEPHALITIS CONTROL

Is the program for encephalitis control also a new one?

General THEIMER. This is a new program; yes, sir.

Mr. PASSMAN. What is the total cost to complete the program?

General THEIMER. The balance to complete is $240,000 for 1964 to 1966, inclusive.

Mr. PASSMAN. I notice that we are putting up $320,000 and they are putting up only $92,000.

General THEIMER. I think here again, Mr. Chairman, we provide a certain part of some costs. I think this undoubtedly reflects administrative arrangements and what is most practicable for them to do and for us to do.

CARE FACILITIES FOR DISEASED RYUKYUANS

Mr. PASSMAN. What type of structure are you proposing to build as a nursing school and quarters? The committee is asked to recommend $50,000, and the Ryukyuan government would contribute $90,000.

General THEIMER. That is right, sir. This is in connection with converting the second floor of the Naha Hospital into a tubercular ward for which, as you have noted, we would provide $100,000. The nursing school would cost $140,000, of which we propose to contribute $50,000.

Do you have the type of construction?

Mr. SCHULTZ. No.

Mr. PASSMAN. Is it in addition to the present hospital or being made a part of the——

Mr. SCHULTZ. As I understand, it is a part of it.

Mr. PASSMAN. This is more or less a renovation cost, to bring the hospital up to the needs for the purpose for which it is intended, then.

HANSEN'S DISEASE CONTROL

We note here, on page 40, that there are approximately 1,300 beds available for confinement of patients with Hansen's disease in wards.

General THEIMER. That is our information, Mr. Chairman.

Mr. PASSMAN. We are making a lot of progress in treating that disease in this country. I wonder if they are using the same types of drugs and the same methods of treatment out there? Is it under our supervision?

General THEIMER. We work very closely with them, Mr. Chairman. I am sure they are using up-to-date methods and that we are providing them concrete assistance in this program.

One of their problems, of course, is to rehabilitate these people and get them to go out and leave a leprosarium once they get in it. We have this Public Health hospital at Carrville to treat the victims of Hansen's disease.

We are controlling it to a very large extent, arresting the cases early; and many of them are rehabilitated after a few years.

Do you know what progress you are having there?

Mr. HARBISON. It is a standard treatment of the disease that is used worldwide. As the general indicated, one of our major concerns along that line is the fact that these people do not want to leave the leprosarium after they have been cured because of the fact—and I think it is almost the same in this country—they become social pariahs, having had the disease.

The idea is to give them some specific help and also educating the populace itself as to the fact that, once the disease is cured, there is no danger to the rest of the population.

Mr. PASSMAN. The people in my State, where the U.S. Public Health Service has a large facility for the care and treatment of people with Hansen's disease, understand the disease, and they have no fear of it.

I know of one case where a lady contracted this disease and her husband went with her, and they both lived at the hospital facility.

PURCHASE OF PATROL BOATS

You are requesting $50,000 for the purchase of the first of a total of four patrol boats. Why is the provision of such equipment the responsibility of the United States?

General THEIMER. This is closely related to providing the necessary police facilities and a police program for the Ryukyus. This would provide one boat to replace an old boat which can only make 8 knots—which, as the justification explains, is not fast enough to carry out their mission.

Mr. PASSMAN. What is their mission?

General THEIMER. Their mission is to intercept smugglers and to also act as a rescue boat. The 8-knot job apparently doesn't have the speed. This type of boat will have a cruislng speed of 12 knots and a top speed of 18.

NARCOTICS CONTROL

Mr. GARY. Is there any narcotic smuggling involved there?

General THEIMER. There is, sir. It has been a big business, and it has been of considerable concern over the years.

(Discussion off the record.)

Mr. O'FLAHERTY. This service is under the operational control of the civil administration, but it is carried out by the Ryukyuans. So I think it is safe to say the cooperation is 100 percent.

Mr. PASSMAN. Do you know whether or not we have an agent, or agents, assigned from the Bureau of Narcotics?

Mr. O'FLAHERTY. I don't know; for spot checks, perhaps.

Mr. PASSMAN. But it is something you have to watch? The use of drugs and smuggling is quite prevalent out there?

General THEIMER. It has been quite active in past years and is reported to be now.

Mr. PASSMAN. I shall yield to the gentleman from Virginia.

Mr. GARY. We have just included in the 1963 budget, three additional overseas agents for the Bureau of Narcotics.

If I am not mistaken, one of them is to be used in this area. I don't know that he will be stationed on Okinawa, but I think he is to be used in this general area.

I hope that the island forces out there will cooperate with the Bureau of Narcotics. Of course their activities will be not to stop smuggling into the Ryukyus, but to attack the smuggling into the United States at its source.

They are trying to get at the source of the narcotics traffic and get as much information as they can on the smuggling of narcotics into the United States. We are very much interested in that program.

General THEIMER. I am sure they will cooperate, Mr. Gary, and will be delighted with any assistance that they can get.

REQUEST FOR ROADS AND BRIDGES

Mr. PASSMAN. Turning to the request for roads and bridges, you are requesting $525,000 for fiscal 1963.

General THEIMER. That is correct, sir.

Mr. PASSMAN. What amount did you have for fiscal 1962?

General THEIMER. The request was for $575,000. Actually allocated to the program after the reduction of funds for other than teachers' pay increases is $445,000.

Mr. PASSMAN. Do you build the hard-surfaced roads on Okinawa out of local rock, or do you have to import certain material other than the concrete and blacktop?

General THEIMER. The standard ballast, I believe, is coral. It is in Hawaii, and I think it is there.

Mr. PASSMAN. You top it, then, with tar, or asphalt?

General THEIMER. Yes, sir.

Mr. PASSMAN. What is the cost per mile of constructing such roads?

General THEIMER. We don't have a standard cost for that, Mr. Chairman. We are looking into comparable costs. I have discovered, incidentally, that the cost of a 12 to 16-foot wide road in the United States—concrete road— is about $50,000 per mile.

Mr. PASSMAN. Do you mean that you can build a concrete road for $50,000 per mile in the United States?

General THEIMER. For a 12 to 16-foot-wide road, per mile, that is our information.

Mr. CONTE. It is about $1 million a mile.

Mr. PASSMAN. If you can do it for that amount, we should let you award the contracts for our Interstate Highway System.

Mr. CONTE. It is pretty close to $1 million a mile. I think you are confused.

Mr. PASSMAN. I think that in some instances it costs more than $2 million a mile, depending upon the type of terrain. But if you can build these roads on Okinawa for $50,000, do not let us recommend that you change the formula.

Mr. CONTE. Mr. Chairman, will you yield there?

Mr. PASSMAN. Yes.

Mr. CONTE. Why can't you just build a coral road? I was out there a couple of years in the service. We built a lot of coral roads and coral airfields. You just lay the coral and it dries and forms a hard pan almost like cement. If you have any potholes, you fill them up with coral.

Mr. TABER. It disintegrates, does it not?

Mr. CONTE. It takes a long time, though. You just dig the coral out of the ocean and lay it out. It is a very cheap form of construction.

General THEIMER. It is dusty, I think you would agree. I think it does require considerably more maintenance than a blacktop road.

Mr. CONTE. There is no doubt about that.

General THEIMER. You have the same thing in Hawaii. I was there last summer. They customarily put either blacktop or concrete. You never see just a coral road.

Mr. CONTE. We built many airfields out there during the war of coral, and they stood up pretty well.

Mr. PASSMAN. If it is just coral, it beats into a kind of dust. The tar, or asphalt, is used more or less to——

General THEIMER. Bind it.

SOCIAL WELFARE CONSTRUCTION

Mr. PASSMAN. I believe you have another new program, and that is for "Social welfare construction," requesting $45,000 to enlarge and renovate three homes for the aged and handicapped adults.

General THEIMER. That is correct, sir.

Mr. PASSMAN. What is the projected total cost?

General THEIMER. The total estimated cost through 1966 of the entire program is $652,000. We show a balance to complete—which would be U.S. appropriations—of $150,000. This is an area in which General Caraway feels there is a great deal of political mileage, a great deal of appeal; and although this is not strictly in the nature of economic development, still there is a great deal of advantage to be gained for the United States and our administration.

UNOBLIGATED BALANCE IN THE RESETTLEMENT PROGRAM

Mr. PASSMAN. What is the amount of the anticipated unobligated balance in the resettlement program as of June 30?

Mr. O'FLAHERTY. The unobligated balance, of the $3.7 million apportioned and allocated, sir, is $1 million.

Mr. TABER. At what date?

Mr. O'FLAHERTY. It is a total of $2 million unapportioned, I believe.

Mr. TABER. That is your estimate as of June 30?

Mr. O'FLAHERTY. As of the current date, Mr. Taber.

Mr. PASSMAN. I asked for the anticipated unobligated balance as of June 30, this fiscal year.

Mr. TABER. That is why I asked what I did.

Mr. PASSMAN. What is your answer?

Mr. O'FLAHERTY. I am sorry, I cannot tell you. At the present time $2 million has not been apportioned.

Mr. PASSMAN. You do not know what it would be on June 30?

Mr. O'FLAHERTY. No, sir.

Mr. TABER. How much have you obligated in the first 8 or 9 months?

General THEIMER. About $3.7 million has been apportioned altogether to date, Mr. Taber. I am not sure that we have got the obligation figures for this fiscal year under the resettlement program.

Mr. PASSMAN. Is this not an item that has been hanging fire for years?

General THEIMER. The obligations have slowed down in this program, Mr. Chairman; that is correct. You went into this last year. We have a program. We are reexamining this program. We intend to return the unapportioned balance in this fund if we can find no reason to increase or step up our obligation.

Mr. PASSMAN. Is this a place where we can pick up a little money?

General THEIMER. It may be, sir. That is what we are looking at right now.

Mr. PASSMAN. You will probably have that same $2 million on June 30, will you not, inasmuch as this program has been kind of dormant for years?

General THEIMER. No; we may lose or return it by June 30.

Mr. PASSMAN. Or maybe more, based upon the use in the past.

General THEIMER. I think I would stick to that figure right now.

Mr. PASSMAN. Would you recommend that we take into account that you will have $1 million available from this category?

General THEIMER. No, sir; it will not be available.

Mr. PASSMAN. Why?

General THEIMER. In the first place, it has not been apportioned by the Bureau of the Budget.

Mr. PASSMAN. It has been appropriated, though?

General THEIMER. It has been appropriated, but not apportioned.

Mr. O'FLAHERTY. Of course, this is military construction—Army money—Mr. Chairman.

General THEIMER. That couldn't be used for these purposes.

Mr. GARY. Mr. Chairman, will you yield?

Mr. PASSMAN. Yes, I yield to the gentleman from Virginia.

DESCRIPTION OF THE RESETTLEMENT PROGRAM

Mr. GARY. What is this resettlement program, General? Will you give us a description of it?

General THEIMER. The resettlement program, Mr. Gary, was designed to take care of some of the overpopulation of the Ryukyu Islands. As you are well aware, land is very short and there is a great pressure of overpopulation—has been for years—in the Ryukyus.

The resettlement program was designed to make available places where sone of this overpopulation could make a living. It is designed to develop and to open up areas in various places in the Ryukyus, not only on Okinawa, but also in other places.

Mr. GARY. On other islands?

General THEIMER. On the other islands; that is correct, sir. One island that you will hear mentioned a great deal in this connection is an island called Iriomote, which is down in the southern part of the Ryukyus.

But it is designed primarily to open up new areas, to clear them, to set up the necessary facilities, to build roads into them, and to clear them off so that some of the excess population will have an opportunity to make a living.

PEACE CORPS IN OKINAWA

Mr. PASSMAN. General, do you have any Peace Corps men on Okinawa?

General THEIMER. No, sir; we have no Peace Corps men on Okinawa.

Mr. PASSMAN. Do you expect to have any? Have you been solicited in that respect?

General THEIMER. There have been some discussions.

Mr. PASSMAN. We shall accept the word "discussion" rather than "solicitation."

General THEIMER. There have been some discussions.

Mr. TABER. Initiated by whom?

General THEIMER. I think initiated by the High Commissioner and by the Department of the Army.

Mr. PASSMAN. Have you had some of the Peace Corps representatives from Washington on the island of Okinawa?

Mr. SHULTZ. Yes, sir; we had a representative out there who spent some time.

Mr. PASSMAN. Out there to discuss assigning Peace Corps men?

Mr. SHULTZ. It was primarily to discuss what kind of programs could be established there for the use of the Peace Corps.

Mr. PASSMAN. How far have the discussions progressed?

Mr. SHULTZ. The discussions only went as far as the idea of introducing some of the Peace Corps from the standpoint of teaching the English language.

Mr. PASSMAN. With all the money that we have poured into the educational system there, now you have to get the Peace Corps men in to teach?

Mr. SHULTZ. The lack of English is one of the big drawbacks. We have tried to stimulate and develop the use of the English language in order to be able to expand the abilities of the Ryukyuan people.

Mr. PASSMAN. What caused the representative of the Peace Corps to go to Okinawa? Did the High Commissioner ask him or did he just happen to drop in?

Mr. SHULTZ. I think he was encouraged to come out by the Department of the Army.

Mr. TABER. I couldn't understand what you just said?

Mr. SHULTZ. I said the Department of the Army encouraged a Peace Corpsman to come out and take a look at the situation, and also of course the High Commissioner was interested from the standpoint of seeing what use could be made of the Peace Corps program if it was initiated, since it was of course designed primarily to help underdeveloped areas.

Mr. PASSMAN. Would Okinawa be in that category, with all the programs we have going on and all the military personnel?

General THEIMER. There is a great deal to be done out there, sir.

Mr. PASSMAN. There is a great deal to be done everywhere, General. I am not trying to irritate any of the members or any of the witnesses, but we find that they are planning to send Peace Corps men into the trust territories and even to Japan.

As I understand it, that program was intended to be used in underdeveloped areas. However, I do not believe there is going to be any place on the face of the earth where eventually you will not find people from the Peace Corps.

Do you know how many they plan to send out, or how many are under consideration?

General THEIMER. May I answer this question, Mr. Chairman?

Mr. PASSMAN. Yes.

General THEIMER. There is at present no commitment, no plan, to send anybody out there from the Peace Corps.

Mr. PASSMAN. Nothing firmed up, but it is being discussed.

General THEIMER. It has been discussed.

Mr. PASSMAN. Do you have any idea how many they discussed?

General THEIMER. I don't believe I could answer that question offhand, Mr. Chairman.

STATUS OF RYUKYUAN SCHOOLS

Mr. PASSMAN. How many school buildings do you have on the islands?

Mr. HARBISON. 6,000 classrooms.

General THEIMER. It is in the hundreds.

Mr. PASSMAN. So a few Peace Corps men would not do very much good.

General THEIMER. I am not arguing now, Mr. Chairman, for assistance from any particular source. Let me say that any assistance that can be made available will be made good use of.

Again I am not arguing for any particular assistance from the Peace Corps or any particular number of Peace Corps members.

Mr. HARBISON. Mr. Chairman, may I answer your question as to how many schools we have?

Mr. PASSMAN. Yes.

Mr. HARBISON. 460.

Mr. PASSMAN. You have regular teachers for the various classes?

Mr. HARBISON. There are teachers in each schoolroom. As of this current year, there are some 7,200 teachers in the schools from the kindergartens through the high schools.

Mr. PASSMAN. How many can teach English as a subject?

Mr. HARBISON. I think they have in the neighborhood of 225 teachers to teach English.

Mr. PASSMAN. That is a relatively small territory—the total of all the islands, 820,000 population.

Mr. HARBISON. They have a quarter of a million students in that number.

Mr. PASSMAN. You have 220 who teach English?

Mr. HARBISON. Yes, sir.

Mr. GARY. Are all of those teachers natives?

Mr. HARBISON. Those are native teachers, yes, sir.

SCHOOLS FOR MILITARY DEPENDENTS

Mr. GARY. The Army has separate teachers for their personnel, do they?

Mr. HARBISON. Yes, sir.

Mr. GARY. For the Army children?

Mr. HARBISON. That is correct.

Mr. PASSMAN. Do they operate a 9-month school term?

Mr. HARBISON. I believe the Ryukyuans follow pretty much the Japanese system, where they have 3 terms totaling 10 months.

PERCENTAGE OF U.S. CONTRIBUTION TO PRODUCTIVITY CENTER PROJECT

Mr. PASSMAN. General, for the productivity center project, it appears that we are now assuming over 90 percent of the cost under the revised program; whereas, previously, the U.S. share was 50 percent. Is that correct?

General THEIMER. We are asking $30,000 for the project this year, Mr. Chairman. The GRI, if they finance other projects as worked out over there—probably they would have to reprogram something. We can put this minor amount, this relatively modest amount, which would provide them assistance by providing some equipment which they need for the productivity center—additional laboratory and testing equipment, $21,500; books and training aids, $7,000.

Mr. PASSMAN. I am not questioning the advisability of it. I was questioning as to the percentage proposed for fiscal 1963 as compared with prior years.

General THEIMER. The GRI and the U.S. contribution?

Major LEGATE. The total contribution would be $11 million.

General THEIMER. For fiscal year 1963, 1962, and 1961: Can you get that?

Major LEGATE. Yes, sir.

Mr. PASSMAN. You say $11 million?

Major LEGATE. That is correct, sir.

This is a total of all contributions to projects—the questions that was asked earlier.

Mr. PASSMAN. Let us return to this specific project, the productivity center.

Major LEGATE. The productivity center is $2,000.

Mr. PASSMAN. Are we contributing 90 percent for fiscal year 1963, as compared to 50 percent in prior years?

Major LEGATE. My chart does not have the prior years, sir. I will have to find that elsewhere.

Mr. PASSMAN. Please insert it in the record. I think you will find some figures on page 53—90 percent in fiscal 1963, as compared to 50 percent in prior years.

(The information supplied follows:)

Productivity center

Year	U.S. aid	GRI	Total
1961	$100,000	$6,900	$106,900
1962	0	0	0
1963	30,000	2,000	32,000
Total	[2] 130,000	[1] 8,900	138,900

[1] Excludes operating costs paid by GRI.
[2] U.S. aid is approximately 93.6 percent of total.

LIVESTOCK EXPERIMENTAL STATION

Mr. PASSMAN. You are requesting $145,000 for a livestock experimental station and a serum laboratory. This also is a new program?

General THEIMER. This is a new program, yes, sir.

Mr. PASSMAN. If approved, will this request complete the project, and we will not be called upon for additional funds?

General THEIMER. That is the way it appears now, Mr. Chairman; and that is the basis on which we have made this request.

Mr. PASSMAN. What is the livestock population of the islands?

General THEIMER. It is considerable. They have a considerable amount of both beef cattle and also dairy cattle. Both the Ryukyuans and ourselves have been trying to increase this activity, as you are well aware.

Mr. PASSMAN. This is a new project, though?

General THEIMER. To provide these facilities for the experimental farm.

Mr. PASSMAN. Do you have the population of the livestock on the islands?

General THEIMER. It is about 93,000 in 1960, beef cattle; milk cows, about 500—516 in 1960.

Are you interested in other types?

Mr. PASSMAN. Yes.

General THEIMER. 145,000 hogs there; about 67,000 goats. Their imports in 1960 were about 3,800 cattle and about 60 or 70 milk cows.

Mr. PASSMAN. Are the goats on the island of Okinawa or the other islands?

General THEIMER. They are all over.

WEATHER RADAR STATION

Mr. PASSMAN. What is the status of the construction of the weather radar station for which you allocated $85,000 last year?

General THEIMER. It is proceeding. Its plans have been developed. If I am not mistaken, the contract has been let.

Major LEGATE. Right, sir. The contract was let for $84,990.

MEDICAL AND DENTAL EDUCATION

Mr. PASSMAN. I note that you are proposing a new program this year of educating high school graduates in medicine and dentistry. Do you have a medical school there?

Mr. HARBISON. No, sir.

Mr. PASSMAN. They would be sent to——

Mr. HARBISON. Japan, sir.

Mr. PASSMAN. What is the foreseeable cost of this new program?

General THEIMER. Of educating these doctors, Mr. Chairman, it will be about the amount requested here, which is around $16,000 a year, Mr. Chairman.

Mr. TABER. $16,000 apiece?

Mr. HARBISON. Total cost, Mr. Taber.

Mr. PASSMAN. Are there any Ryukyuan doctors?

Mr. HARBISON. Yes, there are some 302 doctors only on the island.

Mr. PASSMAN. 302 on the island of Okinawa?

Mr. HARBISON. That's correct.

RATIO OF DOCTORS TO POPULATION

Mr. PASSMAN. How does the ratio compare to the per capita for doctors here in the United States?

General THEIMER. That makes about 1 doctor for 3,000 population in the Ryukyus. I believe our average runs around 1 per 1,000—a tremendous shortage of doctors.

Mr. PASSMAN. I expect there are places in the United States where the ratio would not be much different from that on Okinawa.

Mr. HARBISON. Probably in some of the Far Western States where they don't have urban population.

Mr. CONTE. Mr. Chairman?

Mr. PASSMAN. I yield to the gentleman.

Mr. CONTE. Isn't that ratio very high in comparison to the other countries in southeast Asia?

General THEIMER. I don't have the information on other southeast Asian countries. Do you have in mind Vietnam?

Mr. CONTE. Vietnam, Indonesia.

General THEIMER. I wouldn't be surprised about Indonesia, where the population is quite high.

Mr. PASSMAN. That figure does not include the military doctors?

Mr. HARBISON. No, sir. These are native Ryukyuans.

Mr. TABER. How many of them did you say there were?

Mr. HARBISON. 302 at the last figure we have, sir.

Mr. PASSMAN. Thank you very much, gentlemen.

Mr. Gary?

GENERATION OF ELECTRICAL POWER

Mr. GARY. General, what is the power situation out there now?

General THEIMER. The power situation out there, Mr. Gary—and I think you have in mind primarily Okinawa—the principal power source is the Machinato plant. We have two power barges there, one a Navy barge and one an Army barge.

Mr. GARY. They were brought from Korea, I believe, were they not?

General THEIMER. One, if not both, were brought from Korea; that is correct, sir.

Mr. GARY. After the war. My recollection is that we built this plant you are talking about—I was out there about 1952 and it was under construction then. It was around 1953 or 1954 evidently that they completed it.

Then that did not supply all of the electricity that was needed. After the Korean war they brought these two barges from Korea to supplement the power. Is that correct?

General THEIMER. That is correct, sir.

Mr. GARY. And the barges are still there?

General THEIMER. That is correct.

Mr. GARY. The Congress has appropriated money for another powerplant. What is the status of that plant now?

General THEIMER. That is the powerplant to be constructed at Kin. The bids have been advertised for the Kin powerplant for the construction and installation of a three-power unit, and alternately a four-power unit.

I believe that we hope and expect that the progress will be such that the contracts can be let by the end of June.

Mr. GARY. When will the plant be completed, do you estimate?

General THEIMER. Our completion date now is 1964.

Mr. O'FLAHERTY. That is correct; September 1.

Mr. GARY. Will that supply adequate power, then, for all of the islands?

General THEIMER. It will supply power for Okinawa. We will probably still continue to utilize the two power barges—the *Jacona* and the *Impedance*. One of the things that we will have to determine is if and when we will need the fourth unit in the Kin powerplant.

Mr. GARY. Why would you continue to use the barges?

General THEIMER. They are a good and economical source of power, and it may be more economical to continue to use them than to put in the fourth unit.

Mr. GARY. They supply largely the Army; do they not?

General THEIMER. The Army operates the entire operation, Mr. Gary. They augment the power provided by the Machinato plant at the present time.

Mr. GARY. Do you think when the new plant is completed they will still need the augmentation of these two barges?

General THEIMER. That is right.

Mr. GARY. Will they be simply on a standby basis, or will they be in constant use, do you think?

Mr. MCLAUGHLIN. It will be standby, sir. When the fourth unit comes on the line between 1963 and 1964, the Jacona and the diesels which they are now using—the Jacona is a barge—will be used for standby equipment as long as necessary.

NUMBER OF SCHOOLS FOR MILITARY DEPENDENTS

Mr. GARY. How many schools do you have out ther for the Defense forces in general?

General THEIMER. It will take me a minute to get this figure, Mr. Gary. We don't support those schools from this budget request, but let me see if I can't get it.

Mr. HARBISON. We can get that for the record.

Mr. GARY. I don't think that is necessary. Are any Okinawans educated in these schools at all?

Mr. HARBISON. No, sir.

Mr. GARY. They are used entirely for the military personnel?

General THEIMER. Yes, sir.

Mr. HARBISON. Military and civilian.

HOSPITAL FACILITIES

Mr. GARY. What hospital facilities do you have on the island?

General THEIMER. The Army has a hospital there in which, incidentally, we train some Ryukyuan doctors. You are speaking of U.S. facilities and not Ryukyuan?

Mr. GARY. No, I was talking about any facilities that are used for the Ryukyuans.

General THEIMER. We have a hospital in Naha which we are discussing in this request here. Let me see if I can get you the total number of hospitals.

Mr. SHULTZ. I think I can give it, General. There are eight hospitals, two leprosariums. We have five community health centers and five major area health centers.

Mr. GARY. They are for the Ryukyuans?

Mr. SHULTZ. That is right.

Mr. GARY. Are any of the Ryukyuans admitted to the service hospitals?

Mr. SHULTZ. On very rare occasions. In the case of a dire emergency where the facilities of the Ryukyuan hospitals cannot take care of them, they are.

Mr. GARY. They are separate?

Mr. SHULTZ. Generally speaking, they are not for general use.

Mr. GARY. Mr. Chairman, I think you have covered the situation very fully in your questions, and I have no further questions.

MOBILITY OF POWER GENERATION UNITS

Mr. PASSMAN. Thank you, Mr. Gary.

The powerplants aboard these boats can be moved from one island to another in case of an emergency, can they not?

Mr. MCLAUGHLIN. The *Impedance;* and the *Jacona*, two.

Mr. PASSMAN. Even though it is a standby, if you needed it on one of the other islands it could be moved and would take care of their needs. Is that correct?

Mr. MCLAUGHLIN. It could be.

General THEIMER. That is correct.

Mr. PASSMAN. Mr. Natcher?

U.S. INVESTMENT IN OKINAWAN BASE

Mr. NATCHER. In the justifications, General, you state that we have approximately $1 billion invested in our base at Okinawa.

General THEIMER. Correct, sir.

Mr. NATCHER. And that we are expending some $200 million a year to maintain the facilities at that point. I believe that is correct.

ADEQUACY OF RYUKYUAN SCHOOLS

Let me ask you now: As far as Okinawa is concerned and the Ryukyus, from the standpoint of schools you stated that they have 460 schools?

Mr. HARBISON. 460 school buildings.

Mr. NATCHER. What type of buildings are these? You are not speaking in terms of one-room schools?

Mr. HARBISON. No. These 460 school buildings have a total of approximately 6,000 rooms. The schools are developing into a total of thorough concrete construction, typhoon-resistant.

Mr. NATCHER. According to the population on the Ryukyus, it compares favorable with the population here in the District of Columbia. You have more students, I believe, on the islands than they do here in the District. But, generally speaking, the Ryukyuan Islands are in right good shape.

SANITATION IN RYUKYU ISLANDS

Would you say that statement is correct, from the standpoint of sanitation, schools, and the different facilities that are required for the people?

General THEIMER. Their economy, Mr. Natcher, as you are aware, was not well advanced. They are a poor people. They have to import a large part of their food and all their requirements.

We—the United States—have done, I think, a good job of trying to develop them economically and in other ways ever since the end of the war. But I would say fundamentally there remains a great deal to be done.

Their sanitation systems, for example, are not well advanced. They are primitive, frankly.

I would say that they are a poor people and they have a poor economy and a poor standard of living.

Mr. NATCHER. We have occupied the Ryukyus for what—16 years or 17 years? Since the close of World War II?

General THEIMER. Yes, sir. It has been a civil administration, especially since 1952.

CONTINUING OPERATION OF OKINAWAN MILITARY BASE

Mr. NATCHER. Going back again to the justifications, we have a lot of money invested there, General. Do you feel that we will continue to operate our base and be in a position to maintain this base.

General THEIMER. The Joint Chiefs of Staff indicated that our remaining there is essential, that our Okinawa base is essential, and the unhampered use that we have of our forces and our facilities there on Okinawa.

Both President Eisenhower and President Kennedy repeated on several occasions that it would be necessary for us to continue our administration in the Ryukyus as long as threats and tension exist in the Far East.

It would appear to us that these factors—the retention of our base and our facilities there in Okinawa—are going to continue for a long period of time.

It is an important base not only to us but of course to the entire free world. It is a very important activity.

Mr. NATCHER. Would you say that conditions existing on the Ryukyus today are good from the standpoint of us continuing the operation of our base at Okinawa? Would you say our relations are excellent, good, or what would you say?

General THEIMER. Our relations with the Ryukyuans are excellent.

Mr. NATCHER. What agreement do we have insofar as the operation of our base in concerned?

(Discussion off the record.)

OKINAWAN MILITARY INVENTORY

Mr. GARY. General, I remember during the Korean war Okinawa was the base for our long-range bombers and all of the long-range bombers took off from Okinawa for Korea. Do you still have the bomber base there?

General THEIMER. There is an airbase there, Mr. Gary. I assume you are speaking of the Korean war?

Mr. GARY. Yes; I said Korean war.

General THEIMER. There is an airbase. Without reviewing my statistics, I honestly can't tell you what Air Force units or what types of units are there now.

Mr. GARY. We have been referring to the Army all the time, but you do have a very substantial Air Force base there. Is that correct?

General THEIMER. That is correct. As you know, we have a Marine division there also, which has been there for some time. I don't believe the complete division is there, but in substance there is a Marine division there also.

Mr. GARY. What about the Navy?

General THEIMER. There are Navy activities there. Just offhand I can't tell you what they are. They are not inconsiderable, though.

RYUKYUAN POLITICAL CLIMATE

Mr. GARY. You spoke a few moments ago about some town that recently elected a Communist mayor. Did Naha elect a Communist mayor at one time?

General THEIMER. That is correct, sir. I would say 3 or 4 years ago a fellow by the name of Senaga. Senaga was later beaten by an independent, if I am not mistaken. He in turn was replaced this last year by a member of the Liberal Democratic Party, which is the majority party. We were happy to see that party get a majority last year.

Mr. GARY. You would say, then, that the political situation in Naha has improved. Is that correct?

General THEIMER. It has improved to that extent. Actually the Naha election this past year, the mayoralty was a wild, wide-open affair. Two of the more leftist political parties got together. They in turn pulled in support from other places.

It looked for a while as though we were going to have a tough time in the election.

Mr. GARY. But the result was that a member of the Liberal Democratic Party was elected?

General THEIMER. That is correct, sir.

Mr. GARY. So they did not prevail in the election.

General THEIMER. That is correct.

Mr. GARY. How did the Communists get a hold in those countries?

General THEIMER. It may be an oversimplification, Mr. Gary. As a matter of fact, I suppose they probably have more methods of approach than a hot-shot golfer has clubs in his golf bag.

(Discussion off the record.)

Mr. PASSMAN. Mr. Taber?

Mr. TABER. I would rather reserve what I have until this afternoon.

Mr. PASSMAN. Gentlemen, we shall recess until 2 o'clock.

AFTERNOON SESSION

Mr. PASSMAN. The committee will come to order.

Mr. Taber?

ADMINISTRATIVE EXPENSES

Mr. TABER. I notice on page 3 of your justifications that you have the amount of the proposed estimate at $7,900,000, and on page 4, the same way.

That is an increase in the overall picture of $811,000.

General THEIMER. The figures that you refer to on page 3, Mr. Taber, are changes in the language from last year's appropriation act to the request for this year. As you noted, on page 3 it proposes to

change the language of the act from $7,089,000 to a total of $7,900,000. That is the overall figure. That consists of two amounts: a total of $6 million in economic assistance, or what is listed in the budget request on page 4 as support of government services and projects, a total of $6 million plus $1.9 million for the administrative activities of the civil administration. The particlar increases in there are in the various categories in which both of those are broken out.

CONTRIBUTION TO GOVERNMENT PROJECTS

Mr. TABER. The big increase is contribution to government projects.

General THEIMER. That is correct, sir.

Mr. TABER. That is $553,000.

General THEIMER. That is correct.

Mr. TABER. In this year's request there seems to be an item of $4,630,000. That represents an increase in this particular item of $533,000, this contribution to government projects. That is the biggest part of the increase.

Why do you need to increase that item so much?

EXPANDED MEDICAL FACILITIES AND PERSONNEL

General THEIMER. You are correct, Mr. Taber. The amount of the request for fiscal year 1963 does result from an increase in the request of $553,000 over fiscal year 1962. This is made up of a number of items. You notice that there is a recommended net increase in educational facilities which includes a request for equipment for public schools; that is, in public school construction there is an increased request of $50,000. In the public health and medical programs, there is an increase of $237,000, which includes several items, such as the new item of $25,000 for shots, poliomyelitis shots, for children.

We gave the first series to children under 6 last year. This will provide the fourth shot for that same group this coming year, plus the new crop of babies.

It includes also the item for encephalitis control. It provides the new tuberculosis wing in the Naha Hospital amounting to $100,000, plus $50,000 as a contribution and assistance to the government of the Ryukyus for the construction of the nurses' home at the same facility.

A leprosy rehabilitation center, that item is $17,000.

Mr. TABER. How many doctors do you have in Okinawa?

General THEIMER. About 300.

Mr. TABER. About 300?

General THEIMER. That is about 1 per 3,000 inhabitants. That is about a third of the ratio that we have in this country.

Mr. TABER. Well, there are a lot of places in this country where we don't have more than 1 physician to 3,000 people.

General THEIMER. The 1 physician to 1,000, which is the general overall average in the country. I don't know how it would break down by area.

Mr. TABER. In the armed services, there is something like 1 doctor to 300 people.

But if it is the ordinary town of anything up to 40,000 or 50,000 population, then it will run maybe 1 doctor to 2,000 to 2,500.

If it is in a big city like New York, it will run perhaps 1 to every 800 or 900.

In a place like Washington, it would probably be bigger than that.

TRAINING RYUKYUAN DOCTORS

It doesn't seem as if they are too bad off. How many doctors have you in training? Or rather how many prospective doctors do you have?

Mr. HARBISON. I cannot answer that, Mr. Taber. We will get the information for you.

General THEIMER. How many do we have in this program?

Mr. HARBISON. We have in this program 15.

Mr. TABER. Fifteen?

Mr. HARBISON. Yes, sir.

Mr. TABER. They will be sent to Japan?

Mr. HARBISON. Yes, sir.

Mr. TABER. That is what I meant. You don't know how many you have there now?

Mr. HARBISON. No, sir.

General THEIMER. We are not supporting any under this program, Mr. Taber.

Mr. TABER. You are not supporting any?

Mr. HARBISON. No.

General THEIMER. We are not supporting any.

Mr. PASSMAN. From what source are they being supported?

General THEIMER. Any that would be in training now in Japan would be there on their own or under the auspices of the government of the Ryukyus, I imagine. I don't know who else might provide any assistance.

Mr. TABER. There isn't anybody else that would?

General THEIMER. I can't imagine anybody; no, sir.

Mr. TABER. I was interested to know if there were as many as was indicated in this program?

General THEIMER. Well, this is a critical area. We have tried to figure for a long time how we could increase this fundamental requirement down there. And it is really quite a problem.

They don't make much money. So, the inducement to return to the Ryukyus is not great. There is more inducement to get away from the Ryukyus if they are going to get into the medical profession. But they have a tough time when they get back with the limited economy there. You take a city like Naha without any sanitation to speak of except open ditches and rivers, it is not the kind of economy that an up and coming bright young professional man would return to at this time.

Mr. TABER. There are those who have had their education subsidized. Are they under contract to stay in Okinawa after they graduate or anything of that character?

General THEIMER. I know of no specific provision written in that would require that they return to the Ryukyus. They are strongly urged to return to the Ryukyus. And, of course, they are selected on this basis, the people who are home-minded.

Mr. TABER. I think those are all the questions I have.

Mr. PASSMAN. General, you do have funds for medical doctors and dentists—from the Ryukyus—being financed from U.S. funds out of other programs?

Mr. HARBISON. I know of none, sir, other than this.

Mr. PASSMAN. I refer you to page 64 of your justifications.

Mr. HARBISON. This program of ours I thought you meant. I thought you were speaking of this program.

Mr. PASSMAN. Many times in trying to understand the program, I speak of the entire request as a program.

Mr. HARBISON. Yes, sir.

Mr. PASSMAN. This is a project under the program. But you are going to finance certain students for advance training in the medical field and dental field in Japan out of American funds; is that correct?

General THEIMER. That is correct, sir.

Mr. PASSMAN. Thank you.

Mr. TABER. Do these people who are to be financed in this way have any agreement to go back there and stay for a given length of time?

General THEIMER. There is no provision in the contract that I know of, Mr. Taber.

The civil administration over there is picking people who are going to do the Ryukyus the most good. You can be sure they are picking people who will come back and have a reason to come back and the kind of people they think are going to come back to the Ryukyus.

Mr. TABER. You know our Army and Navy Academy students are obliged to take a pledge that they will serve their country for 2 or 3 years after graduation. I was wondering is there any reason why these people should not do the same?

General THEIMER. It is a desirable and important feature of our education program for the Ryukyus. I don't have that information on hand, as I say. I have no specific information.

The people that the High Commissioner selects are the type of people that they feel are going to do the Ryukyus the most good. That is, the medical people.

Mr. TABER. That is all.

Mr. PASSMAN. If Mr. Conte will permit, I should like to comment briefly.

On page 64, according to the third line of the last paragraph, at the present time there are 302 registered physicians in the Ryukyus, or or one for each 2,923 people. The immediate need is stated as being for 441 physicians, 139 more than are now available.

The records indicate that during the period 1952–59, the average number of doctors who returned to the Ryukyus from medical schools in Japan and the United States was 12 per year.

How many did we send out per year during the same period?

Mr. HARBISON. I couldn't answer that, Mr. Chairman. I can furnish it for the record.

Mr. PASSMAN. Would you not think this is a very pertinent question? You know how many came back to the Ryukyus? Should we not also know how many we sent out to be trained with American funds? It would appear that it would take both of them to add up to the answer.

Mr. HARBISON. We will get that for the record. sir.

Mr. PASSMAN. You do not have the information?

General THEIMER. Could you answer that, Major Legate?

Major LEGATE. We don't have it.

Mr. PASSMAN. You know that so many came back per year? It would only follow that the question would be asked, how many were sent out? It costs money on every one we send out.

General THEIMER. Our strong feeling is that we sent none, but I can't assure you on that. I want to correct it.

Mr. HARBISON. The United States sent none to Japan.

Mr. PASSMAN. Let us consider the Ryukyus. I do not care who sent them. We pay part of the cost. So, I will put the question this way: How many Ryukyu students went out partly or wholly financed by the United States from the year 1952 to 1959. I wish you would accommodate the committee and get the answer.

General THEIMER. We will be happy to.

Mr. PASSMAN. Mr. Conte?

OKINAWAN EMIGRATION PROBLEM

Mr. CONTE. General, several years ago I visited Okinawa. And at that time they had somewhat of an emigration problem there that was troublesome to the United States. Does that still exist?

General THEIMER. It does, sir.

Mr. CONTE. Would you explain that?

General THEIMER. As far as emigration into the United States, there is none. There is no emigration quota. There is no provision for immigration of any kind. We have recommended legislation, I think, for some years. But there has been no favorable action in regard to it.

Mr. CONTE. And this creates a feeling among the Ryukyuans of being discriminated against. There is a Japanese quota, but there is not a quota for them?

General THEIMER. Yes, sir, that is true. The Ryukyuans, as you probably are aware, are in a peculiar position in that they are for many purposes not regarded as U.S. citizens and for many purposes they are not regarded as citizens of another country. There is no immigration quota. They do emigrate to other countries.

Their government helps them to emigrate, as a matter of fact, because of the tremendous overpopulation problem that they have.

RYUKYUAN EMIGRATION PATTERNS

Mr. CONTE. Where do most of them emigrate to? Japan?

General THEIMER. I don't know how much emigration there has been to Japan. But the programs that we have had anything to do with, there is some emigration to Bolivia, and Brazil; there may be one or two other South American countries. There they are set up with a minimum of facilities and a minimum of tools where by and large they are given the job of developing a relatively undeveloped part of the country.

Mr. CONTE. Who grants the visa?

General THEIMER. Ryukyuans travel on a Ryukyuan travel document. And this has the same force and validity as a passport

other places in the world. Actually, a number of Ryukyuans have used Japanese passports.

Mr. CONTE. That is interesting.

ELECTRICAL POWER GENERATION CAPACITY

General, could you state how many kilowatt-hours they had prior to the war and what they have today on the islands?

General THEIMER. 96,000 kilowatts.

Mr. CONTE. What did they have when we occupied the island. Would you say comparatively minor?

Mr. MCLAUGHLIN. Comparatively minor, yes.

General THEIMER. These facilities we have cited here——

Mr. CONTE. They were all established during our occupation; is that right?

General THEIMER. Since that time. The Machinato plant was put in in 1952 or 1953, some place in there. The Impedance and Jacona have been moved in by the services.

Mr. CONTE. I think that is sufficient for the record, that it was practically minor when we occupied the Island. And it is 96,000 now.

POWERPLANT CONSTRUCTION

General, I am somewhat disturbed over this money that we appropriated for the new plant about 3 years ago, and the fact that the plant hasn't been constructed as yet. You mentioned that there were several delays. One delay you mentioned in regard to the "Buy American" policy. When that buy American policy went in, how long did it take before you next step?

I understood a year went by. You kicked this around, or someone kicked this around for about a year after the buy American policy went in; is that correct?

Mr. MCLAUGHLIN. May I answer that, General?

General THEIMER. Yes.

Mr. MCLAUGHLIN. We made a policy determination in view of the recommendations that were in the committee report, I believe, last year.

Mr. CONTE. Right.

Mr. MCLAUGHLIN. This committee, I believe, made a recommendation that we buy American.

Mr. CONTE. That is right.

Mr. MCLAUGHLIN. And there was no great holdup. We simply had to make sure of the policy and see whether the President's balance of payments directly cut across that policy and make the determination of the details that were involved there. That is what took time. We had to make a determination that the cost of domestic procured equipment would not exceed 125 percent of foreign procured equipment. That is the criterion which is established in our directive. To make that determination, the district engineer on Okinawa had to use the services of his consultant to get the prices from the various areas where foreign procurement would be feasible. And that did hold it up but not to any great extent.

I would say a matter of a month perhaps, perhaps 2 or 3 months.

Mr. CONTE. You recall I insisted on the Buy American phase of that plant, because on several other projects that I had visited, I

found we were buying Japanese generators when we had plenty of people unemployed here in the United States that were producing generators.

Now, you say you are about ready to let the contracts; is that right?

Mr. McLaughlin. The invitations to bid have gone out. The bids are expected to be received in the early part of May. And we expect to let the contract by the end of June.

Mr. Conte. Construction will start when?

Mr. McLaughlin. Immediately after the contract is let.

Mr. Conte. And the completion date is when?

Mr. McLaughlin. The last unit in September 1964.

Mr. Conte. And will this wind up your need for electrical power there?

Mr. McLaughlin. Well, we have a projection in a study that was completed. Of course, they took the projection on to probably 30 or 40 years. And based on the increase in the load demand, of course, there would be requirements for replacement of present facilities about 1970. That is, if the demand keeps increasing, these units are going to wear out. So, in this study they did make a projection based on meeting the increased demand in future years assuming that the economy will continue to flourish and come up with a demand increase of 7 percent for the local economy. They would have to furnish not only replacements but possibly additional units.

However, that is rather far in the future. There is no projection of any further Government requirements.

RYUKYUAN ILLITERACY RATE

Mr. Conte. Could you state for the record what the illiteracy rate was when the United States occupied the islands and what the illiteracy rate is today?

Mr. Harbison. It is practically the same.

The illiteracy rate, did you say?

Mr. Conte. Yes.

Mr. Harbison. Probably one-half of 1 percent. I will say that literacy is very high, very high and always has been.

Mr. Conte. Hasn't it helped with all this money we have given for education to correct the situation?

Mr. Harbison. It always helps. The literacy rate has been exceedingly high.

Mr. Conte. The literacy rate is high?

Mr. Harbison. Yes. It has always been high. And it continues high.

General Theimer. Do you have in mind Japanese, Mr. Conte, or English?

Mr. Conte. Japanese by all means.

Mr. Harbison. Yes.

General Theimer. Teaching English, of course, is——

Mr. Conte. It was high when we occupied it and it is still high today.

General Theimer. Yes, under Japanese education systems. The English literacy is a matter of considerable interest to us not only in that it will assist in these people being able to read what we want to say or to understand what we do over there, but also it assists them

to be utilized in our activities over there as U.S. employees of our forces and our appropriated and nonappropriated fund activities.

AVERAGE RYUKYUAN LIFE EXPECTANCY

Mr. CONTE. How about the average life expectancy, has that been lengthened since the occupation by the United States? And, if so, how much?

Mr. HARBISON. The life expectancy has been extended approximately 20 years.

Mr. CONTE. Has been extended?

Mr. HARBISON. Has been extended; yes, sir.

TRANSPORTATION AND COMMUNICATION FACILITIES

Mr. CONTE. In regard to communications, how about highways? Do you have any statistics on how many more miles of highway we have in the island since we occupied it?

General THEIMER. I don't know if I can give you the total number of miles of highway. It is interesting to note that there is something like 36,000 motor vehicles there now compared to something like 30 before the war.

Mr. PASSMAN. Thirty vehicles or thirty thousand?

General THEIMER. 36,000 now.

Mr. CONTE. How many before the war?

General THEIMER. Thirty vehicles before the war.

Mr. PASSMAN. Less than one-third of 1 percent, prewar, of the number at the present?

Mr. CONTE. Less than that.

Let me pursue that further. Then we can go back to the highways. What percentage of these 36,000 belong to American personnel?

Mr. SHULTZ. Around 59 percent.

Mr. CONTE. So, we could say that prior to the war there were 30 vehicles on the island, and after the war, the natives had about 16,000-odd vehicles as of today.

General THEIMER. The Ryukyuans and the others.

There are a number of other companies and nationalities on the island in addition to American.

Mr. Shultz, I think, said that 59 percent are American owned. Does that include military?

Mr. SHULTZ. That is right. Private and official.

Mr. CONTE. There are 16,660 that belong mostly to Ryukyuans, I would say. There aren't that many others there.

Mr. SHULTZ. As of 1940 there were 200 vehicles licensed. In 1961, there were 30,600, of which 21,000 were United States.

Mr. CONTE. I think this speaks well for the record that when these agitators agitate out there that we are not doing enough, certainly there is an indication of how much the economy has grown there and how much better off the people really are on those islands.

General THEIMER. The highway figure that may touch on what you are interested in is that there are 2,000 miles of highway, which is not a complete answer to your question, of which about 170 miles are paved.

Mr. CONTE. Do you have the figure of how many miles were constructed when we occupied the island?

General THEIMER. I don't have the prewar figures here.
Mr. CONTE. Could you get that for the record?
General THEIMER. I will try to get that, yes.
Mr. CONTE. And how much was paved?
General THEIMER. I will get that for the record.
(The requested information follows:)

COMPARISON OF PREWAR AND CURRENT ROADS IN THE RYUKYU ISLANDS

1. Prewar land transportation consisted of three narrow-gage railroads (one of which was power-driven and two horse-driven), rickshas, bicycles, two-wheel carts and a very few motor vehicles. There was no requirement for an extensive road network and there was none. With the occupation and the expansion and evolution of the economy there arose a requirement for a road net adequate to carry military vehicles, passenger vehicles, buses, and the trucks of commerce.
2. Twenty miles of paved four-lane highways and 130 miles of paved two-lane roads together with the requisite bridges and culverts have been constructed on Okinawa in addition to paved road networks within military areas. Highway No. 1 extends a distance of 50 miles along the populous west coast of the island from Naha Air Base through Naha City to the large town of Nago in northern Okinawa. Another paved highway approximately 25 miles in length extends along the east coast. These two main arteries are connected by paved roads which traverse the island at several points.
3. Currently there is a total of 2,000 miles of roadways in all the islands (excluding farm roads), 170 miles of which are paved.

VOCATIONAL SCHOOLS

Mr. CONTE. General, I have been extremely interested since coming with this committee in regard to vocational schools. I don't believe that in our foreign-aid program we have stressed enough the importance of vocational schools, teaching young folks of the underdeveloped and the newly developed nations of the world trades. We have stressed more the academic end rather than the technical and practical part of the education. Do you have a good vocational program in Okinawa?

Mr. HARBISON. We have, yes, sir. It was started with the senior high schools, and beginning last year, last fiscal year, it was continued in the junior high schools for the first time that the junior high schools had any vocational education offered.

Mr. CONTE. Are you teaching them to be machinists, carpenters, electricians, and so forth?

Mr. HARBISON. Yes.

Mr. CONTE. And automobile body repairmen?

Mr. HARBISON. I doubt that they would get that in the junior high schools.

Mr. CONTE. With all those vehicles——

Mr. HARBISON. They would probably have some vocational training in the senior high school most certainly.

Mr. SHULTZ. The type of equipment they are putting in is woodworking, metalworking, and planning, and drawing. That is in the junior high school.

EQUIPMENT FOR VOCATIONAL SCHOOLS

Mr. CONTE. In regard to the amount of money that we contribute for that vocational training, do we buy that machinery here in the United States?

Mr. HARBISON. I believe that is true, yes.

Mr. SHULTZ. The majority of that equipment is being purchased in the States.

Mr. PASSMAN. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. PASSMAN. Under the present criteria, you have this 125 ratio. If a foreign bidder meets a specification and the differential is more than 25 percent, then the contract could be awarded to the foreign bidder; is that correct?

Mr. SHULTZ. That is correct.

Mr. PASSMAN. Thank you.

STATUS OF FISHING INDUSTRY

Mr. CONTE. General, when I was there, there seemed to be a very good possibility of establishing a fishing industry. You mentioned in your statement here in answer to a question from the chairman that they have to import so much of this food material. What has been done in Okinawa to establish a fishing industry, a processing plant, and so on?

There is no doubt about the quantity of fish around there, as I understand it.

General THEIMER. That is correct. We have done a number of things. We have run surveys as to what they need to build up their facilities. We have provided harbors, that is, piers, and seawall extensions, things that would permit the fishing industry to grow in little towns or cities, and villages around the Ryukyus.

There are in private enterprise prospects for building more fishing boats and also for developing fish-processing plants.

As a matter of fact, another aspect they are looking into is marketing. They are looking into providing refrigeration in order to assist in the marketing of fish. As you point out, it certainly doesn't make sense to have a place out there in the middle of the ocean, where there are plenty of fish, importing fish from Japan.

Mr. CONTE. And they are importing some, as I understand it?

General THEIMER. Yes, sir.

Mr. CONTE. Has anything been done to bring this to the attention of the U.S. fishing industry which has been hard hit of the possibilities of coming out there to Okinawa to start a fishing industry out there?

Mr. O'FLAHERTY. Just about 10 days ago, Mr. Conte, the executive vice president of the Star-Kist Co., I think, of San Pedro, Calif., came into the office to find out basic information about foreign enterprise operating in the Ryukyus. He indicated that his company is going to explore very shortly the possibilities of opening probably in conjunction with some Ryukyuan people already engaged in the business a fishing activity there which would be fairly long-line fishing—tuna maybe.

They were exploring the possibility of making this a base for their operation.

Mr. CONTE. That is encouraging. I think this is one field where there are tremendous possibilities of stimulating the economy.

PREVAILING WAGES FOR LABORERS

What is the prevailing wage rate out there for, let us say, a laborer?

Mr. O'FLAHERTY. As of June 1959, the average monthly wage rate in private industry was $48.

Mr. CONTE. A month?

Mr. O'FLAHERTY. Yes.

Mr. CONTE. That is for how many hours a week?

Mr. O'FLAHERTY. The average hours per month is 233.

Mr. CONTE. That is better than 52 hours a week.

Mr. O'FLAHERTY. Yes, sir.

Mr. CONTE. No further questions.

TEACHERS' SALARIES AND BENEFITS

Mr. PASSMAN. May I preface my remarks by saying that I hold the teaching profession in very high esteem.

It would appear from all the statistics that have been given to us during these hearings that the teaching profession in Okinawa is a preferred one, and that it commands a high wage scale as compared to other employment.

General THEIMER. The same thing has struck us, Mr. Chairman. We have had some communication in regard to the equitability between the teaching profession and other professions and lines of activity. This is something over there that our administration is looking into.

Mr. PASSMAN. It is difficult for the committee today to justify its own actions of last year, when we agreed in conference, without this kind of information, to the increase of $1 million. We will certainly have to assume our part of the blame for the condition that exists.

Thank you very much, General, and your supporting witnesses.

General THEIMER. Thank you, Mr. Chairman. We are glad to have appeared before the committee.

Mr. PASSMAN. The committee will recess until 10 o'clock tomorrow morning.

[NOTE.—Additional testimony may be found beginning on p. 842.]

WEDNESDAY, MARCH 14, 1962.

EXPORT-IMPORT BANK

WITNESSES

HAROLD F. LINDER, PRESIDENT AND CHAIRMAN OF THE BOARD OF DIRECTORS, EXPORT-IMPORT BANK OF WASHINGTON
ARTHUR M. ANDERSON, TREASURER-BUDGET OFFICER
CLARK L. SIMPSON, CONTROLLER

LIMITATION ON ADMINISTRATIVE EXPENSES

Object classification

[In thousands of dollars]

	1961 actual	1962 estimate	1963 estimate
11 Personnel compensation:			
Permanent positions	1,870	2,123	2,131
Positions other than permanent	18	19	18
Other personnel compensation	61	63	62
Total personnel compensation	1,949	2,205	2,211
12 Personnel benefits	138	152	162
21 Travel and transportation of persons	73	142	98
22 Transportation of things		3	3
23 Rent, communications, and utilities	198	233	245
24 Printing and reproduction	30	36	39
25 Other services	41	122	124
Services of other agencies	64	79	78
26 Supplies and materials	29	38	40
Total administrative expenses, subject to limitation	2,522	3,010	3,000
Nonadministrative expenses subject to limitation:			
25 Other services	2	224	224
Services of other agencies	7	10	10
31 Equipment	75	60	46
33 Investments and loans	948,763	942,081	833,442
42 Insurance claims and indemnities	145,814	306,054	408,250
43 Interest and dividends	42,803	51,549	53,028
Change in selected resources	−26	22	
Total nonadministrative expenses, subject to limitation		1,300,000	
Total nonadministrative expenses, not subject to limitation	1,137,438		1,295,000
Total obligations	1,139,960	1,303,010	1,298,000

Personnel summary

	1961 actual	1962 estimate	1963 estimate
Total number of permanent positions	258	291	293
Full-time equivalent of other positions	2	3	3
Average number of all employees	225	247	263
Number of employees at end of year	252	262	263
Average GS grade	8.9	8.6	8.6
Average GS salary	$8,185	$7,858	$7,945

Program and financing

[In thousands of dollars]

	1961 actual	1962 estimate	1963 estimate
Program by activities:			
Administration:			
Loan program	2,426	2,865	2,900
Guarantee program		98	98
Insurance program	2	2	2
Private enterprise loans from foreign currencies	94	45	
Total obligations	2,522	3,010	3,000
Financing:			
Unobligated balance lapsing	175		
Limitation	2,697	3,010	3,000

Mr. PASSMAN. The committee will come to order.

We shall consider this afternoon the budget request for the Export-Import Bank of Washington. We have with us the Honorable Harold F. Linder, President and Chairman of the Board; the Honorable Arthur M. Anderson, Treasurer-Budget Officer; and the Honorable Clark L. Simpson, Controller.

The budget proposes no limitation on operating expenses for fiscal 1963 whereas the Congress imposed a limitation of $1.3 billion for fiscal 1962 operations. In addition, the budget proposes a limitation of $3 million on Administrative expenses compared to a limitation of $3,010,000 for fiscal 1962.

JUSTIFICATION OF THE ESTIMATE

At this point in the record, we shall insert pages 7, 9 through 14, and 20 through 23 of the justifications.

(The pages follow:)

ADMINISTRATIVE EXPENSE BUDGET FOR 1963

Administrative expenses for fiscal 1963 are estimated at $3 million which is $10,000 less than the Bank's approved limitation for fiscal 1962. Two new programs became operative in fiscal 1962 in furtherance of the financing of export trade of the United States—briefly described on the preceding page. The FCIA has entered into a partnership with Eximbank in the issuance of comprehensive insurance policies to U.S. exporters. Although the administrative responsibility for ICA loans and investment guarantees, and the administering of loans in foreign currencies under the Cooley amendment, Public Law 480, have been transferred to AID in fiscal 1962, the man-years saved are being entirely offset by the additional work required in the aforestated new programs and the workload accounted for by the increasing backlog of loans in our general programs.

No appropriation is required for Eximbank's administrative expenses. The $3 million required will be available from the Bank's gross income. It is estimated that the Bank's income after expenses and interest paid to Treasury will be $114.2 million and that $84.2 million will be added to reserves after a $30 million dividend is declared.

The number of permanent positions projected is 295, the same as fiscal 1962. Average employment will increase from 251 to 265 due to additional employees entering on duty in fiscal 1962. The total amount estimated for personal services is slightly less than the amount included in the 1962 budget. Travel expenses are estimated to be somewhat below fiscal 1962, because credit authorizations carried forward into fiscal 1963 requiring investigation are estimated to be less than those at the beginning of fiscal 1962. Some additional office space is needed and the estimate provides for an additional 6,200 square feet. Communication services is estimated to be slightly higher in fiscal 1963. A comparative statement by object of expense appears in the following pages.

Comparative statement of previous administrative expense budgets with 1963 budget estimates

	1961 actual	1962 fiscal year		1963 fiscal year	
		Actual, Dec. 31, 1961	1962 fiscal year estimate	1963 fiscal year estimate	Increase (+) or decrease (−) from 1962 fiscal year
Authorized for administrative expenses: Limitation by Congress on Bank funds used	[1] $2,697,000	----------	$3,010,000	$3,000,000	−$10,000
Administrative expenses:					
Personnel compensation	1,996,768	$1,051,344	2,231,529	2,223,344	−8,185
Personnel benefits	140,680	73,698	154,440	163,001	8,561
Travel and transportation of persons	73,362	38,936	141,675	97,675	−44,000
Transportation of things	179	19	3,000	3,040	40
Rent, communications, and utilities	200,705	110,368	234,267	244,640	10,373
Printing and reproduction	30,955	13,670	36,455	39,050	2,595
Other services	39,554	12,332	121,500	123,700	2,200
Services of other agencies	64,914	22,689	79,384	78,450	−934
Supplies and materials	29,841	16,921	37,900	40,000	2,100
Total accrued administrative expenses	2,576,958	1,339,977	3,040,150	3,012,900	−27,250
Less reimbursements from other agencies	55,293	19,630	30,150	12,900	+17,250
Net accrued administrative expenses	2,521,665	1,320,347	3,010,000	3,000,000	−10,000
Savings realized on administrative expenses	175,335	----------	----------	----------	----------

[1] Includes $22,000 approved by Congress, Public Law 87-14, Mar. 31, 1961, to meet pay increase resulting from Public Law 86-568.

DESCRIPTION OF EXPENSE ITEMS

Personnel compensation, $2,223,344

Includes compensation for the Board of Directors, executive officers, staff employees, the Advisory Committee, temporary employees, overtime pay, and all other related costs. The decrease of $8,185 is due primarily to a reduction in overtime compensation in fiscal 1963. If lapses decreased, to average less than 30, this amount would prove inadequate.

Personnel benefits, $163,001

Includes retirement, health, and life insurance benefits; incentive awards and costs incident to the Federal Insurance Contribution Act. Retirement costs of $139,298 represent the largest individual item of expense.

Travel and transportation of persons, $97,675

Travel costs for foreign and domestic travel include transportation, per diem, and other expenses for the Board of Directors, officers and members of the staff and the Advisory Committee. Local taxi fares and the rental of two passenger-carrying vehicles are also included.

Transportation of things, $3,040

Represents costs reimbursable to the General Services Administration for intrabuilding movement of office equipment, parcel post, and other package delivery charges.

Rent, communications, and utilities, $244,640

The largest item of expense, $198,614, covers rental of office and storage space in the Lafayette Building, 811 Vermont Avenue NW., Washington, D.C., in which the entire staff of the Bank is located. Payments for rent are made to the General Services Administration. The remaining amount, $46,026, covers the usual telephone, telegraph, and teletype services; letter postage and rental of a postage meter machine. The increase is primarily due to acquiring additional office space in fiscal 1963.

Printing and reproduction, $39,050

Includes all printing and photographic services, e.g., the Bank's semiannual reports to Congress, monthly statement of loans and authorized credits, brochures on general information concerning the Bank's activities, forms, checks, printed envelopes, and letterheads.

Other services, $202,150

Other services to be provided include: $100,000 for electronic data processing, $12,000 for investigations to be made by the Civil Service Commission, $21,500 for building repairs and alterations, $30,000 to reimburse the Department of State for the Bank's pro rata share of the cost for maintaining a representative in India, and not to exceed $9,000 for official representation and entertainment expense for the Board of Directors. The remaining $29,650 covers equipment repairs, credit ratings reports, payment to Department of Health, Education, and Welfare for the Bank's pro rata share of operational cost of the Health Unit, assessment by Federal Housing Administration for use of their Law Library, and other miscellaneous items.

Supplies and materials, $40,000

Includes all office supplies and materials, subscriptions, pamphlets, accountable supply items costing less than $40, etc., required by the Board of Directors, executive officers, and members of the Bank's staff.

Travel, $96,075

1. Foreign travel: Trips to specific areas investigating general conditions, as a basis for future activities, checking on loan applications and followups on loans made including project inspections, attending special and international conferences, 63 trips	$69,365
2. Domestic travel: 134 trips	26,710
Total	96,075

Personnel compensation compared, 1962 and 1963

The following table indicates the items comprising personnel compensation and a comparison between 1962 and 1963 fiscal years:

	Budget approved, 1962 fiscal year		Budget estimate, 1963 fiscal year		Increase (+) or decrease (−)	
	Positions	Amount	Positions	Amount	Positions	Amount
Gross permanent positions	295	$2,356,980	295	$2,381,228	0	$25,130
Deduct lapses	44	206,539	30	238,184	−14	31,645
Average permanent employees	251	2,149,559	265	2,143,044	14	−6,515
Temporary employment		14,000		14,000		
Intermittent employment		13,370		9,000		−4,370
Regular pay above—52-week base				8,900		8,900
Overtime pay		22,700		13,000		−9,700
Excess of annual leave earned over leave taken		31,900		35,400		3,500
Total personnel compensation		2,231,529		2,223,344		−8,185

Personnel of Export-Import Bank—Budgeted positions for fiscal years 1962 and 1963

Directors and officers	Technical	Other	Total
Office of the Directors	8	10	18
Office of the Executive Vice President	1	1	2
Office of the Senior Vice President	1	1	2
Office of General Counsel	1	1	2
Office of the Secretary	3	7	10
Office of the Treasurer	2	2	4
Subtotal	16	22	38
Divisions:			
Accounts	12	50	62
Administrative	5	40	45
Economics	14	14	28
Engineering	16	10	26
Legal	13	13	26
Loan	30	36	66
Private Capital Participation	2	2	4
Subtotal	92	165	257
Total	108	187	295

Comparative statement of financial condition

	Dec. 31, 1961	June 30, 1961
ASSETS		
Cash:		
In banks, in transit and on hand	$689,003	$560,381
With U.S. Treasury	1,987,269	1,156,202
Total cash	2,676,272	1,716,583
Loan receivable	3,690,017,450	3,367,722,155
Borrowers' liability under guaranteed letters of credit	121,326,982	141,141,934
Accrued interest on loans	49,557,556	39,469,239
Other assets	617,823	669,246
Total assets	3,864,196,083	3,550,719,157
LIABILITIES		
Investment of the U.S. Government:		
Notes payable to U.S. Treasury	2,000,100,000	1,697,900,000
Capital stock held by U.S. Treasury	1,000,000,000	1,000,000,000
Dividend payable		30,000,000
Retained earnings available for contingencies, reserves	728,709,867	675,917,499
Total investment	3,728,809,867	3,403,817,499
Accounts payable	114,246	104,514
Trust and deposit liabilities	1,420,965	163,557
Deferred and undistributed credits	5,471,809	5,197,717
Employees accrued annual leave	270,671	271,081
Guaranteed letters of credit outstanding	121,326,982	141,141,934
Liability on guaranteed loans disbursed by commercial banks	6,781,543	22,855
Total liabilities	3,864,196,083	3,550,719,157

The following notes are an integral part of this statement:

NOTES TO FINANCIAL STATEMENT

(1) The Bank's authority to borrow from the U.S. Treasury is limited in the aggregate amount outstanding at any one time to $6 billion. Loans, guarantees, and insurance which the Bank may have outstanding at any one time is limited, in the aggregate to $7 billion. Guarantees and insurance issued after October 4. 1961, are charged against this limitation at 25 percent of face amount of contract.

(2) At December 31, 1961, undisbursed credit authorizations amounted to $1,764.5 million.

(3) The Bank was liable to the extent of 90 percent, or $41.7 million, of the value of shipments totaling $46.4 million under short-term political risk export guarantee agreements, under which the maximum liability totaled $220.1 million. Maximum liability on medium-term political risk and comprehensive guarantees was $20.4 million, including a contingent liability of $5.7 million for declared

shipments. The Bank was also contingently liable as insurer on consignments of cotton and tobacco under unexpired insurance policies totaling $2.1 million. The Bank was contingently liable for possible claims totaling $60,000.

(4) Accumulated income totaled $728.7 million after payment of expenses, interest, and dividends. This amount has been reserved for contingencies.

(5) As of December 31, 1961, there were protracted loan defaults in the amount of $20.7 million, of which $11.4 million was due on principal and $9.3 million on interest. The total of the outstanding principal balance of the relative loans was $99.9 million. Other delinquencies as of December 31, 1961, which the Bank believes to be temporary and technical in nature and attributable to routine delays or transitory exchange difficulties, totaled $23.5 million, consisting of $13.6 million due on principal and $9.9 million on interest. The total outstanding principal balance of these loans was $127.7 million.

(6) In addition to the loan defaults discussed above, there were five loans made to the Republic of China when the seat of government was on the mainland, original amount disbursed $33,216,917, repayments $4,085,425, outstanding principal $29,131,492. Past due principal and interest December 31, 1961, was $21,559,786.79 which does not include principal and interest amounting to $3.6 million on which the Republic of China (Taiwan) has resumed payments.

Comparative statement of income and expense

	6 months ended	
	Dec. 31, 1961	June 30, 1961
Income:		
Interest on loans	$80,132,883	$70,597,712
Insurance premiums	10,849	7,915
Fees received on guarantees	282,214	206,277
Total income	80,425,946	70,811,904
Expenses:		
Interest paid to U.S. Treasury	26,289,524	21,941,206
Operating expenses:		
Personnel compensation and benefits	1,106,854	1,047,613
All other operating expenses	237,200	253,985
Total operating expenses	1,344,054	1,301,598
Total expenses	27,633,578	23,242,804
Income after expenses and interest on Treasury borrowings	52,792,368	47,569,100
Disposition of income: Dividend on capital stock	0	[1] 30,000,000
Income available as addition to reserves after expenses, interest and dividends	52,792,368	17,569,100
Analysis of retained earnings for contingencies—reserves:		
Balance at start of period	675,917,499	658,348,399
Portion of income for period added to reserves (see above)	52,792,368	17,569,100
Balance at end of period	728,709,867	675,917,499

[1] Dividends are declared at end of each fiscal year.

Mr. PASSMAN. Mr. President, we welcome you before the committee. Do you have a statement to make, sir?

Mr. LINDER. I do, sir.

Mr. PASSMAN. You may proceed.

Mr. LINDER. Thank you, Mr. Chairman.

STATEMENT OF HAROLD F. LINDER

The Export-Import Bank of Washington is an independent agency of the U.S. Government. Under existing legislation, the life of the Bank expires June 30, 1963, and separate legislation is being submitted to the Congress for extending its life through June 30, 1968.

No appropriation is required from Congress for administrative expenses. A limitation of $3 million for this purpose is shown in the budget for fiscal 1963, which is $10,000 less than the amount approved for fiscal 1962. This amount comes out of the Bank's gross earnings which are estimated at $169 million for fiscal year 1963. From gross earnings it is anticipated also that payments of $53 million will be made to the U.S. Treasury for interest accrued on borrowings and in addition a payment of $30 million as the annual dividend on the Bank's capital stock.

The portion of earnings remaining after operating expenses, interest, and the previous year's dividend to the U.S. Treasury will be carried to the Bank's reserve for contingencies, estimated to total $872 million on June 30, 1963.

A minor saving in workload resulting from the transfer to the Agency for International Development of the Bank's responsibility for ICA loans and investment guarantees and for loans in foreign currency under the Cooley amendment to Public Law 480, will be more than offset by the inauguration of two new programs, and by increased workload from loans previously established and now becoming active.

EXPORT CREDIT INSURANCE

One of the new programs is the additional facility set up in January of this year to assist exporters in expanding their export shipments by means of export credit insurance. This insurance is being furnished as a joint undertaking by a group of 57 private casualty, property, and marine insurance companies (the Foreign Credit Insurance Association), and Eximbank. Commercial risks will be insured by FCIA and Eximbank in partnership, with the political risks wholly underwritten by Eximbank.

GUARANTY OPERATIONS

The other new program involves guarantees to or participations with commercial banks and other financial institutions which finance U.S. exports, without recourse to the exporter. To elaborate, if the commercial bank is prepared to take the credit risk on the early maturities for its own account, Eximbank will, for a fee, guarantee the political risk on the early maturities and furnish a comprehensive guarantee of both the political and credit risks on the later maturities. In lieu of any guarantees, Eximbank will finance the later maturities if the commercial bank will finance the early ones wholly at its own risk.

These two programs were instituted by the Bank during the present fiscal year pursuant to the directive of President Kennedy as set forth in his message in February 1961 on balance of payments and gold. Legislation was enacted by the Congress last year (Public Law 87–311), laying the legal groundwork for the Bank's engaging in these insurance and guaranty operations.

APPLICATIONS FOR INSURANCE

After less than 2 months of operation through March 7, 1962, the FCIA had 412 applications for insurance covering potential shipments of $505.4 million of U.S. products. Under the commercial bank guarantee program, 109 guarantees or participations were issued by the Export-Import Bank involving shipments of $142.3 million of U.S. products during the past 4 months.

The Bank's plans in the export credit field are tailored to supplement and encourage, not to compete with, the efforts of private business and banking interests. As concrete evidence of this, we submit the successful effort the Bank has made to bring into the foreign credit insurance field the principal private property insurers in the country.

Moreover, the new program offered to the commercial banks will, we firmly believe, increase materially their participation in this field. I assure you the same principle also guides Eximbank in another important area of our activities—project development loans. We do not make loans where private capital is available for the purpose on reasonable terms.

LENDING OPERATIONS

In the first 8 months of the present fiscal year the Export-Import Bank authorized 352 new credits totaling $380.2 million, 402 short and medium term export guarantees as well as insurance policies aggregating $350.5 million. Loan disbursements totaled $708.9 million in the 8 months to February 28, 1962, and loan receipts amounted to $384.9 million. For the balance of the fiscal year 1962 we anticipate granting new credits of $532 million, and issuing short- and medium term export guarantees and insurance amounting to $220 million (reserve $55 million).

The level of lending operations for fiscal year 1963 is reflected in the estimated new credits, which consist of 720 exporter credits amounting to $170 million, 100 project development credits of $750 million, 2 commodity credits of $63 million, and 3 emergency foreign trade credits of $150 million, giving an aggregate total of $1,133 million for the 825 new credits.

In addition, it is estimated that short and medium term guarantees and insurance totaling $830 million will be issued covering political and comprehensive risks, absorbing at time of issue $208 million of lending authority, to be reduced by expired contracts.

The estimates before you, made, as you know, some months ago, indicate that the unused balance of lending authority will be $866 million at June 30, 1963, after charging against the statutory authority of $7 billion, direct and guaranteed loans of $3,937 million, loan commitments and reservations of $1,989 million, and a 25-percent reserve of $208 million on export guarantee and insurance contracts.

As indicated on page 19b of the attached report, the printed budget treated anticipated sales of borrowers' obligations, total $671.2 million, as without recourse, causing an overstatement of lending authority. The amount shown in the President's budget as $866.1 million should therefore be reduced by $671.2 million to $194.9 million.

BASIS OF ADMINISTRATIVE BUDGET

The Bank's administrative budget was prepared on the basis that average employment during 1963 would increase to 265 over 251 the previous year. While some minor savings will be achieved as a result of the transfer to the Agency for International Development of certain functions which the Bank formerly performed, it is clear that we shall not be able to move forward rapidly on the new program of guarantees and insurance without more staff.

The early response of U.S. exporters to this new program shows that it may snowball to even larger proportions than we anticipated.

I am, therefore, already vigorously recruiting new staff to assure that every effort is made to handle these exporters' applications both efficiently and expeditiously. Our small investment in staff will mean better service on export guarantees covering hundreds of millions of dollars in shipments.

I, therefore, believe that we need every dollar of the requested $3 million; any reduction is likely to result only in cutting into our ability to administer the vital new facets of our operations.

LIMITATION ON OBLIGATIONAL AUTHORITY

The Congress last year for the first time in the more than 28 years of the Bank's existence placed a limitation of $1.3 billion on our obligational authority. You will observe that the President's recommendation does not include such a limitation for fiscal year 1963. It is my view, with which our board of directors is in unanimous agreement, that a limitation on the Bank's lending authority this year would be an unwise provision.

A primary objective of the Export-Import Bank is to aid in financing U.S. exports. This year, with the increased emphasis placed by the President on the export expansion program, additional responsibilities have fallen to the Bank in connection with programs for the financing and guaranteeing of export sales of U.S. machinery, goods, and services. The committee and you, Mr. Chairman, are aware, that the Bank's loans are based upon reasonable assurance of repayment, that they are made upon terms and conditions approximating commercial practice as contrasted with loans made by other agencies frequently upon longer terms and at lower rates of interest.

The Congress has already provided a precise, specific limitation in section 7 of the Export-Import Bank Act of 1945 as amended, requiring that the Bank not have outstanding at any one time loans, guarantees, and insurance greater than a specified aggregate amount. We believe that this limitation and the record of the Bank both in respect to the care we exercise in our lending as well as our record for economy in our operational expense constitute ample protection, and that there is no need for an additional limitation on our lending authority.

Certainly we shall not exceed the figures set for the current fiscal year, but we are most concerned that if such a limitation were included this year and in succeeding years, the limitation figure would become a target figure and there would be increasing pressure on the Bank to lend up to the full amount of such a limitation.

FOREIGN CREDIT INSURANCE ASSOCIATION'S APPLICATIONS

And here, Mr. Chairman, I would like to interpolate to submit the latest figures which I have just received on the Foreign Credit Insurance Association's applications. As of the close of business last night, the association has received 509 applications to which are attached an anticipated volume of shipments of slightly over $614 million. There may have been some tendency on the part of exporters to inflate their anticipated shipments somewhat, but surely this is a clear indication of the potential demand for this type of insurance when such figures are reached after but 5 weeks of operation.

We hope you will agree that in view of the importance of the part the President has directed the Bank to play in facilitating U.S. exports in order to improve our balance of payments position, and the statu-

tory limitation contained in the Export-Import Bank Act, no further restriction of our lending authority should be imposed on our operations.

The committee may be interested to know that the Bank which had for the 8 years prior to 1961 declared a dividend to the Treasury of $22,500,000 increased this amount to $30 million at the end of fiscal year 1961. We anticipate continuing this rate in 1962 and 1963.

Thank you, Mr. Chairman.

CONGRESSIONAL LIMITATION ON OBLIGATIONAL AUTHORITY

Mr. PASSMAN. Thank you very much, Mr. Linder.

Referring to page 5 of your statement, to the effect that the Congress last year, for the first time in the more than 28 years of the Bank's existence, placed a limitation of $1.3 billion on obligational authority, did this amount not exceed your anticipated needs?

Mr. LINDER. It did, sir.

Mr. PASSMAN. As the trend seems to be to use our wealth and dollars—not necessarily through the Export-Import Bank, but across the board—as a substitute for commonsense and reason, and as the Congress has abdicated so many of its prerogatives and responsibilities to the Executive, it seems to me the Congress should be reclaiming more of these functions.

The committee is in no position to make any promises as to the action regarding a limitation. We shall, in due time, make recommendations, but the decision will be up to the Congress.

From page 4, paragraph 2, line 3, of your statement, I quote:

after charging against the statutory authority of $7 billion, direct and guaranteed loans of $3,937 million, loan commitments and reservations of $1,989 million, and a 25-percent reserve of $208 million on export guarantee and insurance contracts.

The direct loans certainly affect your lending authority, but the money is being paid directly back into the Export-Import Bank, is it not?

Mr. LINDER. Yes, sir. The repayments are made, but we in turn reimburse the Treasury.

Mr. PASSMAN. But it is paid back.

Mr. LINDER. Yes, sir.

RESERVE FOR CONTINGENT LIABILITY

Mr. PASSMAN. Guaranteed loans become a contingent liability.

Mr. LINDER. That is correct, sir.

Mr. PASSMAN. You would not set up a reserve of 100 percent for the contingent account, would you?

Mr. LINDER. We must, sir, under the law, I believe.

Mr. PASSMAN. The law requires such action?

Mr. LINDER. Except in one case.

Mr. PASSMAN. Would you cite the law for the record?

Owning a small business and being familiar with contingent liabilities, I think it would not be expected that you were going to have 100 percent loss on your guaranteed loans. The loss might be, say, 5 or 10 percent, and in all probability you would consider such a percentage as being high.

Mr. LINDER. I would, sir.

Mr. PASSMAN. It might possibly be that some legislation would be in order so that you would be required to maintain only a certain percentage in reserve against your contingent liabilities.

(The following information was subsequently submitted for the record:)

"EXPORT-IMPORT BANK ACT OF 1945, AS AMENDED

"SEC. 7. The Export-Import Bank of Washington shall not have outstanding at any one time loans, guaranties, and insurance in an aggregate amount in excess of $7,000,000,000."

Public Law 87–311 provides for the 25-percent reserve on exporter guaranties and insurance.

Mr. LINDER. Mr. Chairman, may I explain just one thing. The Congress has already recognized that, sir, in respect to exporter credits guaranteed. There we are only required to put up a 25-percent reserve (Re: Public Law 87–311, 87th Cong., S. 2325 Sept. 26, 1961).

But if we have a project loan, which we sell to a bank with our guarantee on it, there we are required to continue a 100-percent charge against our lending authority.

Mr. PASSMAN. I wonder why you would not carry it yourself and earn the interest, if you have it set up and take it out of your lending authority. Certainly that part of your lending authority is dormant.

Mr. LINDER. That's right, but we, of course, get a fee for that guarantee.

Mr. PASSMAN. But that fee is small as compared to the amount of interest that would accrue if you were collecting the interest. If you have to take that much of your lending authority and put it over into a dormant account where you cannot earn a return, it seems to me that something should be done about it.

CONGRESSIONAL LIMITATION ON OBLIGATION AUTHORITY

Has the limitation which was fixed last year hampered your operation?

Mr. LINDER. In the past it has not, sir. I would like merely to add, as I have tried to indicate through the interpolation in my prepared statement, that we don't know what the volume is going to be on our foreign credit insurance.

Mr. PASSMAN. The limitation has not thus far hampered you?

Mr. LINDER. It has not hampered us in the past.

Mr. PASSMAN. There is no definite indication that the limitation would hamper you in the future?

Mr. LINDER. Sir, if I may be permitted to say so, the interpolation I made indicates that in 5 weeks we had applications for insurance of about $600 million.

Mr. PASSMAN. Maybe that fact would be some indication as to why you should have a limitation.

As there are so many different aid programs being brought into being, which have for their purpose making money available, it appears there might possibly be less demand on your resources, rather than more.

Mr. LINDER. We don't regard ours as an aid program, Mr. Chairman.

Mr. PASSMAN. I did not say that you did. However, we are discussing billions of dollars through an aid program, and through new programs previously unheard of, even for foreign aid; therefore, it appears to me there would now be more reason for your limitation, and not less reason for it.

Mr. LINDER. Sir, I would just like to say we have a limitation now of $1 billion other than the limitation you put on.

Mr. PASSMAN. And it has not hampered your operations?

Mr. LINDER. In respect of credit insurance or guarantees on short or medium term exporter transactions we are limited to $1 billion under which we can set up a 25-percent reserve. Against that, we have already had applications which may involve $600 million in 5 weeks of operation.

Mr. PASSMAN. But during the operation of the Bank, if this limitation had been in effect during the past 28 years, including the present fiscal year, it would not have adversely affected the operations?

Mr. LINDER. That's correct.

Mr. PASSMAN. I certainly hope such a condition will continue in the future.

UNCOMMITTED BALANCE OF LIMITATION ON OBLIGATIONS

The justifications indicate that on December 31 you had an uncommitted balance of $714,759,000 under the $1.3 billion limitation. What was the uncommitted authority as of February 28, Mr. President?

Mr. LINDER. As of February 28, 1962, I think these figures will show $674.4 million as our estimated uncommitted limitation.

Mr. LINDER. You mean for the balance of the year, sir?

Mr. PASSMAN. I am doing the subtraction here for those who may read the record. Are you figuring it out?

Mr. SIMPSON. I am not sure I got the question, sir.

Mr. PASSMAN. The president gave the amount of the unused authority as of February 28.

Mr. LINDER. $674.4 million; and we anticipate that for the rest of this year we will require—that is, the rest of 1962—another $400 million.

Mr. PASSMAN. Which will leave unused authority in what amount?

Mr. LINDER. $275 million as of June 30, 1962.

Mr. PASSMAN. Again, a credit to you; and, if I may say so, to the committee. Our original figure, a limitation of $1,175 million, would have been adequate.

(The following tabulation was subsequently supplied:)

Export-Import Bank of Washington—Status of limitations on obligations

[In thousands of dollars]

	1962 limitation	Charges to limitation through Feb. 28, 1962	Uncommitted balance, Feb. 28, 1962
Program funds:			
Development project loans	800,000	181,023	618,977
All other:			
Loans other than development project	----------	303,160	----------
Interest on borrowings	----------	36,500	----------
Guarantees and insurance	----------	[1] 104,873	----------
Total, all other	500,000	444,533	55,467
Limitation, program funds	1,300,000	625,556	674,444
Administrative funds:			
Entertainment	9	2	7
All other	3,001	1,761	1,240
Limitation, administrative funds	3,010	1,763	1,247
Total limitation	1,303,010	627,319	675,691

[1] 25 percent of face of outstanding policies authorized after Oct. 3, 1961.

DEVELOPMENT PROJECT LOANS

The committee also recommended a limitation of $600 million for development project loans. This limitation was subsequently increased by the Congress to $800 million.

Has this limitation on the specific activity adversely affected your operation in this area, Mr. President?

Mr. LINDER. We anticipate, sir, that before the end of the current fiscal year we shall have used up on project lending $755 million as compared to a limitation which the Congress placed on us of $800 million.

Mr. PASSMAN. The question is: Has that limitation on the specific activity adversely affected your operations in this area?

Mr. LINDER. No, sir; not within the $800 million.

Mr. PASSMAN. What was the status of your program for development project loans as of February 28?

Mr. LINDER. $181 million as of February 28, sir.

That is, we had authorized that amount of loans during the current fiscal year in development projects.

Mr. PASSMAN. At page 74 of the committee print, the budget estimate of project loans for fiscal 1962 was $423,500,000.

Mr. LINDER. For which year, sir?

Mr. PASSMAN. The present fiscal year.

Mr. SIMPSON. That is where that $370 million comes in.

Mr. LINDER. Yes. There was an error, as I indicated in my statement, Mr. Chairman. To that figure should be added $370 million because the budget figures were presented under a misconception. There was subtracted, as I understand it, the amount of loans which we anticipated selling with recourse to us. Since the buyer was to have recourse to us, the amounts must continue to be deducted from our lending authority.

Mr. PASSMAN. The $370 million would be the contingent liability that you would add to your direct loans?

Mr. LINDER. That is correct, sir, except for one thing, if I may make it clear.

Mr. PASSMAN. Please do so.

Mr. LINDER. We may sell loans which were not made during that fiscal year. That is, we may sell a loan of a previous year or 5 years previously with our endorsement on it.

Mr. PASSMAN. But, as we go to the record, we would take it that your direct development project loans amounted to $423,500,000. Then, your contingent liability in the amount of $370,517,000, for loans you guaranteed, would be added to that figure to get the grand total?

Mr. LINDER. That is correct, sir.

LOSSES ON PROJECT LOANS

Mr. PASSMAN. What has been the amount of your losses on that type of guarantees in the past, percentagewise of the totals?

Mr. LINDER. Percentagewise of the totals? If you assume, sir, that all of the loans which were in default——

Mr. PASSMAN. You would not charge off a loan simply because it was in default.

Mr. LINDER. No, we don't.

Mr. PASSMAN. This would depend on the status of the default.

Mr. LINDER. That is correct, sir. But I am assuming the worst. If you assume that all the important project loans that were in default would never be repaid—which we haven't charged off—we would have $100 million in default out of a total lending of about $10 billion.

Mr. PASSMAN. Over 28 years?

Mr. LINDER. Yes.

Mr. PASSMAN. So, even if we should take the worst imaginable situation over the 28 years, the loss would be $100 million. Yet you have $370 million set up against the contingent loss just for the 1 year.

Mr. LINDER. This is a contingent liability based on portfolio sales, with recourse under repurchase agreements rather than possible loss due to defaulted loans.

EXPLANATION OF CONTINGENT RESERVE

May I try to explain a little bit about it, Mr. Chairman. We have felt obviously we want to operate the Bank conservatively. That is why I think it has been operated successfully.

When you extend a credit for 6 months or a year or even 5 years, I think one can think of loss ratios in modest terms.

Mr. PASSMAN. Do you mean of 50 percent of your capital stock?

Mr. LINDER. Much less; much less. Even there, I don't think our losses should exceed 5 percent; and with short-term guarantees and insurance we have set up reserves of 25 percent.

Mr. PASSMAN. If you should get real wild with it, would, say, 10 percent not be just about the outside figure?

Mr. LINDER. On our short and medium term credit. When you come to very long term credits, which sometimes extend for 15, 18, or 20 years, then it seems to me that the conservative thing to do is to say that if we give recourse on the Eximbank, the conservative thing to do is to charge the full amount against your lending authority.

The Congress in its wisdom could change that. But we would believe the conservative——

Mr. PASSMAN. You, Mr. Linder, as a banker, would never think in terms of charging out immediately 100 percent of a loan simply because it was long term, would you?

Mr. LINDER. No, I wouldn't charge it out. But if I gave my endorsement on it to a third party, I would regard it as a liability.

Mr. PASSMAN. Of 100 percent?

Mr. LINDER. If it were a long term loan, I would, sir.

Mr. PASSMAN. Then, it goes back to our prior discussion. It seems to me that the Bank should retain the loan to itself, because you are tying up that much lending authority which you cannot use. Anyway, there is a device here whereby you could get a lot more authority by this maneuver. I do not say there is such a design on your part.

Mr. LINDER. I would agree, sir.

Mr. PASSMAN. This is something we should be taking into account in the Congress. The idea of setting up in 1 year for contingencies on loan guarantees four times the amount of the losses that you have had in 28 years just does not appear to be reasonable. I think we are in accord on that matter, at least.

TRENDS IN EXPORTER LOANS

Last year the budget program and testimony envisioned a substantial increase in exporter loans, from $30.1 million in fiscal 1960 up to $110 million in 1961, with a further increase up to $125 million in fiscal 1962.

What has been the actual experience for these 3 years, Mr. President?

Mr. LINDER. In 1962, sir, the total on our books, we estimate at the end of 1962, will be $213 million of exporter credits, guarantees, and insurance.

Mr. PASSMAN. Again, would you separate the guarantees?

Mr. LINDER. In the guarantees to commercial banks—and these kinds of exporter credit guarantees we only set up a 25-percent reserve for——

Mr. PASSMAN. According to the experience of the Bank, that is an excessive amount.

Mr. LINDER. Yes, I would say so. But we try to be conservative. In 1961—are those the figures you asked, sir?

Mr. PASSMAN. Fiscal 1960, 1961, and 1962.

Mr. LINDER. Mr. Chairman, I don't know whether I have those handy here for the preceding fiscal years. If I haven't, if you will bear with me a moment, I will see. If I haven't, I will be glad to submit them for the record.

Mr. PASSMAN. That will be satisfactory.

Mr. LINDER. Thank you, sir.

(The information follows:)

Exporter credits authorized by Eximbank for the 3 years ending June 30, 1961

Fiscal year	Number	Amount (millions)
1959	76	$39.2
1960	123	115.5
1961	438	145.0
Total	637	299.7

EXPORTER CREDIT GUARANTEE PROGRAM

Mr. PASSMAN. Last year you received an increase of $260,000 to finance the new comprehensive exporter credit guarantee program. How has that program worked out?

Mr. LINDER. Well, sir, as I indicated to you earlier, I think, in my interpolation, it took a great many months for us to work this program out. I might, if you will, sir, submit to you—and you may choose whether it goes into the record or not—a little pamphlet here indicating what this Foreign Credit Insurance Association is.

Mr. PASSMAN. That is a new free enterprise operation; is it not?

Mr. LINDER. Yes, it is, sir. We started it with 12 insurance companies. If you will look at the last page here, sir, you will see that we have today 57—and I think there are about 48 or thereabouts listed there. They include the best, the largest, the strongest private insurance companies in this country.

Mr. PASSMAN. Do you expect a catastrophe in this matter?

Mr. LINDER. No; we don't expect a catastrophe. But we believe the American exporters ought to have available to them facilities equal to those of any other country.

Mr. PASSMAN. I am trying to understand the program. This is a departure from the past.

Mr. LINDER. It is, sir.

Mr. PASSMAN. Insurance companies are listed here with billions of dollars in capital structure. Is it planned to distribute the profits from this operation to all the insurance companies? Or do you need that many to guarantee the loans?

Mr. LINDER. To the extent that they take risks, they will get a premium return comparable to the ones that we get—but just exactly the same as we get.

Mr. PASSMAN. I will bet we do not disagree that the pie is rather well sliced up there.

Mr. LINDER. We don't disagree to that. But we believe this is quite an accomplishment, Mr. Chairman.

Mr. PASSMAN. I think it is quite an accomplishment for this segment of big business, which is getting in on this foreign aid deal at every opportunity.

LOANS IN DEFAULT

How many loans were in default at some recent date, Mr. President?

Mr. LINDER. The only loans that were in default that we really consider in default are in default in four places, Mr. Chairman. They comprise the countries of Cuba, Haiti, Bolivia, and mainland China. As a matter of fact, I don't think you would count mainland China in that. They are Cuba, Bolivia, and Haiti.

Mr. PASSMAN. I think you are entitled to commendation for such an excellent record.

Mr. LINDER. May I say this, in order to be sure that the committee is not under any misapprehension. We also have in default—not in default, but delinquent; and we believe that these delinquencies represent normal trade slow payments—some few millions of dollars.

Mr. PASSMAN. When do you place an account on the delinquent list?

Mr. LINDER. We place a small account on the delinquent list, I believe, when they are late by about 30 days, do we not, Mr. Anderson?

Mr. ANDERSON. Yes; 30 days.

Mr. PASSMAN. That would be for the amount that is actually due, and not the entire account?

Mr. LINDER. That is correct. We know what the entire amount is.

Mr. PASSMAN. I know that you do. But if you have a firm or an individual who owes you $1 million and he is delinquent $200,000, that would be the amount you would place on the delinquent list?

Mr. LINDER. That is correct.

Mr. PASSMAN. And you would keep an especially watchful eye on the account until it is brought back into current status?

Mr. LINDER. That is correct, sir.

LOANS IN DEFAULT BY COUNTRY

Mr. PASSMAN. Could you state for the record the total amount of the four countries, including the loans to the Republic of China when that Government was still on the mainland?

Mr. LINDER. Yes; I can, sir. As far as Cuba is concerned——

Mr. PASSMAN. You may insert the information in the record, Mr. Linder.

Mr. LINDER. Yes, sir; those are the protracted loans in default.

(The requested information follows:)

Loans in Bolivia, Cuba, Haiti, and China in protracted default as of Feb. 28, 1962

[Amounts in millions of dollars]

Obligor	Outstanding principal balance	Delinquent installments		
		Principal	Interest	Total
Bolivia:				
Corp. Boliviana de Fomento	9.0	1.7	1.1	2.8
Republic of Bolivia	25.0	5.9	3.4	9.3
Subtotal	34.0	7.6	4.5	12.1
Cuba:				
Cuban Electric Co	19.5	1.8	1.5	3.3
Cia. Cubana Primadera	1.5	.6	.2	.8
Cuban Telephone Co	17.5	1.4	2.1	3.5
Subtotal	38.5	3.8	3.8	7.6
Haiti: Republic of Haiti	27.5	1.5	1.7	3.2
Total	100.0	12.9	10.0	22.9

NOTE.—In addition to the above, portions of 4 loans made to the Republic of China, when the seat of Government was on the mainland of China, were unpaid. The amounts shown below exclude $2.6 million of principal and $1 million of unpaid interest on which the Republic of China (Taiwan) has agreed to resume payments. The resumption of payments is on portions of the loans which directly benefited the present Chinese Government. The Bank and the Chinese Government agreed that negotiations for resumption of payment on the $26.4 million will be held at a future mutually agreeable date. Eximbank records show that other loans to China, amounting to $168.8 million, were paid in full and that interest of $21.5 million was collected.

Amounts in millions of dollars]

Obligor	Outstanding principal balance	Delinquent installments		
		Principal	Interest	Total
China: Republic of China	26.4	11.6	10.0	21.6

COUNTRIES GRANTED LOANS

Mr. PASSMAN. Mr. President, for how many countries have you financed loans within the past 3 years?

Mr. LINDER. You said the past 3 years?

Mr. PASSMAN. Yes.

Mr. LINDER. I don't know that I have that. We will be very glad to insert that at this point.

Mr. PASSMAN. Please do so.

(The following information was supplied later:)

Loans have been financed for 63 countries during the past 3 years.

REFINANCING

Mr. PASSMAN. You do have certain refinanced loans, do you not?

Mr. ANDERSON. Yes.

Mr. PASSMAN. And if it has been a good account in the past, in all probability when you refinance, you could enlarge the account?

Mr. LINDER. That is correct, sir.

(The following additional information was supplied later:)

Credits for financing and refunding authorized by the bank during calendar years 1959–61

Credit No.	Country	Calendar Years		
		1959	1960	1961
1570	Brazil			$168,000,000
1571 [1]	do			92,100,000
1572 [2]	do			212,700,000
1329	Venezuela			25,000,000
1329	do		$50,000,000	
1678	El Salvador			10,000,000
1702	Mexico			90,000,000
1433	Chile			15,000,000
1367	Iran		15,000,000	
1358 [3]	Brazil		9,281,000	
1108	Colombia	$25,000,000		
1079	Chile	25,000,000		
1069	Mexico	100,000,000		

[1] Refunding.
[2] Transferred balances of credit No. 541, 606, 1033, 1358 and re-amortized.
[3] Transferred to Credit 1572.

DELINQUENT LOANS

Mr. PASSMAN. Do you have a system of deferring collection of the principal and interest payments on loans that you would not call delinquent if they asked for an extension?

Would that part of the loan be placed in a delinquent status?

Mr. LINDER. No, it would not if we agreed to it.

Mr. PASSMAN. They do give some indication that they want to cooperate.

Mr. LINDER. That is right.

LOANS CHARGED OFF

Mr. PASSMAN. How many loans have you charged off in the past 3 years?

Mr. LINDER. Practically none; a few hundred thousand dollars.

All of our loans actually charged off cumulatively only amount to $3,700,000 out of $10 billion. But, as I explained to you, sir, $100 million of that we haven't charged off for a very good reason.

Mr. PASSMAN. You are making a good case for us to possibly propose legislation to change this requirement of 100-percent reserve for guarantees.

Would you care to comment briefly concerning some of the items that you have charged off, and state whether or not AID has suggested that you charge them off?

Mr. LINDER. No, there have been none that they have suggested that we charge off. The only ones we have charged off are where we

have a clear case of loss on the part of the buyer. That is to say, a commercial, private buyer who becomes insolvent and, therefore, have not been able to collect the money.

(Off the record.)

STATUS OF SELECTED LOANS TO UNDERDEVELOPED COUNTRIES

Mr. PASSMAN. You will recall that last year some of the experts took an about-face, and said, in effect, "We believed yesterday that local currency was a salvation for these underdeveloped countries; today we think it will wreck them. So we have to go to hard dollar loans."

We asked, "What kind of dollar loans?" And we were then told that the plan was on a 50-year basis, and was broad enough that they could carry it 50 years without interest, and it would be 10 years before they started paying, and then would pay 1 percent a year on the principal for 10 years and 3 percent a year of principal for 30 years—with the right to charge it off along the way. It was, in fact, disguised grant aid.

I quote now from a statement of the Comptroller General of January 1962, on page 15:

> At the request of ICA, the bank deferred collection of principal and interest payments on certain dollar loans to India, Pakistan, and Turkey. The outstanding balance of these loans amounted to $286.2 million at June 30, 1961. The principal payments of $52.4 million, and interest totaling $60.8 million, are being deferred for periods from 6 to 10 years.

What is the status of those loans?

Mr. LINDER. These were ICA loans, sir. We were merely administering those loans.

Mr. PASSMAN. It was by their request.

Mr. LINDER. The Congress asked us to administer certain loans for their account, which we did.

Mr. PASSMAN. We understand that. I just wanted to tie in the thinking of certain members of this committee about the subterfuge of this disguised grant with what is happening on loans made previously that we expected to be repaid.

COST OF FOREIGN CURRENCY LOAN OPERATIONS TRANSFERRED TO AID

The responsibility for administering the "Cooley" loans of foreign currencies have been transferred to the AID agency, has it not, Mr. President?

Mr. LINDER. It has, sir.

Mr. PASSMAN. How many personnel did you employ in that part of your operation?

Mr. LINDER. Maybe Mr. Anderson can answer that.

May I say this: We distributed the work throughout our whole complex of loan and accounting offices, so it would be very difficult to say that even one man was exclusively employed for that. It represented part of the workload.

Mr. PASSMAN. Can you give us man-years, then, Mr. President? We have to deal also with the AID agency. This matter has to be taken into account. They may come in and say, in effect, "On account of assuming this responsibility, we need an extra $10 million." If we do not determine how much you have been paying for this

purpose, we do not know whether or not their request is soundly based.

Mr. LINDER. I think we estimated 9 or 10 man-years. But I would like to check that, Mr. Chairman, before I give that as an accurate figure.

Mr. PASSMAN. I believe that in 1961 you gave us an estimate of $94,386 for this purpose.

Mr. LINDER. Hours?

Mr. PASSMAN. No, I am talking about dollars for this particular account.

Mr. LINDER. That sounds not unlike 9 or 10 man-years.

Mr. PASSMAN. Please try to pin it down.

Mr. LINDER. We have the facts.

(The following was subsequently submitted for the record:)

Cooley functions transferred to Agency for International Development:

Man-years and costs in fiscal year 1961

Personnel costs	Other	Total
9.6 man-years $83,143	$11,243	$94,386

AIRCRAFT AND FACILITIES LOANS

Mr. PASSMAN. The budget schedule contains a new entry for the first time, I believe, which is "Aircraft Loans." What are these loans, Mr. President?

Mr. LINDER. These are loans made incident to the sale of Boeing's, Convair, DC–8's, to foreign airline companies—KLM, the Pakistan Air Lines, Air France, and so forth.

Mr. PASSMAN. KLM is the Dutch line?

Mr. LINDER. That is the Dutch line.

Mr. PASSMAN. Is this something new?

Mr. LINDER. No, it isn't, sir. But we may not in the past have set them up precisely that way in our submission to you. They are really exporter credits.

Mr. PASSMAN. Could you give us a brief résumé of your transactions in this field during the past 5 years?

Mr. LINDER. We have had 20 countries in which we have financed the sale of aircraft, but that includes airports as well. We had 47 credits in that category.

Mr. PASSMAN. Are we financing the sale of airports under this program?

Mr. LINDER. We don't sell them airports.

Mr. PASSMAN. You said that airports were included.

Mr. LINDER. What we do sell, sir, is such things as tracking equipment, weather equipment, other equipment manufactured in the United States used in airports.

Mr. PASSMAN. Could we break it down? You have this new caption that you are going to use in the future. It says "Aircraft Loans." We are dealing with specifics here.

Mr. LINDER. I will be very happy to give it to you for the past 3 years.

Mr. PASSMAN. It appears to me that this is dipping out of the pot and the kettle. Some of the countries participating under this loan program are also given aircraft by AID.

We can name them here, from page 77. That is a statement of fact, is it not, that some of the countries listed for aircraft loans are heavy grant-aid recipients?

Mr. LINDER. You are quite right, sir.

Mr. PASSMAN. Such as India, for example.

Mr. LINDER. I agree with you, sir, that some of them are.

Mr. PASSMAN. You are going to make them dollar loans?

Mr. LINDER. Only.

Mr. PASSMAN. Whereas, in the AID program, it is grant aid.

Mr. LINDER. Ours are exclusively dollar loans. We finance sales as well, to Holland and Japan, where no aid funds are given or loaned.

NUMBER OF AIRCRAFT FINANCED

Mr. PASSMAN. Could you give us a general idea of how many aircraft you have financed in the past?

Mr. LINDER. At this moment?

Mr. PASSMAN. Yes; if you can do so.

Mr. LINDER. I will undertake to give you precisely how many, but I do not have it available to me now. We can get it for you very, very quickly. As a matter of fact, we can get it by telephone, if you would prefer.

Mr. PASSMAN. We would like to have the information.

Mr. LINDER. How may aircraft we have sold and what the total amount is which we have financed during the fiscal year to date, during the 1961 fiscal year, and during the 1962 fiscal year. I also understand you would like a 5-year summary by fiscal years and to date.

(The information supplied follows:)

Aircraft credits authorized by Eximbank, fiscal years 1957–61 and to Mar. 14, 1962

Country and carrier	U.S. manufacturer	EIB investment	Total cost	Type of aircraft	Number of aircraft
FISCAL YEAR 1957					
Brazil, Panair do Brazil	Douglas	$6,900,000	$12,197,965	DC–7C	4
Brazil, Varig	Lockheed	3,950,000	7,000,000	1049G	3
Brazil, Lolde	Douglas	4,295,000	7,633,887	DC–6A	4
Italy, Alitalia	Lockheed	6,200,000	8,266,666	1049A	4
Japan, JAL	Douglas	17,186,000	30,551,800	DC–8	4
Do	do	7,000,000	12,848,065	DC–7C	4
Venezuela, AVENSA	Fairchild	1,200,000	2,182,879	F–27	5
Total		46,731,000	80,681,262		28
FISCAL YEAR 1958					
Brazil, Cruzeiro do Sul	Convair	2,105,525	3,743,156	440	4
Ethiopia, Ethiopian Airlines	D. & L	700,000	700,000	D. & L	N/R
France, Air France	Boeing	46,000,000	118,300,000	707	17
Indonesia, Garuda	Convair	1,781,000	2,786,400	440	3
Pakistan, PIA	L. & C.–W	3,284,500	5,471,364	1049H	2
Venezuela, AVENSA	Fairchild	200,000	200,000	F–27	
Total		54,071,025	131,200,920		26
FISCAL YEAR 1959					
Ecuador, AE	Fairchild	216,000	381,497	F–27	1
Indonesia Garuda	Lockheed	5,000,000	9,902,699	Electra	3
Italy, Alitalia	Douglas	13,700,000	24,307,701	DC–8	4
Japan, JAL	do	700,000	700,000	DC–8	
United Kingdom, Clanair, Ltd	do	1,100,000	1,843,000	DC–6A	1
United Kingdom, NAOC	do	1,100,000	1,843,000	DC–6A	1
Total		21,816,000	38,977,897		10

Aircraft credits authorized by Eximbank, fiscal years 1957–61 and to Mar. 14, 1962—Continued

Country and carrier	U.S. manufacturer	EIB investment	Total cost	Type of aircraft	Number of aircraft
FISCAL YEAR 1960					
Australia, Quantas	Boeing	$25,500,000	$40,504,000	707	3
Belgium, SABENA	do	20,000,000	35,646,381	707	5
Brazil, VARIG	do	6,900,000	13,902,560	707	2
France, TAI	Douglas	6,000,000	16,150,000	DC–8	2
Italy, ALITALIA	do	4,610,000	4,610,000	DC–8	
Peru, Servicio Aerofotografico (San)	Lockheed	700,000	700,000	C–60	3
Spain, Iberia	Douglas	14,100,000	20,600,000	DC–8	3
Republic of South Africa, SAA	Boeing	16,000,000	26,500,000	707	3
Total		93,810,000	158,612,941		21
FISCAL YEAR 1961					
Argentina, Ronchetti	Piper	109,000	173,342	Pawnee	14
Australia, Rex Aviation	Cessna	235,000	435,000	Various	37
Brazil, Panair do Brazil	Douglas	13,840,000	20,349,696	DC–8	2
Brazil, Real Sa et al	General Dynamics	10,950,000	17,570,000	990 jets	3
Colombia, Aeronias	Boeing	9,520,000	14,000,000	720	2
Ecuador, Cadasa	Piper	47,500	88,770	I–T–50 (7–PA–18–a)	8
Do	Snow	9,500	16,726	S–2a	1
Do	Piper	29,000	55,500	PA–18–150	5
Ethiopia, Ethiopian Airlines	Boeing	10,000,000	14,634,774	720B	2
France, TAI	Douglas	3,400,000	6,813,124	DC–8	1
Honduras, Republic	Beech	59,000	125,000	J–50	1
India, Air India	Boeing	12,200,000	22,800,000	707	3
Israel, El Al	do	8,925,000	13,125,000	707	2
Italy, ALITALIA	Douglas	8,500,000	15,100,000	DC–8	2
Japan, JAL	General Dynamics	12,200,000	17,915,000	880 com	3
Do	Douglas	4,300,000	6,251,049	DC–8	1
Total		94,324,000	149,452,981		87
JULY 1, 1961 TO MAR. 14, 1962					
Argentina, Aerioline	Aviquipo, Inc.	116,000	200,000	Parts	
Argentina, Ronchetti	Beech	15,000	28,555	Beech A–33	1
Do	do	42,500	78,000	No. 55 Boron	1
Do	American Union Transport	51,000	87,161	Piper	8
Do	Cessna	145,000	250,000	Helicopter and 2–320's	3
Australia, Rex Aviation	Aero Commander	73,000	112,902	680	1
El Salvadore	Champion	53,400	78,386	Crop dusting	1
Israel, El Al	Boeing	3,650,000	6,850,000	707	1
Pakistan, PIA	do	12,100,000	17,770,394	720	2
Peru	Mooney Aircraft	11,500	19,139	Mark 21	1
Do	do	7,000	17,754	Mark 21	1

Do	do	11,500	19,798	Mark 21	1
Do	do	9,300	18,000	Mark 21	1
Do	do	13,000	18,989	Mark 21	1
Total, July 1, 1961 to Mar. 14, 1962		16,298,200	25,549,078		23
Grand total, July 1, 1956 to Mar. 14, 1962 [1]		327,050,225	584,475,079		195

[1] Excludes 2 comprehensive guarantees authorized on Mar. 8, 1962, as follows:

Country and carrier	U.S. manufacturer	EIB investment	Total cost	Type of aircraft	Number of aircraft
Israel, El Al	Boeing	* $10,450,000	$16,095,000	720 jet	2
Venezuela, VIASA	General Dynamics	* 6,120,000	9,600,000	720-058-B	2

* Guarantee.

AIRCRAFT FINANCING ARRANGEMENTS

Mr. PASSMAN. I think you agree that in the past many of these people have worked out their own arrangements with the manufacturers here to buy aircraft—some of the wealthy nations, anyway, such as Holland and Japan. This function, then, to some extent would be new; would it not?

Mr. LINDER. Mr. Chairman, may I explain this? No country in the world which wants to sell airplanes sells them except with favorable payment terms. We get 20 percent down on each one of these and we get a participation of 15 percent by the manufacturer.

So that we finance 65 percent, roughly.

The French, for example, who are trying to sell their Caravelles in this country are said to have offered American airline companies planes with a put-back to the French at any time within 5 years.

This we have never done. No one can sell a Boeing airplane which costs $6 million except by extending some credit. Those credits are extended for a 7-year period. They are, as I say, only about 65 percent of the purchase price; and they are amortized every 6 months. There is no grace period, and they are paid off in equal semiannual installments. They all bear interest rates of 5¾ or 6 percent.

Mr. PASSMAN. Do you carry all of these loans, or are some of them sold to banks?

Mr. LINDER. We have sold a number of them to the banks.

Mr. PASSMAN. When you sell such a loan to a bank, then you set up a reserve, for contingent liability, and charge that amount to your total lending authority?

Mr. LINDER. In respect to airplanes, Mr. Chairman, that constitutes an exporter credit. If we guarantee that credit, we only reserve 25 percent.

Mr. PASSMAN. It is only for the development loans that you reserve 100 percent?

Mr. LINDER. That is correct, sir. We charge our lending authority 100 percent.

(Discussion off the record.)

SURVEY OF BANK OPERATION

Mr. PASSMAN. Mr. President, last year you anticipated having an independent survey made of the Bank's operation by a private management consulting firm. Did you complete that survey?

Mr. LINDER. Yes, sir.

Mr. PASSMAN. How much did the Bureau of the Budget pay for that survey?

Mr. LINDER. I don't know, sir.

Mr. PASSMAN. From what account was it paid?

Mr. LINDER. I don't know, sir. It was not paid by the Bank. It was paid by the Bureau of the Budget.

Mr. PASSMAN. It came under "Expenses of management improvement" in a section of some other bill, I believe.

Did the recommendations, or some of them, meet with your approval?

Mr. LINDER. Yes. We think it was helpful; and those recommendations we thought were appropriate, we are in the process of adopting.

BACKLOG IN GENERAL PROGRAM LOANS

Mr. PASSMAN. You mentioned this matter earlier, but would you comment briefly at this point on the increasing backlog of loans in your general programs, Mr. President?

Mr. LINDER. We have before us applications for loans which aggregate well over $600 million. This doesn't mean that they are all going to be done within this fiscal year, Mr. Chairman; but it is some measure of a number of things that are before the Bank.

In addition to which, as I have pointed out, our insurance of exporters under the directive of the President to make our facilities as good as those offered by our competitors in the export markets of the world could reach very substantial figures.

I might say that, while $600 million seems a great deal of money to me, $600 million only represents a small proportion of our total export volume. While I don't think we will ever get a large percentage of our total export volume, I would point out that it is quite conceivable that 10 percent of our total export volume might come under either bank guarantees or foreign credit insurance.

If they did, we might have $2 billion of that kind of business to do.

Mr. PASSMAN. Of course, that is in the future, and you do not actually know.

Mr. LINDER. We don't know. But in 5 weeks we are up to a total of $600 million of anticipated shipments. I can't guarantee that they will all come through.

Mr. PASSMAN. I think we would prefer to keep this comment off the record.

(Discussion off the record.)

FINANCING OF NEW POSITIONS ADDED IN 1962

Mr. PASSMAN. While you are requesting no new positions, you are requesting an increase of approximately $31,000 in lapsed positions to finance 14 positions; is that correct, Mr. President?

Mr. LINDER. Yes; I believe so.

Mr. PASSMAN. Would you tell the committee where and how you propose to utilize the 14 new people?

Mr. LINDER. Yes; I will.

You realize, sir, that in connection with this foreign credit insurance—and I might say anent your off-the-record remark, Mr. Chairman, the Germans, on the other hand, are competing with us very severely in offering export insurance through their Hermes Organization, which is a government sponsored operation.

Mr. PASSMAN. World trade is just as old as countries themselves—world trade, but not aid trade.

Mr. LINDER. No; we are talking about trade. We will need a number of these people for our exporter credit operations.

Mr. PASSMAN. You had heard something about what I mentioned, had you not?

Mr. LINDER. I don't think I had, sir.

We will need, as I say, some of those people for that operation. We will also find that the Bank, in my opinion, at least, is undermanned in respect of our project lending activities. We need a few more loan officers. We need to move faster in respect to many of our applications than we have been able to do with our present personnel.

Therefore, we believe that we will need at least those 14 people which we have indicated.

Mr. PASSMAN. I thought we had recommended in previous years about all the employees the Bank said it needed.

Now, to find out that you are understaffed comes as a disappointment, because I thought we had provided just about everything you requested.

Mr. LINDER. Mr. Chairman, you are quite right, you have given us what we requested.

May I say this: We are asking for less than you gave us last year in aggregate amount.

Mr. PASSMAN. I was prompted to reply to your statement which indicated that you are understaffed.

Mr. LINDER. I understand, sir.

May I point out we have instituted two new programs to enable the United States to compete.

Mr. PASSMAN. You also gave up two programs.

Mr. LINDER. Yes; but they are small compared to what we anticipate our load will be. We are still asking for only the same dollar amount we requested last year.

EXPORT PROGRAM

Mr. PASSMAN. I believe that we approved $260,000 last year for the export program.

Mr. LINDER. I don't remember the precise amount that was allocated for that, sir. But I do know that we will be well within your limitation this year, and I hope I will be able to say the same a year from now.

Mr. PASSMAN. Are you anticipating?

Mr. LINDER. No. I mean for 1962.

Mr. PASSMAN. For fiscal 1962?

Mr. Linder. Yes.

No, Mr. Chairman; I would not presume to do that. I was saying in 1962 we will be below the amount that you authorized us to spend.

AVERAGE EMPLOYMENT, 1957–61

Mr. PASSMAN. Mr. President, what has been the increase in the category of average number of all employees for each of the past 5 years? If you do not have the information available, please put it in the record.

Mr. LINDER. I shall, sir.

(The information follows:)

Average employment, 5 fiscal years

Fiscal year:	
1957	185
1958	200
1959	221
1960	226
1961	232

FUNDS FOR TAXI FARES AND RENTAL OF AUTOMOBILES

Mr. PASSMAN. How much money do you have budgeted for local taxi fares, Mr. President?

Mr. LINDER. I don't think we have any budgeted for local taxi fares, have we?

Mr. PASSMAN. I prefer that you answer the question.

Mr. LINDER. I don't know the budget in that detail, sir.

Mr. SIMPSON. We have some, Mr. Linder. It is a small amount. I don't know what it is.

Mr. LINDER. I have our administrative budget.

Mr. PASSMAN. Somebody put this in the book, so could you tell us how much you pay for local taxi fares?

Mr. LINDER. What page is that on?

Mr. PASSMAN. On page 10.

Mr. LINDER. Thank you, sir. I know that we have the lease of two automobiles in our request.

Mr. PASSMAN. I was going to mention that matter next.

You have it in your book here.

Mr. LINDER. Which item is it, please, Mr. Chairman?

Mr. PASSMAN. It is under "Transportation," $97,675.

Mr. LINDER. I thought there was a precise amount.

Mr. PASSMAN. I was in hopes that not all of this would be spent for taxi fares.

Mr. LINDER. I assure you it won't be, sir. I assure you it is negligible. I will be glad to furnish the amount we anticipate for that. But I have never seen it broken down.

Mr. SIMPSON. On page 12 we have the breakdown of the domestic and foreign travel, which takes care of $96,075. So that only leaves about $600 for anything else, Mr. Linder.

Mr. PASSMAN. How much?

Mr. SIMPSON. We have $96,075 accounted for in domestic and foreign travel.

Mr. PASSMAN. What amount is for taxicabs?

Mr. SIMPSON. No. That leaves then $97,675 less $96,075, which leaves $1,600, the total for everything else. That also includes the rental of the station wagon.

Mr. LINDER. I am sure, Mr. Chairman, this is a miniscule amount.

Mr. SIMPSON. The amount for taxicabs is infinitesimal.

(The following information was supplied later:)

Cost of taxi fares, fiscal year 1961, $349.

Mr. LINDER. You will recall, Mr. Chairman, that last year I allowed to lapse an authorization which you have given us to buy a new car, and I haven't put one in this year.

Mr. PASSMAN. Are we to apologize for making the money available when you did not need it?

Mr. LINDER. I will leave that entirely to you, sir. I just felt that a 7-year-old car was just as good as a new one.

Mr. PASSMAN. That sounds all right for the record. We might use that statement later.

Mr. CONTE. Mr. Chairman, I wish some of the other agencies would take note of that.

Mr. PASSMAN. I do not know of any better authority than the President of this successfully operated Bank.

FUNDS FOR OFFICE AND STORAGE SPACE

Mr. President, I note that you are paying $198,614 for the rental of office and storage space. What is the amount of space required for each category, and what is the cost per square foot of the rental?

Mr. LINDER. The cost per square foot is $3.55 and at $0.75 for storage space.

Mr. PASSMAN. Does that include all facilities?

Mr. LINDER. Yes, sir, I believe it does.

Mr. PASSMAN. Is most of that space in Washington?

Mr. LINDER. All of it is space in Washington. We have no brancnes.

Mr. PASSMAN. Are they grade A buildings?

Mr. LINDER. They are excellent buildings. We are in a Government-owned building called the Lafayette Building.

Mr. PASSMAN. Somebody is driving a good bargain there.

Are you going to require more space for fiscal year 1963.

Mr. LINDER. We are, I think. I think we will need another approximately 6,000 square feet.

Mr. PASSMAN. Will this space be in the same building and at the same rate of rental?

Mr. LINDER. We would like to be in the same building if we possibly can. We have done our utmost, but we haven't been successful thus far. We may have to go next door, which is a very pleasant building. I hope the rental won't be more expensive. I think we will be fortunate if it is that little.

REPRESENTATIVE IN INDIA

Mr. PASSMAN. Under "Other Services," you have $30,000 budgeted to reimburse the State Department for your share of maintaining a representative in India.

Mr. LINDER. Yes, sir.

Mr. PASSMAN. Just what does this State Department representative do in India?

Mr. LINDER. He is our representative as well as the State Department's representative, sir.

Mr. PASSMAN. You are paying him some of the money?

Mr. LINDER. We are paying an estimated $30,000 to the State Department because they pay the entire expense.

Mr. PASSMAN. You are paying $30,000 for your portion of the cost of that individual?

Mr. LINDER. Our share of this man's services, his secretary's, and related costs.

Mr. PASSMAN. What is the total cost for the services of this one man?

Mr. LINDER. Double that.

Mr. PASSMAN. Sixty thousand dollars?

Mr. LINDER. That isn't a salary, Mr. Chairman.

Mr. PASSMAN. What is included?

Mr. LINDER. It includes an allocation of the Ambassador's expense, the rent of the Embassy, his secretary. It includes whatever allowances—I don't know what they are in detail, but normally they go with foreign service. They are that kind of bookkeeping allocations. This man gets a salary, I believe, of $16,000 or $15,000. I don't know precisely.

Mr. PASSMAN. It goes up to $60,000 when the State Department gets through adding it up, and you pay $30,000, which is half of it?

Mr. LINDER. That is correct, sir.

Mr. PASSMAN. What does this man actually do for you, Mr. Linder, to be worth $30,000?

Mr. LINDER. He is worth $30,000, if not to us, to American manufacturers.

Mr. PASSMAN. Let us say $60,000 because that is what it is costing us to maintain him. What does he do specifically for the Export-Import Bank?

Mr. LINDER. I wouldn't like to relate it to $60,000, because we only pay him $30,000.

Mr. PASSMAN. You said the total cost was double the amount that you pay.

Mr. LINDER. You are right, sir. I just want to say that India——

Mr. PASSMAN. My question had to do with the services he performs for the Export-Import Bank.

Mr. LINDER. Right. I will tell you the service he renders to the Bank. India is the one country I can think of which does not get export credits in the normal course of events. That is, individual Indian manufacturers do not come into the market here to buy a machine and so forth.

All of the export credit done with India is done through an overall credit line. A number of countries grant such lines to India. This is done because the Indians are very careful to control the amount of the foreign exchange their nationals spend.

If we didn't have a man there, we would not be in a position to insure that a reasonable amount of their import purchases were of American goods. We believe this is very important.

In addition to that, there is a constant flow of American manufacturers into India who need to be helped and guided with respect to the proper bureaus in the Government to see, in respect of deals that they may wish to make with Indian participation. Our man is of substantial assistance to American exporters and manufacturers.

We believe we would not get our share of the Indian business——

Mr. PASSMAN. If we give them the money to pay for it, why should we not get our share? It is about a billion dollars a year from all spigots, is it not?

Mr. LINDER. I have no comment, sir.

Mr. PASSMAN. Do you need a representative in India to control the dollars supplied under the aid program?

Mr. LINDER. I don't.

Mr. PASSMAN. I am talking about our Government, and the "Buy American" policy.

Mr. LINDER. But let me say this, sir: I have seen this man. I have checked him and his activity carefully with our Ambassador. I have checked him carefully with Mr. Tyler Wood, who is the economic man in the Embassy in India. I know that the chairman of the House Banking and Currency Committee also has some knowledge of his work. He has assured me that Mr. Sherwood is a very valuable American out there. We have felt under those circumstances that we ought to bear half the expense.

Mr. PASSMAN. How long have you been paying half of his salary?

Mr. LINDER. He has been there 3 years. But we've paid only half his salary since July 1, 1961.

Mr. PASSMAN. How did you get along without him before then?

Mr. LINDER. We had him, but we indirectly paid the whole of his salary for the first 2 years, based on an agreement which enabled costs in India to be paid in India rupees from Cooley funds.

Mr. PASSMAN. How much?

Mr. LINDER. About a $60,000 equivalent to the State Department, but in fiscal year 1961 our dollar payment was only $30,682.

Mr. PASSMAN. You paid all of it?

Mr. LINDER. Yes, sir; in dollars and India rupees from Cooley commodity sales.

Mr. PASSMAN. Why did you not employ him direct, rather than through the State Department?

Mr. LINDER. This isn't possible, I believe, under the administrative practices of the Government. He had to be employed as a Foreign Service Reserve officer. Your committee took exception last year to this salary. I went to the State Department and said, "He is servicing you as well as us. Let's divide the cost."

Mr. PASSMAN. We are just trying to understand it.

You really do not know what the division is so far as the amount of time with the Export-Import Bank and the amount with the State Department?

Mr. LINDER. We think it is roughly half and half.

Mr. PASSMAN. What does he do for the State Department when he is not working for you?

Mr. LINDER. He is also helping in connection with deals that may turn into projects for AID. He travels in the country.

He also covers Pakistan and Ceylon for us.

Mr. CONTE. Mr. Chairman, would you yield on that?

Mr. PASSMAN. Yes.

BACKGROUND OF REPRESENTATIVE IN INDIA

Mr. CONTE. Could we get a background sketch on this individual?

Mr. LINDER. Surely. He was the Secretary of the Bank. He had been with the Bank for a good many years.

He is thoroughly familiar with our activities. He is a mature, able citizen. I don't remember what his service rank was. I placed a biographical sketch in the record last year on page 42 of the hearings.

(The biographical sketch follows:)

BIOGRAPHICAL SUMMARY OF SIDNEY SHERWOOD

Mr. Sherwood has had long and varied experience in financial, economic, and administrative fields. On graduating from Princeton with a bachelor of arts degree in 1923, having majored in history, politics, and economics, he had 3 years practical experience in credit investigations with the Bankers' Trust Co. at 14 Wall Street. After spending a few years in administrative and operational work with Phelps Dodge Corp., he again became engaged in financial work with the Farm Credit Administration in Washington in the early thirties where his responsibilities included the extension, administration, and collection of various types of agricultural loans.

This experience was followed by 5 years with the U.S. Treasury. In the early stages of the defense program in 1940 Mr. Sherwood was appointed Assistant Secretary of the Advisory Commission to the Council of National Defense. Throughout the war he was closely connected with the defense agencies, their

coordination and the effectuation of liaison between them, serving successively in the Office of Emergency Management, the War Production Board, the Combined Production and Resources Board, the Office of War Mobilization, and the Foreign Economic Administration.

The Combined Production and Resources Board was the British-Canadian-American organization designed to integrate the production of the three Allies. In that as well as in his later capacity as consultant on foreign requirements in the Office of War Mobilization and in the Foreign Economic Administration, Mr. Sherwood had broad experience in the problems of international economics and finance. Following the liquidation of the Foreign Economic Administration in the autumn of 1945, Mr. Sherwood was appointed Secretary of the Export-Import Bank and assistant to the chairman. He has held these positions since January 1946. He has the responsibility not only for the general secretariat of the Bank, but for the public relations, budget and administrative planning of the organization, in addition to liaison with the Congress and other agencies of the Government.

Mr. Sherwood has, in addition to these general responsibilities, specialized on the Near and Middle East. He has traveled to the area on four major missions. He was chief of the Export-Import Bank's mission to Israel in the spring of 1949 for the purpose of making an economic and financial survey of the country. In the fall of that year he was borrowed by the United Nations as a financial consultant on the United Nations economic survey mission for the Middle East. In this capacity he spent several months visiting most of the countries of the area. Again in 1951 he traveled to most of the countries of Western Europe and several in the Near East in connection with an investigation of Export-Import Bank credits by the Banking and Currency Committee of the House of Representatives. His fourth mission to the Middle East for the Export-Import Bank took him to Afghanistan, Pakistan, Saudi Arabia, and Lebanon. In the course of this trip he and his colleagues made a thorough survey of the economic and financial situation in Afghanistan and Saudi Arabia.

Mr. Sherwood is also a member of the Board of Governors of the Middle East Institute. He has done some lecturing on Middle Eastern problems and, in addition, has published a few articles including financial articles in the Journal of Commerce concerning the lending activities of the Export-Import Bank.

He is a member of the American Academy of Political Science, American Society of Public Administration, and the Cosmos Club of Washington.

As of April 12, 1959, Mr. Sherwood was appointed a Reserve officer in the Foreign Service of the United States and assigned to the Embassy in New Delhi to represent the Export-Import Bank of Washington in India and southeast Asia.

Mr. GARY. We discussed all this last year.

Mr. LINDER. We did, sir. The only difference is that now State is paying half of the bill.

Mr. PASSMAN. The reason I am pursuing it now is that all along the way we are going to be running into appropriations for the State Department.

BREAKDOWN OF COST OF MAINTAINING REPRESENTATIVE IN INDIA

Mr. RHODES. Mr. Chairman, I wonder if we couldn't get the president of the Bank to put in the record a breakdown of this $60,000.

Mr. PASSMAN. Would you, Mr. Linder, give us a spread of the $60,000, and tell us how they arrived at that figure?

Mr. LINDER. I will try to, certainly, sir.

(The information supplied follows:)

Cost of maintaining representative in India

Program support:	
Mr. Sherwood (FSR–1):	
Annual rate	$17,650
Day in excess	68
10 percent differential	1,772
CSR	1,152
FEGLIA	59
FEHBA	55
Total salary, Mr. Sherwood	20,756
Miss Martin (FSS–10):	
Annual rate	6,260
Day in excess	24
10 percent differential	628
CSR	409
FEGLIA	20
FEHBA	55
Total salary, Miss Martin	7,396
Allowances (cost of living)	562
Quarters allowance (Martin)	1,604
Program local	970
Local travel	2,000
Communications	100
Housing	4,313
Utilities	1,416
Total, program support	39,117
Administrative support:	
American salaries	2,712
Communications	1,603
Local salaries	2,892
Allowances	332
Administrative travel	60
Building operating expenses	1,855
Automotive operating expenses	390
Other contractual services	158
Supplies and equipment	699
Total, administrative support	10,701
Other costs:	
Representation	850
Travel	5,043
Transportation of effects	3,100
Overseas medical costs	266
Storage	509
Total estimate	59,586

JUSTIFICATION OF UNIQUE INDIAN SITUATION

Mr. PASSMAN. In how many countries do you have a similar arrangement?

Mr. LINDER. None. No others.

Mr. PASSMAN. Does this mean that the volume for India is such that an exception should be made there?

Mr. LINDER. I think so, sir; but not because the volume is so great. It is because when we sell to Australia, when we sell to Germany, when we sell to other countries, we have a normal flow of exporter

credits, with the individual manufacturer or buyer over there making his arrangement with an individual seller here.

These in India, however, are all done through an overall line of credit. We want to be sure we are getting an adequate American component in there.

Mr. PASSMAN. I believe that India is by far the largest recipient of aid dollars of any nation on the face of the earth. It looks as if that fact itself might possibly give us more control than we would have in some of the other nations.

Are you making similar loans to any of the other countries in the Near East?

Mr. LINDER. No.

Mr. PASSMAN. Only India, Pakistan, and Ceylon?

Mr. LINDER. None for Ceylon.

Mr. PASSMAN. What countries did you name other than Pakistan?

Mr. LINDER. We did mention Ceylon, because it is just a question of having an American come in there and say "American lathes are good" and American this is good. "Why don't you try these screw machines?"

Mr. PASSMAN. It will stimulate trade. It is kind of an advertising agency.

Mr. LINDER. Well, it stimulates trade.

FOREIGN CREDIT INSURANCE ASSOCIATION

Mr. PASSMAN. Under object 25, "Other Services," of the budget schedules for nonadministrative expenses, there is $224,000 requested. In what manner do you propose utilizing that money?

Mr. LINDER. Nonadministrative expenses, sir, will be the expenses which we may have incident to our share of the operating cost for the most part of the Foreign Credit Insurance Association. I think I have here in this bluebook a little description of it. The GAO audit cost us $4,400. That is the General Accounting Office.

Mr. PASSMAN. That expense comes out of the $224,000?

Mr. LINDER. That is correct, sir. We had an annual leave in and out charge of $1,400. We had dues to an international organization of $463. We can talk about items of even less than a thousand dollars, Mr. Chairman.

We had expenses in connection with a war risk agency of $4,000. We have expenses that we have had in connection with our Foreign Credit Insurance Association where we divide the expense and divide the premiums as per our relative risks.

Mr. PASSMAN. What is that division on, Mr. President?

Mr. LINDER. This, sir?

Mr. PASSMAN. What is it you divide?

Mr. LINDER. We divide the premiums and we divide the expense with them.

Mr. PASSMAN. You get part of the premiums?

Mr. LINDER. Yes, sir. We get the major share of the premiums, because we write the political risk.

Mr. PASSMAN. You mean that you get the commission?

Mr. LINDER. Yes; the insurance premium.

Mr. PASSMAN. And the insurance companies get the money because they are carrying the insurance?

Mr. LINDER. No. To the extent that we carry the risk, we get the premium for it. To the extent they carry the risk, they get the premium.

Mr. PASSMAN. That is the same as a coinsurance company?

Mr. LINDER. That is quite right, sir.

Mr. PASSMAN. So, they keep their profits? It is only for the portion which you carry that you earn the premium?

Mr. LINDER. That is correct.

Mr. PASSMAN. You collect that, of course, from the individual who is being insured?

Mr. LINDER. We collect it through FCIA from the individuals who are being insured.

Mr. PASSMAN. You use FCIA as your collecting agency?

Mr. LINDER. That is correct.

Mr. PASSMAN. If it is 30 percent Export-Import and 70 percent insurance companies, they collect the entire amount and remit to you the 30 percent?

Mr. LINDER. Yes. And we divide the expenses 30–70.

Mr. PASSMAN. That item was——

Mr. LINDER. That item was $2,000, and a $60,000 advance was made prior to February 28, 1962, to be accounted for later.

Mr. PASSMAN. Do you have a profit in this operation?

Mr. LINDER. We can't tell yet, Mr. Chairman.

Mr. PASSMAN. This is a new operation?

Mr. LINDER. It is, sir.

Mr. PASSMAN. If it is profitable for the insurance company, in all probability it will be profitable for the Export-Import Bank?

Mr. LINDER. If it is, we hope it will be.

Mr. PASSMAN. Of course, insurance companies are not in business strictly for accommodation.

Mr. LINDER. You are quite right.

Mr. PASSMAN. You get the same premium, do you not?

Mr. LINDER. Yes, sir.

Mr. PASSMAN. I am sure that you want to watch it and that you want us to watch it.

Mr. LINDER. We surely do. We get more than half the premium.

Mr. PASSMAN. For this insurance program last year, I believe we recommended $260,000 for the agency; is that correct?

Mr. LINDER. I knew there was $300,000 estimated for nonadministrative expense.

Mr. PASSMAN. I believe for the insurance purposes—would you check us on that—in the administrative expenses of this category?

Mr. LINDER. Yes. Let me explain this, if I may.

Last year, and this year until the policies expire, we had been writing directly purely political risk insurance. That is what those figures are allocable to. We have dropped purely political risk insurance, and we are offering comprehensive insurance, which is both political and credit risk.

That is being handled through this Foreign Credit Insurance Association. Therefore, there is nothing in our administrative expenses, except such expenses as we have within the Bank which relate to that activity. You realize, sir, we are not giving the insurance company the right to commit us for unlimited amounts. We put ceilings on the amount that they can commit us for. In any case that goes beyond

that ceiling we have to analyze it and do the credit work on it, and so on. So that the amount within the administrative expenses of our Bank is the amount which we estimate is attributable to our totality of insurance program in the Bank.

Does that clear it up?

Mr. PASSMAN. At least I am no less confused.

Mr. LINDER. I am sorry.

Mr. PASSMAN. We are talking about $260,000.

Mr. SIMPSON. That was the amount that was estimated in that nonadministrative expense last year; yes.

Mr. PASSMAN. Was this requested for administrative expenses?

Mr. LINDER. That was estimated for nonadministrative expenses for the insurance program.

Mr. PASSMAN. You said it was nonadministrative?

That leaves an awful lot of difference.

Mr. LINDER. It does, sir. But the Foreign Credit Insurance Association has only been operating a much shorter period of time than we anticipated. This represents the expenses that have occurred since August. We have really only been operating since February 5.

Mr. PASSMAN. Instead of me trying to help you explain away the entire $260,000, a shortcut would have been that you overestimated your needs according to the record thus far?

Mr. LINDER. When you referred to shortcut, you are correct, sir.

ELECTRONIC DATA PROCESSING EQUIPMENT

Mr. PASSMAN. I note that you have $100,000 budgeted for electronic data processing equipment.

Mr. LINDER. Yes.

Mr. PASSMAN. In what manner is this money utilized?

Mr. LINDER. This money, as I understand it, sir, is to be utilized in our recordkeeping and accounting department. As you know, we are presently servicing over 1,000 loans and as I related earlier in my statement the Bank is now engaged in 2 new programs. Our purpose in budgeting the amount of $100,000 is to cover the cost of renting electronic data-processing equipment and at this time a study is being made as to just what the Bank's requirements may be. The regular work of the Bank together with the increase due to the new activities may require the use of this type of equipment. The use of this equipment may also be necessary for purposes of compiling statistics for the program which FCIA is handling because at this time we are not aware as to whether FCIA will be in a position to compile this type of information. We are not renting any equipment of this type at this time.

Mr. PASSMAN. Would not these plans result in some reduction in personnel?

Mr. LINDER. I think the personnel staff is already reduced by the fact that we use some processing equipment but the $100,000 is for future rentals if determined necessary.

Mr. PASSMAN. Do you have fewer employees now?

Mr. LINDER. No, sir, but the Bank load has gone up consistently. We are handling consistently more and more transactions. This is economy, we believe.

I would like Mr. Anderson particularly to speak on data processing, because he has been our Treasurer for many years.

Mr. PASSMAN. Before he speaks to that point, may I ask whether you are renting or purchasing the equipment.

Mr. SIMPSON. We purchased what we have.

Mr. LINDER. We believe, sir, that this is a rental figure, is it not?

Mr. SIMPSON. This is a rental figure but on an anticipated basis.

NUMBER OF ACCOUNTS

Mr. PASSMAN. How many accounts do you have that you deal with?

Mr. LINDER. I would like Mr. Anderson to answer that. There are several thousand loans outstanding, I am sure.

Mr. GARY. Is it rental or contract?

Mr. LINDER. May I defer to Mr. Anderson? He is our treasurer.

Mr. Chairman, we have over 1,300 active credits requiring approximately 2,400 ledger accounts. Those, you know, require very constant servicing. There are also approximately 600 general ledger control and subsidiary accounts. We are just getting into our insurance and guarantee record requirements.

Mr. PASSMAN. Do many of those accounts pay on an annual basis?

Mr. LINDER. No; most of them pay either on a semiannual or quarterly basis. We have none on an annual basis. We have some on a monthly basis. You understand, Mr. Chairman, I am sure, that we are in a different position than most banks. That is to say, if I borrow money at a bank they just credit my account, and then whatever happens, it is my business as long as I return it.

We don't do that. We don't credit a borrower's account. We tell the borrower he has this much, and then every time he wants to use it, we make sure that it is being used for the purchase of something in the United States needed for his project. We look at the bills. We look at the vouchers. Then we say, "All right, out of your $100,000 credit, here is $4,363. Here is another $2,183. Here is another $874." So, the number of disbursements made on one loan can be almost countless.

Mr. PASSMAN. The rental of electronic equipment is just coming into your agency?

Mr. LINDER. We installed some small scale units last year. And I think as our volume goes up with this large number of exporter credits, we may need a good deal more of it, possibly on a rental basis.

Mr. PASSMAN. But the $100,000 is for an annual amount?

Mr. LINDER. That is correct.

Mr. PASSMAN. You have 2,300 accounts?

Mr. LINDER. Yes, sir.

Mr. PASSMAN. This is a rental basis. Did you give some consideration to purchasing the equipment?

Mr. LINDER. I would say I did not give any.

Mr. PASSMAN. You did not handle it?

Mr. LINDER. I did not handle it. But I would like, Mr. Anderson——

Mr. TABER. Who did handle it?

Mr. LINDER. Mr. Anderson undoubtedly, who is our treasurer. He is just outside.

Mr. PASSMAN. We shall ask him about it when he comes in, but maybe you can help us here.

REQUEST FOR EQUIPMENT

On page 81 of the red book, it would appear that you are requesting $46,000 for equipment. That is under nonadministrative. What kind of equipment would that be?

Mr. LINDER. The amount of $46,000 represents the purchase of office equipment which includes desks, chairs, file cabinets, typewriters, adding machines, and so forth. The amount included is for replacement purposes for new equipment required by Bank employees. This item, however, is not an administrative expense but is treated in the Bank's records as a capital item. The cost of the Bank's equipment is depreciated and depreciation is treated as an expense item in the Bank's financial statements.

Mr. PASSMAN. In previous years you have carried it in the top category that we find here on page 81 of the red book. Now it has been moved down into the nonadministrative expense, subject to limited——

Mr. SIMPSON. What is the red book, sir? I do not believe I know what that item is.

What page, sir?

Mr. PASSMAN. Page 81.

If you will look at the second set of figures, nonadministrative expenses, you will find equipment—$46,000.

Mr. ANDERSON. That is some of the equipment for office machines, and so forth. They are capitalized items.

Mr. PASSMAN. You would not mind our knowing what it is, would you?

Mr. ANDERSON. No.

Mr. PASSMAN. What is it?

Mr. ANDERSON. I do not have the detail, but I can put it in the record—$46,000.

Mr. PASSMAN. That would be in addition to the other equipment?

Mr. LINDER. Yes; in addition to the $100,000 for leased equipment.

Mr. ANDERSON. That would be in addition to the $100,000.

Mr. LINDER. Did we try to buy any of this equipment?

Mr. ANDERSON. We own the equipment we have.

CURRENT USE OF ELECTRONIC DATA PROCESSING EQUIPMENT

Mr. PASSMAN. How about the $100,000 budgeted item?

Mr. ANDERSON. That has not been expended; we thought we would need that electronic equipment for our new program, and probably still will in 1963.

Mr. PASSMAN. That is to be worked out in the future?

Mr. ANDERSON. That is right.

Mr. PASSMAN. You have no plans at the present?

Mr. ANDERSON. That is right; we have no definite plans to use it for the present. We are studying our requirements in connection with various equipment and facilities which are under consideration.

Mr. GARY. Do you operate any electronic equipment now?

Mr. ANDERSON. Yes, we have some small-scale electronic units which we purchased. One small electronic computer installed in May 1960, by means of which the preparation of periodic payment notices to borrowers has been greatly expedited.

One electromechanical unit placed in operation in January 1960, to facilitate the analysis of posting media for daily closings, whereby this work is being done in one-third the time formerly required.

Three small-scale electronic accounting machines, two of which were put into operation in July 1960 and one acquired in 1961 which produced punched paper tape simultaneously with the posting of daily transactions. A private firm, pursuant to a service contract with the Bank, utilizes the paper tape for the electronic programing and processing of loan operations data in the preparation of the monthly loan statement, which is available for distribution in half the time formerly required.

Mr. GARY. I mean data processing equipment; do you have any electronic data processing equipment?

Mr. ANDERSON. No, we do not, but we have certain data processing service performed for the bank.

Mr. GARY. In that connection, there are three ways of conducting a data processing program; one is to buy the equipment, which is very expensive, but which will pay itself out in about 3 or 4 years if you get a machine that is perfected and does not require changes; the other is to rent the equipment; and most of the Government agencies have been renting it. Our Committee on Treasury, Post Office, this last year insisted on those departments inquiring into the advisability of purchasing the equipment, and most of the bureaus that use a great deal of electronic equipment have advised us that their studies show that they can now save money by purchasing it.

On the other hand, the Secret Service has need for certain electronic data processing, but they do not have enough processing to justify either the purchase or the rental of equipment; so they have entered into a contract with one of the equipment companies to do their processing for them. So there are three ways that you can handle that.

And, incidentally, about 2 years ago, we gave the Budget Bureau additional personnel to enable it to inquire into the question of the use of electronic processing equipment throughout the Government. So when you go into it, you might consult the Budget Bureau with reference to it.

Mr. LINDER. We certainly will.

Mr. SIMPSON. I am a member of that committee, and I do go over there at their meetings when they discuss it.

Mr. GARY. I think that is very fine.

It is unquestionably true that data processing can save a lot of money; but there are various methods of doing the work, and the best method for a particular agency depends upon its problems. I think it would be well for you to give it some study.

Mr. PASSMAN. But as it stands now, you may or may not decide to buy it or rent it?

Mr. SIMPSON. That is right.

Mr. PASSMAN. It is speculative as of this time. You will take into account the fact that you have 2,300 accounts, and many times you receive payments in advance, and you may only send them a notice four times a year or twice a year. So this is something that the future will work out; is that correct?

Mr. ANDERSON. It is under study; yes, sir.

Mr. PASSMAN. It is under study, and if you did not get the $100,000 this year, your operations would not be damaged?

Mr. LINDER. Well, Mr. Chairman, we are counting on the increased workload without increase in personnel by reason of the fact that we are hoping to install some more mechanization of our accounting department.

And I would, if I may, reiterate that our disbursements are far, far more complicated than one would assume by the 2,300 accounts.

One of those large loan accounts might include a thousand different disbursements. We cannot help it; and it may well be a good account.

USE OF EQUIPMENT FUNDS FOR OTHER PURPOSES

Mr. PASSMAN. If we should allow the amount of money you request—and you should not buy the equipment, that would give you $100,000 for something else, because it is within the $3 million limitation?

Mr. LINDER. That is correct, sir.

Mr. ANDERSON. That is correct.

Mr. PASSMAN. Of course it is your money we are spending.

Mr. LINDER. It is your money, sir.

Mr. PASSMAN. Both sides of the table represent the taxpayers. But you have an item in here of $100,000, which is about 3½ or 3⅓ percent of the total that you are requesting, for administrative expenses for an item that is very speculative at this point. You do not know whether you need it, want it, or whether you will buy it, rent it, or postpone it.

So what would happen if you should decide you are not going to use the $100,000 for equipment? Do you think you would use the $100,000, then, in personnel?

Mr. LINDER. The only thing I can say to you, sir, in reply, if I may?

Mr. PASSMAN. Yes.

Mr. LINDER. Is that our record, I think, indicates something—that is, we will be substantially under the figure that you authorized us for in the current fiscal year. And when one considers these expenses in relation to earnings of $100-odd million, I think you will agree that we have been rather careful in the way we spend money.

Mr. PASSMAN. I have complimented your Bank many times, Mr. President, and I shall do so again.

ESTIMATED UNOBLIGATED ADMINISTRATIVE EXPENSES

What is the amount of your estimated unobligated balance for administrative expenses as of February 28?

Mr. LINDER. $675 million.

Mr. SIMPSON. Well, that is the total of that entire limitation on operations. But the administrative, it is that $1,247,000, Mr. Linder.

Mr. LINDER. Yes; $1,247,000.

Mr. PASSMAN. That will be the unobligated total as of February 28?

Mr. LINDER. That is correct, sir.

Mr. PASSMAN. What amount do you estimate will be your unobligated balance on June 30 in the administrative account?

Mr. LINDER. About $200,000.

Mr. SIMPSON. Which includes that $100,000 which was allowed us that we did not use for the electronic equipment.

Mr. LINDER. Yes, sir.

Mr. SIMPSON. It includes the $100,000 which was allowed us last year for automatic data processing that we did not use.

Mr. PASSMAN. Then, of course, you saved the money, so the project is in the same status this year. But you are close to disbanding the idea or you will enter into it during next fiscal year?

Mr. SIMPSON. That is right.

AIRCRAFT LOANS

Mr. PASSMAN. Now, do you have the data relative to aircraft loans?

Mr. LINDER. We have some of it, but I am sure it is not complete, Mr. Chairman. I have, for example, that we did $12 million with Pakistan on Boeing; we did $4.3 million for Japan on Douglas; and we did another $12.2 million with Japan on Douglas; we did $10.9 million with Brazil; we did $8.5 million with Italy; we did $9.5 million with Colombia. But I would prefer to be sure that I have got everything in, and I am not certain that I have on this list.

Mr. PASSMAN. Do you think there will be any difference in the future than in the past?

Mr. LINDER. No, sir, there is no difference. The only difference is that I think it is a normal exporter credit. And the only difference between that and other exporter credits is that we and everybody else who wants to sell airplanes extend at least a 7-year term.

Mr. PASSMAN. I am thinking in terms of your caption here, which indicates that you are embarking on a new program.

Mr. LINDER. It is not true.

Mr. PASSMAN. Could it be that under this caption you separate the aircraft from the accessories which go to the airports that you mentioned earlier?

Mr. LINDER. No; they will all be exporter credits.

Mr. PASSMAN. Will they be under this caption, "Aircraft Loans"?

Mr. LINDER. They will be purely aircraft.

Mr. PASSMAN. So this new arrangement would cover the accessories; that would be in one category and this would be in another?

Mr. LINDER. Except I think, sir, we will be reporting to you in the future with aircraft loans as part of the total exporter credits and that is all.

Mr. PASSMAN. Thank you very much, Mr. President, and the witnesses.

Mr. Gary?

STATUS OF LOAN TO CHINA

Mr. GARY. What is the status of the Chinese loan now?

Mr. LINDER. The status has changed since I reported to the committee last year, to this extent, sir. We have extended to China over the years something in the neighborhood of $220 million in loans; $221 million, to be exact. Of those, all but $29 million were repaid before China got into Communist hands. Of the $29 million that were left outstanding, the Republic of Taiwan has agreed, after long negotiations with us, that they have been the beneficiaries of something like $2.5 million of principal on those loans and that an additional $1 million ought to be paid to us on account of delinquent interest

in respect of their share of this loan. Hence they have now come to an agreement with us whereby they will pay us, over a 10-year period—and they have paid the first two installments—about $3.5 million. The balance of it we still have as a claim against mainland China. But I would not try to estimate how good that claim was.

But that is part of the $100 million which I regard as the possible loss which I think I discussed with the chairman before you came in the hearing.

Mr. GARY. And so the unpaid amount, after deducting the part that is recognized by Taiwan, will be how much?

Mr. LINDER. About $26 million.

Mr. GARY. And nothing has been paid on that in recent years, has it?

Mr. LINDER. Oh, yes. Yes, they have paid the first two installments.

Mr. GARY. No; I mean on the $26 million.

Mr. LINDER. Oh, no; on the $26 million, no.

Mr. GARY. Nothing has been paid on that?

Mr. LINDER. No, sir.

Mr. GARY. Red China has not made any payments at all?

Mr. LINDER. It has not, sir.

Mind you, that is not the total amount, now. This is the total amount of the face of the obligation. They are in default for a much smaller amount. So that if they brought themselves up to date, they would not pay as much as $26 million, because that much is not yet due. There is $11.6 million on principal that is overdue, but I have used the gross amount.

Mr. GARY. I see. But they have not paid any interest or principal either?

Mr. LINDER. They have not.

Mr. GARY. Since they took over?

Mr. LINDER. They have not.

Mr. GARY. On their part of the loan?

Mr. LINDER. They have not, sir.

STATUS OF LOAN TO CUBA

Mr. GARY. Now, what is the status of the Cuban loan?

Mr. LINDER. The Cuban loan is unchanged for the past year. We have three loans outstanding in Cuba. One of them is to a subsidiary of International Telephone & Telegraph. The other one is to a subsidiary of American Foreign Power. And the third loan is represented by a small $1.5 million credit to the so-called Cia. Cubana Primadera, which was American controlled and which was organized for the purpose of making board—building board out of bagasse—the residue after the sugar has been taken out of the cane. Those three loans are in default.

We have had a number of communications with the Castro Government. We have gotten no money—period.

Mr. GARY. Have those plants been taken over by the Government?

Mr. LINDER. Yes, sir.

Mr. GARY. They are no longer in the hands of the Americans?

Mr. LINDER. No, they are no longer in the hands of Americans, as is true of every other American property there, as far as I know.

Mr. PASSMAN. Would the gentleman yield?

Mr. GARY. Yes; surely.

Mr. PASSMAN. As you know, of course, in one of the States of Brazil, the Governor of that State, who is a brother-in-law of the President of Brazil, seized a telephone company. Do you have any loans outstanding on that company?

Mr. LINDER. No, sir; we do not.

Mr. PASSMAN. Thank you, Mr. Gary.

Mr. GARY. That is all, Mr. Chairman.

Mr. PASSMAN. Mr. Natcher?

LOANS IN LATIN AMERICA

Mr. NATCHER. Mr. Linder, in your report to Congress, you set forth on page 15 credits authorized for the year ending December 31, 1961. I want to call your attention to the 18 countries in Latin America where you have 400 borrowers totaling $492,375,169.

Mr. LINDER. Yes, sir.

Mr. NATCHER. What five countries are not represented here?

Mr. LINDER. Well, Bolivia surely is not, because that is in default. As far as I can recall, there are 21 American republics, of which the United States is one.

Mr. NATCHER. Twenty-three, is it not? Are there not 13 in South America and 10 outside?

Mr. LINDER. I thought there were 21. You may be right, sir. But my impression is there are 21 American Republics of which United States would be counted for one. So that that becomes 20.

Mr. NATCHER. Wait, now; not the United States?

Mr. LINDER. Yes; it includes the United States.

Mr. NATCHER. In this list?

Mr. LINDER. In the 21 American Republics. I am merely trying to get to the 18, sir. If there are 21 American Republics, the United States is one; that would make 20. We have loaned to 18. The two countries to which we have not loaned, I believe, are Bolivia and Cuba. We have surely not loaned any money to Cuba since the Castro regime, and I do not believe we have loaned any money or extended even a short-term exporter credit to Bolivia, because they are in default.

Mr. NATCHER. According to the new credits authorized here, the total for the 18 countries is a little better than half of the total amount of your credits.

Mr. LINDER. That is correct, sir.

Mr. NATCHER. The total amount you set forth here is $948,269,821.

Mr. LINDER. That is correct, sir.

Mr. GARY. May I inquire?

Mr. PASSMAN. Do you yield to Mr. Gary?

Mr. NATCHER. Yes; I yield to my friend.

POLICY TOWARD INDIA

Mr. GARY. Has there been any change in your policy to India because of their aggression in taking over Goa?

Mr. LINDER. No, sir; there has been no change; but I do not think we have granted any credits since that happened. But I know of no

change in our policy. Our political policy would be guided by the State Department. If we could make a good loan to Russia, we would not make it.

But we have not had any guidance that suggests we should not make a loan to India. But I am sure that we have not made a loan since Goa was seized.

Mr. GARY. Thank you, sir.

Mr. PASSMAN. You are still making disbursements on prior approved loans; are you not?

Mr. LINDER. That is correct, sir.

Mr. PASSMAN. And the foreign aid program is still going forward, as far as you know, in India?

Mr. LINDER. As far as I know; yes, sir.

SOURCE AND APPLICATION OF LOANS

Mr. TABER. I wonder if you could submit for the record a table with a breakdown showing the receipts in 1961?

Mr. LINDER. Yes, sir.

Mr. TABER. Including the source of the receipts?

Mr. LINDER. Yes, sir.

Mr. TABER. I do not mean every individual loan; I mean the overall.

Mr. LINDER. Yes, sir. We can do that.

Mr. TABER. And the estimated expenditures for this fiscal year?

Mr. LINDER. Yes, sir.

Mr. TABER. And the current unobligated funds?

Mr. LINDER. Yes, sir.

Mr. TABER. And then in another column, the budget estimates for the 1963 fiscal year.

Mr. LINDER. Yes, sir; we can.

Mr. TABER. And then show the receipts in the column and the disbursements of your borrowing authority for each year in each of the 3 years; the amount that has been loaned in each of those years, and the amount of interest that has been received for each of the 3 years.

I think that that is about all I want to cover.

Mr. LINDER. Yes, sir. We will be glad to.

(The information supplied follows:)

Sources and application of funds

[In thousands]

	1961 actual	Fiscal year 1962		Fiscal year 1963 estimate
		July 1, 1961, to Feb. 28, 1962, actual	1962 fiscal year estimate	
Funds applied:				
Loans made	$526,115	$691,564	$900,005	$800,000
Office equipment acquired	75	19	60	46
Interest paid to U.S. Treasury on borrowed funds	42,803	36,500	51,549	53,028
Administrative expense	2,522	1,763	3,010	3,000
Guarantee claims paid	60	23		
Reimbursable expense	55	22	30	13
All other expenses	10	72	234	234
Repayment of borrowings—U.S. Treasury	404,900	272,600	783,700	448,000
Payment of dividend to U.S. Treasury	22,500	30,000	30,000	30,000
Increase in cash	764		300	1,100
Increase in selected working capital			2,767	193
Total expenditures	999,804	1,032,563	1,771,655	1,335,614
Funds provided:				
Loan repayments	374,436	275,512	490,000	570,265
Reimbursement from loans financed by private capital—				
Without recourse	14,094	9,711	30,000	40,000
With recourse			370,517	300,750
Interest on loans	138,205	107,922	166,287	168,965
Insurance premiums	21	13	21	21
Guarantee fees	273	410	800	1,500
Proceeds from sale of equipment	4			
Recoveries on guarantee claims	1	62		
Reimbursement of expense	55	22	30	13
Decrease in cash		114		
Decrease in selected working capital	1,115	2,697		
Borrowings from U.S. Treasury	471,600	636,100	714,000	254,100
Total receipts	999,804	1,032,563	1,771,655	1,335,614

Unobligated balance Feb. 28, 1962, $2,037,873.

Mr. PASSMAN. Mr. Rhodes?

Mr. RHODES. Mr. Chairman.

REPURCHASE AGREEMENTS

On page 74 of the committee print, Mr. President, under the item under "Financing," subitem "Reimbursements under repurchase agreements," in 1962, an estimate of $370,517,000.

Mr. LINDER. Yes, sir.

Mr. RHODES. Is this a reserve?

Mr. LINDER. Well, sir, this is the amount which the budget has estimated that the Export-Import Bank will be able to sell of loans in its portfolio to commercial banks or other investors. Since it is not an exporter credit, and is with recourse, it continues as a deduction from our lending authority.

Mr. RHODES. Did you say it is a deduction from your lending authority?

Mr. LINDER. Yes; it continues as such.

Mr. RHODES. So that you cannot use the $370.5 million to make further loans?

Mr. LINDER. No. The only thing we can do is to pay it back to the Treasury, and we cannot use it in terms of our lending authority—this recourse sale can have no effect on our lending authority.

OBLIGATION TO TREASURY

Mr. RHODES. That brings up the next question. Your obligation to the Treasury is increased this year. I think it shows on page 20 of your statement that Notes Payable to U.S. Treasury in June of 1961 was $1,697,900,000; in December of 1961 it was $2.1 billion.

Mr. LINDER. Yes, sir.

Mr. RHODES. And in the same time your retained earnings had gone up from $675,917,000 at the end of June to $728,709,000 at the end of December?

Mr. LINDER. That is correct, sir.

Mr. RHODES. Why do you not pay some of the money back to the Treasury?

Mr. LINDER. Well, we do. In fact, we do not keep any money ourselves. All of our money is in the Treasury.

May I try to explain?

Mr. RHODES. Yes, sir.

Mr. LINDER. Each day we borrow from the Treasury what we need, and each day when we have a surplus of repayments, we pay back to them.

This is a book account. All of our money is in the Treasury. We do not carry balances with the banks, with the commercial banks, except short-term balances from collections, which rarely aggregate $1 or $2 million at the very most, and frequently go down to $300,000.

Now, the reason that this has gone up, sir, is that that $370 million has not yet been sold, and nobody can be sure that it will be sold. If it were sold, then that $370 million would be deducted from this $2.1 million, and we would be back at a lower figure, despite the additional business which we have done.

Mr. RHODES. In other words, your $370 million as of now is just an estimate?

Mr. LINDER. That is correct, sir.

Mr. RHODES. Not an amount in cash.

CASH ON HAND

Now, referring again to your cash position as shown on page 20 of the statement, you have an item under the general heading "Cash" you have with the U.S. Treasury, and on June 30 that was $1,156,000.

Mr. LINDER. That is right.

Mr. RHODES. And on December 31, it was $1,987,000?

Mr. LINDER. That is right.

Mr. RHODES. This does seem to indicate that the Treasury must carry a balance on hand for you.

Mr. LINDER. It is a slight float, sir. We have so many millions going in and out that this represents a slight float.

When we see a balance of this kind, if that balance got above $2 million, we would instruct the Treasury to debit our account and credit our loan account with it.

Mr. RHODES. The thing that I am trying to establish—I am sure it is apparent to you—is whether or not you are using due diligence to keep the national debt down, and whether the Treasury is also; and I am glad to see that, at least by the appearances of your cash

position, you are not borrowing money before you need it and thereby paying interest on it.

Mr. LINDER. I think that is a very fair statement, sir.

Mr. GARY. Off the record.

(Discussion off the record.)

EFFECT OF EXPROPRIATION OF U.S. PROPERTY

Mr. RHODES. There have been some mentions made of expropriations. What is your attitude or policy of making new loans to nations which have expropriated property of the United States or its citizens?

Mr. LINDER. Well, sir, I think that, again, this is a matter which we would regard as being within the purview of the State Department. We try to establish that we have a reasonable expectation of repayment of our loans. And if we satisfy ourselves as to that, if there are political reasons for our not granting the loan, we are guided by the State Department.

Our criteria are made up of the following: Can we get the money back; can we see a good economic purpose for credit? If we can see both of those things, we are prepared to extend the credit, provided there is no political objection.

Now, if you are referring to the case of Brazil, as you know, there is a lot of current business every day. Deere wants to sell a tractor, or General Motors wants to sell a truck, and so on, and so forth. And I don't think the State Department has suggested to us, and I don't think they would suggest to us, that we terminate all commercial relations with Brazil because a Governor of a Province has decided to expropriate without adequate compensation a public utility company owned by Americans. We deplore that very much.

Mr. RHODES. Have you determined from the State Department that that is their attitude, or do you just assume that that is their attitude?

Mr. LINDER. Well, we have in every formal Board meeting a representative of the State Department, and all of our important loans are put up to the National Advisory Council before they are made. The National Advisory Council includes representatives of State, Treasury, Federal Reserve Board, Department of Commerce, and myself. I think that constitutes a degree of assurance that our actions are in conformity with overall U.S. policy.

Mr. RHODES. I would like to get back, if I may, to that statement on page 20.

Mr. LINDER. Yes, sir.

RESERVES FOR CONTINGENCIES

Mr. RHODES. I gather from your previous statement that the retained earnings available for contingencies is merely a bookkeeping item and that you do not in fact retain any earnings for contingencies at all.

Mr. LINDER. Well, we retain them on our books; that is, they represent an accumulated surplus. But the Government of the United States owns all of our stock, and, therefore, they own all of our surplus or reserves or whatever we wish to call them.

But if you look at the actual investment of the United States, the actual investment of the United States is our $1 billion plus the amount we owe to the Treasury plus our reserve.

The $728 million is owned by the United States, it represents an accumulated difference in the interest we receive and the interest we pay so to speak.

Mr. RHODES. My point is this: You do not have in any bank, anywhere, $728 million.

Mr. LINDER. We do not. You are quite right, sir. It is in the hands of the Treasury.

Mr. RHODES. So, it is a bookkeeping transaction. And if you had to satisfy your guarantee, you would have to resort to a public debt transaction just as you would for any new outlay of cash which would be necessary.

Mr. LINDER. No, the outlay is already there. If something goes wrong and we have to write off a bad debt, it is a charge against this reserve and requires no public debt transaction.

SALE OF LOANS

Mr. RHODES. How do you make your sales of loans. In other words, what terms do you get on the sales of these loans.

Mr. LINDER. It depends on a variety of things, Mr. Rhodes. It depends on the type of loan and it depends on what maturity we sell.

I see on my agenda tomorrow that one of the banks or one of the financial institutions is going to take $5 million of our loan without recourse on us. Because they like it well enough, they are willing to take it and take all the risk. This relieves the United States completely on that transaction.

Mr. RHODES. Is there a marked difference on the bid when this is the case?

Mr. LINDER. Not a bit. Because they take it at our terms and that is all there is to it.

Now, if, on the other hand, we granted a loan, let us say one of these airplane transactions to which the chairman referred—if we were to sell a loan that we made to Pakistan, let us say, or Venezuela—say we were to sell it for 5 years, although we got 5¾ percent, I assure you we would not sell it at 5¾ percent with our guarantee. We would sell it at maybe 4¼ or 4½ percent. We would collect the difference between the rate which we charged the Pakistanis and the rate which we thought the Bank was entitled to on the obligation.

Now, we have sold within the last month two loans amounting to over $16 million, where we got 6 percent and we sold them on the basis of 4¾ percent for 5 years.

So that we made 1¼ percent without putting up our money.

Mr. PASSMAN. Will the gentleman yield?

Mr. RHODES. Yes.

Mr. PASSMAN. Do you have any guarantee on that loan?

Mr. LINDER. Yes, sir.

Mr. PASSMAN. Well, you are entitled to that.

Mr. LINDER. Surely we are; yes, sir.

Mr. PASSMAN. You earn that profit the hard way.

Mr. LINDER. That is correct, sir.

Mr. PASSMAN. Thank you, Mr. Rhodes.

LOAN TERMS

Mr. RHODES. Well, then, is there any way you can generalize as to the terms?

Mr. LINDER. No, sir, I can't do that. I would say that it depends—obviously we would not sell a 1-year loan to yield 12 percent, you see.

Mr. RHODES. Have you ever discounted any loans to sell them?

Mr. LINDER. No.

Mr. RHODES. You have never sold a loan for less than the amount of money you had in it.

Mr. LINDER. No.

Mr. RHODES. And the proceeds of these sales go to the Treasury.

Mr. LINDER. Yes, sir.

Mr. RHODES. And the cash represented by the sale or the credit, I will say, is available to the Government for its general purposes, and you have only a bookkeeping credit as guarantee of repayment in the event that you are called to do so under the recourse provisions?

Mr. LINDER. I agree with your statement completely, sir, in respect of us. Now, precisely how this is handled within the Treasury I have no knowledge.

Mr. RHODES. I think we are both in the same boat.

Mr. LINDER. I am saying in respect to the Bank, you are quite right. We turn the proceeds over to the Treasury and the charge or debit to our lending authority continues, because we are the guarantor.

Mr. RHODES. But you pay the Treasury nothing for that debit, do you?

Mr. LINDER. No.

Mr. RHODES. In other words, you do not pay them a standby fee.

Mr. LINDER. No.

Mr. RHODES. So, actually, as far as the transaction is concerned, wouldn't it be just about the same if you did not carry a reserve.

Mr. LINDER. Well, you know, we have a certain pride in our institution.

Mr. RHODES. I realize I am shocking your banker's soul by saying that, but as far as the ultimate effects are concerned, wouldn't it be about the same?

Mr. LINDER. You mean if the loan were to go into default?

Mr. RHODES. If the loan were defaulted, is there any difference as to whether you had a reserve or didn't?

Mr. LINDER. There would be to me.

Mr. RHODES. I recognize that.

Mr. LINDER. And there would be to the Bank.

Mr. RHODES. I recognize that, and I realize that it is impossible for a leopard to change its spots or a banker to change his ideas about reserves. However, I must insist that, for all practical purposes, there is no reserve in existence, except as a Treasury credit.

EFFECT OF EXPORT-IMPORT BANK ON BALANCE OF PAYMENTS

Mr. RHODES. What effect do the Export-Import Bank operations have on our balance of payments, generally speaking?

Mr. LINDER. Well, I think a very salutary effect. If it be true that manufacturers or exporters in the United States—and many

manufacturers export—would not be prepared to sell abroad, if they didn't get financing, surely the fact that we make that financing available without recourse on the seller, has a very salutary effect. As a matter of fact, I referred in my statement to the President having directed us to improve or to broaden the scope of our activities for the very purpose of improving our balance-of-payments situation.

We believe that the only way of solving our balance-of-payments situation is to increase our favorable trade balance. And to the extent that we are making it possible for individual American exporters, with a minimum risk, to finance their sales abroad, we are stimulating export business. I might point, if I may, that more than usually—almost invariably—we get paid.

EFFECT OF RESERVE ON INSURANCE TRANSACTIONS

Mr. RHODES. Mr. Linder, I think you are required by law to maintain a 25-percent reserve on the insurance transactions.

Mr. LINDER. That is correct. And all guarantees.

Mr. RHODES. And guarantees?

Mr. LINDER. On exporter credits, if I may interrupt.

Mr. RHODES. Is this true no matter what the risk? In other words, if you assume the risk clear across the spectrum, do you retain 25 percent? If you just assume the political risk, as I understand you do in certain instances, you still just put up a 25-percent?

Mr. LINDER. That is correct.

Mr. RHODES. This is 25 percent of the whole liability and not 25 percent of the premium?

Mr. LINDER. No; it is 25 percent of the total liability.

Mr. RHODES. How do you go about setting up a percent of the total liability when you really have never had the amount of money in hand that you are setting up the reserve on?

Mr. LINDER. Well, we know the total amount that is being insured or guaranteed and we take 25 percent of that and reserve it out of our lending authority.

Mr. RHODES. In other words, this goes to reduce your lending authority?

Mr. LINDER. It does, sir. Only by 25 percent. In our project loans, when we guarantee them, it goes to reduce them by 100 percent.

Mr. RHODES. Then, actually, the only thing which all these reserve accounts which you carry would accomplish would be a reduction of your lending authority?

Is that a fair statement? Asking your banker's soul to turn its head and stop its ears for the time being; is this about what it accomplishes?

DIFFERENTIATION OF RESERVES

Mr. LINDER. No; I don't think this is quite accurate. In the first place, we are talking about two different kinds of reserves. The reserve on our balance sheet represents the accumulation of our so-called profit. I don't like to use the word "profit," because I like to think that this is a fund of money which is available in the event that we have a loss.

Now, that is one kind of reserve. Instead of calling it "reserve," you could call it "undivided profits," as you frequently see it on a bank statement. Correct?

Mr. RHODES. Yes.

Mr. LINDER. As I say, I am reluctant to call it that, because I know we will have some losses. You can't operate a business of this size without losses.

Mr. RHODES. That is correct.

Mr. LINDER. Now, the other kind of reserve is different. It is a reserve out of our lending authority, by reason of the fact that instead of lending the money we have guaranteed another lender. When we sell, as I mentioned a few moments ago, $5 million worth of paper issued by the Fundidora steel mill in Mexico, which is in our portfolio, without recourse on us, that $5 million comes back to us, goes into the Treasury, and it doesn't reduce our lending authority. As a matter of fact, it increases it. It increases it, because earlier we had deducted that $5 million, having loaned it. Having been reimbursed without endorsement or liability we can lend the money again. But if we sell that $5 million of Fundidora's paper to the Chase National Bank or to a group of banks and give them our guarantee that this paper will be good, the Treasury gets that $5 million, but our lending authority is unaffected. From the point of view of our lending authority it is as though we had actually continued to lend the $5 million.

Now, there is a third kind of transaction. We finance the sale of an airplane or an export sale for one tractor. That tractor costs the buyer $1,000, let us assume. Our usual terms are that the buyer puts up somewhere between 10 and 20 percent of that $1,000. The seller, Caterpillar Tractor Co., or the Deere Co., or the International Harvester Co., is required to retain 15 percent, or $150, in that transaction. The result is that we have got $650 to finance. That can be financed in one of two ways. Either we can lend that $650 to the buyer and our lending authority is reduced by the $650 which we have loaned or we can place that paper with a commercial bank and give it an unconditional guarantee that it will get the $650 back, in which case we only reserve out of our lending authority 25 percent of the $650, or $162.50.

Is that clear?

Mr. RHODES. Yes. So that in the latter event your lending authority is only reduced $162.50. whereas, if you made the loan, it would be reduced by the full $650.

Mr. LINDER. That is correct.

Mr. RHODES. Your retained earnings, then, are not available to increase your lending authority?

Mr. LINDER. They are not.

Mr. RHODES. That is all, Mr. Chairman.

Mr. PASSMAN. Mr. Conte?

LOAN TO ETHIOPIA

Mr. CONTE. At the outset, Mr. Linder, I want to compliment you for the wonderful job that you are doing with this important institution, also the fine presentation you have made here.

Are you making a loan to the Ethiopian Government for the two 720 jetplanes and for expansion of their airfields?

Mr. LINDER. I believe we are making a loan for the airplanes.

Mr. CONTE. Is that a joint loan with DLF or is it——

Mr. LINDER. I don't believe so. I believe the airplane credit is entirely ours.

I think, sir, that before I was with the Bank—If I can recall the transaction correctly—the Ethiopians negotiated a loan with the Bank for the purchase of two planes. I believe that when the planes were ready for delivery, the airfield in Ethiopia had not been adequately surfaced or extended.

Mr. CONTE. Extended?

Mr. LINDER. To handle those planes.

Mr. CONTE. Both.

Mr. LINDER. Therefore, I believe a transaction was entered into whereby the Ethiopians sold to another country their right to buy these two planes, and the Ethiopians went to the bottom of the order list, so to speak, and now they are coming up to the top of the list again. And if the airfields are ready at the time that we are ready to put money out, we shall have made the loan for the planes.

I have been looking at our records. This earlier loan was authorized in 1955, long before I was with the Bank, and, therefore, I do not have very great familiarity with it. But I believe that we have disbursed on that earlier loan some $8 million. We have been repaid $3½ million. and there is outstanding now $4.6 million on the loan for both aircraft and other facilities.

A later loan was also made, before I was with the Bank, again in 1960, for $10 million, all of which is undisbursed. All of it is available. This loan was made to finance those two planes to which you referred. None of that has as yet been disbursed. But the loan was authorized in September 1960.

Mr. CONTE. Do you know what the terms of that loan for $10 million are?

Mr. LINDER. Well, I would say, sir, that if it follows our normal pattern, it is 7 years from the date of disbursement, of course; and it is payable in equal semiannual installments; that is, the last payment will be made in 7 years, so that the average time outstanding would be three and a half years.

Mr. CONTE. I visited Eithiopia this fall, and the economic picture in the country was not good at all. Of course, they received foreign aid from the United States and the Soviets, and it may be that they can obtain these funds to pay back the loans. But I thought that this was a bad investment for the Ethiopian Government to get into. There is a glut on the market in Africa right now of jetliners and airliners, and I am just wondering whether it is going to be a successful venture for the country to get into.

Mr. LINDER. Well, I have some real question about that myself, but this is a commitment that the Bank has made quite sometime ago. As I say, it was made before my time in the Bank. You know, some of these countries tend to extend themselves for airplanes when they wouldn't for something more mundane—because they feel that having an airline adds to their prestige, adds to their political position, and, of course, you realize, too, that American manufacturers are out selling awfully hard, and there are not so many people in the world who can buy Boeing 707's or even 720's.

Mr. CONTE. 720's?

Mr. LINDER. Well, they cost almost as much.

Mr. GARY. Will the gentleman yield?

Mr. CONTE. Yes, sir.

Mr. GARY. Well, they carry it much further; I know they don't finance it with the Export-Import Bank. Mr. Conte, Ghana has six

of these. I think they have six 707's. When we were there, they had not left the ground for the past 2 months. I mean Ilyushins, not 707's.

Mr. LINDER. That is right. We turned them down.

Mr. CONTE. They didn't have the 707's.

Mr. GARY. Did you lend the money for the yacht of the Lion of the Tribe of Judah?

Mr. LINDER. No. You can be certain we did not.

Mr. PASSMAN. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. PASSMAN. How about the gold-lined stateroom? Did you provide the money for the gold lining?

Mr. LINDER. You can be sure we did not, Mr. Chairman.

Mr. CONTE. Is there anything that could be done to reexamine this loan, or have we committed ourselves to it?

Mr. LINDER. I am afraid we are committed to it, sir.

Mr. CONTE. I have no further questions.

Mr. PASSMAN. Mr. President, we requested earlier a list of all the loans that you have made for airplanes to all the countries.

Mr. LINDER. Yes, sir.

Mr. PASSMAN. For Ghana, as the gentleman from Massachusetts, Mr. Conte, mentioned, was it six Ilyushins, six Russian planes?

Mr. GARY. Yes.

Mr. PASSMAN. And you do not know of any airplane loans that we have made to Ghana?

Mr. LINDER. No, sir; we have not.

Mr. PASSMAN. But your list will be complete?

Mr. LINDER. It will be complete, sir.

Mr. PASSMAN. Any other questions, gentlemen?

(No response.)

Mr. PASSMAN. Thank you very much, Mr. President.

Mr. LINDER. Thank you very much, Mr. Chairman.

THURSDAY, MARCH 15, 1962.

INVESTMENT IN THE INTER-AMERICAN DEVELOPMENT BANK

WITNESSES

ROBERT CUTLER, U.S. EXECUTIVE DIRECTOR OF INTER-AMERICAN DEVELOPMENT BANK AND SPECIAL ASSISTANT TO THE SECRETARY OF THE TREASURY
ALEXANDER M. ROSENSON, ALTERNATE U.S. EXECUTIVE DIRECTOR OF INTER-AMERICAN DEVELOPMENT BANK
CHARLES HARLEY, ASSISTANT DIRECTOR, OFFICE OF INTERNATIONAL FINANCE
HARVEY A. LEVE, ATTORNEY, OFFICE OF GENERAL COUNSEL

SUBSCRIPTION TO CAPITAL STOCK

Program and financing

[In thousands of dollars]

	1961 actual	1962 estimate	1963 estimate
Program by activities: Investment (total program costs—obligations) (object class 33)		110,000	60,000
Financing:			
Unobligated balance brought forward	−200,000	−200,000	−200,000
Unobligated balance carried forward	200,000	200,000	200,000
New obligational authority (appropriation)		110,000	60,000

Mr. PASSMAN. The committee will come to order.

We shall consider today the budget request for the U.S. contribution, or subscription, to the Inter-American Development Bank.

We have with us Gen. Robert Cutler, the Executive Director of the Inter-American Development Bank and Special Assistant to the Secretary of the Treasury, and other distinguished witnesses.

General, we are happy to have you and your associates before the committee. If you wish to make a statement, we shall be pleased to hear you.

GENERAL STATEMENT

Mr. CUTLER. Thank you, Mr. Chairman. I have a brief statement.

Mr. Chairman and members of the committee, I appear before you today in support of the request for a fiscal year 1963 appropriation to meet the U.S. obligation arising from our participation in the Inter-American Development Bank.

The administration's request for the appropriation of $60 million is for the purpose of completing the U.S. subscription payment to the capital stock of the Bank. U.S. membership in the Bank was authorized on August 7, 1959, by Public Law 147 of the 86th Congress. This legislation also authorized the appropriation of funds to cover U.S. subscriptions to the Bank in accordance with the provisions of the Bank's charter.

U.S. PARTICIPATION IN IDB

The charter of the IDB calls for aggregate U.S. participations of $450 million in the Bank. This amount is divided into three categories:

(1) A U.S. subscription of $150 million for paid-in shares of capital stock of the Bank. It is the third and final installment of this subscription that constitutes our present request. The first two installments ($30 million and $60 million, respectively) were appropriated by Public Law 86–213 of September 1, 1959, and Public Law 87–329 of September 30, 1961.

(2) A U.S. subscription of $200 million to the callable capital stock of the Bank. This subscription, a contingent obligation which can be called only to meet liabilities of the Bank on obligations which it has issued or for guarantees which it has made, was appropriated by Public Law 86–213.

(3) A U.S. quota of $100 million in resources of the Bank's Fund for Special Operations. This amount was appropriated in two installments of $50 million each by the two acts that I have just mentioned.

The payment of the third installment of the paid-in capital stock subscribed by the United States is due on or before October 31, 1962, in accordance with the provisions of the agreement establishing the Bank and the resolution of the Board of Executive Directors. Article II, section 4, of the agreement provides that payment for the subscribed paid-in capital stock shall be made in three installments, the first of which shall be 20 percent of such amount; and the second and third, 40 percent each.

Further, the first installment was to be paid not later than September 30, 1960, and the remaining installments on such dates as should be determined by the Bank, but not sooner than September 30, 1961, and September 30, 1962, respectively.

By resolution of the Board of Executive Directors—to whom such authority was delegated by the Governors—the dates of October 31, 1961, and October 31, 1962, were fixed as the dates by which payments for the second and third installments were to be completed.

I urge that this request be approved in accordance with the obligation assumed by the United States when it became a member of the Bank in 1959.

PURPOSE AND STRUCTURE OF THE IDB

I would like to review briefly the purposes of the Inter-American Development Bank and the present status of its operations.

The Inter-American Development Bank is a concrete expression of cooperation in the field of economic development between the United States and its neighbors to the south. The Bank was established with the purpose of helping to accelerate the economic development of the Latin American republics by providing capital, extending technical assistance, and encouraging private investment in development projects.

The charter of the IDB was negotiated by representatives of all the member countries of the Organization of American States and membership in the Bank is limited to members of that organization.

The IDB's charter, which entered into force at the end of 1959, set the authorized capital of the Bank at $850 million. This authorized capital forms the basis for the Bank's financial operations on customary banking terms. In addition, the charter provided for the establishment within the Bank of a Fund for Special Operations with resources of $150 million.

The purpose of this Special Fund is to permit the Bank the increased flexibility of extending loans which can be made repayable, in whole or in part, in the currency of the borrower. Accordingly, the total authorized resources of the Bank are $1 billion.

However, because Cuba did not join the IDB, the actual capital subscribed by the present members of the Bank amounts to roughly $813 million and total subscribed quotas to the Fund for Special Operations to $146 million, giving the Bank aggregate subscribed resources of about $959 million. In accordance with the charter provisions, the capital resources of the Bank and the resources of the Fund for Special Operations are separately dealt with and accounted for.

All the member countries of the Bank have subscribed to the callable capital of the Bank and, with the exception of the Dominican Republic, have fully met the requirements for the payment of the first two installments to the paid-in capital of the Bank and to the total quotas for the Fund for Special Operations. The new Government of the Dominican Republic is expected to make full payment of these obligations.

An added dimension to the scope and responsibilities of the IDB was given to the Bank by the Social Progress Trust Fund Agreement which was signed by President Kennedy and Dr. Felipe Herrera, the President of the Bank, on June 19, 1961.

Under this trust agreement, the IDB as administrator administers $394 million of the $500 million which has been appropriated for the inter-American social and economic cooperation program by Public Law 89–41 of May 27, 1961. The Bank as administrator, in accordance with the provisions of and in the areas outlined in the trust agreement, has used these funds for loans and technical assistance to support efforts of Latin American countries to achieve greater social progress within the spirit of the Alliance for Progress. The Social Progress Trust Fund is administered by the IDB as administrator entirely separately from the resources originally provided for under the IDB Charter.

IDB ACTIVITIES TO DATE

The doors of the IDB were officially opened for business on October 1, 1960. The Bank's first loan was announced in February, 1961. As of February 28, 1962, the Bank has approved a total of 63 loans for over $194 million. These loans have been made in every Latin American country, with the exception of Cuba and the Dominican Republic.

Forty-six of these loans, totaling $145 million, were made from the Bank's ordinary capital resources in both U.S. dollars ($106.7 million) and Latin American currencies ($38.2 million) and were repayable in the currencies lent. Seventeen loans, totaling over $49 million, were from the Fund for Special Operations and provided for repayment, in whole or in part, in the currency of the borrower. In addition, the Bank has obligated from its resources over $993,448 for nonreimbursable technical assistance. Details on the loans outstanding and technical assistance furnished as of February 28, 1962, are included in the attached material.

These 63 loans have predominantly been, directly or indirectly, for private enterprise projects in the fields of industry and agriculture.

Before any loan is presented for action by the Board of Directors, it is subjected to intensive study (including work in the field) as to economic, financial, and engineering feasibility; and the authority of the U.S. Executive Director to vote thereon is coordinated through the National Advisory Council on International Monetary and Financial Problems.

The Bank on management and staff levels also participates in informal coordinating procedures with other national and international lending agencies.

It is worthy of special note that, in connection with 46 loans from the Bank's ordinary resources made prior to February 28, 1962, which included U.S. dollar portions approximating $107 million, the IDB has already been able to sell, without recourse or guarantee, 76 participations in the early maturities of 22 of said loans, such participations totaling $4,760,117, to 32 leading U.S. and foreign private banking institutions.

In addition to building a sound portfolio of ordinary resource loans, the Bank is also preparing the way to raise additional funds in the financial markets through future sale of its obligations. Permissive legislation in various States of the United States is necessary to permit the purchase by various classes of investors, such as trustees, commercial banks, savings banks, and insurance companies, of obligations which the Bank may issue.

A number of States have already enacted specific legislation to permit such investors to purchase the Bank's obligations, and a continuing effort is being made to obtain legislative modifications in other States.

To date, obligations of the IDB are legal for investment by commercial banks in 44 States, by savings banks in 23 States, by trust funds in 36 States, by insurance companies in 32 States, and by public funds in 10 States. Included in these numbers are most of the States in which the major U.S. financial markets are located.

Turning from the operations of the Bank based on its ordinary capital resources and on its Fund for Special Operations to the Bank's administration of the Social Progress Trust Fund, the Bank as administrator as of February 28, 1962, has made 20 loans totaling more than $129 million and obligated $423,744 in the form of nonreimbursable technical assistance from the Trust Fund resources.

The Bank has just issued its first annual report for calendar year 1961 as administrator of the Social Progress Trust Fund. Detailed information is provided therein as to loans made by the Administrator and self-help measures adopted by each of the Latin American countries concerned. Copies have been sent earlier this week to this committee, and I am pleased also to file here a copy of this report.

To summarize: $60 million appropriation presently requested by the administration is needed to meet international obligations accepted by the United States in joining the Inter-American Development Bank. I believe that the Bank, as a multilateral, cooperative institution representative of all the American Republics (except Cuba), has justified in its 17 months of banking operations the belief and confidence that it could be a valuable instrument in accelerating the economic development of Latin America. The participation of the United States in this institution is essential to its effective operation, and its effective operation is essential to realization of the goals of the Alliance for Progress.

In concluding, I would like to present for the information of the committee a number of background documents concerning the Inter-American Development Bank.

If I may, Mr. Chairman, I would just like to briefly say a word about these annexes. First, there are balance sheets and income and expense statements of the ordinary capital resources of the Inter-American Development Bank; and, secondly, of the resources of the Fund for Special Operations.

(The information referred to follows:)

INTER-AMERICAN DEVELOPMENT BANK, ORDINARY CAPITAL

Balance sheet, Dec. 31, 1961

(See notes to financial statements expressed in U.S. dollars]

ASSETS

Due from banks. (See Note B):			
Unrestricted:			
U.S. dollars	$623,307		
Currencies other than U.S. dollars	29,108,957		
		$29,732,264	
Restricted. (See Note C): Currencies other than U.S. dollars		9,942,182	
			$39,674,446
Investments:			
Government obligations (at cost or amortized cost; U.S. face amount $129,905,000)		130,351,218	
Time deposits maturing within 6 months		25,500,000	
Accrued interest		939,580	
			156,790,798
Loans outstanding held by Bank:			
Total loans approved by Bank	$129,996,783		
Less loans sold or agreed to be sold	4,483,647		
Approved loans held by Bank		125,513,136	
Less undisbursed balance of approved loans held by Bank		123,186,762	
			2,326,374
Accrued charges on loans held by Bank			34,847
Due from members:			
Capital subscription receivable. (See Notes D and E):			
Gold or U.S. dollars	$107,138,480		
Member currencies, other than U.S. dollars	47,144,000		
		$154,282,480	
Nonnegotiable, non-interest-bearing demand notes denominated in members' currencies		28,861,400	
			183,143,880
Other assets			150,428
Special reserve fund. (See note G):			
Due from banks		$4,468	
Accrued loan commissions		1,544	
			6,012
Staff retirement plan assets (segregated and held in trust)			590,411
Total assets			382,717,196

LIABILITIES, RESERVES, AND CAPITAL

Liabilities: Accrued expenses and accounts payable			61,508
Special reserve. (See note G)			6,012
Staff retirement plan reserve			590,411
Capital:			
Capital stock. (See notes D and E):			
Authorized 85,000 shares of $10,000 par value each; subscribed 81,316 shares (includes $154,282,480 receivable in the future)	$813,160,000		
Less callable portion	431,580,000		
		$381,580,000	
General reserve for losses. (See note F)		40,057	
Excess of income over expenses Jan. 1 to Dec. 31, 1961		439,208	
			382,059,265
Total liabilities, reserves, and capital			382,717,196

Statement of income and expenses Jan. 1 to Dec. 31, 1961

[See notes to financial statements expressed in U.S. dollars]

Income:			
From loans:			
Interest	$28,558		
Commitment charges	53,750		
Commissions	6,012		
		$88,320	
From investments		2,400,713	
From other sources		8,158	
Gross income			$2,497,191
Deduct commission allocated to special reserve. (See note G)			6,012
Gross income less reserve deduction			2,491,179
Expenses:			
Administrative expenses:			
Board of Governors:			
Annual meeting	$73,176		
Other	1,384		
		$74,560	
Board of Executive Directors:			
Salaries	111,084		
Other compensation and benefits	28,319		
Travel	14,126		
		153,529	
Staff:			
Salaries	941,912		
Other compensation and benefits	355,083		
Travel	119,086		
		1,416,081	
Other administrative expenses:			
Communications	52,000		
Office occupancy	282,580		
Publications and printing	53,401		
Supplies and equipment	119,485		
Miscellaneous expenses	79,555		
		587,021	
Total		2,231,191	
Less amounts charged to Social Progress Trust Fund for general overhead expenses by Bank as administrator		179,220	
Total administrative expenses			2,051,971
Excess of income over expenses at Dec. 31, 1961			439,208

Inter-American Development Bank

Installments of subscription to "paid-in" capital stock due pursuant to the Bank's charter in calendar years 1960, 1961, and 1962

[In thousands of U.S. dollars]

Country	Due Sept. 30, 1960 (20 percent)		Due Oct. 31, 1961 (40 percent)		Due Oct. 31, 1962 (40 percent)	
	Dollar and/or gold	Local currency	Dollar and/or gold	Local currency	Dollar and/or gold	Local currency
Argentina	5,157	5,157	10,314	10,314	10,314	10,314
Bolivia	414	414	828	828	828	828
Brazil	5,157	5,157	10,314	10,314	10,314	10,314
Chile	1,416	1,416	2,832	2,832	2,832	2,832
Colombia	1,415	1,415	2,830	2,830	2,830	2,830
Costa Rica	207	207	414	414	414	414
Dominican Republic [1]	276	276	552	552	552	552
Ecuador	276	276	552	552	552	552
El Salvador	207	207	414	414	414	414
Guatemala	276	276	552	552	552	552
Haiti	207	207	414	414	414	414
Honduras	207	207	414	414	414	414
Mexico	3,315	3,315	6,630	6,630	6,630	6,630
Nicaragua	207	207	414	414	414	414
Panama	207	207	414	414	414	414
Paraguay	207	207	414	414	414	414
Peru	691	691	1,382	1,382	1,382	1,382
United States	30,000	----------	60,000	----------	60,000	----------
Uruguay	553	553	1,106	1,106	1,106	1,106
Venezuela	2,763	2,763	5,526	5,526	5,526	5,526
Total*	53,158	23,158	106,316	46,316	106,316	46,316
Capital authorized by charter (total)*	55,000	25,000	110,000	50,000	110,000	50,000

[1] As of Feb. 28, 1962, the Dominican Republic had paid $5,520 of the amounts due Sept. 30, 1960, and Oct. 31, 1961.

*The difference between the 2 foregoing totals is explained by the failure of Cuba to become a member of the Bank in accordance with the charter.

Inter-American Development Bank, Ordinary Capital

Statement of subscriptions to capital stock and voting power, Feb. 28, 1962

[See notes to financial statements expressed in U.S. dollars]

Member	Shares	Percent of total	Total subscribed capital	Amount received			Portion of paid-in capital receivable in future	Callable portion of subscribed capital	Number of votes	Percent of total
				U.S. dollars	Member currency	Nonnegotiable, noninterest-bearing demand notes				
Argentina	10,314	12.68	$103,140,000	$15,471,000	$127,000	$15,344,000	$20,628,000	$51,570,000	10,449	12.44
Bolivia	828	1.02	8,280,000	1,242,000	14,140	1,227,860	1,656,000	4,140,000	963	1.15
Brazil	10,314	12.68	103,140,000	15,471,000	15,471,000		20,628,000	51,570,000	10,449	12.44
Chile	2,832	3.48	28,320,000	4,248,000	4,248,000		5,664,000	14,160,000	2,967	3.53
Colombia	2,830	3.48	28,300,000	4,245,000	4,245,000		5,660,000	14,150,000	2,965	3.53
Costa Rica	414	.51	4,140,000	621,000	621,000		828,000	2,070,000	549	.65
Dominican Republic	552	.68	5,520,000	5,520			2,754,480	2,760,000	687	.82
Ecuador	552	.68	5,520,000	828,000	828,000		1,104,000	2,760,000	687	.82
El Salvador	414	.51	4,140,000	621,000	621,000		828,000	2,070,000	549	.65
Guatemala	552	.68	5,520,000	828,000	828,000		1,104,000	2,760,000	687	.82
Haiti	414	.51	4,140,000	621,000	621,000		828,000	2,070,000	549	.65
Honduras	414	.51	4,140,000	621,000	621,000		828,000	2,070,000	549	.65
Mexico	6,630	8.15	66,300,000	9,945,000	9,945,000		13,260,000	33,150,000	6,765	8.05
Nicaragua	414	.51	4,140,000	621,000	621,000		828,000	2,070,000	549	.65
Panama	414	.51	4,140,000	621,000	6,210	614,790	828,000	2,070,000	549	.65
Paraguay	414	.51	4,140,000	621,000	621,000		828,000	2,070,000	549	.65
Peru	1,382	1.70	13,820,000	2,073,000	25,730	2,047,270	2,764,000	6,910,000	1,517	1.81
United States	35,000	43.04	350,000,000	90,000,000			60,000,000	200,000,000	35,135	41.82
Uruguay	1,106	1.36	11,060,000	1,659,000	16,590	1,642,410	2,212,000	5,530,000	1,241	1.48
Venezuela	5,526	6.80	55,260,000	8,289,000	303,930	7,985,070	11,052,000	27,630,000	5,661	6.74
Total	81,316	100.00	813,160,000	158,651,520	39,784,600	28,861,400	154,282,480	431,580,000	84,016	100.00

INTER-AMERICAN DEVELOPMENT BANK—ORDINARY CAPITAL, NOTES TO FINANCIAL STATEMENTS, DECEMBER 31, 1961

NOTE A.—Amounts in currencies other than U.S. dollars have been translated into U.S. dollars at the rates at which the amounts were received or loaned by the Bank. No representation is made that any of such currencies is convertible into any other of such currencies at any rate or rates.

NOTE B.—In accordance with art. V, sec. 3, of the agreement, each member is required, if the par value of its currency is reduced or if the foreign exchange value of its own currency sufficient to maintain the value of all the currency of the member held by the Bank, excepting currency derived from borrowings by the Bank; likewise the Bank (ordinary capital) is required, if the par value of a member's currency is increased or the foreign exchange value of such member's currency has appreciated to a significant extent, to pay to such member an amount of its currency equal to the increase in value of such member's currency which is held by the Bank, excepting currency derived from borrowings by the Bank. The standard of value for these purposes shall be the U.S. dollar of the weight and fineness in effect on Jan. 1, 1959.

NOTE C.—In accordance with the provisions of art. V, sec. 1, the use of these funds by the Bank or any recipient from the Bank has been restricted by the member to making payments for goods and services produced in its territory.

NOTE D.—The authorized ordinary capital of the Bank is $850,000,000 in terms of U.S. dollars of weight and fineness in effect on Jan. 1, 1959. Of the total authorized capital, $400,000,000 is "paid-in" capital and $450,000,000 is "callable" capital. The subscribed "paid-in" capital has been or is to be paid in accordance with the following schedule: 20 percent not later than Sept. 30, 1960; 40 percent not later than Oct. 31, 1961; and 40 percent not later than Oct. 31, 1962. Each of the three installments has been or is to be paid 50 percent in gold and/or U.S. dollars and 50 percent in the currency of the respective member. However, the Bank shall accept nonnegotiable, non-interest-bearing demand notes in lieu of payment required to be made in the member's currency provided such currency is not required by the Bank for the conduct of its operations. Such notes have been received from some members. The "callable" portion of the authorized ordinary capital shall be called only when required to meet the obligations of the Bank created by borrowing or guaranteeing loans with respect to the ordinary capital and is payable at the option of the member either in gold, U.S. dollars, or the currency required to discharge the obligation of the Bank for the purpose for which the call is made.

NOTE E.—At Dec. 31, 1961, the Dominican Republic had not met the full requirements of art. II, sec. 4, for the payment of its subscription to the capital stock of the Bank which were due not later than Sept. 30, 1960, and Oct. 31, 1961.

NOTE F.—Pursuant to the action of the Board of Governors the net income from the ordinary capital resources of the Bank for the fiscal year ended Dec. 31, 1960, was allocated to a general reserve for possible future losses.

NOTE G.—The amount of commissions received by the Bank on loans made out of or by commitment of the ordinary capital resources is required under art. III, sec. 13, to be set aside as a special reserve to be kept available for meeting the Bank's obligations created by borrowing or guaranteeing loans. On all loans granted to date the effective rate of commission is 1 percent per annum.

NOTE H.—In accordance with art. III, sec. 3(b), expenses pertaining directly to ordinary operations are charged to the Inter-American Development Bank (ordinary capital) and expenses pertaining directly to special operations are charged to Inter-American Development Bank (Fund for Special Operations). Expenses not identifiable as pertaining directly to either the ordinary capital or the Fund for Special Operations are distributed pursuant to the decisions of the Board of Executive Directors as follows: For the period Jan. 1 through Oct. 31, 1961, in the same proportion as existed on Sept. 30, 1960, between the amounts due on or before that date from member countries for the "paid-in" capital of the Bank and for contributions to the Fund for Special Operations; for the period Nov. 1 to Dec. 31, 1961, in the same proportion as existed on Oct. 31, 1961, between the amounts received from member countries for the "paid-in" capital of the Bank and for contributions to the Fund for Special Operations.

INTER-AMERICAN DEVELOPMENT BANK—FUND FOR SPECIAL OPERATIONS

Balance sheet, Dec. 31, 1961

[See notes to financial statements expressed in U.S. dollars]

ASSETS

Due from banks. (See note B.):			
Unrestricted:			
U.S. dollars	$41,620		
Currencies other than U.S. dollars	9,766,470		
		$9,808,090	
Restricted. (See note C.) Currencies other than U.S. dollars		3,312,979	
			$13,121,069
Investments:			
Government obligations, U.S. (at cost or amortized cost; face amount $66,931,000)		67,446,831	
Time deposits maturing within 6 months		27,000,000	
Accrued interest		646,534	
			95,093,365
Loans outstanding held by Bank:			
Total loans approved by Bank		48,063,335	
Less undisbursed balance of approved loans		45,483,412	
			2,579,923
Accrued charges on loans held by Bank			13,791
Due from members:			
Contribution quotas receivable. (See notes D and F.):			
Gold or U.S. dollars	$275,448		
Member currencies, other than U.S. dollars	276,000		
		$551,448	
Nonnegotiable, non-interest-bearing demand notes denominated in members' currencies		34,721,890	
			35,273,338
Other assets			19,931
Total assets			146,101,417

LIABILITIES AND FUND BALANCE

Fund balance:	
Contribution quotas. (See notes D, E, and F). Total quotas subscribed	146,316,000
Deduct excess of technical assistance expense over available income and general reserve for losses	214,583
Total liabilities and fund balance	146,101,417

Statement of income and administrative expenses, Jan. 1 to Dec. 31, 1961

[See notes to financial statements expressed in U.S. dollars]

Income:			
From loans (interest)		$22,078	
From investments		2,158,035	
From other sources		6,730	
Gross income			$2,186,843
Expenses:			
Administrative expenses:			
Board of Governors:			
Annual meeting	$69,654		
Other	1,327		
		$70,981	
Board of executive directors:			
Salaries	98,941		
Other compensation and benefits	24,959		
Travel	13,005		
		136,905	
Staff:			
Salaries	990,115		
Other compensation and benefits	365,314		
Travel	133,319		
		1,488,748	
Other administrative expenses:			
Communications	42,587		
Office occupancy	254,777		
Publications and printing	45,903		
Supplies and equipment	107,940		
Miscellaneous expenses	69,037		
		520,244	
		2,216,878	
Less amounts charged to Social Progress Trust Fund for general overhead expenses by Bank as administrator		147,664	
			2,069,214
Net income before technical assistance expense			117,629

SUMMARY

Statement of Technical Assistance Expense showing Application of Available Income and General Reserve for Losses Jan. 1 to Dec. 31, 1961

Net income before deducting technical assistance expense	$117,629
Technical assistance expense	458,217
Excess of technical assistance expense over available income	340,548
Application of general reserve for losses (See Note G)	126,005
Excess of technical assistance expense over available income and general reserve for losses	214,583

Inter-American Development Bank

Contributions to the Fund for Special Operations due pursuant to the Bank's charter during calendar years 1960 and 1961

[In thousands of U.S. dollars]

Country	Due Sept. 30, 1960 (50 percent)		Due Oct. 31, 1961 (50 percent)	
	Dollars and/or gold	Local currency	Dollars and/or gold	Local currency
Argentina	2,578.5	2,578.5	2,578.5	2,578.5
Bolivia	207.0	207.0	207.0	207.0
Brazil	2,578.5	2,578.5	2,578.5	2,578.5
Chile	708.0	708.0	708.0	708.0
Colombia	707.5	707.5	707.5	707.5
Costa Rica	103.5	103.5	103.5	103.5
Dominican Republic [1]	138.0	138.0	138.0	138.0
Ecuador	138.0	138.0	138.0	138.0
El Salvador	103.5	103.5	103.5	103.5
Guatemala	138.0	138.0	138.0	138.0
Haiti	103.5	103.5	103.5	103.5
Honduras	103.5	103.5	103.5	103.5
Mexico	1,657.5	1,657.5	1,657.5	1,657.5
Nicaragua	103.5	103.5	103.5	103.5
Panama	103.5	103.5	103.5	103.5
Paraguay	103.5	103.5	103.5	103.5
Peru	345.5	345.5	345.5	345.5
United States	50,000.0	----------	50,000.0	----------
Uruguay	276.5	276.5	276.5	276.5
Venezuela	1,381.5	1,381.5	1,381.5	1,381.5
Total*	61,579.0	11,579.0	61,579.0	11,579.0
Fund for Special Operations authorized by charter (Total)*	62,500.0	12,500.0	62,500.0	12,500.0

[1] As of Feb. 28, 1962, the Dominican Republic had paid $552 of the amounts due Sept. 30 and Oct. 31, 1961.

*The difference between the 2 foregoing totals is explained by the failure of Cuba to become a member of the Bank in accordance with the charter.

Inter-American Development Bank—Fund for Special Operations

Statement of contribution quotas, Feb. 28, 1962

[See notes to financial statements expressed in U.S. dollars]

Member	Percent of total	Total subscribed quota	Contributions received			Amount receivable (note F)
			U.S. dollars	Member currency	Nonnegotiable, noninterest-bearing demand notes	
Argentina	7.05	$10,314,000	$5,157,000	$25,785	$5,131,215	----------
Bolivia	.57	828,000	414,000	9,000	405,000	----------
Brazil	7.05	10,314,000	5,157,000	5,157,000	----------	----------
Chile	1.94	2,832,000	1,416,000	1,416,000	----------	----------
Colombia	1.93	2,830,000	1,415,000	1,415,000	----------	----------
Costa Rica	.28	414,000	207,000	207,000	----------	----------
Dominican Republic	.38	552,000	552	----------	----------	$551,448
Ecuador	.38	552,000	276,000	276,000	----------	----------
El Salvador	.28	414,000	207,000	207,000	----------	----------
Guatemala	.38	552,000	276,000	276,000	----------	----------
Haiti	.28	414,000	207,000	207,000	----------	----------
Honduras	.28	414,000	207,000	207,000	----------	----------
Mexico	4.53	6,630,000	3,315,000	3,315,000	----------	----------
Nicaragua	.28	414,000	207,000	207,000	----------	----------
Panama	.28	414,000	207,000	2,070	204,930	----------
Paraguay	.28	414,000	207,000	207,000	----------	----------
Peru	.94	1,382,000	691,000	6,910	684,090	----------
United States	68.35	100,000,000	75,000,000	----------	25,000,000	----------
Uruguay	.76	1,106,000	553,000	5,530	547,470	----------
Venezuela	3.78	5,526,000	2,763,000	13,815	2,749,185	----------
Total	100.00	146,316,000	97,882,552	13,160,110	34,721,890	551,448

INTER-AMERICAN DEVELOPMENT BANK, FUND FOR SPECIAL OPERATIONS, NOTES TO FINANCIAL STATEMENTS, DEC. 31, 1961

NOTE A.—Amounts in currencies other than U.S. dollars have been translated into U.S. dollars at the rates at which the amounts were received or loaned by the Bank. No representation is made that any of such currencies is convertible into any other of such currencies at any rate or rates.

NOTE B.—In accordance with art. V, sec. 3, of the Agreement each member is required, if the par value of its currency is reduced or if the foreign exchange value of its currency depreciates to a significant extent, to pay to the Bank (Fund for Special Operations) an additional amount of its own currency sufficient to maintain the value of all the currency of the member held in the Fund, excepting currency derived from borrowings by the Fund; likewise the Bank (Fund for Special Operations) is required, if the par value of a member's currency is increased or the foreign exchange value of such member's currency has appreciated to a significant extent, to pay to such member an amount of its currency equal to the increase in value of such member's currency which is held in the Fund, excepting currency derived from borrowings by the Fund. The standard of value for these purposes shall be the U.S. dollar of the weight and fineness in effect on Jan. 1, 1959.

NOTE C.—In accordance with the provisions of art. V, sec. 1, the use of these funds by the Fund or any recipient from the Fund has been restricted by the member to making payments for goods and services produced in its territory.

NOTE D.—The authorized contribution quotas of the Fund total $150,000,000 in terms of U.S. dollars of the weight and fineness in effect on Jan. 1, 1959. The contribution quotas were paid 50 percent in gold and/or U.S. dollars and 50 percent in the currency of the respective member. In accordance with the provisions of art. V, sec. 4, the Bank has accepted from some members nonnegotiable, non-interest-bearing demand notes in lieu of the payment of the contribution quota to the Fund required to be made in the member's currency to the extent that such currency was not required by the Bank for the conduct of the operations of the Fund.

NOTE.—In making decisions concerning operations of the Fund the number of votes and percent of total vote for each member are the same as shown in the statement of subscriptions to capital stock and voting power of the ordinary capital. In general, all such decisions shall be adopted by a two-thirds majority of the total voting power.

NOTE F.—At Dec. 31, 1961, the Dominican Republic had not met the full requirements of art. IV, sec. 3, for the payments of its quota contribution to the Fund for Special Operations which were due not later than Sept. 30, 1960, and Oct. 31, 1961.

NOTE G.—Pursuant to action of the Board of Governors the net income from the Fund for Special Operations for the fiscal year ending Dec. 31, 1960, was allocated to a general reserve for possible future losses.

NOTE H.—In accordance with art. III, sec. 3(b), expenses pertaining directly to ordinary operations are charged to the Inter-American Development Bank (ordinary capital) and expenses pertaining directly to special operations are charged to Inter-American Development Bank (Fund for Special Operations). Expenses not identifiable as pertaining directly to either the ordinary capital or the Fund for Special Operations are distributed pursuant to the decisions of the Board of Executive Directors as follows: For the period Jan. 1 through Oct. 31, 1961, in the same proportion as existed on Sept. 30, 1960, between the amounts due on or before that date from member countries for the "paid-in" capital of the Bank and for contributions to the Fund for Special Operations; for the period Nov. 1 to Dec. 31, 1961, in the same proportion as existed on Oct. 31, 1961, between the amounts recived from member countries for the "paid-in" capital of the Bank and for contributions to the Fund for Special Operations.

NOTE I.—Under the provisions of art. VI of the agreement the Fund may, at the request of any member or members or of private firms that may obtain loans from it, provide technical advice and assistance.

At Dec. 31, 1961, the amount approved by the Bank for technical assistance projects and to be charged to the Fund's resources but not yet disbursed was $1,183,908.

The technical assistance expense of $458,217 for the year ended Dec. 31, 1961, includes $59,350 which is to be reimbursed to the Fund if a loan is granted as a result of the technical assistance project.

Social Progress Trust Fund Administered by Inter-American Development Bank

Balance sheet, Dec. 31, 1961

[See notes to financial statements expressed in U.S. dollars]

ASSETS

Due from banks		$2,478,355
Loans outstanding:		
Total loans approved	$115,635,000	
Undisbursed balance	114,785,000	
		850,000
Accrued charges on loans		6,771
Available from U.S. Government. (See Note A)		390,000,000
Total assets		393,335,126

FUND BALANCE

Fund balance:	
Original balance. (See Note A)	$394,000,000
Less: Excess of total expenses over income June 19 to Dec. 31, 1961	664,874
Total Fund balance	393,335,126

Statement of income and expenses, June 19 to Dec. 31, 1961

[See notes to financial statements expressed in U.S. dollars]

Income from loans:			
Interest		$5,319	
Service charge		1,452	
Gross income			$6,771
Administrative expenses:			
Salaries. (See Note A)		181,603	
Professional services		4,878	
Travel		63,812	
Miscellaneous		8,102	
Indirect and overhead expenses. (See Note A.)			
Paid to Bank:			
Ordinary capital	$179,220		
Fund for Special Operations	147,664		
		326,884	
Total administrative expenses			585,279
Excess of expenses over income before deducting technical assistance expense			578,508
Technical assistance expense. (See Note B)			86,366
Excess of total expenses over income June 19 to Dec. 31, 1961			664,874

NOTES TO FINANCIAL STATEMENTS, DEC. 31, 1961

NOTE A.—On June 19, 1961, the Government of the United States of America and the Inter-American Development Bank entered into an agreement whereby the Bank became administrator of the Social Progress Trust Fund. The requisite funds had previously been appropriated by Congress. The resources of the Trust Fund are to be used to provide capital and technical assistance to Latin American countries on flexible terms and conditions with a view to achieving improved conditions in the fields specified in the agreement. According to the provisions of art. III of the agreement, the Bank is entitled to make commitments on behalf of the Trust Fund in an amount of $394,000,000. As of Dec. 31, 1961, $4,000,000 had been received by the Bank from the United States. The remainder of $390,000,000 is to be made available to the Bank by the United States from time to time as needed to meet commitments of the Trust Fund.

In accordance with the Social Progress Trust Fund Agreement, the Bank shall charge the Trust Fund for the following expenses:

(*a*) Salary costs of time which is spent on work for the Trust Fund by the professional staff of the Social Development Division of the Bank and by the professional staff, exclusive of division heads and assistant division heads, of the Loan, Technical Assistance, Economics, and Legal Divisions of the Bank;

(*b*) All other expenses clearly identifiable as having been incurred on behalf of the Trust Fund; and

(*c*) Indirect and overhead expenses of the Bank at the rate of $1.80 per $1 of salary costs charged to the Trust Fund per (*a*) above.

NOTE B.—Under the provisions of the agreement the Bank as administrator may provide technical advice and assistance to Latin American countries. At Dec. 31, 1961, the amount approved by the Bank as administrator for technical assistance projects but not yet disbursed was $1,032,526.

NOTE C.—All loan disbursements have been made in U.S. dollars. In accordance with the provisions of all loan agreements, repayments may be made in the national currency of the borrower at the free market rate of exchange at the date of repayment, and in accordance with the provision of certain loan agreements, repayments may be made in U.S. dollars at the election of the borrower.

Table IV—February 28, 1962

MEMORANDUM ON COMMERCIAL BANK PARTICIPATIONS IN LOANS FROM THE ORDINARY CAPITAL OF THE BANK

As of February 28, 1962, the Board of Executive Directors had approved 46 loans from the ordinary capital resources of the Bank, the U.S. dollar portions of which amount to $106,784,000. Participations in the aggregate amount of

$4,760,117 have been taken in 22 of the 46 loans by United States and European commercial banks.

Of the 32 participating banks, 1 bank has participated in 8 loans; 1 bank has participated in 7 loans; 1 bank has participated in 6 loans; 3 banks have each participated in 4 loans; 3 banks have each participated in 3 loans; 11 banks have participated in 2 loans; and 12 banks have participated in 1 loan each for a total of 76 participations.

OFFICE OF THE TREASURER.

TABLE IVa—FEB. 28, 1962

INTER-AMERICAN DEVELOPMENT BANK

Statement of participations in approved loans

CLASSIFIED BY PARTICIPATING BANKS

American National Bank & Trust Co. of Chicago:	
Químicas Dinant de Centroamérica, S.A. de C.V	$60,000.00
Nacional Financiera, S.A., México	70,000.00
Banca Nazionale del Lavoro, Rome, Italy: Nacional Financiera, S.A., México	70,000.00
Bank of America International, New York: Corporación de Fomento de la Producción de Chile	75,000.00
Bank of America National Trust & Savings Association, San Francisco:	
Corporación de Saneamiento de Arequipa, Perú	72,500.00
Corporación Venezolana de Fomento, Venezuela	125,000.00
Tool Research Argentina, SAIC	70,000.00
Corporación de Fomento de la Producción de Chile	25,000.00
Bank of New York, N.Y.:	
Banco de Guatemala	50,000.00
Corporación de Fomento de la Producción de Chile	25,000.00
Bankers International Corporation, New York: Empresas Públicas Municipales de Cartagena, Colombia	68,750.00
The Chase Manhattan Bank, New York:	
Corporación de Fomento de la Producción de Chile	75,000.00
Banco de Guatemala	30,000.00
Chemical Bank New York Trust Co.: Sifco de Brasil	122,094.00
Commerzbank, A.G., Dusseldorf, Germany: Nacional Financiera, S.A., México	65,000.00
Central National Bank of Cleveland: Compañía Peruana de Cemento Portland, S.A., Peru	25,000.00
Continental Illinois National Bank & Trust Co. of Chicago:	
Banco de Guatemala	25,000.00
Agua y Energía Eléctrica, Argentina	50,000.00
Crocker-Anglo National Bank, San Francisco:	
Banco de Guatemala	95,000.00
Corporación de Fomento de la Producción de Chile	25,000.00
Dresdner Bank, A.G., Hamburg, Germany: Nacional Financiera, S.A., Mexico	40,000.00
The First National City Bank, New York:	
Instituto de Fomento Nacional de Nicaragua	60,000.00
Republic of Uruguay	55,581.00
The First Pennsylvania Banking & Trust Co., Philadelphia:	
Instituto de Fomento Nacional de Nicaragua	10,000.00
Corporación Venezolana de Fomento, Venezuela	25,000.00
Compañía Peruana de Cemento Portland, S.A., Peru	45,000.00
Agua y Energía Eléctrica, Argentina	50,000.00
Girard Trust Corn Exchange Bank, Philadelphia:	
Instituto de Fomento Nacional de Nicaragua	22,000.00
Corporación Venezolana de Fomento, Venezuela	50,000.00
Banco de Guatemala	50,000.00
Nacional Financiera, S.A., Mexico	258,000.00
Compañía Peruana de Cemento Portland, S.A., Peru	40,000.00
Corporación de Fomento de la Producción de Chile	50,000.00

Statement of participations in approved loans—Continued

CLASSIFIED BY PARTICIPATING BANKS—Continued

Grace National Bank, New York:	
Instituto de Fomento Nacional de Nicaragua	$20, 000. 00
Banco de Guatemala	25, 000. 00
Usinas Elétricas do Paranapanema, Brazil	25, 000. 00
Harris Trust & Savings Bank, Chicago: Nacional Financiera, S.A., Mexico	176, 470. 00
Handelsfinanz, A.G., Zurich, Switzerland: Nacional Financiera, S.A., Mexico	100, 000. 00
Irving Trust Co., New York:	
Instituto de Fomento Nacional de Nicaragua	60, 000. 00
Corporación de Fomento de la Producción de Chile	25, 000. 00
Corporación Venezolana de Fomento, Venezuela	250, 000. 00
Banco de Guatemala	100, 000. 00
Nacional Financiera, S.A., Mexico	70, 000. 00
Compañía Permana de Cemento Portland, S.A., Peru	78, 125. 00
Corporación de Fomento de la Producción de Chile	25, 000. 00
Agua y Energía Eléctrica, Argentina	50, 000. 00
Manufacturers Hanover Trust Co., New York:	
Empresas Públicas Municipales de Cartagena, Colombia	68, 750. 00
Banco Nacional de Costa Rica	150, 000. 00
Morgan Guaranty Trust Co., New York:	
Banco de Guatemala	30, 000. 00
Compañía Peruana de Cemento Portland, S.A., Peru	25, 000. 00
The Marine Midland Trust Co. of New York:	
Corporación Financiera Colombiana de Desarrollo Industrial, Colombia	61, 500. 00
Corporación de Fomento de la Producción de Chile	25, 000. 00
Corporación Venezolana de Fomento, Venezuela	25, 000. 00
Empresas Públicas de Medellín, Colombia	53, 125. 00
Usinas Elétricas do Paranapanema, Brazil	25, 000. 00
Corporación de Fomento de la Producción de Chile	25, 000. 00
Sociedad Anónima "La Merced," Argentina	52, 222. 22
The Meadow Brook National Bank, New York:	
Corporación de Fomento de la Producción de Chile	75, 000. 00
Corporación de Fomento de la Producción de Chile	25, 000. 00
Celulosa y Papel de Colombia	50, 000. 00
The National Bank of Washington, Washington, D.C.:	
Corporación de Saneamiento de Arequipa, Peru	72, 500. 00
Usinas Elétricas do Paranapanema, Brazil	42, 000. 00
The National Shawmut Bank of Boston: Empresas Públicas de Medellín, Colombia	50, 000. 00
The Philadelphia National Bank:	
Instituto de Fomento Nacional de Nicaragua	100, 000. 00
Corporación Venezolana de Fomento, Venezuela	100, 000. 00
Banco Central de Reserva de El Salvador	63, 000. 00
The Riggs National Bank, Washington, D.C.: Corporación de Fomento de la Producción de Chile	25, 000. 00
J. Henry Schroder Banking Corp., New York:	
Corporación de Fomento de la Producción de Chile	20, 000. 00
Celulosa y Papel de Colombia	50, 000. 00
Union Bank, Los Angeles:	
Nacional Financiera, S.A., Mexico	20, 000. 00
Corporación de Fomento de la Producción de Chile	25, 000. 00
United California Bank, Los Angeles: Corporación de Fomento de la Producción de Chile	50, 000. 00
Wells Fargo Bank American Trust Co., San Francisco:	
Corporación Venezolana de Fomento, Venezuela	187, 500. 00
Banco de Guatemala	175, 000. 00
Nacional Financiera, S.A., Mexico	81, 000. 00
Compañía Peruana de Cemento Portland, S.A., Peru	25, 000. 00
Total	4, 760, 117. 22

TABLE IVb—FEB. 28, 1962

INTER-AMERICAN DEVELOPMENT BANK

Statement of participation in approved loans

CLASSIFIED BY LOANS

Tool Research Argentina SAIC: Bank of America National Trust & Savings Association		$70,000.00
Sociedad Anónima "La Merced," Argentina: The Marine Midland Trust Co. of New York		52,222.22
Agua y Energía Eléctrica, Argentina:		
Continental Illinois National Bank & Trust Co. of Chicago	$50,000.00	
The First Pennsylvania Banking & Trust Co	50,000.00	
Irving Trust Co	50,000.00	
		150,000.00
Sifco do Brasil, S.A.: Chemical Bank New York Trust Co		122,094.00
Usinas Elétricas do Paranapanema, Brasil:		
Grace National Bank	$25,000.00	
The Marine Midland Trust Co. of New York	25,000.00	
The National Bank of Washington	42,000.00	
		92,000.00
Corporación de Fomento de la Producción de Chile:		
Bank of America International	75,000.00	
The Chase Manhattan Bank	75,000.00	
Irving Trust Co	25,000.00	
The Marine Midland Trust Co. of New York	25,000.00	
The Meadow Brook National Bank	75,000.00	
J. Henry Schroder Banking Corp	20,000.00	
United California Bank	50,000.00	
		345,000.00
Corporación de Fomento de la Producción de Chile:		
Bank of America National Trust & Savings Association	25,000.00	
Bank of New York	25,000.00	
Crocker-Anglo National Bank	25,000.00	
Girard Trust Corn Exchange Bank	50,000.00	
Irving Trust Co	25,000.00	
The Marine Midland Trust Co. of New York	25,000.00	
The Meadow Brook National Bank	25,000.00	
The Riggs National Bank	25,000.00	
Union Bank	25,000.00	
		250,000.00
Empresas Públicas Municipales de Cartagena, Colombia:		
Bankers International Corp	68,750.00	
Manufacturers Hanover Trust Co	68,750.00	
		137,500.00
Corporación Financiera Colombiana de Desarrollo Industrial, Colombia: The Marine Midland Trust Co. of New York		61,500.00
Empresas Públicas de Medellín, Colombia:		
The National Shawmut Bank of Boston	$50,000.00	
The Marine Midland Trust Co. of New York	53,125.00	
		103,125.00
Celulosa y Papel de Colombia, S.A.:		
The Meadow Brook National Bank	50,000.00	
J. Henry Schroder Banking Corp	50,000.00	
		100,000.00
Banco Nacional de Costa Rica: Manufacturers Hanover Trust Co		150,000.00
Banco Central de Reserva de El Salvador: The Philadelphia National Bank		63,000.00

Statement of participation in approved loans—Continued

CLASSIFIED BY LOANS—Continued

Banco de Guatemala:		
Bank of New York	$50,000.00	
The Chase Manhattan Bank	30,000.00	
Continental Illinois National Bank & Trust Co. of Chicago	25,000.00	
Crocker-Anglo National Bank	95,000.00	
Girard Trust Corn Exchange Bank	50,000.00	
Grace National Bank	25,000.00	
Irving Trust Co	100,000.00	
Morgan Guaranty Trust Co	30,000.00	
Wells Fargo Bank American Trust Co	175,000.00	
		$580,000.00
Químicas Dinant de Centroamérica, S.A. de C.V., Honduras: American National Bank & Trust Co. of Chicago		60,000.00
Nacional Financiera, S.A., México:		
American National Bank & Trust Co. of Chicago	$70,000.00	
Banca Nazionale del Lavoro, Rome, Italy	70,000.00	
Commerzbank, A.G., Dusseldorf, Germany	65,000.00	
Dresdner Bank, A.G., Hamburg, Germany	40,000.00	
Girard Trust Corn Exchange Bank	258,000.00	
Handelsfinanz, A.G., Zurich, Switzerland	100,000.00	
Irving Trust Co	70,000.00	
Union Bank	20,000.00	
Wells Fargo Bank American Trust Co	81,000.00	
		774,000.00
Nacional Financiera, S.A., Mexico: Harris Trust & Savings Bank		176,470.00
Instituto de Fomento Nacional de Nicaragua:		
The First National City Bank of New York	$60,000.00	
The First Pennsylvania Banking & Trust Co	10,000.00	
Girard Trust Corn Exchange Bank	22,000.00	
Grace National Bank	20,000.00	
Irving Trust Co	60,000.00	
The Philadelphia National Bank	100,000.00	
		272,000.00
Corporación de Saneamiento de Arequipa, Peru:		
Bank of America National Trust & Savings Association	72,500.00	
The National Bank of Washington	72,500.00	
		145,000.00
Compañía Peruana de Cemento Portland, S.A., Peru:		
Central National Bank of Cleveland	25,000.00	
The First Pennsylvania Banking & Trust Co	45,000.00	
Girard Trust Corn Exchange Bank	40,000.00	
Irving Trust Co	78,125.00	
Morgan Guaranty Trust Co	25,000.00	
Wells Fargo Bank American Trust Co	25,000.00	
		238,125.00
Corporación Venezolana de Fomento, Venezuela:		
Bank of America National Trust & Savings Association	125,000.00	
The First Pennsylvania Banking & Trust Co	25,000.00	
Girard Trust Corn Exchange Bank	50,000.00	
Irving Trust Co	250,000.00	
The Marine Midland Trust Co. of New York	25,000.00	
The Philadelphia National Bank	100,000.00	
Wells Fargo Bank American Trust Co	187,500.00	
		762,500.00
Republic of Uruguay: The First National City Bank of New York		55,581.00
Total		4,760,117.22

EXPLANATION OF DOCUMENTS

Mr. CUTLER. The points I wish to make about these documents are twofold. These have been audited by Price, Waterhouse, the auditors of the Bank, and will appear in the Bank's annual report which will be delivered to the Bank's Governors at our annual meeting next month in Buenos Aires.

The second point I wish to make is that although all of the figures are stated as dollars, you must understand that they also include local currencies which are converted into dollars so that the balance sheets will speak wholly in terms of U.S. dollars.

We are very proud to have been able during this period ending February 28, 1962, to have included in the loans which we made from our ordinary capital resources of $145 million, $38,218,000 of local currencies of about 10 or 11 of the different member countries. We have included in the loans from the Fund for Special Operations about $2,881,000 equivalent in the currencies of seven of the member countries. This is a very important and significant action that we have been able to take because, of course, to the extent that we are able to lend these currencies of other countries, we are saved from lending U.S. dollars.

Accordingly, in these statements, interest that is paid on the local currency portions being paid in local currency is mingled in the figures which appear here, all expressed in terms of dollars or dollar equivalent.

Similarly, the third papers are the Social Progress Trust Fund balance sheet and earnings statement, income and expense statement. This has been also audited by Price, Waterhouse & Co., as have been the notes which are attached to these papers.

Next there come four tables which give in detail each of the loans that have been made: The first one, table 1, "Loans Made From Ordinary Capital"; the second one, "Loans Made From the Fund for Special Operations"; the third one, "Loans Made From the Social Progress Trust Fund." These will give you the detail of each loan as to its purpose, date of its approval, the date the contract of loan has been signed—if one has been signed, the share between the local currency and the dollars, all expressed in terms of dollars at the current free rate of exchange, the status of the loans, what has been disbursed, and so on.

We publish these every month.

Fourthly is the table showing the participations taken by leading commercial banks in something over 5 percent of the dollar portion of 22 loans that we have made out of the total of 46 loans from ordinary resources.

The roster of these participants is very interesting to one who has had a banking experience. It includes not only leading banks in the United States but, interestingly enough, leading banks in Italy, West Germany, and Switzerland, who have also taken an interest in participation.

The last paper which is attached is an attempt to put in graphic form, month by month, beginning a year ago last February, the loans from each of the three windows of the Bank—the ordinary funds, the Special Operations Fund, and the Social Progress Trust Fund—interestingly to me, showing the continuing increase of loans made

from the ordinary resources of the Bank, which is the tallest pillar in the last column.

Then also there are the justifications required, I understand, to be filed with the document (which the Treasury has prepared).

Thank you very much, Mr. Chairman.

FOREIGN AID PROGRAMS OF OTHER COUNTRIES

Mr. PASSMAN. Thank you, General.

I should like to mention an article I read in this morning's paper, "Other Nations Hiking Aid, Hamilton Says."

I mention this because in your remarks you indicated that Germany and Italy and some of the countries were pursuing such a course.

I was speaking with a high-ranking West German just yesterday. He is in this country for the purpose, I suppose, of informing the administration that Germany has decided to reduce its foreign aid by some two-thirds this year. His country, he said, was faced with a balance-of-payments deficit of 2 million deutsch marks last year.

This visitor from Germany reported to me that he was on his way to the White House. He came to my office, and he is committing his statement to writing. When I receive his letter, it will be placed in the record.

I am afraid Mr. Hamilton's enthusiasm for "aid" on the part of others might be getting mixed up with short-term, interest-bearing hard loans. There is a lot of difference in American aid and the "aid" from some of the other nations.

EXPROPRIATION OF PRIVATE PROPERTY IN BRAZIL

On page 3, table I, of the general analysis you have Brazil listed as having had loans approved in the amount of $17,810,906, the disbursements being $2,094,334 and the undisbursed balance being $15,716,572.

Recently the brother-in-law of the President of Brazil—the Governor of one of the States—seized a U.S.-owned telephone company. When things such as that happen, do you hold up disbursing loans until they give acceptable explanation of their actions, or do you continue disbursing?

I might state, before you answer, that I am referring here to one type of loan only. There are, of course, other types of loans.

Mr. CUTLER. We are now looking at the table which covers ordinary capital loans of the Inter-American Development Bank——

Mr. PASSMAN. That is correct.

Mr. CUTLER (continuing). Where the United States has contributed something like 40 percent to the bank and the Latin American countries have contributed something like 60 percent. Certainly we are very conscious in the Bank of the statement made by the Governor of the Brazilian State to which you refer, and to the action which he has taken.

We have not made any loans in that state. None of these loans or none of our other loans are in that state. Most of the loans that we have made are either to private Brazilian concerns, or to Brazilian state agencies for public works of one kind or another.

We have not, to answer you directly, held up a disbursement to any private Brazilian borrower or to any state borrower from us in any account as yet.

I certainly agree with you, Mr. Passman—as I am sure all the members of the committee would agree—that the action taken by the Governor of this Brazilian State is unfortunate, ill-timed, ill-conceived.

It is well known, I think, that this Governor hasn't always been very sympathetic toward the United States. On the other hand, I feel that we have to take a pretty broad look at this whole matter.

We wish on the whole that the Brazilian people can continue to be our friends. I feel perhaps more strongly than even my colleagues from Latin America do that there is a wave of revolution sweeping over the world today, and that Latin America is one of the sections that is most threatened.

I feel that, while a country has a right, of course, to expropriate on the payment of fair compensation—and our Government is trying to work that out now, I understand, with Brazil—I feel that to take an action to stop disbursement in loans to private industry in Brazil, often with American coowners, or to states which are not involved in this thing, would tend to make enemies of the Brazilian people.

They are proud and have national pride just as we have. The best thing to do is to try to work out a fair compensation for this very regrettable act.

Mr. PASSMAN. This Governor is a brother-in-law of the President of Brazil?

Mr. CUTLER. I understand he is, sir; but he is also known, as President Kennedy said in somewhat more temperate language, as one not friendly to the United States.

I think we have to remember this, sir—speaking now from the age of almost 67—that we don't want to take actions that are going to help people who are trying to destroy our relations with Brazil. We want to spend our time in trying to help people who are going to make good relations between the United States and other countries.

I am afraid that there are certain nationalist leaders and certain Communist-inspired leaders who would like to have the United States make this into a crisis and raise trouble between us and Brazil—more trouble than now exists. I think we have to take a broad view of it.

Mr. PASSMAN. Do you turn the other cheek?

Mr. CUTLER. No; I don't say that, because I think Mr. Kennedy mentioned in his press statement that the thing has been taken up by our Government to assure that fair compensation is paid for expropriation.

Mr. PASSMAN. It is our understanding that the investment is something like $8 million, and that the Brazilian state offered $400,000 in compensation.

I merely asked the question, whether or not you cease to disburse American funds to a country which—I prefer to use the word "confiscate," because I think it fits better—confiscates American-owned properties.

The answer was that you are continuing to disburse the loan funds, and you gave the reasons.

Mr. CUTLER. I said, Mr. Chairman, that we were continuing to disburse funds to private companies, some of which had American

owners, coowners, in States other than Rio Grande do Sul; and that we were continuing to make disbursements to States or State agencies other than Rio Grande do Sul.

The question of whether we would make a loan to Rio Grande do Sul has not been brought up at the present time.

Mr. PASSMAN. You will have to make that decision if and when you receive an application?

Mr. CUTLER. I certainly will, sir.

CAPITAL STOCK PAYMENTS

Mr. PASSMAN. General, you received an appropriation for the Inter-American Development Bank last year in the amount of $110 million. The request for 1963 is $60 million. Does that sum complete our commitment?

Mr. CUTLER. Yes, sir. Last year we asked for $60 million for the second installment for ordinary resources, and $50 million, the second and final installment to the Fund for Special Operations. This year, October 31, 1962, would be the final installment.

Then, unless other authorizations and appropriations are voted, that's it.

Mr. PASSMAN. Is this the full amount that the United States agreed to originally?

Mr. CUTLER. That's right, $150 million—$30 million, $60 million, and $60 million.

Mr. PASSMAN. You have $170 million total here, do you not?

Mr. CUTLER. No, sir. The United States paid $30 million before September 30, 1960; $60 million before October 31, 1961; and $60 million is due before October 31, 1962.

Mr. PASSMAN. What is the $110 million?

Mr. CUTLER. It was in two parts, because $60 million of it was the second installment to the paid-in capital; and $50 million of it was for the Fund for Special Operations, the final installment.

That is now paid in full, so we have no more obligations to pay.

We have paid two $50 million installments. The first was due September 30, 1960, and the second one was due October 31, 1961.

Mr. PASSMAN. Then if you put the two accounts together, what is the total?

Mr. CUTLER. You mean all three payments?

Mr. PASSMAN. Yes.

TOTAL U.S. INVESTMENT IN BANK

Mr. CUTLER. In the ordinary resources, the United States will have paid, when it pays the third installment, $150 million. It has paid into the Fund for Special Operations $100 million. Then, on signing the agreement, it became bound for callable capital, which is used to back up bond obligations whenever they be issued, of $200,000,000.

So the U.S. total share would be $450 million.

Mr. PASSMAN. It would be $450 million, out of a total of——

Mr. CUTLER. It should have been, if Cuba had come in——

Mr. PASSMAN. Let us consider it as if they were in, so as to keep the percentage straight.

Mr. CUTLER. It would have been out of $1 billion. Cuba not coming in, the actual amount payable to the Bank—paid-in stock, callable stock, and Fund for Special Operations—is $959.5 million.

Mr. PASSMAN. We are in for approximately 45 percent of the total?

Mr. CUTLER. Yes; it is something like that. I think of it as 40, but it is probably nearer 42 percent, I think.

Mr. PASSMAN. If we are putting in $450 million and the original capital is $1 billion, by simple arithmetic you arrive at 45 percent, do you not?

Mr. CUTLER. That's right.

EFFECT OF NON-CUBAN PARTICIPATION

Mr. PASSMAN. With Cuba out, are you taking that fact into account in your request for additional funds?

Mr. CUTLER. No; no.

Mr. PASSMAN. You are picking up the same amount as if Cuba had made the contribution as originally agreed?

Mr. CUTLER. Each country had a certain percentage.

Mr. PASSMAN. It is a simple question. If we can get that answer, I will be able to understand it.

Mr. CUTLER. No; we do not make up for Cuba's amount.

Mr. PASSMAN. But you are not reducing the amount of the U.S. dollars. You are asking for it as though you were going to have $1 billion capital stock.

Mr. CUTLER. Each country pays its proportional share now of the $959.5 million.

Mr. PASSMAN. Originally you had planned for $1 billion capital stock, with the United States pledging $450 million. What part of the $1 billion did Cuba's original pledge amount to in your formula?

Mr. CUTLER. About $40 million.

Mr. PASSMAN. Are all the other nations increasing their contributions to offset the $40 million you are not getting from Cuba?

Mr. CUTLER. No. Each country continues to pay the amount which it agreed to pay under the charter. That is, we agreed to buy 35,000 shares of stock and to pay so much into the Fund for Special Operations.

Mr. PASSMAN. Originally, if things had worked out, you would have had American dollars in this program for Cuba?

Mr. CUTLER. The Latin American countries under the charter pay one-half of their installments in gold or U.S. dollars, and one-half in their national currencies. That is how we got these national currencies which we loaned.

Mr. PASSMAN. In the original formula you had Cuba in for $40 million?

Mr. CUTLER. That's right.

Mr. PASSMAN. Now Cuba is out. That means we will not have to provide American dollars for the original portion intended for Cuba.

Mr. CUTLER. That's right. Cuba's share in dollars would have been something like $20 million.

Mr. PASSMAN. If we carry out the intent of the original formula, with Cuba out, we could reduce this request, could we not?

Mr. CUTLER. Instead of a bank which had $1 billion authorized capital, we now have more pragmatically a bank which has a capital of $959.5 million.

Mr. PASSMAN. What if 10 nations had dropped out? Would you still put in the entire $450 million?

Mr. CUTLER. You couldn't have had 10 nations drop out; a certain number of nations have to be in.

Mr. PASSMAN. How many nations are included?

Mr. CUTLER. There were 21 nations in the Organization of American States when we started. Cuba now may be deemed not to be a member, although there is a great legal question about this—whether it is the Cuban Government or the Cuban people.

So there are 20 members of the Bank at the present time. You had to have a certain percentage of the members qualify before December 30, 1959, in order to form the Bank. So if 10 had dropped out, you wouldn't have had any bank.

Mr. PASSMAN. Had Cuba remained in, some of the $450 million would have had to be paid by Cuba in dollars.

Mr. CUTLER. I suppose.

Mr. PASSMAN. As Cuba is not in, why could we not estimate what that would have been and reduce the amount of U.S. dollars to the fund? You will have less use for it than you originally figured you would have.

Mr. CUTLER. I don't feel we do have less use for it in view of the applications which the Bank has received. I will give you the figures later.

Mr. PASSMAN. You have one nation less to participate. You have one nation less to receive loans that would have required American dollars.

Mr. CUTLER. There are two things I might say to that. The first is that the United States and the 19 countries that joined in this charter with us were bound by an international agreement to subscribe to stock and to pay quotas into the fund. This was an international agreement.

Cuba welched on the agreement and did not do it. Yet the rest of us remained bound.

The second point is that, of the dollars which will be paid in for the paid-in capital when the third installment is paid by all of the countries less Cuba, the United States pays in $150 million and the Latin American countries pay in one-half of $231.6 million, which is $116 million—the rest being paid in their national currency.

ORIGINAL CUBAN SHARE OF CAPITAL

Mr. PASSMAN. On a percentage basis, what did Cuba agree to come in for originally?

Mr. CUTLER. It was about 4 percent.

Mr. PASSMAN. Would you not have the same proportion of money if you reduced this overall pledge by 4 percent? It takes less groceries to feed three than it does four.

Mr. CUTLER. That isn't quite the case, though, Mr. Chairman. The needs of Latin America are so great, as shown by the applications that come in, the amounts that we are considering. The fact is that we hope when we have formed a portfolio of good sound loans to be able, perhaps in late 1962 or in the early part of 1963, to float bond issues and thereafter do a great part of our financing through bond issues as the World Bank has done.

So the defection of Cuba which was something like 4 percent in ordinary resources, and a smaller percent in the Special Operations Fund, truly doesn't affect the functions of the Bank which we hope to perform as best we can to accelerate the economic development of the Latin American countries.

Of course we can't make a loan to Cuba now.

Mr. PASSMAN. Thank you, General. You are dealing with functions, and I am dealing with the formula.

FINANCIAL STRUCTURE AND PAYMENTS BY PRESENT MEMBERSHIP OF BANK

(The following information was subsequently submitted for the record:)

Inter-American Development Bank

[In millions of dollars or dollar equivalent]

A. FINANCIAL STRUCTURE ON BASIS OF PRESENT MEMBERSHIP [1]

	United States	Latin American countries	Total
Bank capital:			
Paid in (in 3 installments): [2]			
Gold or dollars	75	115.8 (125)	190.8 (200)
National currency	75	[3] 115.8 (125)	[3] 190.8 (200)
Total	150	[3] 231.6 (250)	[3] 381.6 (400)
Callable	[4] 200	[3] 231.6 (250)	[3] 431.6 (450)
Total	350	463.2 (500)	813.2 (850)
Voting power (percent)	[5] 41.8	[5] 58.2	
Fund for Special Operations (in 2 installments): [6]			
Gold or dollars	50	23.2 (25)	73.2 (75)
National currency	50	23.2 (25)	73.2 (75)
Total	100	46.3 (50)	[3] 146.3 (150)
Total (bank capital and Fund for Special Operations)	450	[3] 509.5 (550)	[3] 959.5 (1,000)

B. PAYMENTS BY PRESENT MEMBERSHIP [1]

	U.S. dollars	Latin American countries		Total
		Gold or dollars	Latin American currencies	
Bank paid-in capital:				
1st installment due Sept. 30, 1960	30,000,000	22,887,520	22,882,000	75,769,520
2d installment due Oct. 31, 1961	60,000,000	45,764,000	45,764,000	151,528,000
Total	90,000,000	68,651,520	68,646,000	[7] 227,297,520
3d installment due Oct. 31, 1952	60,000,000	46,316,000	46,316,000	152,632,000
Total	150,000,000	114,967,520	114,962,000	[7] 379,929,520
Fund for special operations:				
1st installment due Sept. 30, 1960	50,000,000	11,441,552	11,441,000	72,882,552
2d installment due Oct. 31, 1961	50,000,000	11,441,000	11,441,000	72,882,000
Total	100,000,000	22,882,552	22,882,000	[8] 145,764,552
Grand total	250,000,000	137,850,072	137,844,000	[7 8] 525,694,072

Footnotes on next page.

[1] All American Republics, except Cuba (original capital proposed, including Cuba, shown in parentheses).
[2] 20 percent by Sept. 30, 1960 (United States paid $30,000,000); 40 percent by Oct. 31, 1961 (United States paid $60,000,000), and 40 percent by Oct. 31, 1962 (United States will owe $60,000,000).
[3] In U.S. dollar equivalent or includes amounts in U.S. dollar equivalent.
[4] Appropriated, together with first paid-in installments to Bank and Special Fund, in Supplemental Appropriations Act for fiscal year 1960 on Sept. 1, 1959.
[5] Of the total Bank capital (paid-in and callable capital stock), $813,200,000: 43 percent ($350,000,000) is payable by the United States and 57 percent ($463,200,000) is payable by the 19 Latin American members. Because the Charter provides (art. VIII, 4(a)), in respect of voting power, that each member country shall have 135 votes plus 1 vote for each share of capital stock held by such country (a total of 2,700 additional shares), the voting power of the member (based on total capital stock shares held plus such additional shares) works out to 41.8 percent for the United States and 58.2 percent for the 19 Latin American members.
[6] 50 percent by Sept. 30, 1960 (United States paid $50,000,000); and 50 percent by Oct. 31, 1961 (United States paid $50,000,000).
[7] Includes $5,520 paid by Dominican Republic upon signing charter; excludes $1,650,480 balance due for 1st and 2d installment of Dominican Republic.
[8] Includes $552 paid by Dominican Republic upon signing charter; excludes $551,448 balance due for 1st and 2d installemtns of Dominican Republic.

TERMS OF BANK'S LOANS

Mr. PASSMAN. On page 3 of your statement, you indicate that the Bank operates on customary banking terms. What are those terms, on the average?

Mr. CUTLER. In the ordinary resources our terms are somewhat like the World Bank's terms. Our interest rate is 5.75 percent, which includes a 1-percent commission, which we put into a reserve to strengthen the Bank—the commission.

The term of years varies, of course, in each case. We have made ordinary loans as short as 6 or 7 years, and we have made ordinary loans as long, I think, as 15 or 20 years.

We also will allow a period of grace according to the particular case, usually not more than 2 years or so in an ordinary loan, while the private enterprise is constructing its plant or whatever we loan for.

In the Fund for Special Operations, in accordance with the charter, we have more flexible terms.

Mr. PASSMAN. Your statement indicates that the Bank operates on customary banking terms. It certainly would not be customary banking terms as we think about American banks, would it?

It should be clear in the record that we are not actually talking about American banking terms, as we think, for example, of the Riggs National Bank downtown. I doubt if you could borrow money on such terms there.

Mr. CUTLER. Well, you can't answer such a question——

Mr. PASSMAN. Then, do not try, General.

Mr. CUTLER. I wish to try because you have misapprehended what I have said. The ordinary resource loans of the Bank are in my opinion as good as the loans made by the World Bank. These loans are the ones which, as to 22 of them, the leading commercial banks in the United States and four of the leading banks in Europe have bought participations from us without our guarantee.

We lend as the World Bank lends, at 5.75 percent on terms depending on the loans, from 6 or 7 years, up to perhaps 20 years. In the Fund for Special Operations, where the principal may be repaid either in the currency lent or in the currency of the borrower, the term is apt to be longer—not much longer than 20 years, but it might go a little longer than 20 years—and the interest rate varies from 4 percent to 5.75 percent, depending on the type of loan and the situation of the borrower.

None of these loans are made on the basis of programs. None of these loans are made on the basis that they won't be paid. When it says "on customary banking terms," it means that the loans are carefully and painstakingly investigated.

Documents are prepared—sometimes running to 80 or 90 pages—for the directors to consider. The most careful consideration is given to these loans. Many of my Latin directors are bankers, as I have been, and I believe with the exception that under the charter in the Fund for Special Operations—that small Fund—we may have repayment either in dollars or in the currency of the borrower, they are all on customary banking terms; and I believe that they will be paid, or I wouldn't have voted for them.

Mr. PASSMAN. Customary banking terms are not for 15 or 20 years. I know the question will be asked: What do you mean by customary banking terms? That is all I am trying to find out.

"Customary banking terms" could mean that most banks do not like to go over 90 days, and maybe you could get a loan up to a year. If you are in the real estate business, you may occasionally get a loan up to 10 years.

The only thing I was trying to pin down is that this is not on general banking terms as we think of our banks downtown making loans.

Mr. CUTLER. It is only the terms of these loans—that is, the length of the term——

Mr. PASSMAN. Let me say I understand it, that you have given sufficient explanation.

Mr. CUTLER. Our terms are about the same as the World Bank terms.

Mr. PASSMAN. You said "banking terms." I am not quarreling with you. If you had said "comparable to World Bank terms," we would have been further along.

(Short recess.)

INTEREST RATES

Mr. PASSMAN. The committee will come to order.

General, in the several member nations of the Inter-American Development Bank organization, does a uniform interest rate prevail?

Mr. CUTLER. In the ordinary resource loans, we have kept a uniform rate of 5.75 percent. In the Special Fund, which is addressed primarily to countries which have difficulties with their balance of payments or some special circumstances arise, which is only going to produce earnings very slowly, we temper the interest rate from 4 to 5.75 percent.

We haven't gone above 5.75 percent; we have not gone below 4.

In the Social Progress Trust Fund—which really is an entirely different window—we administer this money in trust and we have a still different rate. We charge three-quarters of 1 percent annually, payable in dollars to help toward meeting the expenses of administering the Fund. We also charge interest payable in local currency, and the lowest interest rate has been 1.25 percent; the highest has been 2.75 percent. Also, the term of years is longer. We have gone up as high as 30.5 years.

May I trespass upon your patience to make an interesting observation about the terms of the Social Progress Trust Fund. It was my Latin American directors who suggested that some interest should be charged on these loans, and that the term of the loan should not run more than approximately 30 years.

They were the ones who took the initiative in saying that they felt, since this was an alliance and we were helping in this way, that

it was more desirable in their opinion to make the Latin-American countries feel that by paying interest and not granting too long a term, they were sharing in this, rather than receiving benefaction.

Mr. PASSMAN. Do you have a uniform interest rate in this particular account for all of the members of the organization?

Mr. CUTLER. In the ordinary resources.

Mr. PASSMAN. How about the other account?

Mr. CUTLER. That is a uniform rate of 5.75 percent. In the Fund for Special Operations, it varies from 4 to 5.75 percent.

Mr. PASSMAN. Depending upon the project and the country?

Mr. CUTLER. That's right. In the Social Progress Trust Fund it is always three-quarters of 1 percent payable in dollars to help pay our expenses, because my Latin American directors thought it was improvident to take the money out of the Fund. We ought to get some interest paid to us, and up to 2.75 percent. So it comes out at 3.5 percent a year as the maximum.

AVAILABILITY OF LOANS FROM COMMERCIAL BANKS IN MEMBER NATIONS

Mr. PASSMAN. There are, of course, different interest rates on regular banking loans in many of these Latin American nations. Are you getting any complaints from commercial banks as a result of your interest rates?

I endorse your relatively low interest rate, but I know that some of the local lending agencies have interest rates that are substantially higher than this.

Mr. CUTLER. You are entirely right, Mr. Chairman. The local interest rate in many of the Latin American countries is much higher. It is terribly high in some of the countries, of course.

We make loans which may be said usually not to compete with loans made by local banks. That should be qualified in two ways. One is, there is a shortage of local capital so that they don't have enough money to lend. For instance, take countries like Brazil and Argentina. It is almost impossible to go to a bank and get a term loan.

We haven't had any complaint that I know of from banks. We have had a complaint from some private North American bankers who have said that our rate of 5.75 percent prevents them—these aren't banks; these are bankers—from getting a higher rate from the individuals.

Mr. PASSMAN. Would that be from the free enterprise system?

Mr. CUTLER. Yes.

Mr. PASSMAN. If they were willing to put their capital in, would you yield in their favor?

Mr. CUTLER. Oh, yes; because we supplement. All we say is, "Here is our rate." If they go to a commercial bank in their own country or to a private banker, international private banker, they may find that they are not getting a bank loan; they are getting somebody in with them who wants a share in the stock and some privileges. Often they prefer to take a rate payable in dollars to taking that course.

But we have held that line consistently in the ordinary resources and in the Special Fund. We have been able, I believe, by following this policy to do something I know you favor as much as I do.

Mr. PASSMAN, We are glad to know that you are sticking to your formula.

LOANS FROM ORDINARY CAPITAL OF BANK

As of February 28, you had approved 46 loans, I believe, in an aggregate of $145 million.

Mr. CUTLER. That's right.

Mr. PASSMAN. Does table I of your statement include a tabulation of all 46 loans?

Mr. CUTLER. Yes, sir.

Mr. PASSMAN. Would you insert that table in the record?

Mr. CUTLER. Table I?

Mr. PASSMAN. Yes.

Mr. CUTLER. It runs along for seven pages. All the loans are detailed here.

Mr. PASSMAN. You will please insert it in the record.

(Table I is as follows:)

TABLE I.—*Statement of approved loans, Feb. 28, 1962*

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest [1]	Commitment fee	Repayment terms and principal installments [2]
						Disbursed	Repaid	Outstanding				
ARGENTINA										*Percent*	*Percent*	
Banco de la Provincia de Entre Ríos; Banco Provincial de Santa Fe; Banco de la Provincia de Córdoba.	Development of agricultural, industrial, and mining projects.	7-13-61	8-18-61							5.75	0.75	16 semiannual beginning Jan. 1, 1966.
Pesos [3]				$1,000,000	$1,000,000							
U.S. dollars				14,000,000	13,000,000	$1,000,000		$1,000,000				
Total expressed in U.S. dollars.				15,000,000	14,000,000	1,000,000		1,000,000				
Agua y Energía Eléctrica, Empresa del Estado de Argentina (Republic of Argentina).	Technical assistance report on Chocón-Cerros Colorados project.	8-3-61	8-28-61							5.75	.75	7 semiannual beginning Aug. 28, 1963.
Pesos [3]				255,000	151,625	103,375		103,375				
U.S. dollars				382,000	226,937	155,063		155,063				
Total expressed in U.S. dollars.				637,000	378,562	258,438		258,438				
Tool Research Argentina Sociedad Anónima Industrial y Comercial (Banco Provincial de Santa Fe).	Expand production of gears and axles.	10-5-61	12-13-61							5.75	.75	20 semiannual beginning June 1, 1964.
U.S. dollars				700,000	700,000							
Less amount taken by participants.				70,000	70,000							
Net total expressed in U.S. dollars.				630,000	630,000							
Vialsa S.A.	Financing of machinery and equipment to manufacture prefabricated housing.	12-14-61	12-15-61							5.75	.75	20 semiannual beginning June 15, 1964.
U.S. dollars				2,200,000	2,200,000							

Sociedad Anónima "La Merced" (Garovaglio y Zorraquin, S.A.).	To assist in the financing of irrigation canal and development of farm property.	12-21-61								5.75	.75	18 semiannual beginning 42 months after date of contract.
Pesos				13,280,000	13,280,000							
U.S. dollars				470,000	470,000							
Less amount taken by participants.				52,222	52,222							
Total				417,778	417,778							
Net total expressed in U.S. dollars.				578,699	578,699							
Agua y Energía Eléctrica Empresa del Estado de Argentina (Republic of Argentina).	To assist in the financing of an electrical expansion program.	12-21-61								5.75	.75	24 semiannual beginning 48 months after date of contract.
Pesos				232,400,000	232,400,000							
U.S. dollars				8,000,000	8,000,000							
Less amount taken by participants.				150,000	150,000							
Total				7,850,000	7,850,000							
Net total expressed in U.S. dollars.				10,666,116	10,666,116							
Corporación Entrerriana de Citrus Sociedad de Economia Mixta, Industrial, Comercial y Financiera (Provincia de Entre Rios), loan No. 45.	To assist in the financing of a citrus fruit processing plant.	2-21-62								5.75	.75	24 semiannual beginning 30 months after date of contract.
Pesos				28,000,000	28,000,000							
U.S. dollars				1,300,000	1,300,000							
Total expressed in U.S. dollars.				1,639,291	1,639,291							
Total loans to Argentina expressed in U.S. dollars.				31,623,328	30,364,890	1,258,438		1,258,438				
Less amount taken by participants.				272,222	272,222							
Net total of loans to Argentina expressed in U.S. dollars.				31,351,106	30,092,668	1,258,438		1,258,438				

See footnotes at end of table, p. 177.

TABLE I.—*Statement of approved loans, Feb. 28, 1962*—Continued

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest [1]	Commitment fee	Repayment term and principal installments [2]
						Disbursed	Repaid	Outstanding				
BRAZIL												
										Percent	*Percent*	
Lutcher S.A., Celulose e Papel, loan No. 2.	Construction of cellulose pulp mill and related facilities.	3-31-61	6-14-61							5.75	.75	16 semiannual beginning Dec. 15, 1963.
Cruzeiros [3]				$2,200,000	$2,194,440	$5,560		$5,560	$5,560			
U.S. dollars				2,500,000	804,942	1,695,058		1,695,058	28,525			
Total expressed in U.S. dollars.				4,700,000	2,999,382	1,700,618		1,700,618	34,085			
Sifco do Brasil, S.A., loan No. 11.	Purchase of machinery to expand production of forgings for automotive industry.	6-28-61								5.75	.65	14 semiannual beginning Apr. 1, 1963.
Cruzeiros [3]				180,000	180,000							
U.S. dollars				570,000	270,000	300,000		300,000				
Less amount taken by participants.				122,094		122,094		122,094				
Total				447,906	270,000	177,906		177,906				
Net total expressed in U.S. dollars.				627,906	450,000	177,906		177,906				
Industria Brasileira de Equipamentos S.A. (a Brazilian commercial bank), loan No. 29.	Financing of machinery for the production of bits and joints.	10-19-61	1-24-62							5.75	.75	16 semiannual beginning July 15, 1964.
Cruzeiros [3]				87,000	87,000							
U.S. dollars				528,000	528,000							
Total expressed in U.S. dollars.				615,000	615,000							

Usinas Elétricas do Paranapanema (Banco do Estado de São Paulo), loan No. 30-A.	Purchase of electrical distribution equipment.	11-9-61								5.75	.75	17 semiannual beginning 24 months after date contract.
U.S. dollars				1,130,000	1,130,000							
Less amount taken by participants.				92,000	92,000							
Total				1,038,000	1,038,000							
Companhia Hidroelétrica do Rio Pardo (Banco do Estado de São Paulo), loan No. 30-B.	Purchase of electrical distribution equipment.	11-9-61								5.75	.75	Do.
U.S. dollars				270,000	270,000							
Papel e Celulose Catarinense Ltda. (Klabin Irmãos & Cia.), loan No. 34.	Construction of a kraft pulp and paper mill.	12-14-61	1-22-62							5.75	.75	9 semiannual, beginning Jan. 15, 1965.
U.S. dollars				5,000,000	4,784,190	215,810		215,810				
Centrais Elétricas de Minas Gerais S.A. (Banco Nacional do Desenvolvimento Econômico), loan No. 35.	To finance the expansion of electrical transmission and distribution facilities.	12-14-61								5.75	.75	20 semiannual, beginning 54 months after date of contract.
Cruzeiros [3]				1,500,000	1,500,000							
U.S. dollars				3,500,000	3,500,000							
Total expressed in U.S. dollars.				5,000,000	5,000,000							
Fundição Tupy S.A., loan No. 44.	To expand production of iron casting.	2-15-62								5.75	.75	12 semiannual beginning 30 months after date of contract.
U.S. dollars				560,000	560,000							
Total loans to Brazil expressed in U.S. dollars.				18,025,000	15,808,572	2,216,428		2,216,428	34,085			
Less amount taken by participants.				214,094	92,000	122,094		122,094				
Net total of loans to Brazil expressed in U.S. dollars.				17,810,906	15,716,572	2,094,334		2,094,334	34,085			

See footnotes at end of table, p. 177.

TABLE I.—*Statement of approved loans, Feb. 28, 1962*—Continued

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest [1]	Commitment fee	Repayment terms and principal installments [2]
						Disbursed	Repaid	Outstanding				
CHILE												
Corporación de Fomento de la Producción de Chile, loan No. 4.	Development of industrial, mining, and fishery projects.	4-9-61	6-19-61							*Percent* 5.75	*Percent* .75	20 semiannual beginning Dec. 15, 1963.
Escudos [3]				$1,500,000	$1,214,013	$285,987		$285,987	$3,527			
U.S. dollars				4,500,000	4,200,000	300,000		300,000	8,353			
Less amount taken by participants.				345,000	45,000	300,000		300,000	755			
Total				4,155,000	4,155,000				7,598			
Net total expressed in U.S. dollars.				5,655,000	5,369,013	285,987		285,987	11,125			
Government of the Republic of Chile, loan No. 31.	Expansion of potable water supply systems.	11-22-61								5.75	.75	32 semiannual beginning 54 months after date of contract.
U.S. dollars				1,050,000	1,050,000							
Corporación de Fomento de la Producción de Chile, loan No. 33.	To assist in the financing of a fishing enterprise.	12-7-61								5.75	.75	18 semiannual beginning 42 months after date of contract.
U.S. dollars				5,000,000	5,000,000							
Less amount taken by participants.				250,000	250,000							
Net total expressed in U.S. dollars.				4,750,000	4,750,000							
Republic of Chile, loan No. 43	To construct and expand irrigation canals.	2-8-62								5.75	.75	32 semiannual beginning 54 months after date of contract.
Escudos				1,350,000	1,350,000							
U.S. dollars				1,575,000	1,575,000							
Total expressed in U.S. dollars.				2,861,940	2,861,940							
Total loans to Chile expressed in U.S. dollars.				14,911,940	14,325,953	585,987		585,987	11,880			

Less amount taken by participants.				595,000	295,000	300,000		300,000	755			
Net total of loans to Chile expressed in U.S. dollars.				14,316,940	14,030,953	285,987		285,987	11,125			
COLOMBIA												
Corporación Financiera, Colombiana de Desarrollo Industrial, loan No. 5.	Development of small- and medium-size industries.	4-9-61	9-8-61							5.75	.75	16 semiannual beginning Mar. 15, 1964.
Pesos				4,000,000	2,075,000	1,925,000		1,925,000				
U.S. dollars				500,000	465,000	35,000		35,000				
Less amount taken by participants.				61,500	26,500	35,000		35,000				
Total				438,500	438,500							
Net total expressed in U.S. dollars.				989,464	769,895	219,569		219,569				
Empresas Públicas de Medellín, loan No. 6.	Improvement and expansion of water supply.	4-9-61	6-3-61							5.75	.75	32 semiannual beginning Dec. 1, 1965.
Pesos				19,950,000	19,950,000				24,596			
U.S. dollars				3,300,000	3,300,000				4,068			
Less amount taken by participants.				103,125	103,125				117			
Total				3,196,875	3,196,875				3,951			
Net total expressed in U.S. dollars.				5,944,809	5,944,809				6,728			
Empresas Públicas Municipales de Cartagena, loan No. 9.	Improvement and expansion of water and sewerage system.	6-15-61	10-17-61							5.75	.75	32 semiannual beginning Apr. 17, 1966.
Pesos				27,360,000	27,360,000							
U.S. dollars				2,200,000	2,200,000							
Less amount taken by participants.				137,500	137,500							
Total				2,062,500	2,062,500							
Net total expressed in U.S. dollars.				5,831,095	5,831,095							

See footnotes at end of table, p. 177.

TABLE I.—*Statement of approved loans, Feb. 28, 1962*—Continued

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest [1]	Commitment fee	Repayment terms and principal installments [2]
						Disbursed	Repaid	Outstanding				
COLOMBIA—continued												
Office of Planning and Technical Services, Government of Colombia, loan No. 23.	Technical assistance to establish specific projects.	9- 6-61	10-14-61							*Percent* 5.75	*Percent* .75	6 semiannual beginning Apr. 1, 1964.
Pesos [3]				$200,000	$200,000							
U.S. dollars				300,000	300,000							
Total expressed in U.S. dollars.				500,000	500,000							
Celulosa y Papel de Colombia, S.A. (Instituto de Fomento Industrial), loan No. 41.	Purchase of machinery and equipment for a woodpulp plant.	1-18-62								5.75	.75	14 semiannual beginning 42 months after date of contract.
U.S. dollars				1,400,000	1,400,000							
Less amount taken by participants.				100,000	100,000							
Total expressed in U.S. dollars.				1,300,000	1,300,000							
Total loans to Colombia expressed in U.S. dollars.				14,967,493	14,712,924	$254,569		$254,569	$6,845			
Less amount taken by participants.				402,125	367,125	35,000		35,000	117			
Net total of loans to Colombia expressed in U.S. dollars.				14,565,368	14,345,799	219,569		219,569	6,728			
COSTA RICA												
Banco Nacional de Costa Rica, loan No. 32.	Development of livestock-raising industry.	11-30-61	1-15-62							5.75	.75	20 semiannual beginning July 15, 1964.
Colones				3,311,500	3,311,500							

U.S. dollars				2,500,000	2,500,000							
Less amount taken by participants.				150,000	150,000							
Total				2,350,000	2,350,000							
Net total expressed in U.S. dollars.				2,850,000	2,850,000							
Industria Nacional de Cemento, S.A., loan No. 40.	Purchase of machinery and equipment for a cement plant.	1-11-62								5.75	.75	20 semiannual beginning 30 months after date of contract.
U.S. dollars				2,800,000	2,800,000							
Total loans to Costa Rica expressed in U.S. dollars.				5,800,000	5,800,000							
Less amount taken by participants.				150,000	150,000							
Net total of loans to Costa Rica expressed in U.S. dollars.				5,650,000	5,650,000							
ECUADOR												
Comisión Nacional de Valores (Republic of Ecuador), loan No. 17.	Development of wool production.	8-10-61	10-31-61							5.75	.75	20 semiannual beginning June 15, 1963.
Sucres [3]				717,000	717,000							
U.S. dollars				1,626,000	1,626,000							
Total loans to Ecuador expressed in U.S. dollars.				2,343,000	2,343,000							
EL SALVADOR												
Pan Lido, S.A., loan No. 12	Purchase of machinery to expand production of bread, cookies, and crackers.	6-29-61	7-12-61							5.75	.75	10 semiannual beginning Jan. 15, 1963.
U.S. dollars				200,000	192,515	7,485		7,485	645			

See footnotes at end of table, p. 177.

TABLE I.—*Statement of approved loans, Feb. 28, 1962*—Continued

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest [1]	Commitment fee	Repayment terms and principal installments [2]
						Disbursed	Repaid	Outstanding				
EL SALVADOR—continued										*Percent*	*Percent*	
Banco Central de Reserva (Republic of El Salvador), loan No. 20.	Development of industry and agriculture.	8-10-61	10-25-61							5.75	.75	20 semiannual beginning Apr. 25, 1965.
Colones [3]				$400,000	$400,000							
U.S. dollars				2,100,000	2,100,000							
Less amount taken by participants.				63,000	63,000							
Total				2,037,000	2,037,000							
Net total expressed in U.S. dollars.				2,437,000	2,437,000							
Banco Central de Reserva (Republic of El Salvador), loan No. 21.	Irrigation and flood control in Zapotitán Valley.	8-10-61	11-17-61							5.75	.75	32 semiannual beginning May 17, 1966.
Colones [3]				625,000	625,000							
U.S. dollars				1,050,000	1,050,000							
Total expressed in U.S. dollars.				1,675,000	1,675,000							
Banco Central de Reserva (Republic of El Salvador), loan No. 22.	Improvement and expansion of municipal water supply system.	8-10-61	11-17-61							5.75	.75	32 semiannual beginning May 17, 1966.
U.S. dollars				1,260,000	1,260,000							
Total loans to El Salvador expressed in U.S. dollars.				5,635,000	5,627,515	$7,485		$7,485	$645			
Less amount taken by participants.				63,000	63,000							
Net total of loans to El Salvador expressed in U.S. dollars.				5,572,000	5,564,515	7,485		7,485	645			

GUATEMALA												
Industria y Comercio Textiles Rex, S.A., loan No. 10.	Machinery for textile mill.	6-22-61	8-10-61							5.75	.75	10 semiannual beginning Feb. 19, 1963.
U.S. dollars				125,000	25,000	100,000		100,000	1,948			
Banco de Guatemala, loan No. 18.	Financing of projects in industrial agricultural and livestock fields.	8-10-61	9- 6-61							5.75	.75	10 annual beginning Sept. 6, 1964
Quetzales [3]				750,000	750,000							
U.S. dollars				4,250,000	4,250,000							
Less amount taken by participants.				580,000	580,000							
Total				3,670,000	3,670,000							
Net total expressed in U.S. dollars.				4,420,000	4,420,000							
Hidroeléctricas del Atlántico, S.A., loan No. 26.	Improvement and expansion of water supply system of Puerto Barrios.	9-28-61								5.75	.75	10 semiannual beginning 30 months after date of contract.
U.S. dollars				175,000	175,000							
Total loans to Guatemala expressed in U.S. dollars.				5,300,000	5,200,000	100,000		100,000	1,948			
Less amount taken by participants.				580,000	580,000							
Net total of loans to Guatemala expressed in U.S. dollars.				4,720,000	4,620,000	100,000		100,000	1,948			
HONDURAS												
Molinos de Honduras (Jacobo D. Kattan Industrial, S.A.), loan No. 8.	Purchase and installation of corn-flour mill.	6-15-61	7-27-61							5.75	.75	10 semiannual beginning July 15, 1964.
U.S. dollars				150,000	80,000	70,000		70,000	1,650			
Químicas Dinant de Centroamérica, S.A. de C.V., loan No. 14.	Machinery and equipment for chemical plant.	7-27-61	8-8-61							5.75	.75	12 semiannual beginning Feb. 10, 1964.
U.S. dollars				360,000	360,000				695			

See footnotes at end of table, p. 177.

TABLE I.—*Statement of approved loans, Feb. 28, 1962*—Continued

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest [1]	Commitment fee	Repayment terms and principal installments [2]
						Disbursed	Repaid	Outstanding				
HONDURAS—continued										*Percent*	*Percent*	
Less taken by participants				$60,000	$60,000				$116			
Net total expressed in U.S. dollars.				300,000	300,000				579			
Total loans to Honduras expressed in U.S. dollars.				510,000	440,000	$70,000		$70,000	2,345			
Less amount taken by participants.				60,000	60,000				116			
Net total of loans to Honduras expressed in U.S. dollars.				450,000	380,000	70,000		70,000	2,229			
MEXICO												
Nacional Financiera, S.A., loan No. 19.	Expansion of small- and medium-size industries.	8-10-61 contract.	10-19-61							5.75	.75	12 semiannual beginning Apr. 20, 1966.
Pesos				1,000,000	1,700,000	300,000		300,000				
U.S. dollars				2,000,000	1,300,000	700,000		700,000				
Total expressed in U.S. dollars.				3,000,000	2,000,000	1,000,000		1,000,000				
Nacional Financiera S.A. (Government of Mexico), loan No. 24.	4 irrigation projects	9-7-61	11-14-61							5.75	.75	34 semiannual beginning May 14, 1965.
Pesos				52,750,000	52,750,000							
U.S. dollars				8,780,000	8,780,000							
Less amount taken by participants.				774,000	774,000							
Total				8,006,000	8,006,000							
Net total expressed in U.S. dollars.				12,226,000	12,226,000							

Nacional Financiera S.A. (Government of Mexico), loan No. 42.	3 irrigation projects	1-25-62								5.75	.75	34 semiannual beginning 42 months after date of contract.
Pesos				34,300,000	34,300,000							
U.S. dollars				3,000,000	3,000,000							
Less amount taken by participants.				176,470	176,470							
Total				2,823,530	2,823,530							
Net total expressed in U.S. dollars.				5,567,530	5,567,530							
Total loans to Mexico expressed in U.S. dollars.				21,744,000	20,744,000	1,000,000		1,000,000				
Less amount taken by participants.				950,470	950,470							
Net total of loans to Mexico expressed in U.S. dollars.				20,793,530	19,793,530	1,000,000		1,000,000				
NICARAGUA												
Instituto de Fomento Nacional de Nicaragua (Republic of Nicaragua), loan No. 3.	Industrial development.	3-31-61	7-11-61							5.75	.75	20 semiannual beginning July 15, 1963.
U.S. dollars				2,000,000	1,850,000	150,000		150,000	3,558			
Less amount taken by participants.				272,000	122,000	150,000		150,000	1,421			
Net total expressed in U.S. dollars.				1,728,000	1,728,000				2,137			
Industrias Gemina, S.A., loan No. 37.	To assist in financing the construction of grain flour mill.	12-21-61								5.75	.75	8 semiannual beginning 18 months after date of contract.
U.S. dollars				450,000	450,000							
Total loans to Nicaragua expressed in U.S. dollars.				2,450,000	2,300,000	150,000		150,000	3,558			
Less amount taken by participants.				272,000	122,000	150,000		150,000	1,421			
Net total of loans to Nicaragua expressed in U.S. dollars.				2,178,000	2,178,000				2,137			

See footnotes at end of table, p. 177.

TABLE 1.—*Statement of approved loans, Feb. 28, 1962*—Continued

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest [1]	Commitment fee	Repayment terms and principal installments [2]
						Disbursed	Repaid	Outstanding				
PARAGUAY												
Compañía Algodonera, Paraguaya, S.A. (Consorcio Coplata, S.A. de Panama), loan No. 25.	Equipment for processing cotton, tobacco and industrial oils.	9-28-61	10-31-61							*Percent* 5.75	*Percent* .75	20 semiannual beginning May 1, 1964.
Guaranies [3]				$220,000	$138,444	$81,556		$81,556				
U.S. dollars				330,000	330,000							
Total loans to Paraguay expressed in U.S. dollars.				550,000	468,444	81,556		81,556				
PERU												
Corporación de Saneamiento de Arequipa, Peru (Republic of Peru), loan No. 1.	Improvement and expansion of potable water and sewerage system.	2-3-61	6-2-61							5.75	.75	20 semiannual beginning Dec. 1, 1965.
Soles				66,000,000	66,000,000							
U.S. dollars				1,450,000	1,450,000							
Less amount taken by participants.				145,000	145,000							
Total				1,305,000	1,305,000							
Net total expressed in U.S. dollars.				3,753,980	3,753,980							
Compañía Peruana de Cemento, Portland, S.A. (Banco Popular del Peru) loan No. 27.	Financing the centralization of cement production installations.	10-5-61								5.75	.75	16 semiannual beginning 30 months after date of contract.
Soles				6,750,000	6,750,000							
U.S. dollars				1,250,000	833,333	416,667		416,667				
Less amount taken by participants.				238,125	78,125	160,000		160,000				
Total				1,011,875	755,208	256,667		256,667				
Net total expressed in U.S. dollars.				1,263,647	1,006,980	256,667		256,667				

Total loan to Peru expressed in U.S. dollars.				5,400,752	4,984,085	416,667		416,667				
Less amount taken by participants.				383,115	223,125	160,000		160,000				
Net total of loans to Peru expressed in U.S. dollars.				5,017,627	4,760,960	256,667		256,667				
URUGUAY												
Government of the Republic of Uruguay, loan No. 15.	Expansion of water supply system of Montevideo.	8-3-61	10-9-61							5.75	.75	33 semiannual beginning Oct. 10, 1965.
Pesos [1]				2,750,000	2,750,000							
U.S. dollars				2,993,000	2,993,000							
Less amount taken by participants.				55,581	55,581							
Total				2,937,419	2,937,419							
Net total of loans to Uruguay expressed in U.S. dollars.				4,687,419	5,687,419							
VENEZUELA												
Corporación Venezolana de Fomento, loan No. 7.	Development of industrial projects.	5-18-61	8-11-61							5.75	.75	20 semiannual beginning [1] Feb. 15, 1964.
Bolivares				10,000,000	9,000,000	1,000,000		1,000,000	$28,630			
U.S. dollars				7,000,000	6,400,000	600,000		600,000	20,014			
Less amount taken by participants.				762,500	162,500	600,000		600,000	7,453			
Total				6,237,500	6,237,500				12,561			
Net total of loans to Venezuela expressed in U.S. dollars.				9,236,001	9,016,703	219,298		219,298	18,812			
Grand total expressed in U.S. dollars.				145,002,014	138,041,586	6,960,428		6,960,428	87,571			
Less total amount taken by participants.				4,760,117	3,393,023	1,367,094		1,367,094	9,862			
Net total expressed in U.S. dollars.				140,241,897	134,648,563	5,593,334		5,593,334	77,709			

[1] Including the special commission of 1 percent required by article III, sec. 12 of the agreement.
[2] Interest and amortizations shall be payable in the currencies loaned.
[3] Expressed in U.S. dollar equivalent.

Mr. CUTLER. I sent you, Mr. Passman, on March 1 a copy of the little summary that I made.

Mr. PASSMAN. It is very enlightening.

Mr. CUTLER. I don't think I should put it in the record; but if you have misplaced it, I can send you another one.

Mr. PASSMAN. We have it at hand.

Mr. CUTLER. This is very convenient for Mr. Dillon to pick up and see where we stand each month. I send them to you every month.

Mr. PASSMAN. I appreciate it, too.

WATER SUPPLY SYSTEM LOANS

There are seven loans listed which seem to be water supply system loans.

Mr. CUTLER. In the ordinary loans?

Mr. PASSMAN. Yes, sir.

Mr. CUTLER. We made loans for water and sewage systems from our ordinary resources, and I think one from the Fund for Special Operations prior to the coming into being of the Social Progress Trust Fund and our being able to begin making Trust Fund loans in August.

These loans are good loans. We were, I think, a pioneer in making loans for water and sewage out of our ordinary resources. We made one in Peru. We made one in El Salvador. We made two, I think, in Colombia. I would have to check to see the others.

But you are right; we did make some loans from ordinary resources at the beginning.

LOAN TO GUATEMALA

It would be about half a dozen. There was a little loan we made in Guatemala. Maybe you counted that one in. That was an interesting loan because the pipe——

Mr. PASSMAN. Please tell us about it.

Mr. CUTLER. The fruit company had put a pipe from the water supply under the bay. When it leaked, it was almost impossible to find out where the leak was—it was 40 feet down at the bottom of the bay—except by either shutting off the water or running some fluid through it that colored the water; and then as it leaked, it would come out in the bay.

It was very expensive to do that. This project is to go around the bay with some pipe that they had bought, intending to do it, which they bought secondhand.

Mr. PASSMAN. Did they ever get it fixed?

Mr. CUTLER. They are working on it right now. It is a private industry loan. It is a small company there.

SOCIAL PROGRESS LOANS MADE BY BANK FROM ORDINARY CAPITAL

Mr. PASSMAN. It is the committee's understanding that, in the future, loans or gifts, or grants, of this type will be made out of the Alliance for Progress funds.

Mr. CUTLER. Under the trust agreement between the United States and ourselves defining the fields in which we shall loan, the third field

of section 104(c) is community water supply and sanitation facilities.

Mr. PASSMAN. I know that the charter is broad enough for you to make the loans, but this new program came into being after your charter was approved. So I wonder if, in the future, it will be the policy of the Bank to offer this type of improvement to the Alliance for Progress?

Mr. CUTLER. We probably will continue, sir. Through March 1 we had made 10 loans from the Social Progress Trust Fund for $43,267,000.

Mr. PASSMAN. I believe you also made five such loans out of the Inter-American Development Bank operations since the Alliance for Progress program has been in effect, have you not?

Mr. CUTLER. To work on those loans, it takes 5 or 6 months to get going, and the loans had been underway. I think the Colombia loans were made after——

Mr. PASSMAN. You may insert that information in the record, General.

(The requested information follows:)

Loans from ordinary capital for water and sanitation since the inception of the Alliance for Progress

Country	Date granted	Amount
El Salvador	Aug. 10, 1961	$1, 260, 000
Guatemala	Sept. 28, 1961	175, 000
Montevideo, Uruguay	Aug. 3, 1961	2, 750, 000
Concepcion, Chile [1]	Nov. 22, 1961	1, 050, 000

[1] A companion loan to a Social Progress Trust Fund loan for the social development aspects of the same project.

REPAYMENT OF LOANS

Mr. PASSMAN. Could you provide for the record a statement showing the amount of repayment, with the principal and interest separated, expected in each fiscal year for the 46 loans that you have already made?

Mr. CUTLER. I haven't got that. You mean in ordinary resource loans?

Mr. PASSMAN. Yes, sir.

Mr. CUTLER. The Treasurer's Office can work that up.

Mr. PASSMAN. If you can do so without too much trouble, we should like to receive it; if not, the information is not necessary. However, at the present rate of approval—$194 million in loans in approximately 17 months—you are going to be running out of money before the paint dries on the walls, are you not?

Mr. CUTLER. The 46 ordinary capital loans totaled $145 million. While you were out of the room I think we checked and found almost all of such loans ran not longer than 12 years. Isn't that right?

Mr. ROSENSON. The great majority of them between 8 and 12 years.

Mr. CUTLER. So the money will be paid back to us during that period. You would like a year-by-year breakdown?

Mr. PASSMAN. Of the amounts that you anticipate in the repayment of interest and principal.

Mr. CUTLER. Would you like that for the Special Fund?

Mr. PASSMAN. All of the funds that are under the management of your bank.

Mr. ROSENSON. For how many years, sir?

Mr. PASSMAN. For the length of the loans, so we can kind of get an idea as to whether or not you are going to have sufficient capital to stay in business.

Mr. CUTLER. Do you want also the same information for the Special Progress Trust Fund?

Mr. PASSMAN. Yes, please.

Mr. CUTLER. All three windows?

Mr. PASSMAN. That is correct.

(The requested information follows:)

INTER-AMERICAN DEVELOPMENT BANK

Schedule of estimated collections of principal and interest on authorized loans from ordinary capital resources as of Feb. 28, 1962

[Expressed in U.S. dollar equivalent]

	Principal [1]	Interest [1]	Total [1]		Principal [1]	Interest [1]	Total [1]
1962		$1,823,209	$1,823,209	1974	$5,672,384	$1,513,049	$7,185,433
1963	$727,700	4,429,079	5,156,779	1975	4,532,336	1,203,276	5,735,612
1964	4,014,352	6,519,884	10,534,236	1976	3,762,445	953,733	4,716,178
1965	7,091,396	7,689,261	14,780,657	1977	3,444,141	741,968	4,186,109
1966	13,301,705	7,192,233	20,493,938	1978	2,555,298	556,707	3,112,005
1967	14,029,335	6,416,925	20,446,260	1979	2,555,298	409,779	2,965,077
1968	14,267,676	5,606,812	19,874,488	1980	2,555,298	262,848	2,818,146
1969	13,431,886	4,798,435	18,230,321	1981	2,369,525	118,589	2,488,114
1970	12,489,255	4,039,652	16,528,907	1982	286,000	12,292	298,292
1971	12,223,375	3,325,342	15,548,717				
1972	10,911,578	2,641,384	13,552,962	Total	140,241,897	62,281,199	202,523,096
1973	10,020,914	2,026,742	12,047,656				

[1] 73.64 percent is repayable in U.S. dollars and 26.36 percent is repayable in the local currency of the borrower. Includes interest at 5¾ percent per annum (including the special commission of 1 percent per annum) and commitment charge on undisbursed principal (¾ of 1 percent per annum).

The above calculations were based on the assumption that (1) loan disbursements will total $27.7 million in 1962, $60 million in 1963, and $50.2 million in 1964 and (2) that each loan authorization will be disbursed in full prior to the first principal amortization date of each loan. In 1961 loan disbursements totaled $2.3 million.

The above calculations do not include participations taken through February 1962 by U.S. and foreign commercial banks and banking institutions (such participations totaling $4,760,117).

Inter-American Development Bank

Schedule of estimated collections of principal and interest on loans authorized from Fund for Special Operations as of Feb. 28, 1962

[Expressed in U.S. dollar equivalent]

	Principal [1]	Interest [1]	Total [1]		Principal [1]	Interest [1]	Total [1]
1962		$509,880	$509,880	1976	$2,043,372	$184,935	$2,228,307
1963	$547,776	1,078,431	1,626,207	1977	1,214,198	104,331	1,318,529
1964	1,518,507	2,116,151	3,634,658	1978	676,698	56,927	733,625
1965	3,417,660	2,028,645	5,446,305	1979	415,273	30,089	445,362
1966	4,940,052	1,861,902	6,801,954	1980	153,874	14,728	168,602
1967	4,940,052	1,645,033	6,585,085	1981	153,858	7,973	161,831
1968	4,710,642	1,431,341	6,141,983	1982	13,234	2,763	15,997
1969	4,614,528	1,224,940	5,839,468	1983	13,234	2,181	15,415
1970	3,967,690	1,029,461	4,997,151	1984	13,234	1,600	14,834
1971	3,967,690	855,280	4,822,970	1985	13,234	1,019	14,253
1972	3,561,876	685,552	4,247,428	1986	13,256	437	13,693
1973	3,240,448	532,714	3,773,162				
1974	2,740,448	395,946	3,136,394	Total	49,131,274	16,083,386	65,214,660
1975	2,240,440	281,127	2,521,567				

[1] 53.7 percent is repayable in U.S. dollars and 46.3 percent is repayable in the local currency of the borrower. Includes interest at a weighted average (4.39 percent per annum) and commitment charge (where made) on undisbursed principal (¾ of 1 percent per annum).

The above calculations were based on the assumptions that (1) loan disbursements will total $17.4 million in 1962 and $29.1 million in 1963, and (2) that each loan authorization will be disbursed in full prior to the first principal amortization date of each loan. In 1961 loan disbursements totaled $2.6 million.

Inter-American Development Bank

Schedule of estimated collections of principal and interest on authorized loans as Administrator of the Social Progress Trust Fund, as of Feb. 28, 1962

[Expressed in U.S. dollar equivalent]

	Principal [1]	Interest [2]	Total		Principal [1]	Interest [2]	Total
1962	$859,886	$1,004,650	$1,864,536	1979	$8,755,281	$1,072,147	$9,827,428
1963	1,474,672	2,800,291	4,274,963	1980	8,785,281	823,948	9,609,229
1964	2,179,283	3,560,445	5,739,728	1981	8,790,281	575,254	9,365,535
1965	2,888,349	3,488,738	6,377,087	1982	3,461,349	401,893	3,863,242
1966	3,181,849	3,402,845	6,584,694	1983	1,837,731	326,912	2,164,643
1967	4,246,665	3,297,732	7,544,397	1984	1,842,731	274,833	2,117,564
1968	4,446,481	3,174,724	7,621,205	1985	1,572,731	226,504	1,799,235
1969	4,521,481	3,047,827	7,569,308	1986	1,575,320	181,959	1,757,279
1970	4,646,481	2,918,100	7,564,581	1987	1,259,500	141,847	1,401,347
1971	4,771,481	2,784,836	7,556,317	1988	1,259,500	106,203	1,365,703
1972	7,013,381	2,618,080	9,631,461	1989	803,500	77,026	880,526
1973	7,460,881	2,413,270	9,874,151	1990	803,500	54,287	857,787
1974	7,750,881	2,918,023	10,668,904	1991	803,500	31,547	835,047
1975	7,780,881	1,978,248	9,759,129	1992	712,500	20,192	732,692
1976	7,904,881	1,756,295	9,661,176				
1977	7,909,881	1,532,516	9,442,397	Total	129,235,000	48,319,485	177,554,485
1978	7,934,881	1,308,313	9,243,194				

[1] Principal repayments to be received in the local currency of the borrower equivalent to $73,498,000 and at the option of the borrower $55,737,000 may be made in either U.S. dollars or in the local currency of the borrower.

[2] Interest to be paid:

As service charge payable in U.S. dollars	$12,805,517
Payable in the local currency of the borrower	20,196,794
Payable in either U.S. dollars or in the local currency of the borrower	15,317,174
Total	48,319,485

Includes service charge of ¾ of 1 percent per annum payable in dollars, and interest at a weighted average (2.08 percent per annum) payable in local currency of the borrower or in dollars.

The above calculations were based on the assumption that: (1) loan disbursements will total $70.2 million in 1962 and $58.2 million in 1963; and (2) that each loan authorization will be disbursed in full prior to the first principal amortization date of each loan. In 1961 loan disbursements totaled $850,000.

LOAN APPLICATIONS

Mr. CUTLER. I thought in that connection it would interest you, Mr. Chairman—since you are speaking of our running out of money—if I gave you these figures for the record, which I put together.

I am now speaking of the Bank—not of the Bank as the administrator of the Social Progress Trust Fund. I will speak of us as the administrator in a minute.

Up through February 28 we had received 1,200 applications and inquiries for loans. It is not possible to break them down between ordinary operations and the Special Fund, because it isn't often decided until either it goes through the Operations Committee or even in the Board of Directors which of those windows it will be in.

But that isn't material to the point.

Mr. PASSMAN. Why not knock out the center and have one window, since it is all in the same pot?

Mr. CUTLER. Because the terms and purposes are different. Of these 1,200 applications and inquiries, we have rejected or filed through February 28, 1,054.

That shows that we have had time to sift through these applications and inquiries and find out which ones it was worthwhile carrying forward.

These are reported every 2 months in detail to the Directors.

Mr. PASSMAN. Would that be something like the sweepstakes—a man buys a ticket because it costs only a dime? I wonder if they file these applications because it is easy to do so and they may get the loan, but are not particularly offended if they do not?

Mr. CUTLER. They are not all applications, sir; there are letters from everybody over the world wanting to know how do I get a loan for this?

Mr. PASSMAN. Are those included in this total?

Mr. CUTLER. No.

Mr. PASSMAN. I am talking about your letters. You do get letters from all over?

Mr. CUTLER. A few. But then, of the balance—which you see is 146—41 are in project committees today being worked up in separate project committees to a loan status to go before the Operations Committee and then to the Directors if they pass over that hurdle.

SEPARATION OF LOANS BY FUND

Sixty-three have matured into loans. That is the $194,133,000 figure you gave. Forty-six of them from ordinary resources, to $145 million; and 17 from the special fund, $49,131,000.

Forty-two—the balance of the figure—are still under active consideration. They haven't been rejected or filed, and they haven't been processed as far as going to a project committee because that takes time.

The reason I wanted to give you these figures was to show you that, of this enormous amount that comes in to us, we don't just say, "Isn't this fine; we have a lot of people who want to borrow money."

We winnow them through very carefully and come out with 63 made into loans; 41 in project committees; and 42 still under active consideration.

Mr. PASSMAN. If you processed all the loans it would require $40 or $50 billion, would it not?

Mr. CUTLER. It sure would. If you look at applications for the Social Progress Trust Fund, where we have only been working a shorter time—since June—we have received 172 applications. Of these 66 have been rejected or filed or declared not eligible.

Mr. PASSMAN. Applications or letters of inquiry?

Mr. CUTLER. Both, applications and inquiries.

Mr. PASSMAN. Could you separate the two so that we would know how many——

Mr. CUTLER. It is very difficult because often it opens with an oral conversation or a letter. So 66 have been rejected or filed or transferred as not eligible; 21 are in project committees—as of February 28; 20 had matured into loans; and 65 were still under active consideration.

Here you see we haven't been working so long and haven't had the time to sift all these through.

Mr. PASSMAN. You are still in the sifting process?

Mr. CUTLER. That's right. We continue to be in the sifting process. These inquiries come into us 50 a month through ordinary operations, and perhaps a smaller number——

Mr. PASSMAN. It is a continuing process?

Mr. CUTLER. A continuing process.

Mr. PASSMAN. As long as you have capital.

Mr. CUTLER. But I wanted to show you the care which we took in separating ones which appeared to be capable of forming the subject matter of loans from those which did not.

Mr. PASSMAN. Are they all considered at the Washington level?

Mr. CUTLER. Everything comes to the Bank.

ACTIVITY OF BANK DIRECTORS

Mr. PASSMAN. All of your directors live in Washington?

Mr. CUTLER. Yes, sir. We meet twice—sometimes three times—a week.

Mr. PASSMAN. Have you sent any of your directors into the various countries?

Mr. CUTLER. Oh, yes, a good many of them before our annual meeting are visiting their countries now so as to have discussions.

Mr. PASSMAN. Just before the annual meetings, or do they also go back during the year?

Mr. CUTLER. No, they are constantly leaving their alternates or sending their alternates during the year. At the time of the annual meeting, since all of them have to move down to Buenos Aires, they take this opportunity to visit the countries which they represent, either before or after the meeting. You see, I am the only Director who represents only one country; but some of the Directors, like the Director for Mexico, has five or six small countries that he has to represent.

Mr. PASSMAN. He is a busy man, too, because one of the particular projects in Mexico City would keep a dozen of them busy, would it not?

Mr. CUTLER. That's right. He is very active. I thought while I had mentioned the applications for loans, you might like to have me speak of the applications for technical assistance.

Mr. PASSMAN. They have changed the name of technical assistance under the AID program.

SPECIAL INTER-AMERICAN FUND FOR SOCIAL PROGRESS

Mr. RHODES. Speaking of changing the name, didn't this Fund for Social Progress used to be called the Progress Trust Fund?

Mr. CUTLER. I think you are right, Mr. Rhodes. The original name was the Special Inter-American Fund for Social Progress—that was in the budget last year.

Mr. PASSMAN. For bilateral technical aid, the program is now known as development grants under our regular foreign aid. For technical aid through the U.N., our aid is now termed "Contributions to International Organizations."

Do you still have the same title for technical aid in the Organization of American States, General?

Mr. CUTLER. No.

TECHNICAL ASSISTANCE LOANS

We have power under the charter of the Bank to loan or grant for technical assistance in connection with projects or also for training.

Mr. PASSMAN. That is not from the $100 million which was appropriated to the ICA?

Mr. CUTLER. No.

Mr. PASSMAN. You have technical aid coming out of one of these windows, too?

Mr. CUTLER. We have under the charter of the Bank the power to give technical assistance in relation to specific projects, and also for purposes of training and education.

Mr. PASSMAN. Is that aid repayable in dollars?

Mr. CUTLER. It may be repayable, or it may not be repayable.

Mr. PASSMAN. It may turn out to be a grant.

Mr. CUTLER. We have the power to make a grant.

Mr. PASSMAN. Could you insert in the record a statement as to what would, or could, be covered? You have technical aid under the Organization of American States; you have direct technical aid under the AID program; you have technical aid through the United Nations. This is still another technical aid spigot.

(The information supplied follows:)

TECHNICAL ASSISTANCE

Provisions in the agreement establishing the Inter-American Development Bank, with reference to furnishing technical assistance from the Bank's resources and from the resources of the fund for special operations.

(*a*) Article I, setting forth the purpose and functions of the Bank, contains the following provision relating to technical assistance:

"Section 2. Functions:

"(*a*) To implement its purpose, the Bank shall have the following functions:

* * * * * * *

"(v) To provide technical assistance for the preparation, financing, and implementation of development plans and projects, including the study of priorities and the formulation of specific project proposals."

(*b*) Article VI is quoted in full:

"ARTICLE VI. TECHNICAL ASSISTANCE

"Section 1. Provision of technical advice and assistance:

"The Bank may, at the request of any member or members, or of private firms that may obtain loans from it, provide technical advice and assistance in its field of activity, particularly on:

"(i) The preparation, financing, and execution of development plans and projects, including the consideration of priorities, and the formulation of loan proposals on specific national or regional development projects; and

"(ii) The development and advanced training, through seminars and other forms of instruction, of personnel specializing in the formulation and implementation of development plans and projects.

"Section 2. Cooperative agreements on technical assistance:

"In order to accomplish the purposes of this article, the Bank may enter into agreements on technical assistance with other national or international institutions, either public or private.

"Section 3. Expenses:

"(*a*) The Bank may arrange with member countries or firms receiving technical assistance, for reimbursement of the expenses of furnishing such assistance on terms which the Bank deems appropriate.

"(*b*) The expenses of providing technical assistance not paid by the recipients shall be met from the net income of the Bank or of the fund. However, during the first 3 years of the Bank's operations, up to 3 percent, in total, of the initial resources of the fund may be used to meet such expense."

Provisions in the Social Progress Trust Fund agreement, with reference to the Bank as administrator under the trust agreement furnishing technical assistance from the Fund's resources.

ARTICLE I. ESTABLISHMENT AND PURPOSE OF THE SOCIAL PROGRESS TRUST FUND

"Section 1.03. The purpose of the fund shall be to provide capital resources and technical assistance on flexible terms and conditions, including repayment in local currency and the relending of repaid funds and interest, in accordance with appropriate and selective criteria in the light of the resources available, to support the efforts of the Latin American countries that are prepared to initiate or expand effective institutional improvements and to adopt measures to employ efficiently their own resources with a view to achieving greater social progress and more balanced economic growth."

"Section 1.05. In addition, the Administrator shall utilize the resources of the Fund to provide technical assistance related to projects in the fields set forth in section 1.04, and technical assistance related to the mobilizing of domestic financial resources and the strengthening of financial institutions." (Sec. 1.04 limits the utilization of the resources of the Fund to loans for projects or programs in the fields of land settlement and improved land use; housing for low-income groups; community water supply and sanitation facilities; supplementary financing and advanced education.)

ARTICLE II. CRITERIA FOR THE ADMINISTRATION OF THE FUND

"Section 2.01. In considering applications for loans and for technical assistance, the Administrator shall be guided by the following criteria:

"(*a*) Consideration shall continuously be given to the institutional improvement which a country is initiating or expanding consistent with article I, section 1.03, of this agreement. Accordingly, assistance shall be made available to those projects or programs which are related to effective self-help measures in countries which demonstrate their determination to achieve the purposes there set forth, and a willingness to employ their own resources efficiently to the end of meeting social needs and strengthening economic development. Special consideration shall be given to proposals which are part of a soundly conceived national development program, taking into account the review and analysis of social and economic progress and problems in each country undertaken at the annual consultative meetings of the Inter-American Economic and Social Council.

* * * * * * *

"(*d*) Before committing resources of the fund to any project or program, the Administrator shall take into account whether the financial and/or technical assistance required can be obtained from national or international agencies or from private sources on terms which, in the opinion of the Administrator, are reasonable for the recipient, considering all pertinent factors."

"Section 4.03. Upon request, technical assistance may be provided by the Administrator on a loan, grant or reimbursable basis, for the preparation, financing, and execution of plans and projects for carrying out the purposes set forth in article I, section 1.04 and 1.05, of this agreement."

"Section 4.05. Except as may be otherwise agreed between the United States and the Administrator, no financing or technical assistance shall be extended from the fund to the government or any government agency of, or to any individual, partnership, association, corporation or other entity in, any country which was not a member of the Bank as of September 12, 1960, or which is being subjected to economic or diplomatic sanctions by the Organization of American States. Moreover, no part of the fund shall be used for the purchase of goods or services originating in any such country."

Mr. CUTLER. It was very much the concern of the drafters of the charter of the Bank and the concern of President Eisenhower that the Bank be given the power to give technical assistance to these countries to help them develop projects, to work them up in proper form, to prepare loan applications, and to prepare the loan agreements.

Many of these countries are not qualified with the skills to do these things without help. Those are the figures I was going to give you. We have made loans for technical assistance which are included in our ordinary loan totals, like the loan to Argentina for the survey of the Chocon Colorado project, like the loan to Colombia for the strengthening of its planning resources of the Federal Government.

Those are reimbursable loans guaranteed by the republic in each case.

We have had 57 requests through February 28 for nonreimbursable technical assistance. We have rejected 18 of them. We have obligated $993,448, and we have five under active consideration.

Similarly, under the social progress trust fund agreement we have a power to give technical assistance in aid to specific projects.

Mr. PASSMAN. So it comes under both of the funds.

Mr. CUTLER. Well, it aids projects from these fund resources, and also to assist countries in certain limited fields for education and better mobilization of domestic resources.

DUPLICATION IN TECHNICAL AID PROGRAMS

Mr. PASSMAN. Thank you, General.

The Latin American countries are eligible for participation in the U.S. bi-lateral technical aid program. They are also eligible for funds under the U.N. expanded technical aid program. They are also eligible under the technical cooperation program of the Organization of American States.

They would also be eligible for grants through the Inter-American Development Bank. How do you manage to find out whether or not there is duplication?

Mr. CUTLER. I would answer that in this way, Mr. Chairman. Under the Bretton Woods Agreements Act, as amended, the U.S. Executive Director of the Inter-American Development Bank, before he may vote on loans, must present the document and the summary of the document to the National Advisory Council and appear and discuss it before the Council.

I can't vote until I am cleared by the National Advisory Council.

In addition to that, the U.S. Executive Director, before voting on a Social Progress Trust Fund loan——

Mr. PASSMAN. We are speaking now of the technical aid grants.

Do you ascertain whether or not they are eligible to receive the same type of technical aid from either one of the other technical aid programs?

Mr. GARY. And are receiving any.

Mr. CUTLER. That matter is at a complex, complicated place. I was trying to explain that I also received policy guidance——

Mr. PASSMAN. We are trying to find out if you ascertain whether or not they are getting aid from either or all of the other three technical aid funds.

We do know there are innumerable projects for which they are getting aid.

Mr. CUTLER. Yes; we have an informal committee which meets under the chairmanship of our Executive Vice President, which has, at the staff or the management level, representatives of all the lending agencies, the givers of technical assistance, who discuss the forward plans.

I am also a member of the Alliance for Progress Committee, of which Mr. Moscoso is chairman, which meets periodically and discusses all of these problems. There is a great exchange of information here. I can assure you we are not fighting to spend money for technical assistance——

Mr. PASSMAN. What we are trying to find out is whether or not you do have some system whereby you eliminate these applications if they are eligible to get aid or are receiving aid out of the other three technical aid projects.

Mr. CUTLER. Most of our technical aid relates to specific projects we are working on.

MULTIPLE SOURCE TECHNICAL AID PROJECTS

Mr. PASSMAN. What if you find out that you are in competition with the U.N. expanded technical aid program or the U.S. bilateral technical aid program or the Organization of American States technical aid program, the technical aid program under the Alliance for Progress? How do you keep all that separated?

Mr. CUTLER. It has to be kept separate, of course. The U.N. part is much more basic in what they do. First, I said our technical assistance related to specific projects we are working on.

Mr. PASSMAN. Could you give us a list of those for the record, and we will accept that as your answer?

Mr. CUTLER It is technical assistance for specific projects; it is technical assistance in fields of education and training; and it is technical assistance where we join with others—OAS in a tax study, ECLA in the new institute for training that is being created in South America. We have a number of examples to that effect.

Mr. PASSMAN. I am talking about technical aid that you grant, that you give to them with no repayment. For all types that you have mentioned, they can get the same kind of aid out of either one of the other three programs.

ROADBUILDING PROJECTS

You said that your technical aid is in a specialized field, other than the educational field. How about roadbuilding? Do you have any grants for design of water tanks and streets? Would that be considered a technical aid program under your account?

HONDURAS PROJECT

Mr. CUTLER. We don't do, as of the present time, the type of detailed work that ICA has previously done. I was going to say that in the big road program for the western part of Honduras, where IDA put in $9 million toward the project——

Mr. PASSMAN. Technical aid?

Mr. CUTLER. No; a $9 million loan—we put in a loan of $2,250,000. The country put in a considerable amount, and we made a grant of $250,000 technical assistance to prepare plans for access and feeder roads in connection with the opening up of this western area.

Mr. PASSMAN. That is on the planning of the road?

Mr. CUTLER. The planning and engineering for the roads.

Mr. PASSMAN. So they would be eligible, then, for technical aid grants for roadbuilding?

Mr. CUTLER. Yes; we have made also a loan to Honduras of $960,000.

Mr. PASSMAN. How much technical assistance——

Mr. CUTLER. That is reimbursable technical assistance.

Mr. PASSMAN. It is not a grant?

Mr. CUTLER. No.

Mr. PASSMAN. I am thinking of the grant portion of your technical aid.

Mr. ROSENSON. $250,000 was granted. None of the $960,000 was a grant, but there was a grant of $250,000 to make studies connected with the country's western highway program.

TECHNICAL ASSISTANCE GRANTS

Mr. PASSMAN. It would be helpful, General, if you could supply to the committee a listing of all grant technical aid through the Inter-American Development Bank.

Mr. MONTOYA. Mr. Chairman, may I inject here. Did you say that that $960,000 was a grant?

Mr. PASSMAN. Only $250,000. Much of this is for economic aid under technical assistance programs.

(The information supplied follows:)

Inter-American Development Bank

Technical assistance grant obligations through Feb. 28, 1962 (nonreimbursable)

FUND FOR SPECIAL OPERATIONS

Country	Field of activity	Amount obligated
Argentina: Chocon Mission	Electric power, irrigation, flood control	$3,491
Bolivia:		
COMIBOL	Tin mines	58,287
Bolivian Development Corp	Development of financing institution	225,571
General	Coordination of technical assistance in different fields.	30,000
Total		313,858
Colombia: Financial Corp. of Caldas	Regional development plan	1,960
Ecuador:		
National Economic Planning Council	Project preparation	32,630
National Development Bank	Assistance in organizing institution	866
Total		33,496
El Salvador:		
Central Reserve Bank	do	24,000
Industrial Development Institute	do	900
Total		24,900
Haiti:		
National Bank	do	91,163
Government of Haiti	Hydroelectric power	70,000
Tripartite Mission	National development planning	3,000
Total		164,163
Honduras: National Development Bank	Assistance in organizing institution	51,775
Nicaragua: National Bank	do	11,300
Panama:		
National Planning Agency	Economic planning	5,679
Economic Development Institute	Assistance in organizing institution	48,000
Total		53,679
Paraguay:		
National Development Bank	do	48,000
Ministry of Agriculture	Colonization	7,323
Total		55,323
Uruguay: Tripartite Mission	National development planning	1,201
Venezuela: Venezuela Development Corp.	Assistance in organizing institution	16,700
Regional: Central American Integration Bank.	do	20,817
Training:		
IDB–CEMIA courses	Officials of development institutions	90,310
Fellowships	IDB–CEMLA, training courses; ECLA training course.	88,801
Intern training	National officials in relation to IDB programs	5,974
Argentine national courses	Officials of provincial banks	3,000
Seminars	Officials of development institutions	15,000
National Bank of Nicaragua	Officials of savings department	2,700
Total		205,785
Substantive studies:		
FLACSO	Training in fields of economics and public administration.	22,500
Stanford Research Institute	Financing of small and medium industries in Latin America.	6,000
Pan American Health Organization	Production of immunization products	6,500
Total		35,000
Grand total		993,448

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Technical assistance grant obligations through Feb. 28, 1962 (nonreimbursable)—Continued

SOCIAL PROGRESS TRUST FUND

Country	Field of activity [1]	Amount obligated
Argentina: Government	Sec. 1.04(b)	$3,000
Bolivia: Government	Combined sec. 1.04(a)(b)(c)	44,100
Chile: Government	Sec. 1.04(b)	50,000
Ecuador:		
Government	Sec. 1.04(a)	12,500
Municipality of Quito	Combined sec. 1.04(b)(c)	22,000
Municipality of Guayaquil	Sec. 1.04(b)	2,045
Government	Sec. 1.05	16,500
Total		53,045
El Salvador:		
Government	Sec. 1.04(a)	7,500
Do	Sec. 1.04(c)	20,000
Do	Sec. 1.04(a)	10,000
Total		37,500
Guatemala:		
Government	Sec. 1.05	60,000
Do	Sec. 1.04(b)	752
Total		60,752
Honduras: Government	Sec. 1.04(a)	17,000
Paraguay: Government	Sec. 1.04(c)	17,000
Peru: Central Credit Cooperative	Sec. 1.04(b)	5,000
Uruguay: Tripartite mission	do	1,347
Venezuela: Government	Sec. 1.04(a)	19,000
Training: Seminars, training courses and fellowships related to strengthening financial institutions in the agricultural area.	Sec. 1.05	41,000
Substantive studies:		
Agrarian reform in Central America	Sec. 1.04(a)	25,000
Tax study in relation to Latin American countries.	Sec. 1.05	50,000
Total		75,000
Grand total		423,744

[1] Social Progress Trust Fund Agreement:

Section 1.04. Consistent with the foregoing purpose, the Administrator shall utilize the resources of the Fund to make loans for projects or programs designed to achieve improved conditions in the countries concerned in the fields of—

(a) land settlement and improved land use, including access and feeder roads, assistance to agricultural credit institutions, assistance to supervised credit and agricultural extension, and development of storage and marketing facilities, provided that the resources of the Fund shall not be used for the purchase of agricultural land;

(b) housing for low-income groups, through assistance to self-help housing and to institutions providing long-term housing finance and engaged in mobilizing domestic resources for this purpose;

(c) community water supply and sanitation facilities;

(d) such supplementary financing of facilities for advanced education and training related to economic and social development as may be agreed upon from time to time between the United States and the Administrator.

Section 1.05. In addition, the Administrator shall utilize the resources of the Fund to provide technical assistance related to projects in the fields set forth in section 1.04, and technical assistance related to the mobilizing of domestic financial resources and the strengthening of financial institutions.

Mr. CUTLER. In my statement on page 6, and on an earlier page, I stated the total obligated for nonreimbursable technical assistance in case of the social progress trust fund. It is on page 6.

Mr. PASSMAN. I am talking now about the fact that you have three funds, General. Please have one of your assistants give us a list of the grant assistance, nonreimbursable, out of the three funds.

Mr. CUTLER. The totals are stated, but we will supply the detail if you wish it.

Mr. PASSMAN. By category, because you have three windows there.

What nations have restricted the use of their currencies—that is, to the extent of their contribution to the Inter-American Development Bank?

Mr. CUTLER. Mexico.

Mr. PASSMAN. In the amount of——

Mr. CUTLER. All of its local currency is restricted.

Mr. PASSMAN. To be used only in Mexico?

Mr. CUTLER. That's right.

Mr. PASSMAN. Is that something like the Russians limiting the use of their rubles to technical aid only in the countries which they designate?

Mr. CUTLER. Mexico did it from the very beginning. No other country has followed suit.

We have used some of the Mexican money in Mexico.

Mr. PASSMAN. Do they appear to be cooperating fully with the other members, if they place a limitation on their peso contributions to use only in Mexico?

Mr. CUTLER. I believe the charter gives the countries a right to tie their local funds—not the dollars but the local currency.

Each country pays half in gold or dollars.

Mr. PASSMAN. What effect, if any, does this restriction have on the Bank's operations?

Mr. CUTLER. It hasn't had any so far because we haven't spent all the Mexican pesos. We have spent some of them in Mexico.

Mr. PASSMAN. In connection with the special operation fund, what countries other than Mexico have restricted the use of their currencies?

Mr. CUTLER. None. Well, Mexico has restricted its local currencies in the special operations fund and in the ordinary capital.

Mr. GARY. Will the gentlemen yield?

Mr. PASSMAN. Yes.

Mr. GARY. Without those restrictions, is there anywhere else you could use those pesos?

Mr. CUTLER. I believe the Mexican pesos might be used for poorer countries in Central America who wish to buy some of the industrial equipment which Mexico is making. For instance, suppose Honduras came to us and said, "We want to buy Mexican machinery." We would like to lend to Honduras some pesos so they can do it.

We can do that because that is going to be spent in Mexico. It is fully convertible, isn't it?

Mr. HARLEY. Yes; but it was never intended that those currencies would be used in a fully convertible way in any case.

Mr. PASSMAN. It would be the same as the United States saying, in effect, "We are going to give you the aid dollars, but you have to spend them in this country"?

Mr. HARLEY. Yes.

Mr. PASSMAN. You could not exchange the dollars for anything in any other country?

Mr. HARLEY. It isn't that tight, as you know, Mr. Chairman.

Mr. PASSMAN. I know it is not that tight. But other nations frequently drive better bargains than we do.

What nations have, as a part of their contribution to the capital of the Bank, deposited nonnegotiable, non-interest-bearing notes?

Mr. CUTLER. The countries which have done that are listed in the first annex, the ordinary capital pages.

Mr. PASSMAN. Are there about 15 of them?

Mr. CUTLER. No, sir. In the ordinary capital, Argentina, Bolivia, Panama, Peru, Uruguay, and Venezuela.

Mr. PASSMAN. How much do they save by this operation?

Mr. CUTLER. They don't really save anything because it means they just aren't putting the money out.

Mr. PASSMAN. Is this about the same as an I O U that you could not get anybody to cash?

Mr. CUTLER. Oh, no; it is a demand note.

Mr. PASSMAN. It is listed as nonnegotiable, noninterest bearing. Would it not be about the same as putting an I O U in there, because it has no effect on their credit? It is nonnegotiable, and in reality they have not deposited anything to the fund that you can use?

Mr. CUTLER. No, it is a demand note at any time, right now——

Mr. PASSMAN. You cannot negotiate that piece of paper.

Mr. CUTLER. We don't negotiate it.

Mr. PASSMAN. How can you use it in the interest of this program?

Mr. CUTLER. We can demand the payment of these notes——

Mr. PASSMAN. But as long as you hold it, and you do not demand payment, it is dormant, and it is not contributing anything for usable capital investment, is it?

Mr. CUTLER. I don't know what it otherwise would contribute, because these——

Mr. PASSMAN. Did we deposit our part of the capital in a nonnegotiable, nonusable, non-interest-bearing note? What can you do with that note if you cannot negotiate it, borrow money on it, or use it to meet some obligation in a neighboring country?

What do you mean by nonnegotiable?

Mr. CUTLER. I will tell you. This is in the charter of the Bank——

Mr. PASSMAN. I know it is in the charter, General. But, how can you take that nonnegotiable, non-interest-bearing instrument, and use it, for example, to help some neighboring nation?

Mr. CUTLER. That is not the purpose——

Mr. PASSMAN. Can you use it?

Mr. CUTLER. It is not a bank that does it. If you will take the case of Argentina, Argentina paid its one-half, which is payable in national currency. Turning the pesos into dollars for ease of statement, $127,000 was paid to us, and is available——

Mr. PASSMAN. For what purpose can you use the nonnegotiable notes?

Mr. CUTLER. And $15,344,000 the Bank holds as the demand note. At any time that we wish to use more Argentine pesos, we turn in the note and demand it and it is paid to us and we are able to use it.

Mr. PASSMAN. Is it accurate to assume that you do accept nonnegotiable, non-interest-bearing notes in lieu of either dollars or local currency?

Mr. CUTLER. Not dollars—well, not dollars from Latin American countries.

Mr. PASSMAN. All right, in lieu of local currencies. You accept a nonnegotiable, non-interest-bearing note in lieu of usable local currency of a nation?

Mr. CUTLER. That's right.

Mr. PASSMAN. And, therefore, that part of their pledge is dormant, and you are not realizing any interest on it. and neither can you use it in meeting obligations without their specific permission. At that time, you would have to ask them to bring in local currency or negotiable paper for it?

Mr. CUTLER. Well, they do it on a moment's notice. It is a demand note.

Mr. PASSMAN. Why take it at all? Why do you not just say, instead of having an I O U which is nonnegotiable, non-interest-bearing, nonusable, "We are just carrying your commitment as delinquent until such time as"——

Mr. CUTLER. Because the charter provided it.

Mr. PASSMAN. Is this not a rather loose business?

Mr. CUTLER. No, we do not need those pesos. When we need them, we will demand. The United States has done it. If you will look at the special fund page——

Mr. PASSMAN. You have named five of them. If it is so desirable, why do we not just have Uncle Sam send a postdated check that they cannot use, cannot cash, cannot lend, cannot draw any interest on, and say, "We are just not prepared, on account of the great demand for dollars, to make a contribution; but here is a piece of paper, which you can hold, representing our pledge"?

That is what it amounts to, the way I interpret it.

Mr. CUTLER. The United States has done it, Mr. Passman.

Mr. PASSMAN. To whom did we ever give a postdated check of the type to which I referred?

Mr. CUTLER. In the case of the Special Fund, when the United States made its $50 million payment last October 7 on account of the payment due on October 31, 1961, the United States gave one-half of that amount, or $25 million, in the form of a non-interest-bearing, nonnegotiable demand note.

Mr. PASSMAN. Under what conditions was that done? Waiting for the others to meet their commitments?

Mr. CUTLER. Just the same conditions as Argentina, Bolivia——

Mr. PASSMAN. Did the Congress appropriate the money, and it was available to make the contribution?

Mr. CUTLER. The Congress appropriated it, and whenever we need it, it is perfectly understood that we can go and cash these demand notes.

Mr. PASSMAN. Have you called upon any of these nations, whose nonnegotiable instruments you are holding, to put up the money?

Mr. CUTLER. We do not need the money now. We have enough money.

Mr. PASSMAN. The future will determine whether or not they will put up the money.

Mr. CUTLER. I beg your pardon, Mr. Passman. I assume that when we present the $25 million note of the U.S. Government, the United States will pay it.

Mr. PASSMAN. Of course the United States will pay it.

Mr. CUTLER. I have the same feeling of these other countries.

RATIO OF LOANS TO CAPITAL CONTRIBUTIONS

Mr. PASSMAN. You have named the countries which put up these nonnegotiables. Can you tell us whether or not the amount of grants or loans that we have made to them exceeds the amount of the local currency they have put in?

Mr. CUTLER. No; it doesn't. If we needed more local currency, as I said, we would tender the note and get more local currency in order to be able to use it.

Mr. PASSMAN. You have made loans to the five countries out of this account.

Mr. CUTLER. Yes; we have.

Mr. PASSMAN. What percentage of the total amount of their contributions are you holding in these nonnegotiable, non-interest-bearing notes?

Mr. CUTLER. I haven't got the percentage.

Mr. HARLEY. It is limited to 50 percent, by the charter. It is in the charter, sir.

Mr. PASSMAN. Are they using up to the limit in depositing?

Mr. HARLEY. I see all of them have put in a small amount of local currency; 49 or 48 percent is the way the figures look to me.

Mr. PASSMAN. They have taken about what the traffic will bear?

Mr. CUTLER. If we need it, we can get it from them just as we can get it from the United States in the special fund.

NONNEGOTIABLE NOTES FOR SPECIAL OPERATIONS FUND

Mr. PASSMAN. There have been a lot of defaults on payments all over the world. The Export-Import Bank has just been instructed to defer for 5 to 10 years, without interest, some $263 million worth of delinquent money.

Did these countries also deposit nonnegotiable, non-interest-bearing notes to the Special Operations Fund?

Mr. CUTLER. The same countries that show on this table: Argentina, Bolivia, Panama, Peru, the United States, Uruguay, and Venezuela—the United States is the only addition.

Mr. PASSMAN. The same countries have done the same thing in both funds?

Mr. CUTLER. Except the United States.

Mr. PASSMAN. Except the United States, and I think ours is——

Mr. CUTLER. $25 million. One-half of the payment that was made last——

Mr. PASSMAN. They are taking it up to about 50 percent of all the funds?

Mr. CUTLER. No. The charter says, Mr. Passman, that a country may, for the national currency part of its contribution, tender non-interest-bearing, nonnegotiable demand notes. One-half is the amount.

Mr. PASSMAN. What is the total amount paid in to date in this Special Operations Fund?

Mr. CUTLER. The total amount paid in in the Special Operations Fund is $145,764,552.

LOANS FROM SPECIAL OPERATIONS FUND AND SOCIAL PROGRESS TRUST FUND

Mr. PASSMAN. As of February 28, the Agency had approved 17 loans at a cost of approximately $49 million out of the Special Operations Fund?

Mr. CUTLER. $49,131,274; yes, sir.

Mr. PASSMAN. We shall insert in the record table II.

(Table II is as follows:)

Inter-American Development Bank—Fund for Special Operations

Table II.—*Statement of approved loans, Feb. 28, 1962*

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest	Commitment fee	Repayment terms and principal installments
						Disbursed	Repaid	Outstanding				
ARGENTINA										*Percent*	*Percent*	
Republic of Argentina, loan No. 17.	Technical assistance for planning development projects in Argentina.	2-28-62								4.00	None	7 semiannual beginning 30 months after date of contract.
Pesos				$25,000,000	$25,000,000							
U.S. dollars				500,000	500,000							
Total of loans to Argentina expressed in U.S. dollars.				802,939	802,939							
BOLIVIA												
Corporación Boliviana de Fomento (Banco Central de Bolivia), loan No. 1.	To finance specific projects for economic development.	2-24-61	5-11-61							4.50	None	20 semiannual beginning Nov. 11, 1964 (interest 1st 8 years and 1st 10 principal payments in bolivianos, the balance in dollars).
U.S. dollars				10,000,000	9,175,179	$824,821		$824,821	$8,287			
Corporación Minera de Bolivia (Banco Central de Bolivia), loan No. 9.	To finance machinery, equipment, and services for rehabilitation of mines.	7-14-61	8-31-61							4.00	None	14 semiannual beginning 42 months after date of contract (interest and principal payable in currencies loaned).
U.S. dollars				4,500,000	2,573,620	1,926,380		1,926,380				
Total of loans to Bolivia expressed in U.S. dollars.				14,500,000	11,748,799	2,751,201		2,751,201	8,287			

BRAZIL												
Banco do Nordeste do Brasil, loan No. 3.	Economic development program for northeastern Brazil.	4–9–61	8–3–61							4.50	None	24 semiannual beginning Dec. 15, 1965 (interest and principal payable in dollars).
U.S. dollars				10,000,000	9,750,000	250,000		250,000				
Comissão de Planejamento Econômico da Bahia (State of Bahia), loan No. 16.	Technical assistance for planning industrial, social, and infrastructure projects.	2–21–62								4.00	None	12 semiannual beginning 24 months after date of contract.
Cruzeiros [1]				265,000	265,000							
CHILE												
Corporación de Fomento de la Producción de Chile, loan No. 14.	Farm settlement	12–21–61								4.00	None	27 semiannual beginning 48 months after date of contract (interest in escudos).
Escudos				1,470,000	1,470,000							
U.S. dollars				5,657,000	5,657,000							
Total expressed in U.S. dollars.				7,058,335	7,058,335							
Corporación de Fomento de la Producción de Chile; loan No. 15.	Technical assistance in connection with rural credit, farm management, and colonization.	12–21–61								4.00	None	7 annual beginning 36 months after date of contract (interest and principal payable in escudos).
U.S. dollars				265,000	265,000							
Total of loans to Chile expressed in U.S. dollars.				7,323,335	7,323,335							

See footnote at the end of table, p. 201.

TABLE II.—*Statement of approved loans, Feb. 28, 1962*—Continued

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest	Commitment fee	Repayment terms and principal installments
						Disbursed	Repaid	Outstanding				
ECUADOR												
										Percent	*Percent*	
Comisión Nacional de Valores (Republic of Ecuador), loan No. 8.	Development of African oil palm cultivation.	7-13-61	----------	----------	----------	----------	----------	----------	----------	5.00	None	24 semiannual beginning June 15, 1964 (interest during the period of disbursement payable in sucres and thereafter principal and interest payable in the currencies loaned).
Sucres [1]	----------	----------	----------	$276,000	$276,000	----------	----------	----------	----------	----------	----------	
U.S. dollars	----------	----------	----------	2,089,000	2,089,000	----------	----------	----------	----------	----------	----------	
Total of loans to Ecuador expressed in U.S. dollars.	----------	----------	----------	2,365,000	2,365,000	----------	----------	----------	----------	----------	----------	
EL SALVADOR												
Banco Central de Reserva (Republic of El Salvador), loan No. 11.	Development of rural electrification project for municipalities.	8-10-61	11-17-61	----------	----------	----------	----------	----------	----------	4.00	None	34 semiannual beginning May 17, 1970 (interest and principal payable in currencies loaned).
Colones [1]	----------	----------	----------	60,000	60,000	----------	----------	----------	----------	----------	----------	
U.S. dollars	----------	----------	----------	165,000	165,000	----------	----------	----------	----------	----------	----------	
Total of loans to El Salvador expressed in U.S. dollars.	----------	----------	----------	225,000	225,000	----------	----------	----------	----------	----------	----------	

HAITI												
Banque Nationale de la République d'Haiti (Republic of Haiti), loan No. 4.	To finance specific projects for economic development.	4-9-61	8-17-61							4.00	None	24 semiannual beginning Feb. 17, 1965 (interest and principal payable in gourdes).
U.S. dollars				3,500,000	3,500,000							
Total of loans to Haiti expressed in U.S. dollars.				3,500,000	3,500,000							
HONDURAS												
Government of Honduras, loan No. 5.	Highway construction.	5-11-61	8-11-61							4.00	None	32 semiannual beginning Jan. 1, 1966 (interest payable in dollars, principal payable in lempiras).
U.S. dollars				2,250,000	2,250,000							
HONDURAS												
Government of Honduras, loan No. 12.	Technical assistance for highway and air transport surveys.	11-9-61								4.00	None	10 semiannual beginning 30 months after date of contract (interest and principal payable in dollars).
U.S. dollars				960,000	960,000							
Total of loans to Honduras expressed in U.S. dollars.				3,210,000	3,210,000							

See footnote at the end of table, p. 201.

TABLE II.—*Statement of approved loans, Feb. 28, 1962*—Continued

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest	Commitment fee	Repayment terms and principal installments
						Disbursed	Repaid	Outstanding				
PANAMA												
Instituto de Fomento Económico (Republic of Panama).	To assist in financing an agricultural development plan.	12-7-61	1-10-62							*Percent* 4.00	*Percent* None	24 semiannual beginning July 15, 1956 (interest and principal payable in currencies loaned).
Balboas				$186,000	$186,000							
U.S. dollars				2,714,000	2,714,000							
Total of loans to Panama expressed in U.S. dollars.				2,900,000	2,900,000							
PARAGUAY												
Banco Nacional de Fomento del Paraguay (Republic of Paraguay), loan No. 7.	Development of industrial, agricultural, and livestock projects.	3-24-61	7-28-61							5.75	None	14 semiannual beginning 12 months after first disbursement (interest and principal payable in guaranies).
U.S. dollars				3,000,000	3,000,000							
Estabilizadora Paraguaya de Alimentos, S.A. (shareholders), loan No. 2.	To finance equipment for milk sterilization plant.	6-29-61								5.75	.75	16 semiannual beginning 30 months after date of contract (interest, principal and commitment fee payable in guaranies).
U.S. dollars				150,000	150,000							

Government of Paraguay, loan No. 6.	Equipment for expansion of colonization project.	5-26-61	7-28-61							4.00	None	18 semiannual beginning Feb. 1, 1963 (interest and principal payable in guaranies).
U.S. dollars				250,000	250,000							
Total of loans to Paraguay expressed in U.S. dollars.				3,400,000	3,400,000							
URUGUAY												
Establecimientos Frigoríficos del Cerro, S.A., loan No. 10.	Improvement in meat-processing plant.	8-3-61	11-30-61							5.75	None	14 semiannual beginning May 31, 1963 (interest and principal payable in currencies loaned).
Pesos [1]				190,000	190,000							
U.S. dollars				450,000	450,000							
Total of loans to Uruguay expressed in U.S. dollars.				640,000	640,000							
Grand total expressed in U.S. dollars.				49,131,274	46,130,073	$3,001,201		$3,001,201	$8,287			

[1] Expressed in U.S. dollar equivalent.

Mr. PASSMAN. We shall recess until 2 p.m.

AFTERNOON SESSION

LOAN FOR BOLIVIAN MINE REHABILITATION

Mr. PASSMAN. The committee will come to order.

General, I believe that the IDB made a loan of $4.5 million for rehabilitation of the Bolivian tin mines.

Mr. CUTLER. Yes, sir.

Mr. PASSMAN. Is that amount for the total cost of rehabilitating the mines or is it just one loan?

Mr. CUTLER. No. We took a great interest in the rehabilitation of Comibol, because you cannot rehabilitate Bolivia unless you rehabilitate Comibol first. And we spent a good deal of money in technical assistance having a very competent study made by engineers, a series of studies; and as a result of this and some leadership that we took, we got a total of loans for this purpose for the first year. We put in $4.5 million, Argentina put in $1.5 million, the West German Government put in deutsche marks in the equivalent of $3.5 million.

Mr. PASSMAN. That is a loan?

Mr. CUTLER. Yes, sir. These are all on a loan basis, the same terms.

And the U.S. Government, through, originally, ICA but now AID, and through food for peace, put up the difference to come to about $16 million all told for the first year.

If this works as we hope and believe that it will—because the President of Bolivia is taking very courageous steps to cure some of the socioeconomic problems that have beset the mines—then we will make, in successive years, additional loans, perhaps for 2 or 3 years until the mines are on a paying basis and able to pay our loans back and have something left.

And the German Government has agreed also to increase its loan so as to cooperate with us.

Mr. PASSMAN. When did they reach those agreements?

Mr. CUTLER. These agreements were worked out last summer.

Mr. PASSMAN. What if Germany changed its mind and reduced its aid, say, by two-thirds?

Mr. CUTLER. It will be a great blow to this Operation Triangular, as they call it, between West Germany and ourselves in Bolivia. Then Argentina also came in and supplied some help. I think it would be doubtful if they would back out other than for a reason which would cause the rest of us to back out.

They have asked us to manage their loan for them so we act for West Germany in that connection.

Mr. PASSMAN. I think you might find that they are going to limit, or reduce, their aid.

I believe that we gave supplemental assistance of an additional $3.5 million?

Mr. CUTLER. To what, Mr. Chairman?

Mr. PASSMAN. To Bolivia for this project.

Mr. CUTLER. Well, we loaned them $4.5 million. We have——

Mr. PASSMAN. In addition to the package deal from the United States, did ICA, or AID, not give them, out of the supporting assistance category, $3.5 million?

Mr. CUTLER. The Bank did not. That came out of the U.S. funds.

Mr. PASSMAN. That is another spigot. Are you familiar with the $3.5 million?

Mr. CUTLER. No; the United States put in $3.5 million.

Mr. PASSMAN. Did you include that in this total of $16 million?

IDB SPECIAL FUND LOAN IN BOLIVIA

Mr. CUTLER. The Bank put in $4.5 million.

Mr. PASSMAN. You stated a total on this package of about $16 million, did you not?

Mr. CUTLER. There was an additional of about $5 million all told.

Mr. PASSMAN. Did that include the amount of $3.5 million out of the supporting assistance item?

Mr. CUTLER. The total would have included—the total first year expense—about $3.5 million.

Mr. PASSMAN. How about the second year? What would the total be?

Mr. CUTLER. I think the total for the 3 years was something like $35 million, not including the rehabilitation of the railroads.

COST OF REHABILITATING BOLIVIAN RAILROADS

Mr. PASSMAN. How much would that be?

Mr. CUTLER. We hoped the British would take an interest in it; they originally owned the railroads.

Mr. PASSMAN. How much would it be?

Mr. CUTLER. The railroad rehabilitation is something between $3 and $4 million.

Now, we anticipate in this operation, to save us Bolivia—in which the United States and the U.S. Government and the Inter-American Bank and Argentina so far participated——

Mr. PASSMAN. Hope to do what—save them?

Mr. CUTLER. We can rehabilitate the COMIBOL, which are the third greatest tin mines in the world and used to be enormously profitable, and bring it again, toward the end of the third year, into profitable operation, so that it will, over a period of 12 years, be able to pay off the loans that have been made to it to rehabilitate it, and also to show something in the way of profit.

Mr. PASSMAN. Thank you, General.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. We entertained that same hope, and we were more enthusiastic about the possibility of success then, back in 1952. We have been pouring in millions and millions of dollars every year since, and now we foresee it being projected out for another 12 years. Is that just about it?

Mr. CUTLER. Well, this is slightly different than what has been done heretofore, Mr. Chairman.

BACKGROUND ON BOLIVIAN MINE REHABILITATION

Mr. PASSMAN. It is for the Bolivian mines; is it not?

Mr. CUTLER. This is a direct attempt to rehabilitate the great nationalized mines. Under COMIBOL.

Mr. PASSMAN. But are we thinking about the same country and the same mines, in general, that we were thinking about in 1952?

Mr. CUTLER. We are thinking about the country. I am not familiar with previous attempts to rehabilitate COMIBOL on such an extensive basis as we have gone into. Much has been given to Bolivia by the United States in past years, and you are perfectly right in that.

Mr. PASSMAN. There is quite an interesting reference on page 965 of the fiscal 1962 hearings. I wish you would review that information, which shows that aid to Bolivia then had exceeded $221 million.

Yet, we are now putting in the railroad and this $38 million, then projecting the period for 12 more years.

We are familiar with the situation down there.

Mr. RHODES. Mr. Chairman, if you will yield——

Mr. PASSMAN. Certainly, I yield.

CIRCUMSTANCES AFFECTING MINE REHABILITATION

Mr. RHODES. Is that not the mine where the labor union is Communist dominated and where the mine has been so poorly operated as to require extensive renovation?

Mr. CUTLER. Excuse me, Mr. Chairman. May I say a word?

Mr. PASSMAN. Surely, you may.

Mr. CUTLER. One of the unions at one of the mines was undoubtedly Communist dominated. When we undertook this great enterprise to see if COMIBOL could be saved and thus Bolivia be saved, because if COMIBOL cannot be saved, Bolivia cannot be saved—we found from the expert opinions of our excellent mining engineers that there were about a third too many employees employed in the mines. They had to put them somewhere because they did not have jobs anywhere else. And the labor organizations were managing, really, the mines. They made the decisions, they could make a decision over management, they could make a decision as to pay, as to holidays, and so forth.

Our expert in the long hundreds of pages report that was rendered to us, said—

> If you can cure the socioeconomic difficulties in this country, the reserves, the capacity of these mines that we have looked at are such that we can go up to Canada and get private capital to invest in these mines on the basis that, within 12 years, they would pay off the loans and make money.

Now, you have to rely on other people's judgment on these things—I am certainly not an expert. But we set out to see whether we could persuade the President of Bolivia to join with us in taking the necessary steps to restore the management power to manage these mines.

COMIBOL has a very wonderful young president, whom I know personally. And the President of Bolivia, at the risk really of his life, undertook to enter these decrees restoring the power of the management and doing away with many of the practices which have grown up during the nationalized period of the mines.

Fortunately for us, the price of tin has gone up in the interval and there is a real hope, if President Paz Estenssoro sticks by his guns on these decrees that he entered last September and the price of tin holds up. I believe that we will be able to make a rehabilitation of the mines with additional help and get it all paid back and save this

little country. Also, the President of Bolivia, as you know, took a very striking step and raised the price of gasoline in his country which resulted in riots and bloodshed. He is a very remarkably brave man who has undertaken, with the utmost courage, reforms in his country.

Mr. RHODES. Why would raising the price of gasoline cause a riot in that country, where nobody has any cars?

Mr. CUTLER. Well, Mr. Rhodes, the taxi drivers in the past was a nice little closed group, and the rise in price they bitterly resented. And there was open rioting and bloodshed for 2 or 3 days as a result of this. But the President stood firm. The price for the nationalized oil production was increased and it has stuck ever since.

And this takes courage in that place.

Mr. RHODES. How many taxi drivers are there?

Mr. CUTLER. Oh, I do not know—a hundred or so.

Mr. PASSMAN. They caused a riot?

Mr. CUTLER. Yes.

BOLIVIAN LOAN DELINQUENCY

Mr. PASSMAN. You have hopes that these are good loans to Bolivia, and that they will be repaid?

Mr. CUTLER. I certainly do.

Mr. PASSMAN. You are familiar with the fact that they are delinquent now——

Mr. CUTLER. Yes.

Mr. PASSMAN (continuing). With the Export-Import Bank?

Mr. CUTLER. About $45 million, I think.

And they are delinquent in their foreign bonds.

The picture of Bolivia is a terrible picture. It is not entirely due, Mr. Passman, to the Bolivians themselves. For years, the owners of these mines, who are absentees, being abroad, were receiving money from these mines and never putting any of it back in the mines at all.

Mr. PASSMAN. Let me refer again to page 965 of our hearings of last year, quoting the response to a question:

> Mr. BELL. For fiscal year 1961, the preliminary report of all kinds of aid, economic and military, is $29.1 million; cumulative since 1946, $221,800,000.

Are we not pouring money into a bottomless pit in Bolivia?

ECONOMIC AID FROM MULTIPLE SOURCES

Have any of the countries listed as receiving loans from your bank also received loans, or credits, from the Development Loan Fund?

Mr. CUTLER. Yes, sir.

Mr. PASSMAN. Have they received loans from the Export-Import Bank?

Mr. CUTLER. Oh, constantly they are receiving.

Mr. PASSMAN. Have they received loans from the World Bank?

Mr. CUTLER. A few of them have received from the World Bank.

Mr. PASSMAN. Have they received loans from the International Development Association?

Mr. CUTLER. Not many.

Mr. PASSMAN. But a few of them have?

Mr. CUTLER. A few have received loans from IDA. IDA has not been going very long—about 6 months, I think.

Mr. PASSMAN. They have not had a chance, then, to really dig deep, have they?

And we have been quite free with the other aid funds, have we not, straight out grant aid and through Public Law 480?

Mr. CUTLER. Yes.

Mr. PASSMAN. And they will be receiving aid under the Alliance for Progress.

Mr. CUTLER. Yes. They are under the AID loans; yes, sir.

TOTAL ADMINISTRATIVE EXPENSES

Mr. PASSMAN. What was the amount charged to the various funds of the Bank for administrative expenses in calendar year 1961?

Mr. CUTLER. The Bank, as a bank?

Mr. PASSMAN. Sir?

Mr. CUTLER. The Bank as a bank, you mean, not the Bank including the Bank as trustee?

Mr. PASSMAN. Let us open one window at a time.

Mr. CUTLER. The Bank as a bank. In the statement of income and expenses, it shows the total expenses for the Bank, expressed in U.S. dollars, as $2,051,971. And from the Social Progress Trust Fund statement, it would be——

Mr. PASSMAN. Did you take a credit for $179,220 from the Social Progress Trust Fund?

Mr. CUTLER. Yes. That is the repayment for overhead. But if you want the gross figure before deducting charges to the Social Progress Trust Fund agreement, it would have been $2,231,191.

Mr. PASSMAN. And under the special operations fund?

Mr. CUTLER. Now, in the fund for Special Operations, the total expenses, on a similar basis, not including the amount charged to the social progress trust fund, were $2,216,878.

Mr. PASSMAN. Then, when we add the Special Progress Trust Fund, $179,220; Special Operation Fund, $147,664; Social Progress Trust Fund, $326,884—the total for administrative expenses is $5,033k348. Is that the amount?

Mr. CUTLER. That is right. You just added it.

Mr. HARLEY. I think that includes a little double accounting, Mr. Chairman. If you take out contributions, it makes it come to $4,236,000.

Mr. CUTLER. $2,231,191.

The other one was—we try to keep these separate—$2,206,924—no; $2,216,878. I beg your pardon.

Then the total administrative expenses of the Social Progress Trust Fund were $585,279.

Mr. PASSMAN. Would that not give you a total of $5,033,348?

Mr. HARLEY. I do not think so, Mr. Chairman. At least, I wrote these down and I have, not taking account of the amount given by the Social Progress Trust Fund——

Mr. PASSMAN. If those figures are correct, you had $22 million——

Mr. HARLEY. But your 22 figures included—that is before you have taken out the contribution of the trust fund which is in the $5 million of the trust fund.

Mr. PASSMAN. That will give a total of approximately $4.8 million?

Mr. HARLEY. $4,706,000.

Mr. PASSMAN. What is your estimate of all administrative expenses for this calendar year?

But, before you reply, I think we had better reconcile these figures. If you will go to your social progress page, you will find that you will have to add $585,279, will you not?

Mr. CUTLER. If you look on the second page——

Mr. HARLEY. I think I withdraw that, Mr. Chairman. I believe you are quite correct.

Mr. PASSMAN. Very well; the record will stand.

Then it is $5,033,348?

Mr. CUTLER. That is right.

(The following information was subsequently submitted for the record:)

In the foregoing discussion of the total administrative expenses for 1961 of the Bank's ordinary capital resources, of its fund for special operations, and of the social progress trust fund, figures on two different bases of calculation were used. The following is submitted to reconcile the apparent discrepancy.

(*a*) Gross expenses (reported in the 1961 annual statements of income and expenses filed as attachments to Cutler's opening statement):	
(1) IDB ordinary capital resources	$2, 231, 191
(2) Fund for special operations	2, 216, 878
(3) Social progress trust fund	585, 279
Total	5, 033, 348
(*b*) Net expenses (adjusted to reflect deductions from (*a*) (1) and (2) charged against (*a*) (3) above):	
(1) IDB ordinary capital resources (as above, less $179,220 charged against (*a*) (3))	2, 051, 971
(2) Fund for special operations (as above, less $147,664, charged against (*a*) (3))	2, 069, 214
(3) Social progress trust fund (as above)	585, 279
Total	4, 706, 464

As shown in (*b*) above, the amount of $179,220 was deducted from the gross ordinary capital resources expenses and the amount of $147,664 was deducted from the gross fund for special operations expenses, because these two amounts were paid from the social progress trust fund respectively to those two accounts. These two deductions are necessary to avoid counting these figures twice.

Mr. PASSMAN. All right, sir.

Mr. Reporter, read my question, please.

(The pending question was read by the reporter.)

Mr. CUTLER. For calendar year 1962?

Mr. PASSMAN. Yes.

Mr. CUTLER. We estimate—we budgeted for this year, excluding the social progress trust fund, $7,168,659. We have not included the Social Progress Trust Fund.

Mr. PASSMAN. Now, by including that fund?

Mr. CUTLER. Well, what was the last year figure? Was it 500? It would be about a million, I imagine.

ADMINISTRATIVE EXPENSE REIMBURSEMENTS

But, of course, there is reimbursement from the social progress trust fund toward our expenses.

Mr. PASSMAN. What amount are you administering? And, what is the amount of the total administered by the Export-Import Bank?

Mr. CUTLER. In the bank proper, we have $227,297,000. The callable capital I have not added in, which, of course, is another $463—I beg your pardon—$436.1 million is the callable capital. Then in the Social Progress Trust Fund, it is $394. So that would all add up to a little over $1 billion.

Mr. PASSMAN. Over $1 billion——

Mr. CUTLER. Over $1,190 million, adding the Special Operations Fund.

DIFFERENCES BETWEEN IDB AND EXPORT-IMPORT BANK

Mr. PASSMAN. The Export-Import Bank administers many big loans. I think the loans for fiscal 1962 are almost equivalent to the amount of your entire capital; and they had $3 million, and will turn back some money this year. I wonder why, as both are banking institutions, the smaller institution has an administrative expense so much higher than the larger one?

Mr. CUTLER. I would like to say a few words about the differences between the Export-Import Bank and ourselves. In the first place, we do a great deal of technical assistance, as you see, between the Bank and the Social Progress Trust Fund. We obligated last year something like $1.5 million we have authorized and studied a great deal more.

This requires us to have some 20 to 25 people who are engaged exclusively in technical assistance that the Export-Import Bank does not have. I do not think that the Export-Import Bank has any staff for technical assistance, or if it does, only a little.

In the second place, our Bank is a multilingual bank. Our work is done in English, Spanish, Portuguese, and French. All of our papers are translated into English and Spanish and our official papers are also translated into Portuguese and French. This means that we have to have a large translation section, and there have to be simultaneous translations at the meetings; whereas the Export-Import Bank is not faced with this.

Mr. PASSMAN. Even though they do have loans in many parts of the world?

Mr. CUTLER. They conduct their business in English, just as the World Bank.

Mr. PASSMAN. Would you conduct loan business in English in Nepal and Pakistan and India, for example?

Mr. CUTLER. I have the highest regard for them. I just say that the business of the Export-Import Bank in Washington is conducted in English just as the World Bank's Business is conducted in English.

Of course, their missions, as our missions, have to speak the language of the country.

Mr. PASSMAN. Do you translate from English into Spanish and vice versa?

Mr. CUTLER. Well, normally, Spanish is spoken and Spanish is the written language in our Bank, out of deference to the fact that the Latin American countries have put up between 50 and 60 percent of the money. As a matter of fact, I am the only person in the Bank who does not speak Spanish. I can read it slowly.

The third reason is that a great part of the Export-Import Bank's obligational effort is insurance. And here——

Mr. PASSMAN. In the insurance business, writing insurance policies?

Mr. CUTLER. Guaranteeing loans for exports.

I would not venture to say how much, but I would think it is nearly half of their business is that. It requires very few people to handle that type of business. It is largely done over the telephone with commercial enterprises.

In the fourth place, the Export-Import Bank, of course, is a national organization as opposed to an international organization, and has complete access to all the information which the U.S. Government agencies have.

Perhaps the most significant difference is the fifth one, however. The thing that is costly and time consuming are project loans, where you have to go to the country, study the project, help prepare the project and the application and also the loan document.

In the year 1961, the Bank authorized 73 project loans, exclusive of 41 technical assistance grants, from the three windows, while the Export-Import Bank in fiscal year 1961 only authorized 66 project loans.

Mr. CUTLER. We did seven more, because we had four reimbursable technical assistance loans.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. The Export-Import Bank operations are really international in scope. They make and service loans in every part of the world, with the exception of the Communist countries. On the other hand, your operations are limited to Latin America?

Mr. CUTLER. That is true. As I say, we did more project loans in 1 year than the Export-Import Bank did in the Export-Import Bank's business.

Mr. PASSMAN. It might cost more money, however, to process a loan in the Republic of China than in, say, Guatemala?

Mr. CUTLER. Well, it might.

Mr. PASSMAN. All I am trying to do is find out.

Mr. CUTLER. I do not think that the two are wholly, directly comparable, sir, because I think much of the Eximbank's total obligations is not in the project loan line at all, which is the expensive line. I do not mean to say that I do not have the highest regard for the Export-Import Bank. I think it is a wonderful institution.

Mr. PASSMAN. I, too, think so.

Mr. CUTLER. In every possible way.

LEVEL OF BANK EMPLOYMENT

Mr. PASSMAN. What is the number of personnel employed in your operation, General?

Mr. CUTLER. We have at the present time—we have taken on more people because of the social progress trust fund loans.

We have a total of 318 permanent employees, of whom 159 are professionals, and the rest are secretarial.

Mr. PASSMAN. What kind of professionals?

Mr. CUTLER. I mean loan officers, technicians, experts, people who travel out and help build up loans, as distinguished from secretarial, general service, administrative officials.

And we have some temporary employees who come for a short time and leave, totaling 46.

Mr. PASSMAN. You mentioned earlier about the system in Bolivia with regard to the mines. I understand that almost all governments of Latin America have more personnel than they need to carry on their business. I wonder if it is kind of widespread, that they have one-third more personnel than they need—simply because they have people wanting the jobs?

Mr. CUTLER. I think in some of the public services, like the railroads, they have a superfluity of employees in Latin America, as we have in our railroads.

In the mines, and in Bolivia, which is such a poor country, if they do not put these people in the mines and let them get paid, they are there, and they have to put them on welfare, and they do not have any money to pay welfare.

Mr. PASSMAN. Have they insisted that a similar formula should be applied to the Bank's operations?

Mr. CUTLER. No, they do not.

Mr. PASSMAN. The Export-Import Bank has a total of 293 employees, and they have hundreds of millions of dollars in loans, scattered all over the world.

Mr. CUTLER. Mr. Chairman, I have sought to give you the answer as to the differences between the Export-Import Bank and the Inter-American Bank. There are tremendous differences which account for a difference in personnel.

In the second place, I can assure you that I have never been in an institution where people worked such long, hard, and devoted hours as in my Bank. You go in there any night and you will find 40 or 50 people hard at work there.

Thirdly, I feel some qualification to speak about the employment in the Bank because I was, for a good many years, the head of the largest trust operation in the United States outside of New York City. And so I know whether the employees are padded or not padded. And I say on the basis of my experience in this Bank, they are not.

Mr. PASSMAN. I am just asking for information.

ANNUAL BOARD OF DIRECTORS MEETING

Is an annual meeting of the IDB Board of Directors, or Board of Governors, held in Washington, General?

Mr. CUTLER. The Directors meeting—there is a Board of seven executive Directors—myself, appointed by the President, confirmed by the Senate; and six Latin Directors, who are elected at the annual meeting of the organization. We meet twice or three times a week in Washington.

Mr. PASSMAN. I want to ask the question again——

Mr. CUTLER. It is the Governors that meet.

Mr. PASSMAN. I am asking when——

Mr. CUTLER. Once a year.

Mr. PASSMAN. How many are on the Board of Governors?

Mr. CUTLER. Each country has a Governor. Mr. Dillon is the U.S. Governor and Mr. Ball is the U.S. Deputy Governor.

Mr. PASSMAN. What is the total number of Governors?

Mr. CUTLER. Twenty because there are 20 countries.

Mr. PASSMAN. Is that meeting held in Washington?

Mr. CUTLER. No. The first meeting was held in El Salvador, second meeting in Rio, the meeting in April will be in Buenos Aires. I believe the fourth meeting is to be in Caracas. And then the fifth meeting is to come to the United States.

We intend to revolve the meetings as the World Bank does not do to quite such a great extent; because they, every 3 or 4 years, come to Washington.

Mr. PASSMAN. What is the duration, in days, of the meeting?

Mr. CUTLER. Well, the meeting is scheduled to begin on Wednesday night, the 4th of April, and the last session ends on the 11th. It is about a week.

COST OF GOVERNORS' MEETINGS

Mr. PASSMAN. I believe that the cost of the last Board of Governors' week's annual meeting was at least $73,176 out of this one fund?

Mr. CUTLER. The total cost, budgeted for the current year is $225,000. This covers not only the annual meeting——

Mr. PASSMAN. Is that amount for the Board's annual meeting?

Mr. CUTLER. The Board of Governors.

Mr. PASSMAN. $225,000 for 1 week's meeting of 20 of them?

Mr. CUTLER. This includes travel, the expenses relative to having four simultaneous translations, the publications that occur at the meeting, and the incidental travel of people who go to the meeting.

Mr. PASSMAN. Who attends, other than the Governors?

Mr. CUTLER. You cannot run a meeting with 20—there are usually foreign or economic ministers of all the countries, and the group that comes——

Mr. PASSMAN. Do you pay their expenses out of this budget?

Mr. CUTLER. The travel is paid for.

Mr. PASSMAN. For your Board of Governors, that total would be $11,250 for each one for a week.

Mr. CUTLER. Well, last year at the Rio meeting we had about 560 people in attendance, including their staffs. This year there will be more.

Mr. PASSMAN. Is this Governors' meeting kind of an annual picnic for some of them—about 500 people attending with 20 Governors?

Mr. CUTLER. The World Bank at its annual meeting have two or three thousand attend.

Mr. PASSMAN. We are talking about this one now.

PROGRAM AT BOARD MEETING

What does the Board of Governors do when it meets? What is the program?

Mr. CUTLER. Well, we have sessions on 5 of the days and, of course, there is an enormous amount of business transacted other than at the sessions. Normally, the working day at the Board of Governors' meetings I have been to starts at 9 in the morning and gets done about 11 at night.

Mr. PASSMAN. What types of meetings?

Mr. CUTLER. All kinds of meetings and conferences.

Mr. PASSMAN. Where do the other people who come with the Governors sit in, other than the stenographers and translators?

The Board of Governors is more or less an executive board, over the Board of Directors, is it not?

Mr. CUTLER. The Board of Governors is the residual power of the bank, that is right.

Mr. PASSMAN. That $225,000 is out of the ordinary capital. Is there anything out of the other accounts?

Mr. CUTLER. No; it is all included in that figure.

Mr. PASSMAN. Now, as to the Board of Executive Directors?

Mr. CUTLER. I do not understand you. I said that in the administrative budget of the Bank for fiscal year 1962, the approved amount for the Board of Governors, estimated, annual meeting, any other meeting, any conferences they may come to; the attendant expense of going, and travel, the carrying on of a great meeting where there will probably be a thousand people attending this meeting, I assume; and there must be space, there must be simultaneous translation, there are publications, there are secretaries; it is a big undertaking.

COST OF 1961 BOARD MEETING

Mr. PASSMAN. General, I was dealing with specifics, not something that is projected. We are talking about the calendar year 1961.

According to the sheet here, it would be $74,560 for the meeting of the Board of Directors.

Mr. CUTLER. It was $142,000 in 1961. I am sorry. I did not put my finger on it at once.

Mr. PASSMAN. It was $142,000?

Mr. CUTLER. Yes.

ATTENDANCE AT GOVERNORS' MEETINGS

Mr. PASSMAN. What do these people do, those who come with them?

Why would a thousand people be along if you were having a board of directors going over your work for the year?

Mr. CUTLER. Well, I can only say that the the meeting of an International Bank is quite unlike a meeting of the Old Colony Trust Co. or any bank meeting I have ever been to.

As I said, it lasts 7 days. People who are interested in the financing problems which face the Bank, people who participate in the round table discussions, they come from Europe, they come from Japan, they come from the United States, they come from all over Latin America, to attend these meetings, take part in them, and this does add up to a tremendous expense.

Mr. RHODES. Will the chairman yield?

Mr. PASSMAN. Yes.

Mr. RHODES. Does the Bank pay the way of anybody from Japan to come to this meeting?

Mr. CUTLER. No. No, we only pay the way of Governors and Directors and bank staff who attend it. But I mean we have guests who are coming from Japan and guests who are coming from Europe to participate in some of those roundtables.

Now, when they are there, we have translations; we have papers; we have everything that goes in the panoply of an annual meeting. The President will have a dinner for the Governors and Alternate Governors and Executive Directors. That has been done at these meetings. And at the end, there will be some kind of farewell to them. And then there will undoubtedly be a lunch given for the U.S. delegation. That has been customary for the Bank to give to its largest stockholder. These two are charged to these expenses.

Mr. PASSMAN. Your purpose is to make loans, and you turn down about 95 to 97 percent of the applications, do you not?

Mr. CUTLER. We turn down a large percent of the applications as being unqualified, not suitable, not within the criteria established by the Bank to make loans for. Many of them want working capital. We do not make loans for working capital.

Mr. PASSMAN. I was just wondering why there should be a thousand people at a board of directors meeting. Whether they are there to borrow money, whether they are there to buy stock in the Bank, there is some reason why they attend.

Mr. CUTLER. There is a tremendous interest in what goes on.

Mr. PASSMAN. Why do they not pay their own expenses? This is American taxpayers' money. I know that you are doing your best, but people all over the world have a habit of getting their hands in Uncle Sam's pockets. This looks to me to be absolutely out of line for a 1-week annual meeting of a board of directors, or Board of Governors.

Mr. CUTLER. Well, as I say, we only pay for the Governors, some of the immediate alternates or staff, for the Executive Directors and for the officials of the Bank who go there in line of duty to help conduct this long, complicated, meeting for 7 days. We do not pay the expenses of the guests.

COST OF BOARD OF GOVERNORS MEETING

Mr. Passman. Why do they need to spend $142,000 for one meeting?

Mr. CUTLER. It is very expensive to travel from the United States to Buenos Aires or Rio. It is very costly to live there when you get there. Those are some of the reasons.

We have to have simultaneously constant translations into four languages. We have many publications.

Mr. PASSMAN. I am inclined to be objective, but $142,000—and then when I look at this figure here——

Mr. CUTLER. That is a budgeted figure.

Mr. PASSMAN. Could you give us a breakdown as to that expense?

Mr. CUTLER. I will give you a breakdown for the record.

Mr. RHODES. I think that is a good idea.

(The information requested follows:)

Inter-American Development Bank—Board of Governors

	1961 annual meeting (Rio de Janeiro), actual expenses	1962 annual meeting (Buenos Aires), estimated expenses
Travel of Directors, officers, and staff	$92,698	$124,352
Local services (secretarial, translation, guards, etc.)	19,638	22,180
Printing	6,859	5,000
Transportation of records, documents, and equipment	2,644	8,300
Rental of interpretation and other equipment	1,560	7,500
Representation	17,745	20,535
Sundry expenses	2,214	10,133
Contingencies		27,000
Total	143,358	225,000

NOTE.—IDB does not pay the travel expenses of the Board of Governors as previously indicated. Travel expenses for the annual meeting are for Directors, officers, and staff.

PARTICIPATION BY NONBANK PERSONNEL

Mr. PASSMAN. How many of them travel and how many of their secretaries are brought along, and what kind of suites do they have? They would come at their own expense, if I were permitted to make the rules.

Mr. CUTLER. They do come at their own expense.

Mr. PASSMAN. Then how could 20 men, if they come at their own expense——

Mr. CUTLER. Why do 2,000 or 3,000 come to a meeting of the World Bank?

Mr. PASSMAN. But you do not pay their expenses, General.

Mr. CUTLER. Well, the World Bank entertains quite a number of people.

Mr. PASSMAN. Is that part of the expense?

Mr. CULTER. Yes, sir.

Mr. PASSMAN. I am talking about for this Bank.

Mr. CUTLER. The people who come are interested in the Bank, interested in what it is doing, interested to further the Bank's interests, we hope; and we do not ask them or invite them to come and then do nothing for them.

Mr. PASSMAN. Are they there to borrow money or are they there to buy stock in the Bank?

Mr. CUTLER. Well, they cannot buy anything in the Bank.

Mr. PASSMAN. Are they there to borrow money?

Mr. CUTLER. Many of them are there to borrow money.

Mr. PASSMAN. And you pay their expenses out of this account?

Mr. CUTLER. No.

Mr. PASSMAN. You pay for the banquets and the dinners?

Mr. CUTLER. We may pay for entertainment for some of them.

Mr. PASSMAN. Amounting to $142,000 last year?

Mr. CUTLER. It is not all the money in the United States, Mr. Chairman.

Mr. PASSMAN. These people are recipients of aid from all the other programs. So, indirectly, it is Uncle Sam's money.

COST PROJECTION FOR 1962 GOVERNORS' MEETING

Will you add to this your projected figure for calendar 1962, and also state the estimated attendance and the place of meeting?

Mr. CUTLER. I do not think it would be possible to break down the projection for this year, because we do not know. I gave you a budgeted figure.

Mr. PASSMAN. For $225,000?

Mr. CUTLER. So that we would have a figure that would not be exceeded, no matter what the Governors did. Now, it may be that the Governors will be called on to meet twice in this calendar year. I will see if they have a breakdown, and if they have one, I will submit it.

Mr. PASSMAN. If this budget estimate is spent at this same type of occasion, it will cost $80,000 more for this year's meeting than for last year's meeting?

Mr. CUTLER. That depends on whether we spend it all.

Mr. PASSMAN. But if you do spend it, you have budgeted $225,000.

Mr. CUTLER. Suppose we had five meetings this year? Would not five meetings cost more than——

Mr. PASSMAN. But you have held one meeting per year so far.

Mr. CUTLER. That is right.

Mr. PASSMAN. And you spent $142,000 for last year. You want to budget $225,000 for this year.

Mr. CUTLER. No. The first year was at El Salvador, when we organized the Bank. I do not have that figure.

Mr. PASSMAN. I am talking about 1961. We agreed that it was $142,000, and you anticipated one meeting of the Board of Directors for calendar 1962; is that correct?

Mr. CUTLER. We know there is going to be a meeting of the Board of Governors in Buenos Aires.

Mr. PASSMAN. And you have budgeted $225,000 for that purpose?

Mr. CUTLER. No; we have budgeted for the—well, I think you are right.

Mr. PASSMAN. Thank you.

Mr. CUTLER. It shows "Board of Governors annual meeting and other."

BOARD OF EXECUTIVE DIRECTORS' SALARIES

Mr. PASSMAN. I believe you said that all of the Directors do live in Washington.

Mr. CUTLER. That is right.

Mr. PASSMAN. You have here "Board of Executive Directors' salaries, $111,084"; and "Other"—that is other compensation and benefits, $28,319. What would that sum represent?

Mr. CUTLER. Well, the U.S. Director receives an amount equivalent to what is necessary if his total income was $20,000, to make it tax free. This is the same——

Mr. PASSMAN. That is only the U.S. Director?

Mr. CUTLER. This is the same basis as the other international banks use for U.S. employees.

Mr. PASSMAN. You are paid an amount so as to make your salary $20,000 a year, tax free.

Mr. CUTLER. Mr. Rosenson and I—my alternate—we are paid a salary and we are given a sum in tax reimbursement which, if we had no other income than our salary, would render that salary tax free.

Unfortunately, for those who have outside incomes, the Treasury has an interesting way of taking your salary, taking the tax reimbursement, taking your other income, and adding them all together, and then taxing you at the resultant top rate.

Unfortunately, I make about $2,500 out of this tax reimbursement.

Mr. PASSMAN. Does that same principle apply to all of the Bank's U.S. employees?

Mr. CUTLER. The U.S. employees are put on the same taxation basis with the Latin employees.

Mr. PASSMAN. How many American employees do you have?

Mr. CUTLER. This is the same rule as in the other international banks. We copy—copied this exactly from the IMF and the World Bank.

Mr. PASSMAN. All of your employees operate on the same basis?

Mr. CUTLER. The U.S. employees?

Mr. PASSMAN. I am talking about the U.S. employees.

Mr. CUTLER. If you want additional income, like you were telling us, Mr. Chairman, earlier this morning, you would soon find out that tax reimbursement disappears in the Treasury's surtax.

Mr. PASSMAN. I wonder why we do not have this plan for all Americans, then? However, you do at least take care of those who do not have any other income.

EMPLOYEES SALARIES AND FRINGE BENEFITS

How many employees do you have in this?

Mr. CUTLER. About 30 percent.

Mr. PASSMAN. Would that be about 110?

Mr. CUTLER. Yes.

Mr. PASSMAN. Would you give us a table for the record on these people, their jobs, their pay, and any other benefits?

Mr. CUTLER. Let me see if I understand that, now.

Mr. PASSMAN. We want a table showing the pay and allowances of the American employees.

Mr. CUTLER. American employees, by position?

Mr. PASSMAN. That is right.

Mr. CUTLER. And their pay and reimbursements?

Mr. PASSMAN. Yes.

Mr. CUTLER. And then you would like to know what percentage they are of the total, I assume?

Mr. PASSMAN. We will figure that out.

If you have eight of them making net $10,000 a year, you just put eight at $10,000, and we will know what it is. Then you will put with that any other benefits they get.

(The information supplied follows:)

INTER-AMERICAN DEVELOPMENT BANK

Permanent staff—Annual salary rates in effect at Feb. 28, 1962 [1]

	Professionals		Nonprofessionals		Total salaries	Total tax reimbursement [2]
	United States	Latin America	United States	Latin America		
$20,000 and up	3	5			$207,000	$48,249.68
$17,500 to $19,999	6	6			222,500	24,931.34
$15,000 to $17,499	9	12			336,500	33,857.03
$12,500 to $14,999	10	28			524,300	32,328.80
$10,000 to $12,499	5	29			382,700	16,276.46
$7,500 to $9,999	10	18			226,900	6,262.14
$5,000 to $7,499	7	10	6	10	199,490	18,661.08
$3,000 to $4,999			44	99	590,350	23,718.22
Total	50	108	50	109	2,689,740	223,926.67

[1] This table does not include the salaries and tax reimbursement of the 7 Executive Directors and the 7 Alternate Executive Directors. The bylaws provide that the annual salary of Executive Directors and Alternate Executive Directors, respectively, shall be at the rate of $20,000 and $17,000 The U.S. Executive Director and the U.S. Alternate Executive Director (whose full-time service began in June 1961) also received tax reimbursement.

[2] Actual figures for calendar year 1961 covering U.S. professional and nonprofessional employees. No tax reimbursement was paid to any Latin American employee for calendar year 1961.

EMPLOYEE PENSION PLAN

Mr. CUTLER. In addition to that, Mr. Chairman, we have a pension plan which we set up.

Mr. PASSMAN. Do the employees pay into it?

Mr. CUTLER. The employees pay 7 percent of their salary and the Bank pays 14.

Mr. PASSMAN. Twenty-one percent. How long do they work before they retire?

Mr. CUTLER. It is a very complicated plan.

Mr. PASSMAN. It must be.

Mr. CUTLER. If you retire within 3 years, I do not think you get anything except the return of your money.

Mr. PASSMAN. If they work 3 years and retire what percentage of their salary would they get?

Mr. CUTLER. It is a small amount.

It is like any of the standard pension plans that have been worked out by one of the great actuarial firms in the United States for us.

It has not actually been finally expressed fully in writing yet.

But the principle has been approved, and since April 1, 1960, the Bank has been deducting 7 percent and paying 14 percent.

Mr. PASSMAN. The employee puts up 7 percent and the Bank puts up 14 percent, for a total of 21 percent. What is the amount contributed under the U.S. civil service retirement system?

Mr. ROSENSON. Six and a half percent.

Mr. PASSMAN. How much does the Government put up, in addition to the employee contribution?

Mr. HARLEY. Matching, I believe.

Mr. PASSMAN. Your plan is quite liberal, by comparison.

Off the record.

(Discussion off the record.)

STAFF TRAVEL

Mr. PASSMAN. Staff travel in 1961 amounted to $119,086?

Mr. CUTLER. Yes. We have missions constantly in the field working on projects, loan applications, visiting—principally that. We, at any given time, we will have as many as three or four missions in different parts of Central and South America who may remain there for 2 or 3 weeks working with the applicants to get the loans and the loan applications straightened out, and then working on the loan agreement.

Also we have people who necessarily attend some of the important meetings, other than the annual meetings that we have talked about that are held in Latin America.

Mr. PASSMAN. This, of course, does not include the travel of the Board of Governors?

Mr. CUTLER. No. This is for the staff. It is under Staff—$119,086, is the figure you are looking at, I think. That is the part charged to the ordinary resources.

You will find, if you look at the special fund, there is a charge for travel there of $133,000. So the total of travel comes to about $240,000.

This is travel and living while away from the Bank at work on projects, and attendance at meetings, and so forth.

Mr. PASSMAN. That amounts to about $800 for each employee in this one item, and some of the employees do not travel at all.

Mr. CUTLER. That is true.

Mr. PASSMAN. How many actually travel?

Mr. CUTLER. Oh, I would think there were—I must guess—I I should think there might be 40.

Mr. PASSMAN. Let us see how many that would be, then——

Mr. CUTLER. In travel, maybe more than that.

Mr. HARLEY. I would think more than that. Most of the professionals must travel from time to time.

Mr. PASSMAN. That, then, is $6,000 a year.

Mr. CUTLER. Well, if a man travels and stays in a country like Brazil or Argentina or Colombia, for 2 or 3 weeks, it is expensive. We are also charged by the Governors to explore the situation in Europe with a view toward encouraging European assistance toward the Bank.

EUROPEAN TRAVEL AND EXPENSES

Mr. PASSMAN. This bank is new, trying to help an underprivileged part of the world, and now you are dealing with Europe?

Mr. CUTLER. To obtain financial help from Europe.

And as a direct result of this trip that was taken by three officers of the Bank, we got the——

Mr. PASSMAN. To what part of Europe did your people go?

Mr. CUTLER. We went to all the big financial countries—England, France, West Germany, Italy, Switzerland, Holland, and Belgium. And as a direct result of that trip, we got those four participations from the two big banks in West Germany, one in Italy and one in Switzerland—$275,000 in one of our loans.

Mr. PASSMAN. General, could we get the cost of this one trip for these four people?

Mr. CUTLER. I do not know what it was. I think it was somewhere between $5,000 and $10,000. They were gone for 29 days. The president of the Bank, the chief financial officer, the chief economist.

Mr. PASSMAN. If you would give us a breakdown on that one trip——

Mr. CUTLER. This was a trip that the Governors requested.

And we sent these three people, as I say. I think it was 28 days.

Mr. PASSMAN. Three people made the trip?

Mr. CUTLER. The President, the chief financial officer, the chief economist. And they wrote a very interesting report and it was a very profitable trip, and out of it may come some very interesting financing for the Bank.

Mr. PASSMAN. General, if you will, please let us have a breakdown of the cost of this one trip.

Mr. CUTLER. Well, if we have the breakdown, I will find the costs.

Mr. PASSMAN. We want the breakdown, if I may repeat, respectfully.

Mr. CUTLER. We will try to get what you want.

(Detailed cost of the trip follows:)

INTER-AMERICAN DEVELOPMENT BANK

Detail costs of European trip (Mr. Herrera, Mr. Menapace, Mr. Cardenas), from June 4 to July 9, 1961

Subsistence [1]	$4,876.05
Incidentals [1]	860.67
Representation	1,040.68
Transportation [2]	6,009.34
Total	12,786.74

[1] Includes lodging, meals, personal communications, fees, and gratuities, laundry and cleaning, local transportation, official communications, secretarial services, etc.

Subsistence and incidentals per day per person	$64.54
Subsistence and incidentals per person for 35 days	2,258.90
Total expenditures per person for 35 days	4,262.24

[2] Includes transportation of Mr. Herrera from and to Europe in mid-June to meet with the President of the United States and sign the social progress trust fund agreement.

INVESTMENT IN U.S. GOVERNMENT OBLIGATIONS

Mr. RHODES. Mr. Chairman, before you leave that page, you have an item "Income from investments"; and I notice, looking at the balance sheet, your investments consist of Government obligations, time deposits and accrued interest.

What are the "Government obligations"? What Government's obligations are these?

Mr. CUTLER. Short term obligations of the U.S. Government.

Mr. RHODES. In other words, you take the capital funds which are paid into the bank?

Mr. CUTLER. And when not working out on loans, we invest them in short-term obligations or in negotiable certificates of deposit, where you can get now a rate of something like 3½ to 4 percent.

Mr. RHODES. Then the U.S. Government could have saved quite a bit of money if we had just given you an IOU, non-interest-bearing, and told the Bank that "if you need money, we will pay in the capital," instead of paying in all of the subscription at once; would we not?

Mr. CUTLER. Well, they did in the case of half of the special fund payment last October. They gave us notes on that.

Mr. RHODES. I know they did. But the point is, you have an item of $2.4 million here as income from investments and those investments are investments in Government obligations of the U.S. Government. I presume that practically all of the money which is represented here was paid in as subscriptions to capital stock by the U.S. Government.

Mr. CUTLER. Well, no. The U.S. Government paid in $90 million on the first two installments of the ordinary resources in dollars; and the Latin Americans paid $68,651,520 in dollars or gold. Brazil paid in gold.

Now, in the special fund, the Latins paid in gold and dollars, almost $23 million, and we paid $75 million in cash and $25 million in demand notes.

Mr. RHODES. The money in these Government obligations comes from both subscriptions to the capital stock and from payments to the Special Fund?

Mr. CUTLER. Special fund, that is right.

Mr. RHODES. Then, would it be a correct statement to say that the correct proportion of the $130 million which was furnished by the U.S. Government could be derived by striking a proportion between the amounts of capital paid in by us and the amounts of capital paid in, in total?

Mr. CUTLER. I think you are right. I do not know if I follow your question exactly, Mr. Rhodes. But——

Mr. RHODES. I will be glad to restate it.

Mr. CUTLER. We paid in, in the first two installments, to capital, of the Bank, paid in capital of the Bank, $90 million. And the Latins paid in $68,651,000. That is not counting their local currencies. This is gold and dollars which they have.

In the fund for special operations, which is now fully paid up, we paid in $75 million, in dollars, and $25 million in demand notes, and the Latin Americans paid $22,882,000 in dollars.

Mr. RHODES. Then, striking a proportion, you could get the amount of $130 million which is represented by payments from the United States.

Mr. CUTLER. Yes.

CAPITAL PAYMENTS BY MEMBER COUNTRIES

Mr. RHODES. What about the payments into capital made by the other governments in their currencies? What has become of those payments?

Mr. CUTLER. Well, six of the countries, as we went through this morning, for their local currencies, gave us these demand notes, as the United States did for that $25 million in the special operations funds.

Mr. RHODES. Are they interest-bearing notes?

Mr. CUTLER. No; they are not interest-bearing notes.

Mr. RHODES. Why did we not give you non-interest-bearing notes, instead of turning over cash to you? You have taken this money, which we didn't need to pay at once, bought short-term notes of the U.S. Government with it, and received an income of $2.4 million in interest from the U.S. Government because it voluntarily made an early payment. To me this is really an extra payment to the Bank of $2.4 million made by the U.S. taxpayer.

Mr. CUTLER. Well, this was an executive decision by the two Secretaries of the Treasury, made at the time when the first payment——

Mr. RHODES. What two Secretaries of the Treasury?

Mr. CUTLER. Mr. Anderson, when he was Secretary, when the first payment was made, and Mr. Dillon, who was Secretary when the second payment was made.

Mr. RHODES. Was there any option contained in the legislation that you know of?

Mr. CUTLER. Oh, yes.

Mr. RHODES. In other words, the United States could have paid by the non-interest-bearing note route?

Mr. CUTLER. That is right. Well, they could have. The Secretary decided that it was in the best interests of the United States to have the Bank operate satisfactorily and successfully in the first 2 years. And, accordingly, the decision was made as to the first payment, that it be paid in full; as to the second payment, that the ordinary resources be paid in full, and that one-half of the Special Fund be paid in full.

As to the upcoming payment, it will be for the Secretary to decide. But I assume his decision will be as it was before, and that one-half of the payment will be made in notes.

Mr. RHODES. Off the record.

(Discussion off the record.)

Mr. RHODES. On the record.

It seems to me, Mr. Chairman, that this is just a little short of scandalous.

Mr. PASSMAN. I am in complete agreement with the gentleman from Arizona.

OFFICE OCCUPANCY COSTS

Now, General, you have an expense item—office occupancy, $254,777, under "Special operation" only. Does that cover the total cost, and does it apply to office rental?

Mr. CUTLER. No; I think it is divided between both the "Ordinary resources"——

Mr. PASSMAN. Well, now, how can——

Mr. CUTLER. But we apportion it between the two.

Mr. PASSMAN. This is the total of the three windows?

Mr. CUTLER. Yes, sir.

Let me just see where the special fund——

Mr. PASSMAN. Put it all together, please.

Mr. CUTLER. No; it would not appear under the Social Progress Trust Fund. It would be in the special fund and in the "Ordinary resources." It is $527,357.

Mr. PASSMAN. That is more than half a million dollars for office occupancy. Will you explain that item?

Mr. CUTLER. Rent.

Mr. PASSMAN. Where are you renting this space?

Mr. CUTLER. At first, Mr. Chairman, we were in a building when we first started off, at 19th Street and Pennsylvania Avenue. Later, we outgrew that and we now are in a building at 808 17th Street.

Mr. PASSMAN. To what year does this figure apply?

Also, where were you domiciled when you paid $527,357 for the office occupancy for the three "windows"?

Mr. CUTLER. Well, during about 3 months of that year we were on 19th Street; in April, when we came back from the annual meeting, we moved to 808 17th Street, a building newly completed, which had facilities much more suitable to banking than the place that we had temporarily gone into.

Mr. PASSMAN. What was the cost per square foot?

Mr. CUTLER. Well, I do not know that in the present building. I will have to let you know.

Mr. PASSMAN. I am talking about this building.

Mr. CUTLER. Yes; the building we are in now. I think it is about $5.50. But I would have to get you that.

Mr. PASSMAN. You know what the Export-Import Bank is paying, do you not?

Mr. CUTLER. No, I do not, sir.

Mr. PASSMAN. $3 per square foot. And that is downtown. Why is it necessary for you to pay so much more?

Mr. CUTLER. You want the cost per square foot of No. 808?

Mr. PASSMAN. Yes. Then we would like to get it for the other, too. How many square feet are you occupying?

Mr. CUTLER. I will have to find that out, Mr. Chairman. We occupy six floors, I think, and then we have just taken some space in another building. But I will get you the details on that.

(The requested information follows:)

INTER-AMERICAN DEVELOPMENT BANK

OFFICE OCCUPANCY IN 1961

Total cost: $537,356.61.

Breakdown:

(1) 801 19th Street NW.:
- Period: From January 1 to May 4, 1961.
- Square feet occupied:
  - From a maximum of 28,510 square feet.
  - To a minimum of 15,561 square feet.
- Cost per square foot: $4.51 per year.
- Total payment: $36,550.14.
- Payee: General Services Administration.

(2) 808 17th Street NW.:
- Period: From February 25 to December 31, 1961.
- Square feet occupied:
  - Office space from a minimum of 30,040 square feet to a maximum of 86,108 square feet (covering six entire floors).
  - Basement space: 950 square feet.
- Cost per square foot:
  - Office space: $5.50 per year.
  - Basement space: $2.50 per year.
- Total payment: $385,698.79.
- Payee: Weinberg & Bush.
- Street frontage: 145 feet.

(3) Vermont Avenue:
- Period: From January 1 to February 28, 1961.
- Square feet occupied: 6,329 square feet.
- Cost per square foot: $4.75 per year.
- Total payment: $5,010.46.
- Payee: Geico.

(4) Rental of office in Peru: Total payment, $673.32.

(5) Preparation of office space, items 1, 2, and 3: Total cost, $109,423.90.

Mr. PASSMAN. You have six floors. What size floors?

Mr. CUTLER. 318 feet, approximately.

Mr. PASSMAN. Does each one have an office or a suite?

Mr. CUTLER. No. The directors have their own offices, the alternate directors have their offices.

DUTIES OF DIRECTORS AND ALTERNATES

Mr. PASSMAN. What does the alternate director do? In case the director is not there, he substitutes?

Mr. CUTLER. Yes.

Mr. PASSMAN. Are there any alternates to the alternates?

Mr. CUTLER. No; you are allowed to have one alternate.

Mr. PASSMAN. What does the alternate do?

Mr. CUTLER. He does—the amount of work in this bank to accomplish the rate of lending which we have done is a very high rate. Our work on the average is 10 to 12 hours a day—not as hard as you do, Mr. Passman.

Mr. PASSMAN. I expect that you do.

Mr. CUTLER. I work very hard. Mr. Rosenson, who is my deputy, helps me to do the volume of work which has to be done by the office of the U.S. director in the three windows. And it is very considerable work. I tried to do it alone at first, and it was too much for one man to do. We each have one secretary and that is all.

Mr. PASSMAN. Do you work jointly or independently?

Mr. CUTLER. We work jointly. I am the principal person and Mr. Rosenson works with me.

Mr. PASSMAN. In effect, he is the assistant director with the title of alternate director?

Mr. CUTLER. That is his title under the charter.

In the rare instance when I am not here—I am usually in Washington working—he will take my place.

PHYSICAL FACILITIES

Mr. PASSMAN. I owe you an apology; we got completely away from the rent. Have you figured that out yet?

Mr. CUTLER. The total rent?

Mr. PASSMAN. Are we going to get this per square foot?

Mr. CUTLER. Yes.

Mr. PASSMAN. This building is six floors?

Mr. CUTLER. No.

Mr. PASSMAN. You are using six floors? Could you give us an idea of the frontage of the building, and the depth?

Mr. CUTLER. It is that new building opposite the Transportation Building.

Mr. PASSMAN. Would it be a 300-foot front?

Mr. CUTLER. I will get it for you.

Mr. PASSMAN. We might forget about it.

Mr. CUTLER. I will give it to you in writing in a few days. I cannot carry all of the details of this great international bank in my mind.

FRINGE BENEFITS OF BANK EMPLOYEES

Mr. PASSMAN. General, you are supporting the budget request, testifying for this money; and, of course, we need the answers.

But, I think you will agree that a high percentage of this money is going into accounts that are far in excess of what is paid in America for comparable positions.

Mr. CUTLER. I disagree with what you have said.

Mr. PASSMAN. In what way, General?

Mr. CUTLER. That the Bank is overpaying its people. I do not think it is overpaying its people.

Mr. PASSMAN. At least, they have concessions which we do not have for our regular personnel in Washington.

Mr. CUTLER. We have to compete with the IMF and the World Bank and with other institutions for the most expensive personnel, like the important loan officers and people like that.

I think you will find that the rates of compensation in our bank for the top officers, the rates of the pension trust, are practically the same as those of the World Bank and the IMF. If they were not, it would be difficult to obtain qualified people to do this work. And, by Heaven, while I am U.S. Executive Director, I want the best qualified people employed, and I do not wish to cut corners and get unqualified people to do this important work.

We have followed the pattern of the World Bank and the IMF in this tax-free salary for U.S. employees of the Bank—just as the World Bank and the IMF does.

Mr. GARY. Mr. Chairman, may I ask a question on that?

Mr. PASSMAN. Surely.

ORIGIN OF PENSION FUND FORMULA

Mr. GARY. Could you tell us where this 21-percent formula for retirement came from?

Mr. CUTLER. I think it is similar to the retirement fund in the World Bank.

Mr. GARY. Why do they have 21 percent when all of the other Federal employees have only the matching of funds? In these banks, why should the employee put up 7 percent and the bank put up 14 percent, when, in other Government employment, the employee puts up his percentage and the Federal Government merely matches it? For a long time, they did not even do that.

Mr. CUTLER. I believe the reason, Mr. Gary, is the difficulty of obtaining people from far countries, who come from the far countries and work here in Washington, led the World Bank and the IMF to make more generous provisions for everybody who worked for them.

When we came along, to be on a competitive position for qualified people, we more or less followed the pattern which they had established, being an international institution.

Mr. GARY. I understand that, for salaries; but I do not understand why it goes to retirement.

Now, do you know of any reason back of this 14 percent Federal Government contributions, making a total of 21 percent? Any particular reason why that amount was arrived at?

Mr. CUTLER. The Federal Government has not got anything to do with it. This is a pension fund set up by this Bank.

Mr. GARY. Do you know how the Bank arrived at that 21 percent?

Mr. CUTLER. Well, it is double what the employee puts in, and that is similar to the pension plan of the World Bank and the IMF, as I understand it.

Mr. GARY. Do you know where they got the idea from? That is what I am trying to understand. I have never heard of a pension plan of that kind. This is the first time I have ever heard of a pension plan where the employer puts up double the amount of the employee. And I would just like to know where it came from.

Mr. CUTLER. I think you will find in private industry—my old trust company was one of the largest pension trustees in the United States—that in many cases, the company, or the employer, will put up all of the pension plan.

Mr. GARY. Yes; that is——

Mr. CUTLER. Or double or some part——

Mr. GARY. That is where they are using their own money and not trust funds.

Mr. PASSMAN. And not the taxpayers' money.

Mr. GARY. I started to say taxpayers' money but they say only part of this is taxpayers' money. But some of it is taxpayers' money.

At least it seems to me this is on the basis the countries are putting up the money, and it is a government operation. It may not be a Federal Government operation but it is still a joint operation of the member governments.

Mr. PASSMAN. Let us get that identified as to its source.

Mr. GARY. I would like to get that. I would like to know where that formula came from and how it happened to be adopted.

In retirement benefits, what percentage of their salaries do the employees get?

Mr. CUTLER. I do not carry the formula in my mind. It is a very complicated formula, as in all pension plans. It is related to the amount of years of service, the amount that is put in. To a person who does not serve long enough, you just give the money back.

Mr. GARY. Can you give us an outline of it?

Mr. CUTLER. Yes; I can submit it to you.

Mr. GARY. That is what I mean. Can you give us an outline plan of the benefits for the record; and also, if you can find out who initiated this plan and where the idea came from, I would like to hear that also.

Mr. CUTLER. Well, as I said, Mr. Gary, I believe we assimilated the principal elements of our pension plan from that of the World Bank and the IMF.

Mr. GARY. I understand; but where did they get it? That is what I would like to know. I would just like to know where it came from originally. I understand that you took it from the World Bank, but I would like to know where they got it.

(The information supplied follows:)

INTER-AMERICAN DEVELOPMENT BANK

STAFF RETIREMENT PLAN

The staff retirement plan of the Inter-American Development Bank became effective February 1, 1961, after approval by the Board of Executive Directors. It was made applicable to all regular employees of the Bank as of the date of their entrance on duty. On January 17, 1962, the Internal Revenue Service concluded that the plan meets the requirements of section 401(a) of the Internal Revenue Code and that the trust established thereunder is entitled to exemption under the provisions of section 501(a) of the code.

The plan provides the following benefits:

1. *Normal retirement.*—The normal retirement age is 65 and the normal pension is equal to 2 percent of the highest average compensation for 5 years multiplied by the total number of years of service.

2. *Early retirement.*—A staff member who has completed 3 or more years of service and has attained age 55 may retire on an early retirement pension consisting of either: (*a*) a deferred pension becoming effective at age 65 computed on the basis of a normal pension; or (*b*) a reduced pension immediately effective and equal to 50 percent of the deferred pension, increased by one-third of 1 percent for each full month by which the staff member's age at the time the reduced pension becomes effective exceeds 55 years and by an additional one-sixth of 1 percent for each full month by which such age exceeds 60 years.

3. *Disability retirement.*—A staff member who prior to age 65 is found totally and permanently incapacitated may be retired on a disability pension equal to the normal pension accrued to the time of the disability retirement. The minimum disability pension is the smaller of: (*a*) 33⅓ percent of highest average compensation; or (*b*) the normal pension that would have been payable if the staff member had remained in service until age 65 without change in such highest average compensation.

4. *Withdrawal benefits.*—A staff member who ceases to be a participant before his normal retirement for any cause other than death or disability retirement, and who has less than 3 years of service, receives no other benefit than the right to withdraw the amount of his accumulated contributions at the time he ceases to be a participant, plus, if he has served at least 1 year, an additional amount equal to three-fourths of 1 percent of his accumulated contributions multiplied by the number of months of service.

A staff member who is not entitled to early retirement but who has 3 or more years of service, may elect, upon leaving the service of the Bank, to receive either: (i) a deferred pension at age 65; (ii) a reduced deferred pension becoming effective on or after he is age 55; or (iii) withdrawal of his accumulated contributions plus an additional amount equal to three-fourths of 1 percent of his accumulated contributions multiplied by the number of months of service not exceeding 60.

If the recipient of a deferred pension does not surrender it for a specified cash value, then upon his death there is payable a lump sum equal to the specified cash value or if he is already pensioned, the excess, if any, of his accumulated contributions over the aggregate of the pension payments then made to him.

5. *Survivors benefits.*—The widow or qualified widower surviving a staff member who dies while in service will receive a pension equal to one-half of the disability pension the employee would have received if he had retired on a disability pension on the date of his death (see 3 above).

The widow or qualified widower of a retired staff member or of a staff member entitled to retirement or to early retirement after 10 or more years of service shall receive a pension equal to 37½ percent of the pension such staff member was receiving, or on the date of his death would have been entitled to receive prior to any reduction on account of the election of an optional benefit.

In addition there is payable a benefit of $300 annually for each surviving child until such child reaches the age of 19. In case of a surviving child with no living parents the amount is increased to $600.

Upon the death of a staff member while in service who leaves no widow or qualified widower, there is paid, in addition to any children's benefits that may be payable, the amount of his accumulated contributions at the time of his death. In the case of the death of a retired staff member under similar circumstances the payment is equal to the amount of his accumulated contributions minus the amount of pension payments then made to him and plus a lump sum payment equal to a specified percentage of the pension such retired employee was receiving or was entitled to receive. This percentage is 200 percent in the case of persons age 65 or under at the time of death and is reduced thereafter in level steps of 20 percent for each additional year of age at death to 60 percent at age 72 and 50 percent at age 73 or later. This payment is intended to cover retired employees who no longer participate in the group life insurance program.

6. *Optional benefits.*—Any staff member or retired staff member may, subject to the conditions specified under the plan, elect to convert the regular pension otherwise payable to him into two pensions having a combined actuarial value equivalent to his regular pension, one of which shall be payable to him during his life, and the other shall be payable after his death to, and during the life of, the person designated for this purpose by the employee.

7. *Contributions.*—Staff members are required to contribute 7 percent of their net compensation to the plan. The Bank contributes an additional 14 percent.

The Bank's consulting actuary has concluded that these contributions are required to create a fund that will support the benefits mentioned heretofore.

8. *Comparison with other plans.*—The Bank's plan was developed on the basis of existing plans in effect for the IMF and the IBRD. The benefits are comparable to those of the various retirement plans for U.S. Government employees. The rates of contribution to the Bank's plan have been actuarially determined by an expert consulting actuary in order to fund the plan without further payments from the general resources of the Bank. The rates of contribution to the U.S. Civil Service retiremement plan are understood not to have been on a strict actuarial basis, but are predicated in part on the general resources of the Federal Government.

There is attached a copy of the staff retirement plan.

STAFF RETIREMENT PLAN OF THE INTER-AMERICAN DEVELOPMENT BANK

INDEX

Article 1—Definitions.
Article 2—Participations.
- Section 2.1 Basic Provisions on Participation.
- Section 2.2 Termination of Participation.
- Section 2.3 Accrual of Participating Service During Absence.
- Section 2.4 Resumption of Participation.
- Section 2.5 Participation After Normal Retirement Date.

Article 3—Participating and Eligible Service.
- Section 3.1 Participating Service.
- Section 3.2 Eligible Service.

Article 4—Retirement and Benefits.
- Section 4.1 Normal Retirement.
- Section 4.2 Early Retirement.
- Section 4.3 Disability Retirement.
- Section 4.4 Withdrawal Benefits.
- Section 4.5 Survivors' Benefits and Other Death Benefits.
  - (a) Survivor's Benefit Upon Death in Participating Service.
  - (b) Survivor's Benefit Upon Death After Retirement.
  - (c) Restrictions on Survivors' Benefits.
  - (d) Children's Benefits.
  - (e) Other Death Benefits.
  - (f) Accumulated Contributions.
  - (g) General.
- Section 4.6 Reduced Pensions With Pension to Survivor.
- Section 4.7 Manner of Payment.
- Section 4.8 Transfer of Rights.

Article 5—Restoration to Service.
Article 6—Contributions.
- Section 6.1 Contributions by Participants.
- Section 6.2 Contributions by the Bank.
- Section 6.3 Optional Additional Contributions by Participants.

Article 7—Administration of Plan.
- Section 7.1 Pension Committee.
- Section 7.2 Administration Committee.
- Section 7.3 Investment Committee.
- Section 7.4 General Provisions Relating to Committees.

Article 8—Accounts.
- Section 8.1 General.
- Section 8.2 Participants' Account.
- Section 8.3 Accumulation Account.
- Section 8.4 Retirement Reserve Account.
- Section 8.5 Transfer of Interest.
- Section 8.6 Determinations by Administration Committee.

Article 9—Management of the Retirement Fund.
- Section 9.1 General Status of Assets.
- Section 9.2 Separate Investment.
- Section 9.3 Form of Investment.
- Section 9.4 Power of Bank.
- Section 9.5 Responsiblity for Propriety of Payment.
- Section 9.6 Duty of Inquiry.
- Section 9.7 Records and Reports.

Section 9.8 Compensation; Consultation With Counsel.
Section 9.9 Manner of Disbursement.
Section 9.10 Place and Recipient of Payment.
Article 10—Certain Rights and Limitations.
Section 10.1 Reduction of Contributions.
Section 10.2 Termination of Plan.
Section 10.3 Employment Rights.
Section 10.4 Payments Under Government Schemes.
Section 10.5 Purchased Annuities.
Section 10.6 Payments in Case of Lack of Designated Beneficiary or Disability of Participant.
Article 11—Nonalienation of Benefits.
Article 12—Amendments.
Article 13—Miscellaneous.
Section 13.1 Minimum Amount of Payments.
Section 13.2 Source of Payments.
Section 13.3 Employees Outside the United States.
Section 13.4 Standard of Care and Limitation of Liability.
Section 13.5 Payments to Constitute Full Satisfaction.
Section 13.6 Effective Headings.
Section 13.7 Languages.
Article 14—Transfer of Service.

ARTICLE 1. DEFINITIONS

Section 1.1

The words and phrases set forth in this Section, have the following meanings for the purposes of this plan unless a different meaning is plainly required by the context:

(a) "Bank" means the Inter-American Development Bank.

(b) "Plan" means the Staff Retirement Plan of the Bank as described herein.

(c) "Pension Committee" means the Committee, provided for in Section 7.1, appointed to supervise and control the over-all administration of the Plan.

(d) "Administration Committee" means the Committee, provided for in Section 7.2, appointed by the Pension Committee to administer the Plan.

(e) "Investment Committee" means the Committee, provided for in Section 7.3, appointed by the Pension Committee to determine the investment of the funds and assets of the Plan.

(f) "Employee" means any person employed by the Bank on a regular appointment (as opposed to temporary, part time or consultant appointment) who receives a regular stated remuneration from the Bank, other than a pension, severance pay, retainer or fee under contract. It includes the President and the Vice Presidents, the Executive Directors and the Alternate Executive Directors, and any employee on a part time appointment who has elected to become a participant in accordance with Section 2.1(b). In all cases of doubt, the Administration Committee shall determine whether any member is an employee as herein defined.

(g) "Participant" means any person participating in the Plan as provided in Article 2.

(h) "Retired Participant" means a former participant who has been retired under the Plan on a pension, whether immediate or deferred.

(i) "Normal Retirement Date" of a participant means the first day of the calendar month next following the 65th anniversary of his birth, or the date of such anniversary if it shall fall on the first day of a calendar month, except as otherwise provided in Section 2.5.

(j) "Service" of an employee means all regular service rendered as an employee and paid for by the Bank, before the normal retirement date.

(k) "Remuneration" of an employee means the regular net compensation paid by the Bank to such employee for services rendered to the Bank and shall not include such payments as reimbursement for taxes, allowances, bonuses, overtime, special pay or separation payments, temporary salary increases or lump sum payments in lieu of annual leave. The annual rate of remuneration of a participant during any period when he is not receiving remuneration from the Bank shall for the purposes hereof be deemed to be his annual rate of remuneration at the time he last received remuneration from the Bank. Remuneration of an Executive Director, Alternate Executive Director or employee on part time appointment who has completed five years of eligible service shall be deemed to be not less than such participant's highest average remuneration as of the last preceding December

31; and the annual rate of remuneration of any Executive Director, Alternate Executive Director and employee on part time appointment shall be deemed to be the remuneration on which he has made contributions during the year immediately preceding the determination or, if his eligible service is for a period of less than one year, the remuneration for such period converted to the annual rate.

(l) "Highest Average Remuneration" of a participant at any time means his average annual remuneration during the five consecutive years of his eligible service then credited to him affording the highest such average, or during his total years of such service, if they are less than five.

(m) "Pension" means annual payments for life payable under the Plan, except as may be otherwise expressly provided herein.

(n) "Retirement Fund" or "Fund" means all assets, securities and property of every kind and nature held for the purposes of the Plan including without limitation the contributions of participants and the Bank and the income therefrom.

(o) "Regular Interest" means interest at the rate from time to time determined by the Pension Committee.

(p) "Accumulated Contributions" means the sum of a participant's contributions to the Plan plus regular interest thereon.

(q) "Actuarial Equivalent" means a benefit of equivalent value when computed at regular interest on the basis of the tables last adopted by the Pension Committee.

(r) "Year" means any twelve consecutive months. When any fraction of a year shall be involved in computing eligible service for retirement or death benefit, each month or fraction thereof in excess of fifteen days, shall be considered one-twelfth of a year and any portion thereof amounting to fifteen days or less shall be disregarded.

(s) The masculine pronoun, whenever used herein, includes the feminine, unless the context clearly otherwise requires.

(t) "Effective Date of the Plan" means February 1, 1961.

ARTICLE 2. PARTICIPATION

Section 2.1—Basic Provisions on Participation

(a) Every employee shall as a condition of service become a participant as of the first day of his service, provided that as of such date he shall not have reached his normal retirement date.

(b) Every Executive Director and Alternate Executive Director and every employee on a part-time appointment may, within three months after his appointment, elect to become a participant by filing written notice with the Administration Committee provided—that as of the date of such election:

(1) he shall not have reached his normal retirement date;

(2) he devotes to his work as an Executive Director, Alternate Executive Director, or employee on a part-time appointment, not less than one-fourth of the Bank's normal business hours; and

(3) he is receiving remuneration from the Bank therefor.

Section 2.2—Termination of Participation

(a) A participant shall cease to be a participant under the Plan as of the earliest of the following: (1) the date on which he dies, or retires under the Plan; (2) the date on which, at or after leaving the service of the Bank, he notifies the Administration Committee in writing that he elects to cease to be a participant or withdraws his accumulated contributions; or (3) at the conclusion of any five year period during which his aggregate eligible service shall have been increased by less than one year, unless at such time (i) he shall be serving as a participant to the extent of not less than one-fourth of the Bank's normal business hours, or (ii) he shall be on leave of absence approved by the Bank on account of compulsory military service in which case the period of such approved leave of absence will be disregarded in computing such five year period.

(b) If a participant not in participating service shall die, or become incapacitated to perform his duties as an employee, or if for any other reason he shall not again be in participating service before his participation ceases, such death, incapacity or failure to return to participating service, as the case may be, shall be treated as a retirement under Section 4.1 or Section 4.2, or a withdrawal, or a retirement and surrender, under Section 4.4, whichever shall be applicable, with the eligible service accrued to the beginning of the period when his participation continued without his being in participating service, and he, his beneficiaries, and all others claiming through him or on his account, shall be entitled only to the benefits provided therein, anything to the contrary in this Plan notwithstanding.

Section 2.3—Accrual of Participating Service During Absence

(a) Participating service shall be deemed to continue while a participant is on leave of absence with pay or during the period of any other leave of absence approved by the Bank for which he and the Bank shall have arranged to make their respective contributions. Contributions shall be paid by the Bank for such leaves of absence pursuant to rules which are uniformly applicable.

(b) Participating service shall be deemed not to continue during the period of any absence of a participant, except as provided in (a) above, or during any period of service for which contributions are not made as provided in Section 6.1.

Section 2.4—Resumption of Participation

A person who ceases to be a participant and who again becomes a participant shall receive benefits on account of his service before he last ceased to be a participant only as provided in Section 5.1.

Section 2.5—Participation After Normal Retirement Date

No person shall be a participant after his normal retirement date. However, notwithstanding any other provision of the Plan, any person who had attained age 65 and was in the employ of the Bank before February 1, 1961, shall, if he so elects and with the approval of the Pension Committee, be a participant and make such regular contributions to the Plan as specified in Section 6.1, and shall be eligible for the benefits of Section 4.1 or Section 4.5 of the Plan, whichever shall be applicable, on the basis that the date as of which he ceases to be an employee of the Bank shall be deemed to be his normal retirement date.

ARTICLE 3. PARTICIPATING SERVICE AND ELIGIBLE SERVICE

Section 3.1—Participating Service

Participating service under the Plan, except as otherwise provided in the Plan, shall be all service rendered to the Bank by an employee as a participant, for which contributions have been made as provided in Section 6.1, including service rendered before the effective date of the Plan, and including the period of any leave of absence to the extent provided in Section 2.3(a);

Section 3.2—Eligible Service

The eligible service of a participant under the Plan shall be the sum of his participating service, and all service under other plans with respect to which agreements for transfer have been made in accordance with Section 14.1 and for which the appropriate transfer of credits and funds has been effected.

ARTICLE 4. RETIREMENT AND BENEFITS

Section 4.1—Normal Retirement

(a) Upon reaching his normal retirement date, a participant shall be retired under the Plan on a normal pension equal to one-fiftieth of his highest average remuneration multiplied by the number of years of eligible service, provided that the normal pension so computed shall in no case exceed seventy-two per cent of his highest average remuneration.

(b) A participant's normal pension shall not be less than $50 multiplied by the number of years of his eligible service, but such amount shall not exceed the participant's highest average remuneration.

(c) Participants who are permitted to continue to work beyond the normal retirement age shall receive no pension until they have ceased to be employees. The pension of such a person shall commence on the last day of the month following the month in which he ceased to be an employee. The pension so payable shall be the normal pension plus a supplementary pension computed in such an amount as to produce a total pension which is the actuarial equivalent of the normal pension he would have received if he had ceased to be a staff member upon reaching his normal retirement date. The provisions of Section 4.5 and Section 4.6 shall not apply to such supplementary pension.

Section 4.2—Early Retirement

(a) A participant who has completed three or more years of eligible service and has reached the age of 55, shall, upon ceasing to be a participant before his normal retirement date for any cause other than death or disability retirement under the Plan, be retired under the Plan on an early retirement pension. The early retirement pension, at the option of the participant, shall be—

(1) a pension becoming effective on the first day of the month next following the date he ceases to be an employee, or on such date if it shall be the first day of a month; or

(2) a deferred pension becoming effective on the first day of any month after his retirement but before his normal retirement date; or

(3) a deferred pension to become effective on his normal retirement date and computed in the same manner as a normal pension on the basis of his highest average remuneration and eligible service at the time of his early retirement,

provided, however, that unless the participant shall otherwise elect by written notice filed with the Administration Committee his early retirement pension shall be a deferred pension to become effective on his normal retirement date.

(b) The amount of any such early retirement pension becoming effective before the participant's normal retirement date shall be equal to fifty per cent of the deferred pension which would otherwise become effective on his normal retirement date, increased by one third of one per cent of such deferred pension for each full month by which the participant's age on the date his pension becomes effective exceeds age 55 and by an additional one sixth of one per cent of the deferred pension for each full month by which such age exceeds age 60.

Section 4.3—Disability Retirement

(a) A participant shall be retired on a disability pension before his normal retirement date on the first day of a month not less than 30 nor more than 120 days next following receipt by the Administration Committee of written application therefor by the participant or the Bank; provided that a physician or physicians designated by the Administration Committee shall certify, and the Pension Committee shall find, on recommendation of the Administration Committee, that such participant is totally incapacitated, mentally or physically, for the performance of any duty with the Bank which he might reasonably be called upon to perform, that such incapacity is likely to be permanent, and that such participant should be retired. Before any person shall be entitled to the benefits of this Section, he must, prior to the occurrence of any such incapacity, either—

(1) have satisfactorily passed such medical examination as shall be prescribed by the Administration Committee; or

(2) have rendered five or more years of eligible service; or

(3) shall have been an employee prior to the effective date of the Plan and shall have rendered twelve or more months of eligible service.

(b) A disability pension shall become effective upon retirement and shall be equal to the normal pension which would be payable to the participant if his normal retirement date had fallen on the date of his disability retirement, but using for such computation his highest average remuneration and eligible service at the time of his disability retirement. In no event, however, shall such pension be less than the smaller of—

(1) 33⅓% of such highest average remuneration; or

(2) the normal pension which the participant would have received if he had remained a participant until his normal retirement date without change in such highest average remuneration.

(c) The Administration Committee may require a retired participant who is receiving a disability pension and who has not reached his normal retirement date to be medically examined from time to time, not more often than once a year, by a physician or physicians designated by the Committee. Such examination shall be made at the residence of such retired participant unless some other place shall be agreed upon by him and the Committee. If such a retired participant shall fail to permit such an examination to be made, his disability pension may be discontinued by the Committee until he shall permit such examination to be made and, in the discretion of the Committee, if he shall fail to permit such examination to be made within a period of one year from the mailing or other sending to him, at his address as it appears on the records of the Committee, of request therefor by the Committee, his incapacity may be deemed to have wholly ceased, and he may be deemed to have withdrawn from the Plan as of the date when his disability pension was discontinued, with the eligible service accrued to the date of his disability retirement.

(d) If the Administration Committee shall find as a result of a medical examination or on the basis of other satisfactory evidence that the incapacity of a retired participant who has not reached his normal retirement date, on account of which he is receiving a disability pension has wholly ceased or that he has regained the earning capacity which he had before such incapacity, his disability pension shall be discontinued and if the Committee shall find that such incapacity has

partially ceased for the performance of any work which he might reasonably be required to do, and that his earning capacity in any such work has been partially regained, his disability pension shall be reduced by the Committee in a reasonable amount. If a disability pension is so discontinued or reduced and the retired participant shall again become incapacitated exclusively through and because of the same incapacity, his disability pension shall be restored upon the same conditions which applied to the original pension and the granting thereof, subject, however, to the provisions of subsection (e) of this Section.

(e) If a disability pension is discontinued pursuant to subsections (c) or (d) of this Section and shall not be restored pursuant to subsection (d) of this Section within a period of five years from such discontinuance, and if such retired participant shall not within such period again become a participant he shall be deemed to have withdrawn from the Plan as of the date his disability pension was discontinued, with the eligible service accrued to the date of his disability retirement, and he shall be entitled to the benefits provided in Section 4.2 or Section 4.4 (a), (b) or (c), whichever is applicable, reduced by all amounts received by him as disability pension, or by the actuarial equivalent of such amounts, as may be appropriate.

Section 4.4—Withdrawal Benefits

(a) Any participant with less than three years of eligible service who ceases to be a participant for reasons other than death or disability before his normal retirement date shall be entitled to receive within six months thereafter, the amount of his accumulated contributions at the time he ceased to be a participant, plus, if he shall have had one or more years of eligible service, an amount equal to three fourths of one per cent of such accumulated contributions multiplied by the number of months of his eligible service. He shall not be retired under the Plan. If he shall again become a participant, his service and remuneration before he last ceased to be a participant shall be disregarded.

(b) Any participant with three or more years of eligible service who is not entitled to early retirement and who ceases to be a participant for reasons other than death or disability before his normal retirement date may be retired under the Plan and receive either (1) a deferred pension to become effective on his normal retirement date and computed in the same manner as a normal pension on the basis of his highest average remuneration and eligible service at the time he ceased to be a participant, or (2) at his election in writing filed with the Administration Committee, a deferred pension calculated in accordance with the provisions of Section 4.2(b) to become effective on the first day of any calendar month following the 55th anniversary of his birth but not later than his normal retirement date.

(c) Any participant retired on a deferred pension may at any time before the 55th anniversary of his birth, or if he shall have had less than five years of eligible service, at any time before his pension becomes effective, surrender all his rights in and to such pension and any other benefits which might become payable to him or on his account under the Plan, and cease to be a retired participant, by executing and filing with the Administration Committee the form provided by the Committee for that purpose, and he shall be entitled to receive within three months thereafter in lieu of such pension and all other benefits which might become payable to him or on his account under the Plan the amount of his accumulated contributions at the time of such filing, plus an additional amount equal to three fourths of one per cent of his accumulated contributions at the end of his first five years of eligible service or at the end of his eligible service if less than five years multiplied by the number of months of his eligible service, not exceeding 60 months, together with regular interest on such amount from the end of such first five years of eligible service or from the end of such eligible service if less than five years to the date of such surrender. Such surrender shall be effective upon such filing.

Section 4.5—Survivors' Benefits and Other Death Benefits

Upon the receipt of adequate proof, satisfactory to the Administration Committee, of the death of a participant or retired participant, there shall be paid the appropriate one of the benefits set forth below:

(a) *Survivor's Benefit Upon Death in Participating Service.*—Upon the death of a participant while in participating service who is survived by a widow or qualified widower as hereafter defined, there shall be paid to such widow or widower a pension equal to one half the disability pension which would have been payable to the participant under Section 4.3(b) if he had retired on a disability pension on the date of his death.

(b) *Survivor's Benefit Upon Death After Retirement.*—Upon the death of a participant not in participating service, or of a retired participant, who on the date of his death was—

(1) retired or entitled to be retired on an early retirement pension after ten or more years of eligible service; or

(2) retired on a normal or disability pension,

and who is survived by a widow or qualified widower who was the spouse of the participant or retired participant on the last day of his participating service, there shall be paid to such widow or widower a pension equal to 37½% of the pension the participant or the retired participant would have been entitled to receive on the date of his death without election of any optional benefits under Section 4.6 and not including any supplementary pension payable under Section 4.1(c).

(c) *Restrictions on Survivors' Benefits.*—The pension for widows or qualified widowers, as set forth in subsections (a) and (b) of this Section shall be restricted by the following conditions:

(1) If the widow or widower is younger by more than 20 years than the deceased participant or retired participant on whose account the pension is payable, the amount of the pension payable to such widow or widower shall be reduced so that the value of the reduced pension shall be the actuarial equivalent of the pension which would have been payable if the widow or widower were exactly 20 years younger.

(2) Upon remarriage of a widow or widower, the pension shall cease and there shall be paid in a lump sum to the widow or widower the amount of the accumulated contributions minus such benefits as have been paid therefrom.

(3) Not more than one person shall be entitled to a widow's or widower's pension in respect of any participant or retired participant.

(4) For the purposes of this Section 4.5, a widow or widower shall be deemed not to survive a participant or retired participant if the widow or widower shall not be living on the tenth day after the death of the participant or retired participant.

(5) The term "qualified widower" shall mean a widower of a participant or retired participant who is found by the Administration Committee to be totally and likely to be permanently incapable, either physically or mentally, of providing for his own support at the time of the death of the participant or retired participant.

(d) *Children's Benefits.*—There shall be payable for the benefit of each child under 19 years of age of a participant or retired participant on whose account a pension becomes payable under subsections (a) and (b) of this Section and of each child of a participant or retired participant on whose account a pension would have been payable under subsections (a) and (b) of this Section, if he had left a spouse satisfying the requirements thereof, a child's benefit payable monthly until such child reaches the age of 19. The amount of such benefit for each child shall be $300 annually, but if at any time there shall be no living parents, such amount shall be, or become, $600. Entitlement to a child's benefit is limited to children existing on the last day of the participant's or retired participant's participating service and not more than one child's benefit shall be payable for any one child. A child of a female participant or retired female participant shall be entitled to benefits hereunder only if the Administration Committee in its absolute discretion determines that he was dependent upon the person on whose account the benefit is being paid to an extent of more than 50 per cent of the reasonable cost of his support. A child's benefit shall be payable to such person or persons as the Administration Committee shall in its absolute discretion consider as most appropriate for the welfare of the child.

(e) *Other Death Benefits.*—

A. Upon the death of a participant or a retired participant who is not survived by a widow or qualified widower, there shall be paid to the person or persons designated by him in writing duly witnessed or acknowledged and filed with the Administration Committee before his death, an amount determined as provided in paragraphs (1) or (2) below. If such person shall not survive the participant, or if the latter shall not have made, or shall have revoked, such a designation, such payment shall be made to his estate or personal representative. Any such designation may be changed or revoked by the participant by written notice duly witnessed or acknowledged and filed with the Administration Committee before his death.

(1) Upon the death of such a participant in participating service there shall be paid the amount of his accumulated contributions at his death.

(2) Upon the death of such a retired participant, there shall be paid the amount of his accumulated contributions at his death, if he died before his pension became effective, and if he died thereafter, his accumulated contributions on the date his pension became effective, less the amount of pension payments received. If he elected an optional benefit under Section 4.6, which was in effect at the time of his death, the pension payments he would have received if he had not elected such optional benefit shall be deducted. In addition to the amount specified in this paragraph there shall be paid in accordance with the following table, a lump sum equal to the appropriate percentage of the pension effective upon retirement which he was entitled to receive, or to elect to receive, without election of any optional benefit under Section 4.6, except that such lump sum shall not be paid in the case of any participant who retired before age 55 under the provision of Section 4.4(b) nor in the case of a retired participant on whose account children's benefits become payable under the provisions of subsection (d) of this Section.

Age at birthday nearest to death:	*Percentage*
65 or under	200
66	180
67	160
68	140
69	120
70	100
71	80
72	60
73 or over	50

B. Upon the death of a participant who is not in participating service, there shall be paid only an amount equal to the amount payable to such participant under subsections (a) or (c) of Section 4.4, whichever would be applicable, if he had ceased to be a participant on the date of his death, and had surrendered his rights, if any, to a pension, provided, however, that if he shall die on or after the 55th anniversary of his birth and shall have had three or more years of eligible service, payments shall be made in accordance with the provisions of subsections (b) or (c) A(2) of this Section, whichever would be applicable, in all respects as if on the date of his death he had retired on an early retirement pension pursuant to Section 4.2.

C. Upon the request of a participant or a retired participant, or of a beneficiary at the time entitled to receive immediate payment in a lump sum of any death benefit provided for in this subsection and to whom no part of such benefit has been paid, the Administration Committee may, in its discretion, make payment of all or any part of such benefit in the form of an annuity of equivalent actuarial value, payable either as an annuity certain for a fixed period of years or as a refund life annuity with the return of such lump sum guaranteed, as shall be specified in such request.

(f) *Accumulated Contributions.*—In no event shall the total amounts payable pursuant to this Section exclusive of children's benefits, on account of any participant or retired participant, together with any other benefits payable to him or on his account under the Plan, be less than his accumulated contributions at the time of his death or retirement whichever shall be earlier. Such payment shall be made to the beneficiary or beneficiaries designated by the participant or retired participant by written notice duly witnessed or acknowledged and filed with the Administration Committee before his death, provided, however, that a participant or retired participant may in any such designation provide that a surviving spouse to whom a pension becomes payable under this Section may, not later than the date on which such spouse's pension ceases, revoke any such designation and designate himself, his estate or any other person or persons to receive such payment. Any designation made pursuant to this subsection may be amended or revoked in the same manner and subject to the same conditions as the designation being amended or revoked. All amounts not otherwise provided for shall be payable to the beneficiary designated by the participant for such purpose.

(g) *General.*—Notwithstanding any other provision of the Plan the Administration Committee may, on the basis of uniform rules, uniformly applicable:

(1) In the case of a participant who so requests within 90 days after he becomes a participant, determine that it would be contrary to the purposes and intent of this Section to treat such participant as married and that he should be treated as single for the purposes of the Plan, in which event the provisions of subsection (e) of the Section shall apply instead of the other provisions of this Section.

(2) Permit a participant or a retired participant, in exceptional circumstances and for good cause shown, to elect not to have a widow's or widower's pension or children's benefit payable in his case or on his account in which event his widow or widower or children, if any, shall not be entitled to a pension or children's benefit under subsections (a) (b) (c) or (d) of this Section, but the other provisions of this Section shall remain applicable.

(3) In exceptional circumstances when it determines that to do otherwise would be contrary to the purposes and intent of subsections (a) and (b) of this Section, permit a married participant in participating service in whose case the provisions of such subsections are not applicable or are not fully applicable to elect that such provisions shall be fully applicable in his case, in which event any previous election shall be disregarded.

Section 4.6—Reduced Pensions With Pension to Survivor

(a) Any participant or retired participant may, by written notice received by the Administration Committee before his pension becomes effective, elect to convert the pension otherwise payable to him into two pensions having a combined actuarial value equivalent to such pension, one of which two pensions shall be payable, when effective, to him during his life, and the other of which shall be payable after his death at such rate as he shall specify, and during the life of, and to, the person nominated by him in such written notice but only if such person survives him and the election of the option hereunder shall become effective on the date his pension becomes effective. The rights conferred by this subsection shall be subject to the provisions of subsection (d) of this Section.

(b) An election of an option may be revoked or changed by a participant or a retired participant only by written notice received by the Administration Committee before the date his pension becomes effective, and any such change shall be treated as a revocation of the prior election and the election of a new option. If the participant or retired participant or the person designated by him dies before the date when such option becomes effective, any election of such option shall be of no effect and any benefits payable to the participant or retired participant or on his account, shall be determined and paid in all respects as if no option had been elected by him.

(c) Notwithstanding the provisions of subsection (b) of this Section, a participant who retires on a deferred early retirement pension under the provisions of Section 4.2(a) may, at any time before his pension becomes effective, by a written and witnessed statement filed with the Administration Committee (1) specify the date when his pension shall become effective and (2) elect an option in accordance with subsection (a) of this Section. Upon such filing of such a statement the pensions provided for in the option specified therein shall be deemed to have been irrevocably elected and shall be payable only on the terms and conditions specified in said statement and said subsection (a) with respect thereto and, subject to the provisions of Sections 4.5, 6.3 and 13.1, no other amounts shall be payable under the Plan to such retired participant or on his account, provided, however, that (1) such statement shall not be deemed to be of any effect for any purpose if such retired participant or the person designated by him under the option elected hereunder shall die before a date thirty days after the date when such statement is filed with the Administration Committee, (2) by a written and witnessed amendment filed with the Administration Committee, effective upon such filing, such retired participant may, at any time before his pension becomes effective, change the date specified by him in such statement to a date which is earlier, but not later, than the date so specified, in which case such earlier date shall thenceforth be deemed to be the date specified in such statement and an appropriate actuarial reduction shall be made in the pensions elected therein, and (3) if such retired participant shall die before his pension becomes effective, the pension of the survivor designated by him shall, if such survivor is then living, become effective, after appropriate actuarial reduction, upon his death regardless of the date specified by him in such statement.

(d) Notwithstanding the foregoing provisions of this Section no option may be elected thereunder which would result in either (1) the amount of the reduced pension payable to the retired participant being less than one half the pension which would have been payable to him if no option had been elected by him or (2) the payment to the designated survivor of a pension which, together with any pension payable to such survivor pursuant to Section 4.5, would exceed the amount of the reduced pension payable to the retired participant.

Section 4.7—Manner of Payment

All pensions shall be payable in equal monthly installments commencing at the end of the calendar month in which the pension becomes effective and ceasing with the last monthly payment prior to death, except that, upon direction of the Administration Committee, any pension amounting to less than $120 per annum may be paid in semiannual installments commencing at the end of the third month after it becomes effective, and ceasing with the last such payment prior to death.

Section 4.8—Transfer of Rights

The Administration Committee may make such other rules and arrangements with the appropriate authorities of other plans with which transfer rights have been effected as it deems appropriate in the circumstances for giving effect to the provisions of Article 14, including arrangements for sharing of pension payments and transfer of credits or funds between the plans.

ARTICLE 5. RESTORATION TO SERVICE

Section 5.1

If a former participant, who at the time he last ceased to be a participant, was retired or was entitled to be retired under the Plan, shall again become a participant, his pension, whether in effect or deferred, shall cease and any option elected under Section 4.6 shall thereupon be deemed to be revoked. If such participant shall not have withdrawn his accumulated contributions pursuant to Section 4.4(c), he shall be credited with the eligible service which stood to his credit when he last ceased to be a participant and, as accumulated contributions, with an amount equal to the present value of his pension provided by his contributions. If such participant shall have withdrawn his accumulated contributions pursuant to Section 4.4(c), he shall be so credited with such eligible service and such accumulated contributions only if he shall, within five years after the date on which he again becomes a participant, make payment of an amount equal to the amount received by him pursuant to Section 4.4(c) together with regular interest thereon to the date of such payment. Notwithstanding any of the foregoing provisions of this Section, if such a participant shall have received any pension payments other than disability payments under the Plan since the date when he shall have last ceased to be a participant, and if he shall again retire within five years from the date when he shall have again become a participant, the amount of his pension upon subsequent retirement shall not exceed the amount of the pension accrued to him on the basis of his participating service and highest average remuneration after he shall have again become a participant, plus the amount of the pension payable to him before he shall have again become a participant, all computed without regard to any option he may elect or may have elected under Section 4.6. Except as may otherwise be expressly provided herein, there shall be disregarded in computing a participant's highest average remuneration any intervals between periods for which his service is credited to him as eligible service pursuant to this Section.

ARTICLE 6. CONTRIBUTIONS

Section 6.1—Contributions by Participants

(a) Each participant shall contribute to the Plan seven per cent of his remuneration, provided that no such contribution shall be made by a participant who is an Executive Director, Alternate Executive Director or employee on a part-time appointment for any pay period during which he devotes to his work less than one-fourth of the Bank's normal business hours. The Bank shall deduct such contributions from the remuneration of each participant for each pay period at the time such remuneration is paid. Sums so deducted shall be held by the Bank as part of the Retirement Fund.

(b) In determining the remuneration of a participant in any pay period, the Bank may, to facilitate the making of deductions, consider the rate of remuneration payable to the participant on the first day of the pay period as continuing through the pay period, and it may omit deductions from the remuneration of a participant for any period less than a full pay period if such participant was not paid or to be paid for the whole of such pay period or was not a participant on the first day of such pay period, and may make such other modifications as shall not substantially change the contributions of participants. Every participant as a condition of service, shall be deemed to consent and agree to the deductions provided for herein, and the payment of remuneration less said deductions shall

in any event be a complete discharge of all claims whatsoever for remuneration with respect to services rendered during the period covered by such payment, except as to the benefits payable to the participant or on his account under the Plan.

Section 6.2—Contributions by the Bank

(a) The Bank will, notwithstanding any other provision hereof, contribute the part of the cost and expenses of the Plan not provided by the contributions of participants. The contributions of the Bank shall be payable each year at such intervals as the Pension Committee shall determine, and shall consist of: (1) a percentage of the remuneration of all participants computed to cover the current cost of the Plan, known as the "normal contribution", and, (2) any additional amounts required at any time to pay the benefits of the Plan not otherwise covered, known as the "accrued liability contribution".

(b) The initial normal contribution rate shall be fourteen per cent but the rate shall be reconsidered by the Pension Committee at the time of each actuarial valuation and shall be established at not less than the percentage required to cover the present value of all benefits to be provided by Bank contributions on account of participants and retired participants then covered under the Plan, in excess of the sum of that part of the Retirement Fund held therefor and the present value of any unpaid accrued liability contributions.

(c) The Bank shall pay all administrative expenses of the Plan.

(d) Any and all contributions made to the Plan by the Bank shall be irrevocable, and shall be held by the Bank in the Retirement Fund, to be used in accordance with the provisions of the Plan in providing the benefits and paying the expenses of the Plan, and neither such contributions nor any income therefrom shall be used for or diverted to, purposes other than for the exclusive benefit of participants and retired participants or their beneficiaries or estates under the Plan, prior to the satisfaction of all liabilities with respect thereto.

Section 6.3—Optional Additional Contributions by Participants

In addition to the contributions provided for in Section 6.1 hereof, any participant may elect, subject to rules of uniform application established by the Administration Committee, to pay an increased rate of contribution, or to make a lump sum contribution or contributions, for the purpose of providing increased payments under the Plan after his retirement. Such additional amounts so deducted or paid shall not be treated as part of his accumulated contributions, but shall be invested, managed and treated as part of the Retirement Fund and regular interest shall be allowed thereon. Such additional contributions, together with such interest, may be withdrawn only in their entirety by a participant, a retired participant or former participant at any time before his pension, if any, becomes effective, and shall in any event be paid to his designated beneficiary or to his estate at his death before such date, if not previously withdrawn. At the time his pension becomes effective, if such sums have not been so withdrawn or paid over, they shall be converted into a refund life annuity of equivalent actuarial value payable at the same time and in the same manner as such pension, with the return of such contributions and regular interest thereon to the date of such conversion guaranteed, based on the participant's or retired participant's sex and then attained age. Any designation of beneficiary for any other purpose under this Plan shall be deemed to include the designation of such beneficiary to receive the return of such contributions with such interest, or any additional payments due on account of such annuity, after the death of the participant or retired participant. Payments by participants hereunder shall be in multiples of $10 and no participant may pay hereunder in any calendar year more than an amount equal to the contributions payable by him under Section 6.1(a) during such calendar year.

ARTICLE 7. ADMINISTRATION OF PLAN

Section 7.1—Pension Committee

(a) The over-all responsibility for carrying out the provisions of the Plan shall be in a Pension Committee composed of the President and the Executive Vice President of the Bank, ex officio, three Executive Directors, and such additional number of members, not exceeding three, as the Pension Committee may determine. The members, other than the ex officio members, shall be appointed by the President of the Bank to serve at his pleasure. The President shall be Chairman, and the Executive Vice President shall be Vice Chairman, of the Pension Committee.

(b) The Pension Committee shall appoint, in the manner provided in Section 7.2, an Administration Committee and shall determine to appoint either an Investment Committee or a trustee or agent for the Retirement Fund as provided more specifically by Section 7.3 and Section 9.4(h). It shall also appoint such additional committees as it may deem necessary or appropriate, and shall define their powers and duties, not inconsistent herewith.

(c) The Pension Committee shall decide all matters of a general policy nature arising under the Plan, and all other matters, including any interpretation of the provisions of the Plan, required to be decided by it under the provisions of the Plan or submitted to it by any Committee appointed by it.

(d) The Pension Committee shall have authority to make and establish such rules, policies and procedures for the overall administration and functioning of the Plan, and the collection, investment, management, safekeeping and disbursement of the Retirement Fund as shall not be contrary to the provisions hereof. All such rules, policies, and procedures shall be binding upon the Bank, participants, retired participants and all other persons having any interest in the Plan or the Retirement Fund.

(e) The Pension Committee shall secure the services of an actuary, whose compensation shall be paid by the Bank, and may rely upon his recommendations in all matters decided by it which are of an actuarial nature.

(f) The Pension Committee shall adopt from time to time, upon recommendation of the actuary, tables for use in all actuarial and other calculations required in connection with the Plan. It shall establish from time to time the rate of regular interest which, compounded annually on December 31 of each year, shall be used in all actuarial calculations required in connection with the Plan. Unless and until changed by the Pension Committee, a rate of 3¼ per cent per annum shall be the rate of regular interest. The Pension Committee shall have power to make such rules as it shall deem necessary or desirable with respect to the method or methods of computing interest hereunder, including without limitation, the power to determine with respect to any type or types of contributions or payments that interest shall be credited or charged in any year or part of a year only on amounts paid or payable, credited or charged, as of any previous day or days in such year or as of December 31 of the preceding year.

(g) The Pension Committee shall make periodic valuations of the fixed and contingent assets and liabilities of the Plan not less often than once every three years, and shall from time to time review the costs and benefits of the Plan and recommend to the Bank any changes in the contributions and benefits provided for therein which they shall deem desirable.

Section 7.2—Administration Committee

(a) The Administration Committee shall be composed of three persons, each with an alternate, appointed by the Pension Committee upon nomination by the President of the Bank, to service at the pleasure of the Pension Committee. The Pension Committee shall designate one of the members of the Administration Committee as Chairman and another as Vice Chairman of the Administration Committee. The alternate of any member of the Administration Committee may act and vote in his stead. The alternate of the Chairman shall act as Chairman only in the absence of the Vice Chairman.

(b) The Administration Committee, subject to the supervision and control of the Pension Committee, shall be responsible for the Administration of the Plan and its application to participants, former participants and persons claiming through them. Except as may be herein otherwise expressly provided, the Administration Committee shall have the exclusive right to interpret the Plan, to determine whether any person is or was a staff member, participant or retired participant, to direct the Bank to make disbursements from the Retirement Fund in payment of benefits under the Plan, to determine whether any person has a right to any benefit under the Plan and, if so, the amount thereof, and to determine any question arising hereunder in connection with the administration of the Plan or its application to any person claiming any rights or benefits thereunder, and its decision or action in respect thereof shall be conclusive and binding upon all persons interested.

(c) The Administration Committee, subject to the general authority of the Pension Committee, shall have authority to make, establish and prescribe such rules, policies, procedures and forms for the administration of the Plan, its interpretation, the exercise by individuals of rights or privileges hereunder, the disbursement of the Retirement Fund and the application of the Plan to individuals and the Bank as shall not be contrary to the provisions hereof.

(d) The Administration Committee shall maintain accounts showing the fiscal transactions of the Plan, and shall keep in convenient form such data as may be necessary for actuarial valuations of the Plan provided that if a trustee or agent is appointed under Section 9.4(h) the investment account shall be maintained by it. The Administration Committee shall prepare annually a report showing in reasonable detail the assets and liabilities of the Plan and giving a brief account of the operation of the Plan for the past year. Such report shall be submitted to the Pension Committee and a copy shall be on file at the headquarters of the Bank where it shall be open to inspection by any participant or retired participant.

Section 7.3—Investment Committee

(a) The Investment Committee shall be composed of five persons appointed by the Pension Committee upon nomination by the President of the Bank, to serve at the pleasure of the Pension Committee. There shall also be two alternates nominated by the President of the Bank and appointed by the Pension Committee to serve at its pleasure. One shall be designated as first alternate and shall act and vote as a member of the Investment Committee if any member of that Committee shall be absent or unable to servce. The other shall be designated as second alternate and shall act and vote as a member of the Investment Committee whenever there would otherwise be fewer than five members of Committee acting and voting. The Pension Committee shall designate one of the members of the Investment Committee as Chairman and another as Vice Chairman of the Investment Committee.

(b) Subject to the general control and supervision of the Pension Committee, the Investment Committee shall determine and direct the management and investment of the Retirement Fund, and shall exercise such other powers and functions as shall be conferred upon it hereunder.

(c) The Investment Committee in carrying out its functions hereunder, may, upon such terms and conditions as may be deemed appropriate, delegate to any sub-committee selected by it from its members, to an official or officials of the Bank or to any investment counsel chosen by the Investment Committee the power to select, within the general investment program from time to time approved by it, the particular investments securities and property in which the Retirement Fund shall be invested by the Bank pursuant to Section 9.3 hereof. The Investment Committee, any such sub-committee, and such official or officials may in the exercise of any power hereunder rely upon the advice of any investment counsel which it has chosen.

Section 7.4—General Provisions Relating to Committees

(a) An appointed member of a committee shall signify his acceptance of his appointment by filing written acceptance thereof with the Secretary of such committee, and may resign by delivering his written resignation to the Secretary of such committee.

(b) A majority of the members of any committee for the time being in office shall constitute a quorum for the transaction of business. All action taken by any committee at any meeting shall be by the vote or other decision of a majority of those present at such meeting. Any committee may from time to time establish rules not inconsistent herewith for the transaction of its business.

(c) The certification of the chairman, vice chairman, secretary or assistant secretary of any committee shall be final and conclusive evidence of any action or decision of such committee.

(d) Except as may be otherwise herein provided, each committee shall appoint a chairman, vice chairman, secretary and assitant secretary. The latter two need not be members of the committee.

(e) Each committee is authorized to obtain such clerical, medical, actuarial, accounting and other services as it may deem necessary or advisable in the performance of its functions. However, all services required under the Plan shall be performed by the regular staff of the Bank wherever possible. Committee members and staff members of the Bank shall not receive any additional special compensation for their services in connection with the Plan.

(f) A member of a committee who is a participant or a retired participant shall not vote or otherwise act as a committee member on any question relating exclusively to himself.

(g) The Alternate of any Executive Director who is a member of any committee shall be ex officio the alternate of such Executive Director on such committee and may act and vote in his stead.

(h) The Bank shall on the request of any committee furnish to it such information as it shall require to perform its functions under the Plan.

(i) Any direction, certification, notification or instruction by any committee hereunder shall be in writing and signed by the chairman, vice chairman, secretary or assistant secretary of such committee.

(j) Every rule, policy, procedure or form made, issued or prescribed by any committee hereunder shall be uniformly applicable to all persons similarly situated.

ARTICLE 8. ACCOUNTS

Section 8.1—General

The Administration Committee shall cause to be maintained in three accounts, to be known as (1) the Participants' Account, (2) the Accumulation Account and (3) the Retirement Reserve Account.

Section 8.2—Participants' Account

The Participants' Account shall be the account to which shall be credited all contributions and other payments of participants. If a former participant or a retired participant shall have withdrawn his accumulated contributions and thereafter again becomes a participant, the amounts paid by him pursuant to Section 5.1 shall, upon payment in full, be credited to the Participants' Account to the extent that they constitute a repayment of accumulated contributions plus interest. Any balance of such repayment shall be credited to the Accumulation Account. Any partial payments shall be credited to a suspense account and returned to the participant with regular interest if payment is not completed. All refunds of the accumulated contributions and other payments made by participants shall be charged to thls account. Upon the retirement of a participant, the amount of his accumulated contributions, and other payments and any interest thereon shall be transferred from the Participants' Account to the Retirement Reserve Account.

Section 8.3—Accumulation Account

The Accumulation Account shall be the account to which shall be credited all contributions made by the Bank. All interest and other earnings of the invested funds of the Plan shall be credited to this account. All benefits payable upon the withdrawal or death of a participant prior to retirement in addition to the payment of his accumulated contributions shall be charged to this account. Upon the retirement of a participant, an amount equal to the present value of his benefits after retirement, less the amount of his accumulated contributions transferable from the Participants' Account, shall be transferred from the Accumulation Account to the Retirement Reserve Account. All capital gains and losses shall be credited or charged to this account.

Section 8.4—Retirement Reserve Account

The Retirement Reserve Account shall be the account to which shall be credited all reserves transferred from the Participants' Account and the Accumulation Account when participants retire and to which shall be charged all benefits paid on account of retired participants. If a retired participant is restored to participation, an amount equal to the present value of the part of his pension provided by his contributions shall be transferred from the Retirement Reserve Account to the Participants' Account, and the balance of the present value of his benefits shall be transferred from the Retirement Reserve Account to the Accumulation Account.

Section 8.5—Transfer of Interest

The Administration Committee shall transfer annually from the Accumulation Account to the Participants' Account regular interest on the individual balances of participants in the Participants' Account, and shall transfer annually from the Accumulation Account to the Retirement Reserve Account an amount sufficient to allow regular interest on the average balance in the Retirement Reserve Account during the preceding year. The Administration Committee may from time to time transfer to or from the Accumulation Account the amount of any surplus or deficit which may develop in the Retirement Reserve Account.

Section 8.6—Determinations by Administration Committee

In any case where it shall be necessary to determine the part of any benefit under the Plan which is provided by the contributions of a participant or of the Bank, the Administration Committee, subject to any rules or orders of the Pension Committee with respect thereto, shall make such determination in such manner as it shall deem equitable.

ARTICLE 9. MANAGEMENT OF THE RETIREMENT FUND

Section 9.1—General Status of Assets

All the contributions made by the Bank and by participants pursuant to Article 6 hereof, and all other assets, funds and income of the Plan, shall be transferred to and become the property of the Bank, and shall be held and administered separately from the other property and assets of the Bank, as the Retirement Fund, solely for use in providing the benefits and paying the expenses of the Plan, and no part of the corpus or income of the Retirement Fund shall be used for, or diverted to, purposes other than for the exclusive benefit of participants and retired participants or their beneficiaries under the Plan, prior to the satisfaction of all liabilities with respect to such participants, retired participants and beneficiaries. No person shall have any interest in or right to any part of the Retirement Fund or of the earnings thereof or any rights in, or to, or under the Plan, or any part of the assets thereof, except as and to the extent expressly provided in the Plan.

Section 9.2—Separate Investment

The Bank shall hold, invest and reinvest the Retirement Fund, separate and apart from all its other property and assets and shall make such payments therefrom as the Administration Committee shall from time to time direct to be paid and certify to be in payment of benefits under the Plan.

Section 9.3—Form of Investment

The Bank shall invest and reinvest the Retirement Fund including without limitation the income from any investments and reinvestments thereof in such stocks of any classification, bonds, notes, debentures, mortgages, equipment or investment trust certificates, or in such other investments, securities or property of any class or character, including obligations issued or guaranteed by the Bank, as the Investment Committee, subject to such policies as may be prescribed by the Pension Committee, may from time to time direct. Such investment or reinvestment shall not be restricted to such investments, securities or property as may be authorized for fiduciaries of any kind under any present or future law. The Bank shall retain in cash and keep unproductive of income such part of the Retirement Fund as the Investment Committee or trustee or agent may from time to time direct.

Section 9.4—Power of Bank

The Bank, subject to any directions which may be given to it hereunder by the Investment Committee or by the Pension Committee may exercise all such powers, do all such acts and execute all such documents as it may deem necessary or appropriate for, or in connection with, the acquisition, management, recovery, safekeeping, protection and disposal by it hereunder of the Retirement Fund, or any part thereof, including, but not by way of limitation, the exercise of the power—

(a) to sell, exchange, convey, transfer or otherwise dispose of any property held by it as part of the Retirement Fund by a private contract or at public auction, for cash or on credit;

(b) to vote upon any stocks, bonds or other securities held by it in the Retirement Fund; to give general or special proxies or powers of attorney with or without power of substitution; to exercise any conversion privileges, subscription rights or other options and to make any payments incidental thereto; to consent to or otherwise participate in corporate reorganizations or other changes affecting corporate securities and to delegate discretionary powers and to pay any assessments or charges in connection therewith; and generally to exercise any of the powers of an owner with respect to stocks, bonds, notes, debentures, mortgages, equipment or investment trust certificates or other securities or property in the Retirement Fund;

(c) to make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or appropriate to carry out the powers herein granted;

(d) to register any investment in the Retirement Fund in its own name or in the name of a nominee and to hold any investment in bearer form, but the books and records of the Bank shall at all times show that all such investments are part of the Retirement Fund;

(e) to deposit or hold cash, securities or other property of the Retirement Fund in such form, in such banks or other depositories, with such other persons or in such other places as it shall deem necessary or desirable;

(f) to enter into any such contract or contracts as the Investment Committee may direct with any insurance company or companies to provide for the payment of any pension, annuity, or other benefit provided for in the Plan, and to disburse any of the Retirement Fund in payment of premiums or any other obligations under any such contract;

(g) to purchase from an insurance company or companies and to pay the premiums or other cost thereof from the Retirement Fund, contracts of such kinds, in such amounts, so payable, and against such risks in connection with the Plan as the Investment Committee may direct; and

(h) to appoint a corporate trustee or an agent for the Retirement Fund with the power to invest such assets of the Fund as may be committed to it and, if so determined by the Pension Committee, to make disbursements on the order of the Bank, but without authority to make determinations of benefits under the Plan.

Section 9.5—Responsibility for Propriety of Payment

The Bank shall not be responsible for the propriety of any payments made by the Bank from the Retirement Fund at the direction of the Administration Committee as aforesaid, or for the propriety of any action taken or omitted by it in connection with the Retirement Fund at the direction of the Investment Committee or the Pension Committee.

Section 9.6—Duty of Inquiry

No person dealing with the Bank in connection with the Retirement Fund shall be required to make any inquiry whether the Bank has been directed or instructed by any committee or is otherwise authorized to take or omit to take any action; or to inquire into the validity, expediency or propriety of any action taken or omitted by the Bank; or to follow the application by the Bank of any money or property which may be paid to the Bank or on its order.

Section 9.7—Records and Reports

The Bank shall keep or shall cause to be kept by the trustee or agent accurate and detailed accounts of all investments, receipts, disbursements and other transactions relating to the Retirement Fund, and all such accounts and records shall be open to audit and inspection at all reasonable times by any person authorized by the Pension Committee. Within 90 days after December 31 of each year in which it has acted hereunder, and within 90 days after the date on which it shall last act hereunder, the Bank shall file or shall cause to be filed with the Administration Committee a written account setting forth the investments, receipts, disbursements and other transactions of the Retirement Fund effected by it during the year ended on the next preceding December 31, or during the period since the end of the period for which it last filed such a written account, as the case may be. Such written account when so filed shall be open to inspection during business hours by participants, retired participants and beneficiaries receiving benefits under the Plan for a period of thirty days immediately following the filing of such account as aforesaid and, upon the expiration of such thirty day period, the Bank shall be forever released and discharged from any and all liability and accountability to anyone with respect to the propriety of its acts and transactions shown in such account, except with respect to any such acts and transactions as to which any such participant, retired participant or beneficiary shall have filed, during such thirty day period, objections, with reasons therefor, with the Bank.

Section 9.8—Compensation—Consultation With Counsel

The Bank shall receive no compensation for its services hereunder, but any expenses, other than administrative expenses, properly incurred by the Bank in the performance of its duties hereunder shall be charged to the Retirement Fund except to the extent that the Bank shall decide to pay such expenses. The Bank in the performance of its functions hereunder may from time to time consult with counsel, who may be of counsel to the Bank, and shall be fully protected in acting, or failing to act, upon the advice thereof.

Section 9.9—Manner of Disbursement

The Bank shall, subject to the provisions hereof, determine the manner in which the funds of the Plan shall be disbursed, including the form of voucher or warrant to be used in making disbursements and the due qualification of persons authorized to approve and sign the same.

Section 9.10—Place and Recipient of Payment

The Bank may make payment of any pension, annuity, benefit, or other amount hereunder at such place and in such manner as it shall determine. The Bank shall not be required to make any investigation to determine the identity or mailing address of any person entitled to any such payment hereunder. It may, however, defer making any such payment until it is satisfied with respect to the identity and the mailing address of the person or persons entitled to any such payment. If there shall be any dispute, or if the Bank or Administration Committee shall have any doubt, concerning the identity or rights of any person or persons entitled to payments hereunder, the Bank may withhold payment thereof until such dispute shall have been settled or such doubt shall have been satisfied by arbitration or by a court of competent jurisdiction or by a written stipulation binding on all the parties concerned.

ARTICLE 10. CERTAIN RIGHTS AND LIMITATIONS

Section 10.1—Reduction of Contributions

It is the intention of the Bank to continue the Plan, on a permanent basis and to make its contributions regularly each year, but the Bank may at any time and for any reason suspend in whole or in part its contributions toward the cost of benefits based on future service, in which event all benefits under the Plan on account of service to be rendered thereafter shall be reduced to such amounts as actuarial valuation shall indicate will be provided by future contributions, if any, plus any surplus remaining in the Retirement Fund after payment or provision for payment of all effective, payable or accrued pensions and benefits of any kind with respect to, based on, or resulting from previous service. A proportionate reduction may also be made by the Pension Committee in the contributions to be made by participants.

Section 10.2—Termination of Plan

The Plan may be terminated at any time by the Bank, in which event the Retirement Fund shall be used for the benefit of participants and retired participants or their beneficiaries under the Plan, and for no other purpose, except that any excess funds which may exist because of erroneous actuarial computation after the satisfaction of all fixed and contingent obligations of the Plan shall be returned to the Bank. In the event of such termination the Retirement Fund shall be used (a) to pay or provide for the payment of pensions, annuities and other benefits then payable or effective, or to become payable on the account of retired participants, (b) to provide the early retirement benefits of the Plan for or on account of participants who at the time of termination were entitled to retire under the provisions of Section 4.2, (c) to pay or provide for benefits or deferred pensions to participants, which have become effective or payable or are to become effective or payable, or which have accrued on the basis of their eligible service to the date of such termination and (d) the balance, if any, shall be returned to the Bank, but only after satisfaction of all liabilities of the Plan to participants, retired participants and their beneficiaries. The Pension Committee may require all such participants, retired participants and designated beneficiaries to withdraw such amounts in cash or in the form of immediate or deferred annuities, as it may determine.

Section 10.3—Employment Rights

The establishment of the Plan shall not be construed as conferring any legal rights upon any employee or other person for a continuation of employment, nor shall it interfere with any rights the Bank might otherwise have to terminate the services of any employee and to treat him without regard to the effect which such treatment might have upon him as a participant in the Plan, but no rights or benefits under the Plan shall be denied as a penalty for misconduct.

Section 10.4—Payments Under Government Schemes

The Administration Committee may cause to be deducted from the part of any benefit under the Plan provided by Bank contributions, all or part of any amount paid or payable to or on account of any participant or retired participant under the provisions of any present or future law, pension or benefit scheme of any sovereign government or any political subdivision thereof, on account of which contributions have been made or premiums or taxes paid by the Bank with respect thereto. Should any amount otherwise payable to or on account of any par-

ticipant or retired participant under such present or future governmental pension or benefit scheme fail to be paid or be payable for any reason outside the control of the Bank, such amount or any part thereof may nevertheless be deducted.

Section 10.5—Purchased Annuities

Whenever pursuant to the provisions of the Plan, any retirement annuity, whether individual or group, shall be purchased for the account of any participant, retired participant, beneficiary or other person, neither such participant, retired participant, beneficiary or other person, nor the heirs, distributees, legal representatives or assigns of any of them shall have any claim under the Plan, except for the enforcement against the issuer of any such annuity contract of the rights provided therein.

Section 10.6—Payments in Case of Lack of Designated Beneficiary or Disability of Participant

In the event of the death of a participant or retired participant not survived by a person designated to receive any payments then due, or in the event that the Administration Committee shall find that a retired participant or other person entitled to a pension is unable to care for his affairs because of illness or accident, any benefit payments due may, unless claim shall have been made therefor by a duly appointed guardian, conservator, committee, or other legal representative, be paid to the spouse, a child, a parent or other blood relative or to any person deemed by the Administration Committee to have incurred expense for such deceased or retired participant or other person entitled to a pension, and any such payments so made shall be a complete discharge of the liabilities of the Plan to the extent thereof.

ARTICLE 11. NON-ALIENATION OF BENEFITS

Section 11.1

No benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance seizure or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber, seize or charge the same shall be void, nor shall any such benefit be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit, except as may be specifically provided in the Plan; and in the event that the Administration Committee shall find that any participant, retired participant or any other beneficiary under the Plan has become bankrupt or that any benefit under the Plan has been anticipated, alienated, sold, transferred, assigned, pledged, encumbered, seized or charged or that any attempt has been made so to do, except as may be specifically provided in the Plan, then the Administration Committee may declare such benefit to be temporarily or permanently suspended, and in that event shall hold or apply the same to or for the benefit of such participant or retired participant or other beneficiary, his spouse, children, or other dependents, or any of them as it shall in its sole discretion determine.

ARTICLE 12. AMENDMENTS

Section 12.1

Subject to the provisions hereinafter set forth, the Bank reserves the right at any time and from time to time to modify or amend in whole or in part any or all of the provisions of the Plan, provided that no modification or amendment may be made which would deprive any participant or retired participant or other person receiving or entitled to receive a pension, annuity or other benefit, without his consent, of any benefits vested in him under the Plan at that time by reason of service theretofore rendered or for which contributions have been made except that any amendment may be made retroactively which is necessary to qualify or to continue the qualification of the Plan under governmental tax laws or regulations, and provided further that no such modification or amendment shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of participants and retired participants or their beneficiaries under the Plan, prior to the satisfaction of all liabilities with respect to such participants, retired participants and beneficiaries.

ARTICLE 13, MISCELLANEOUS

Section 13.1—Minimum Amount of Payments

Under no circumstances shall the amounts payable hereunder to or on account of any participant, including without limitation any death benefit or survivor's

pension payable under Section 4.5 or Section 4.6, but excluding any return of additional contributions or any annuity payable under Section 6.3, and any children's benefits payable under Section 4.5(d), be less than the amount of such participant's accumulated contributions. Except as may be otherwise expressly provided in this Plan, any designation of a beneficiary to receive any amounts payable under this Plan may be revoked or changed by the person making such designation.

Section 13.2—Source of Payments

All benefits and payments under the Plan shall be paid only from the Retirement Fund.

Section 13.3—Employees Outside the United States

Any special problems arising under the Plan in connection with persons employed outside the United States, or remunerated in other than United States currency, or to whom benefits may be payable or paid in other than United States currency shall be decided by the Pension Committee or the Administration Committee or pursuant to rules or regulations issued by either such Committee, as may be appropriate.

Section 13.4—Standard of Care and Limitation of Liability

The members of the committees herein provided for and the employees of the Bank shall use ordinary care and diligence in the performance of their duties and functions hereunder and in respect hereof, but no such member of a committee or employee shall be personally liable by virtue of any contract, agreement, bond or other instrument made or executed by him or on his behalf as a member of any committee or otherwise in connection with the Plan, nor for any mistake of judgment made by himself or any other member of any such committee or employee, nor for any loss, not resulting from his own gross negligence or willful misconduct, and no such person shall be liable for the neglect, omissions or wrongdoing of any other person. This provision shall not in any manner be deemed to be or construed as a waiver of any immunity or privilege contained in or provided by the Agreement Establishing the Bank, or otherwise.

Section 13.5—Payments To Constitute Full Satisfaction

Any payment to any participant, retired participant, beneficiary or annuitant, or to any other person, in accordance with the provisions hereof, shall to the extent thereof be in full satisfaction of all claims hereunder or otherwise against the Bank, the Retirement Fund or any other person, and the Bank or the Administration Committee, may but need not, require such participant, retired participant, beneficiary, annuitant or other person, as a condition of such payment, to execute a receipt and release therefor in such form as the Bank or the Committee may prescribe.

Section 13.6—Effective Headings

The headings and sub-headings herein are inserted for convenience only and are not to be considered in construing the provisions hereof.

Section 13.7—Languages

This instrument may be executed in the several languages of the Agreement Establishing the Bank and in the several counterparts, each of which shall be an original and all collectively but one instrument.

ARTICLE 14. TRANSFER OF SERVICE

Section 14.1

The Bank, upon the approval of the Pension Committee, is authorized to enter into agreements, consistent in principle with the provisions of the Plan, with other international organizations and with member governments providing for the transfer and continuity of pension rights and the transfer of funds of participants transferring between other international organizations or member governments and the Bank or vice versa, and such agreements shall have effect as if they were expressly set forth in the Plan.

CONTRIBUTIONS TO CAPITAL STRUCTURE

Mr. PASSMAN. With regard to the present capital structure, do you know of any free enterprise contributions or donations?

Mr. CUTLER. No.

Mr. PASSMAN. Certainly it would be contributions——

Mr. CUTLER. Well, except to the extent of the participations by the commercial banks, which are about——

Mr. PASSMAN. I am speaking of your capital account. There is none of your capital subscribed to by free enterprise?

Mr. CUTLER. No. All from governments, sir.

Mr. PASSMAN. It would follow, then, that your fund is made up from the taxes paid into the several governments. Would that be a statement of fact?

Mr. CUTLER. That is right, except for the contributions of the individual participants.

Mr. PASSMAN. So, in reality, it is the taxpayers' money that pays for these plans, because you are not getting it out of free enterprise; you are getting it out of the tax tills. As the percentage would apply to the United States, then, of course, that part would come out of the taxpayers' money—the Treasury—would it not?

Mr. CUTLER. The initial capital of the Bank was subscribed by the member countries. And perhaps there will be a change, of course, in the capitalization at some future time.

It is the hope of the United States and of the other countries that, as the Bank may prosper in its lending and obtain a good portfolio of loans, and these loans may be repaid, that we will be able to market a substantial amount of bonds which will give us our added capital, as was the case in the World Bank, and relieve the governments to that extent of providing further capital funds.

Mr. PASSMAN. But as it stands now, all of these things come, if not directly, then indirectly, out of taxpayers' pockets. It is taxpayers' money that creates the capital, and it is out of the capital, and what the capital earns, that you disbuse these expenses.

Mr. CUTLER. In the 20 countries; yes.

SALE OF LOANS FROM ORDINARY CAPITAL

Mr. ALEXANDER. Would the gentleman yield on this point?

Mr. PASSMAN. Yes.

Mr. ALEXANDER. I have been interested in the fact that in the last few years you have been able to sell, without recourse, and without guaranty, 76 participations in 22 loans, totaling $4,760,000 to certain banking institutions. Now, would you explain how that is handled and how it works?

Mr. CUTLER. The chief financial officer of the Bank, Mr. Menapace, who retired from the Guaranty Trust Co. after 40 years as vice president for Latin America, and who is extremely well known in banking circles that have an interest in the Latin American field, watches over this particular phase of our operations. When a loan is approaching the authorization stage, or is being authorized, on that very day the leading commercial banking firms which are listed here that we have customarily done business with, and some others, are notified that this loan is going to be authorized, and would they be interested in taking any participation? As you see, there were 46 loans, and in only 22 of them were dollar participations taken. That was because of the character of the loan or its size or some adventitious reason of that kind.

But in 22 of the 46 loans where participations were taken, they would call immediately on the telephone and get Mr. Menapace and

say: We want so much of the first payment, second payment—they will go out sometimes to 4½ years. And they then orally agree to take these participations and then confirm it by writing.

We have never made a guarantee of these participations the way the World Bank did at first.

Mr. ALEXANDER. Well, do you make the loans that they participate in, or do you turn over the loan to them and they make it?

Mr. CUTLER. No; we make the loan because our loans go for 8 or 12 years.

Mr. ALEXANDER. Well, how do you get out of guaranteeing or without recourse?

Mr. CUTLER. Well, we say we will not do it; they do not have to take it if they do not want it. But they like the 5¾ rate, of course.

ARGENTINE AUTOMOBILE ACCESSORY LOAN

Now, for instance, we just made—this is a very interesting case—we just made a loan to an Argentine concern that is going to manufacture automotive parts—wheel caps, and I have forgotten what else. The Budd Co. is a part owner of this company in Argentina. The Budd Co. does business customarily with two banks in Philadelphia. And when they heard that this loan was going to be made, they were the first ones to call up, and said, "We want to take all the early payments."

Mr. ALEXANDER. Is the interest rate in the South American countries not much higher customarily than 5¾ percent?

Mr. CUTLER. Yes.

Mr. ALEXANDER. Well, can they not get more for their money than that?

Mr. CUTLER. They cannot be sure that the loan is as good as the ones that we make.

Mr. ALEXANDER. Just one other question.

Mr. CUTLER. Normally, they do not make short loans, except some of the banks make them in Mexico. I do not think most of the American commercial banks make term loans in Latin America.

Mr. PASSMAN. Was the loan to the Argentine firm to establish a plant manufacturing automobile accessories, such as hub caps, made through a bank that asked for the privilege to buy the loan, or was it a manufacturing firm?

Mr. CUTLER. No; two commercial banks which did business with the Budd Co. in the United States heard of this and said, "We want to get the early participations."

Mr. PASSMAN. It was entirely a banking transaction, and not some manufacturer in South America who wanted to get in on the ground floor?

Mr. CUTLER. No, no. We sell participations only to banks.

Mr. PASSMAN. Yes, I understand.

INTEREST ON SOCIAL PROGRESS TRUST FUND LOANS

Mr. ALEXANDER. How much interest do you get on your Social Progress Trust Fund loans?

Mr. CUTLER. We charge three-quarters of 1 percent payable in dollars as a service charge toward paying our expenses, and we charge local interest, interest payable in local currency, which varies in accordance with the type of loan, what the loan is for. It has varied from 1¼ percent to 2¾ percent. This was done, as I explained—I think you were not here, Mr. Alexander—before. The Latin American directors wished to have us charge local interest, because they thought it was better for their borrowers to pay some interest, than just the service charge.

Mr. ALEXANDER. The reason I brought this up, I noticed in the Social Progress Trust Fund annual report where the rates were very, very low, and it raised a question in my mind.

Mr. CUTLER. Well, you know, in the case of IDA and in some AID loans, they only charge the service charge and do not charge any interest over a longer term. And my Latin directors did not wish to make loans for a term longer than 30 years and they felt it was a good thing, in addition to the service charge, to charge some interest.

ADMINISTRATION OF ALLIANCE FOR PROGRESS PROGRAM UNDER SOCIAL PROGRESS TRUST FUND

Mr. PASSMAN. Does your Agency administer, or are you administering, the $394 million Social Progress Trust Fund that the Congress appropriated last year?

Mr. CUTLER. Yes, sir. We administer it under a trust agreement.

Mr. PASSMAN. Do you administer it, though, under the same directors?

Mr. CUTLER. Yes, sir; that is right.

Mr. PASSMAN. Will your Agency administer a large portion of the Alliance for Social Progress Fund of $600 million which was created last year?

Mr. CUTLER. No, sir. We only administer the part—excuse me. May I start again? Last year the Congress appropriated $500 million.

Mr. PASSMAN. $600 million, but it was divided into three parts.

Mr. CUTLER. That is right. $100 million for Chile and $500 million for the Alliance for Social Progress.

Mr. PASSMAN. You administer a substantial portion of the $500 million?

Mr. CUTLER. Of that, $100 million went to ICA.

Mr. PASSMAN. We made the division, so we are aware of those facts.

Mr. CUTLER. And the $394 million that is administered under the terms of this trust agreement.

Mr. PASSMAN. $100 million to ICA, now AID, $6 million to the Organization of American States, and $394 million to be administered by your organization?

Mr. CUTLER. That is right.

Mr. PASSMAN. The President this year is asking for a substantial increase. So far as you know, will the same machinery operate to administer additional funds?

Mr. CUTLER. I understand that he is asking for a large authorization and for appropriations.

Mr. PASSMAN. And it is for the same purpose as the fund we are discussing.

Mr. CUTLER. Yes. If I may make a statement to you, which I think will be of help to you at this point.

The IDB, as Social Progress Trust Fund administrator, is not seeking any further appropriations for fiscal year 1963. We do not need any additional funds for that purpose at this time.

Mr. Dillon has testified before you that he would not seek further Social Progress Trust Funds at this time.

Mr. PASSMAN. If you will be patient with me, I will be patient with you. What are you mixing up now?

Mr. CUTLER. We are talking about the Social Progress Trust Fund.

Mr. PASSMAN. I am talking about the Trust Fund. You are administering the $394 million under the Social Progress Trust Fund appropriation of last year through window 3 of your organization?

Mr. CUTLER. That is right.

Mr. PASSMAN. Any additional appropriations to the Alliance for Social Progress would be disbursed through your Bank as far as you know at this time?

Mr. CUTLER. No, as I understand it, Mr. Passman, that is why it is complicated, and I wanted to try to make clear——

Mr. PASSMAN. If you are not going to administer it, we will take "No" for an answer and not bother you with a lot of questions about it.

Mr. CUTLER. Well, it is not as easy as that either. You are quite correct in what you said.

Mr. PASSMAN. Then you do administer it?

Mr. CUTLER. No; we are administering $394 million under the Social Progress Trust Fund agreement which is a part of the $600 million appropriated last year. We are not asking for any further funds for the Social Progress Trust Fund for fiscal year 1963.

Mr. Dillon testified last year that the Government would not ask for more money for the Social Progress Trust Fund for 1963. But we do anticipate that we may need some funds for the Social Progress Trust Fund in fiscal year 1964. And if our performance turns out to be satisfactory to the Congress and to the executive department, I assume that some money will be asked to replenish the Social Progress Trust Fund for fiscal year 1964.

Now, the reason I say this is that next week, or within a short time, a representative of AID will be coming, in the near future, to testify before this committee about Alliance for Progress funds.

And I assume that the funds that we may desire for the social progress trust fund in fiscal year 1964 will probably be provided out of the moneys that you would appropriate to AID in that year for that general purpose.

Mr. PASSMAN. For fiscal year 1963 or 1964?

Mr. CUTLER. I am not talking about 1963.

Mr. PASSMAN. If the President asks for $600 million additional money——

Mr. CUTLER. For 1964?

Mr. PASSMAN. I am now referring to fiscal year 1963. The President stated the other day that he would ask the Congress for additional——

Mr. CUTLER. No.

Mr. PASSMAN. Kindly wait until I get my question asked before you answer, if you please. He is asking for $600 million, I think.

Mr. CUTLER. That is correct.

Mr. PASSMAN. I think that is right, for fiscal year 1963, under the Alliance for Progress. Do you know who is going to administer that $600 million?

Mr. CUTLER. AID is going to administer it.

Mr. PASSMAN. As far as you know, you will not administer any part of it?

Mr. CUTLER. That is what I understand. And we do not ask for that money.

Mr. GARY. Will the gentleman yield to me?

Mr. PASSMAN. Yes.

REFORMS IN COUNTRIES RECEIVING FUNDS UNDER ALLIANCE FOR PROGRESS PROGRAM

Mr. GARY. The one thing that I am more interested in than anything else, and that is when the Alliance for Progress program was initiated, we were definitely told that no money would be given unless the South American countries met certain conditions that were laid down. Now, who is going to determine when those conditions are met? Are you going to determine it or is somebody else going to determine it?

And the figure that I heard in connection with it was $10 billion that we eventually are going to put out—that we pledged. $20 billion. Well, we throw the billions around very carelessly. I think Mr. Dillon, when he went down there, mentioned $20 billion, and I think the President recently mentioned $10 billion. I want to know what we are appropriating it for, and who is going to handle it and who is going to determine when the participating countries are meeting their agreements. Because I am being informed on all sides that none of the conditions are being met. At the same time we are pouring money into those countries. And I want to know what is going on.

Mr. CUTLER. Well, Mr. Gary, that is quite a question. I can answer you first that my Bank administers only the Social Progress Trust Fund of $394 million. We believe that no money will need to be appropriated or given to us for the Special Progress Trust Fund in fiscal year 1963.

In fiscal year 1964, we may have to receive more funds, because by that time we anticipate, at the rate of lending and under the conditions of the trust fund, we will have committed that money.

Now, as to the decision as to whether the countries have met the criteria set up under the Social Progress Trust Fund agreement, that decision rests with the Directors of the Inter-American Bank. In a sense, it may be said to rest with me as the U.S. Executive Director, because it takes a two-thirds vote to approve a loan and I vote 41.82 percent. So if I do not vote, they do not make a loan.

Mr. PASSMAN. Would the gentleman yield?

Mr. GARY. Yes.

Mr. PASSMAN. We were assured by the chairman of the Foreign Affairs Committee of the House—and I feel certain that he was so assured by the Secretary of the Treasury, who then was and still is in that position—that they would not ask for an appropriation to be made until the prospective recipient countries had passed legislation to bring into being various land and tax reforms. But they then changed

the rules and came to the Congress and said, in effect, "We want this money now. We must have it now." So the Congress appropriated the money then with the assurance that the reforms would be required before disbursements were made.

We find now, however, that you have made 20 loans amounting to over $129 million out of the $394 million.

Mr. CUTLER. Ten.

Mr. PASSMAN. What?

Mr. CUTLER. Ten countries—20 loans—the figure was right, $129 million.

Mr. PASSMAN. To what countries?

Mr. CUTLER. The countries we have loaned in?

Mr. PASSMAN. That is right, the 20 loans in 10 countries.

You say here, at page 6—

> Turning from the operations of the Bank based on its ordinary capital resources and on its fund for special operations to the Bank's administration of the Social Progress Trust Fund, the Bank as administrator as of February 28, 1962, has made 20 loans totaling more than $129 million and obligated $423,744 in the form of nonreimbursable technical assistance from the trust fund resources.

Mr. CUTLER. It is 20 for $129 million.

COUNTRIES LOANED SOCIAL PROGRESS TRUST FUND RESOURCES AND PROJECTS LISTED

Mr. PASSMAN. Will you identify the recipient countries?

Mr. CUTLER. Yes.

One loan was made to the State of Bahia in Brazil.

This was a water and sewerage loan in Bahia, in El Salvador de Bahia.

Mr. GARY. Mr. Chairman, there I wonder if we could have named, after the country, the particular reforms that were initiated.

Mr. PASSMAN. Yes. However, I want to get these countries first, if we may.

Mr. CUTLER. Yes.

Mr. PASSMAN. All right; Brazil, one.

Mr. CUTLER. There were three made in Chile.

There were three in Colombia.

There was one in Costa Rica.

There were two in Ecuador.

There were two in Guatemala—I beg your pardon, in El Salvador.

You have got Ecuador, two; two in Ecuador.

We are speaking as of February 28.

Mr. PASSMAN. All right, El Salvador, how many?

Mr. CUTLER. El Salvador, three.

In Panama, one.

In Peru, two.

In Uruguay, one.

In Venezuela, three.

Those, of course, appear in the attachments to my statement in part 3 of the financial statement.

Mr. PASSMAN. We shall insert table III in the record.

(The table referred to follows:)

Inter-American Development Bank—Social Progress Trust Fund

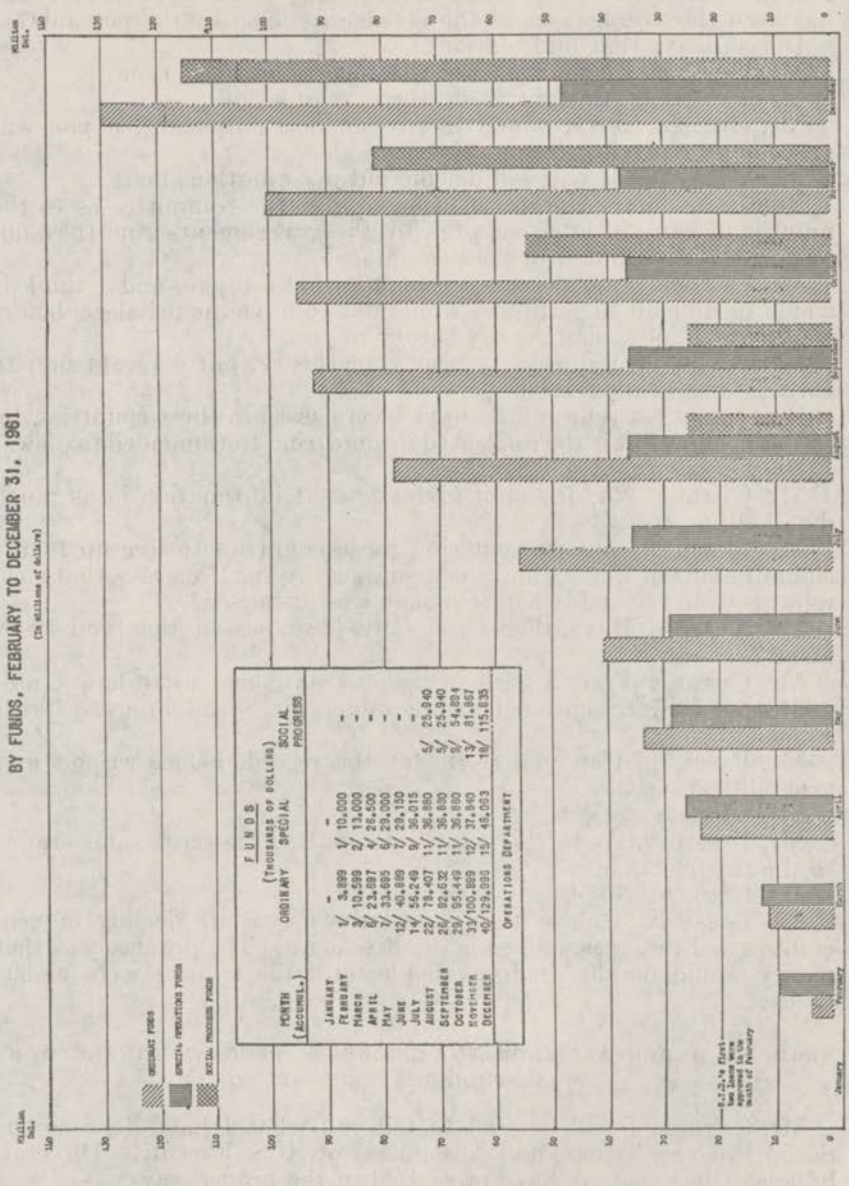
Table III.—*Statement of approved loans, Feb. 28, 1962*

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest [1]	Commitment fee	Repayment terms and principal installments [2]
						Disbursed	Repaid	Outstanding				
BRAZIL												
Departmento de Aguas e Esgotos del Estado de Bahia (State of Bahia), loan No. 13.	Financing of water system for the city of Salvador.	11-30-61	.....	$4,120,000	$4,120,000	.....	.....	.....	.....	*Percent* 2.75	*Percent* 0.75	23 annual beginning Dec. 31, 1962.
COLOMBIA												
Establecimiento Público Empresas Municipales de Cali (Republic of Colombia), loan No. 9.	Financing the expansion and improvement of potable water systems.	10-26-61	.....	2,454,000	2,454,000	.....	.....	.....	.....	2.75	.75	39 semiannual beginning 12 months after date of contract.
Instituto de Crédito Territorial (Republic of Colombia), loan No. 10.	Financing housing for persons of low income.	11-16-61	2-2-262	15,200,000	15,200,000	.....	.....	.....	.....	2.75	.75	20 annual beginning Feb. 2, 1963.
Empresas Municipales de Cúcuta (Republic of Colombia), loan No. 11.	Financing the expansion and improvement of water and sewerage systems of the city of Cúcuta.	11-22-61	2-3-62	5,183,000	5,183,000	.....	.....	.....	.....	2.75	.75	60 semiannual beginning Aug. 3, 1962.
Total loans to Colombia				22,837,000	22,837,000	.....	.....	.....	.....	.....	.....	
CHILE												
Republic of Chile, loan No. 12	Financing of potable water systems for the cities of Concepción and Talcahuano.	11-22-61	.....	2,470,000	2,470,000	.....	.....	.....	.....	2.75	.75	20 annual beginning 12 months after date of contract.
Corporación de Fomento de la Producción de Chile, loan No. 17.	Financing construction of houses for low income farmers.	12-21-61	.....	1,268,000	1,268,000	.....	.....	.....	.....	1.25	.75	30 annual beginning 12 months after date of contract.
Corporación de Fomento de la Producción de Chile, loan No. 18.	Agricultural credits to small farmers and agricultural cooperatives.	12-21-61	.....	10,000,000	10,000,000	.....	.....	.....	.....	1.25	.75	20 annual beginning 12 months after date of contract.
Total loans to Chile				13,738,000	13,738,000	.....	.....	.....	.....	.....	.....	

COSTA RICA												
Instituto Nacional de Vivienda y Urbanismo de Costa Rica, loan No. 4.	Financing construction of houses for low income families.	8-10-61	10-31-61	3,500,000	3,150,000	$350,000	-------	$350,000	-------	2.75	.75	25 annual beginning Oct. 15, 1962.
ECUADOR												
Municipality of Quito (Republic of Ecuador), loan No. 20.	Expansion and improvement of sewerage systems.	2-28-62	-------	3,000,000	3,000,000	-------	-------	-------	-------	2.75	.75	2 annual and 36 semiannual beginning 12 months after date of contract.
Instituto Nacional de la Vivienda (Republic of Ecuador), loan No. 19.	Financing construction of houses for low income families.	2-28-62	-------	10,600,000	10,600,000	-------	-------	-------	-------	1.25	.75	59 semiannual beginning 12 months after date of contract.
Total loans to Ecuador	-------	-------	-------	13,600,000	13,600,000	-------	-------	-------	-------	-------	-------	
EL SALVADOR												
Banco Central de Reserva de El Salvador (Republic of El Salvador), loan No. 3.	For relending to small farmers for development of agriculture and animal husbandry.	8-3-61	contract signed 11-24-61	2,000,000	2,000,000	-------	-------	-------	-------	2.75	.75	20 annual beginning Dec. 1, 1962.
Banco Central de Reserva de El Salvador (Republic of El Salvador), loan No. 5.	Financing the expansion and improvement of sewerage systems of 5 cities.	8-10-61	11-17-61	840,000	840,000	-------	-------	-------	-------	2.75	.75	60 semiannual beginning Nov. 17, 1962.
Banco Central de Reserva de El Salvador (Republic of El Salvador), loan No. 6.	Financing the expansion and improvement of potable water and sewerage systems in 34 towns.	10-12-16	11-17-61	2,700,000	2,700,000	-------	-------	-------	-------	2.75	.75	Do.
Total loans to El Salvador	-------	-------	-------	5,540,000	5,540,000	-------	-------	-------	-------	-------	-------	
PANAMA												
Instituto de Vivienda y Urbanismo (Republic of Panama), loan No. 1.	Financing housing for persons of low income.	8-3-61	8-22-61	7,600,000	7,100,000	500,000	-------	500,000	-------	2.75	.75	27 annual beginning Sept. 1, 1962.

TABLE III.—*Statement of approved loans, Feb. 28, 1962*—Continued

Country and obligor (guarantor in parentheses)	Purpose	Date approved	Date contract signed	Amount approved	Undisbursed balance	Status of loans			Income collected	Interest [1]	Commitment fee	Repayment term and principal installments [2]
						Disbursed	Repaid	Outstanding				
PERU												
Cooperativa de Crédito Central del Perú (Government of Peru), loan No. 8.	Small loans to financing housing improved land use and potable water and sanitation.	10-19-61	10-27-61	$1,000,000	$700,000	$300,000	.....	$300,000	.....	*Percent* 1.25	*Percent* .75	21 annual beginning Oct. 27, 1962.
Republic of Peru, loan No. 7	Financing housing for persons of low income.	10-19-61	11-24-61	22,800,000	22,800,000	.....	.....	.....	.....	1.25	.75	20 annual beginning Nov. 23, 1962.
Total loans to Peru				23,800,000	23,500,000	300,000	.....	300,000	.....			
URUGUAY												
Gobierno del Departamento de Montevideo, loan No. 15.	Financing of sanitation works.	12-7-61	.....	2,500,000	2,500,000	.....	.....	.....	.....	2.75	.75	41 semiannual beginning 12 months after date of contract.
VENEZUELA												
Banco Obrero de Venezuela (Government of Venezuela), loan No. 2.	Financing of rural housing for persons of low income through self-help system.	8- 3-61	11-15-61	12,000,000	12,000,000	.....	.....	.....	.....	1.25	.75	40 semiannual beginning May 15, 1962.
Republic of Venezuela, loan No. 14.	Financing of potable water systems for 330 towns.	12- 7-61	.....	10,000,000	10,000,000	.....	.....	.....	.....	2.75	.75	39 semiannual beginning 12 months after date of contract.
Instituto Nacional de Obras Sanitarias (Government of Venezuela), loan No. 15.	Financing of potable water systems for 55 towns.	.....	.....	10,000,000	10,000,000	.....	.....	.....	.....	2.75	.75	20 annual beginning 12 months after date of contract.
Total loans to Venezuela				32,000,000	32,000,000	.....	.....	.....	.....			
Grand total				129,235,000	128,085,000	1,150,000	.....	1,150,000	.....			


INTER-AMERICAN DEVELOPMENT BANK CUMULATIVE LOANS,
BY FUNDS, FEBRUARY TO DECEMBER 31, 1961
(In millions of dollars)
ORDINARY FUNDS
SPECIAL OPERATIONS FUNDS
SOCIAL PROGRESS FUNDS
FUNDS
(THOUSANDS OF DOLLARS)
MONTH (Accumul.)
ORDINARY
SPECIAL
SOCIAL PROGRESS
JANUARY - - -
FEBRUARY 1/ 3,889 1/ 10,000 - - -
MARCH 3/ 10,589 2/ 13,000 - - -
APRIL 6/ 23,897 4/ 26,500 - - -
MAY 7/ 33,695 5/ 29,000 - - -
JUNE 12/ 40,889 8/ 29,190 - - -
JULY 14/ 56,249 9/ 35,015 - - -
AUGUST 22/ 78,407 11/ 36,860 5/ 25,940
SEPTEMBER 28/ 92,632 11/ 36,600 5/ 25,940
OCTOBER 29/ 95,449 11/ 36,600 5/ 54,804
NOVEMBER 33/100,889 12/ 37,440 13/ 81,697
DECEMBER 40/129,030 15/ 45,053 19/ 115,835
OPERATIONS DEPARTMENT
I.D.B.'s first two loans were approved in the month of February
January
February
March
April
May
June
July
August
September
October
November
December

LAND AND TAX REFORMS

Mr. PASSMAN. How many acres of land have been redistributed through land reforms in these countries, by country? And, what has been the average size of the acreage received by the peasants?

Do you have that information?

Mr. CUTLER. I cannot answer that question at this time.

Mr. PASSMAN. All right, then, the next question——

Mr. CUTLER. But I would like to make a statement, if you will grant me the privilege.

Mr. PASSMAN. If you will, let me put my questions first.

You do not have the information to give the committee as to the number of acres of land acquired by the governments from the landowners and distributed to the peasants?

Mr. CUTLER. I do not have that information here, and I think it would be difficult to get; but I would like to have the privilege, before we break up, of explaining my theory to you.

Mr. PASSMAN. We want to hear your theory, but we want first to get the facts in the record.

How many tax reform laws have been passed in these countries, by country, and what is the estimated income from the amended tax laws?

Do you have that information?

Mr. CUTLER. No; I cannot give you that information in as much detail either, sir.

Mr. PASSMAN. Are we requiring those countries to live up to the commitments of Bogotá and the assurances to the Congress, that such reforms would be made before money was disbursed?

Mr. RHODES. Have there been any laws passed that you know about?

Mr. CUTLER. Yes. I wish to make a statement as to how I proceeded as U.S. Executive Director under the Social Progress Trust Fund.

Mr. PASSMAN. Can you recite for the record, before we get into generalities, specifics——

Mr. CUTLER. Yes, sir.

Mr. PASSMAN. As to the lands, by country, the terms, and also as to the tax reform laws——

Mr. CUTLER. No; I cannot do that, sir.

Mr. PASSMAN. Unless it is pinned down, we are dealing in generalities and in hopes, and so is the President. The promise was that money would not be made available until the reforms were undertaken.

PROJECTS UNDER ALLIANCE FOR PROGRESS PROGRAM FINANCED BY SOCIAL PROGRESS TRUST FUND

Mr. CUTLER. I will be glad to tell you what I have done as the Social Progress Trust Fund Administrator, U.S. Executive Director, because I feel that we have proceeded in the proper way.

First, the Social Progress Trust Fund has made up to February 28, 20 loans—10 for community water supply and sanitation facilities; 7 for low-income housing groups; 3 for agricultural and similar credit to small borrowers and cooperatives.

In the first few months, we have felt it desirable to make loans which would be designed to reach the greater masses of the people as

rapidly as possible, and therefore we have hit at the two great needs of Latin America, community water supply, sanitation and low-income housing groups.

In each of these 20 projects, we have satisfied ourselves that the intrinsic Social Progress Trust Fund criteria have been met, having regard for the differences between the projects and the countries. That is, we have established that the specific project formed part of, or was consistent with, a national or regional plan, program, or policy, with an agreed priority.

We have established that it is a specific project, rather than a commitment to an overall program, a specific project which can be performed in about 2 years from the contract date.

Third, that it is a specific project which can be presently, or when fully completed, self-supporting, and that it is to be administered by an existing institution, or often a newly organized institution that we have helped organize, capable of doing the job.

Third, that the local country has put in an appropriate share of the total cost of the project.

I think it is interesting for you to know that the total cost of these 20 projects from the Social Progress Trust Fund was $301,137,000.

Of this, local resources put in 52.8 percent and the Social Progress Trust Fund put in 45.6 percent. Other lenders put in 1.6 percent.

Mr. PASSMAN. Now, General, here is what is concerned——

Mr. CUTLER. Now, I want to speak, Mr. Chairman, if I may——

Mr. PASSMAN. Proceed.

Mr. CUTLER. To cover the overall criteria. Those criteria to which I have just referred are the ones which dealt with the specific project. Intrinsically, which had to be met before you could carry the project out.

REFORMS MADE IN RECIPIENT COUNTRIES

Now, if you look at the overall criteria which apply to all of the countries—but which may touch only indirectly a water supply or a housing project—I would have this to say to you: Take land reform. Colombia and Venezuela have passed land reform laws—Colombia in 1961, Venezuela in 1960.

Brazil, Ecuador, Panama, Peru, have land reform laws under legislative consideration. The State of São Paulo in Brazil, as you may know, has a very fine agrarian law at the present time. Brazil is a country with——

PROGRESS TOWARD LAND TAX REFORM

Mr. PASSMAN. Has any of that come into effect since the passage of this legislation?

Mr. CUTLER. It has been in effect for some time.

Mr. PASSMAN. Can you tell us when, what dates?

Mr. CUTLER. I cannot tell you.

Mr. PASSMAN. Can you tell us concerning the two that you mentioned there?

Mr. CUTLER. Venezuela has something. There are 200 pages in the annual report. If I knew——

Mr. PASSMAN. Would you not expect us to ask questions of this nature? We want to know how much additional revenue has been

raised by tax reforms, and we want to know how much land has been distributed to the peasants. That was the way the program was sold to the Congress, that these reforms would be made.

Mr. CUTLER. Well, of course I am trying to make a distinction, Mr. Chairman, between the intrinsic criteria which relate to a specific project.

Mr. PASSMAN. I am just talking about the criteria that the Congress was assured would be set up before this money was disbursed. We are not quarreling about the worthiness of the projects. However, we are thinking in terms of what we expected. This is only the beginning; it might be a $20 billion deal.

Mr. CUTLER. I am trying to tell you, Mr. Chairman, what the different 10 countries—the 20 loans which we made in these 10 countries—what has been done in those countries with respect to land reform, tax reform, and national development planning bodies.

Mr. PASSMAN. But, General, can you pin it down? How much of the land has been transferred, for example? Those are things we will have to know before we can pass intelligently upon the President's request for funds for this program.

Try to find out for us whether or not these laws have been implemented; and, if so, to what extent they have been implemented.

Is that an unreasonable request?

Mr. CUTLER. Well——

Mr. PASSMAN. This idea of appropriating money through agencies that come up and get it, pretending that they are going to do thus and so, and then after they get the money, they write different specifications that fit their own design, is an indefensible practice.

Mr. CUTLER. I would like to finish, if I might.

Mr. PASSMAN. Finish what, General?

Mr. CUTLER. This statement of what has been done by the 10 countries in which we have made loans.

Mr. PASSMAN. Are you dealing now with my question?

Mr. CUTLER. In land reform and tax reform, in national development plans and planning bodies.

Mr. PASSMAN. All right, sir.

Mr. CUTLER. Because I wish to proceed from this to make what I consider a very basic point.

I had said that in land reform, Colombia and Venezuela had passed reform laws, that next, Brazil, Ecuador, Panama, and Peru had laws under legislative consideration. One Brazilian State, São Paulo, has a good law.

Third, Chile's Legislature has before it the report of an interparty legislative committee studying the principles of land reform.

El Salvador has made some important benefits for its farmworkers and plans further benefits, and to distribute lands and to initiate a program of supervised credit.

Mr. PASSMAN. Would you define "benefits," so we will know whether or not it has to do with the transferring of lands to the peasants?

Mr. CUTLER. Well, one of the benefits dealt with the pay of the workers.

Mr. PASSMAN. Has it anything to do with them becoming owners of the land?

Mr. CUTLER. No. They are still to adopt what might be called the typical land reform act.

Costa Rica has set forth in 1961 its agrarian reform policy law, and as you know, Costa Rica has pioneered in an excellent system of rural credits.

Uruguay has not done very much in land reform.

(The following was subsequently submitted for the record:)

(B) AGRARIAN REFORM IN CERTAIN LATIN AMERICAN COUNTRIES

Bolivia	Mexico	Uruguay
Chile	Paraguay	Venezuela
Ecuador		

NOTE.—Information includes number of families benefiting from, and area of land involved, in agrarian reform implementation.

AGRARIAN REFORM

BOLIVIA

The agrarian reform law in Bolivia was decreed in August 1953, and passed by Congress in October 1956. As of October 1961, 3,597,834 hectares had been distributed among 107,397 heads of families, and 161,019 titles had been turned over free of charge to the new owners.

CHILE

Since 1928 Chile has attempted to ameliorate the problem of its agrarian structure through colonization managed by its Colonization Institute (Caja de Colonización). Up to 1960 the Institute had placed 3,300 families on about 400,000 hectares. It is estimated that in 1961 the institute colonized 300,000 hectares.

ECUADOR

No agrarian reform law has been passed as yet. The National Institute of Settlements (INC), however, between 1955 and 1960 distributed 195,000 hectares of Government-owned land to farmers.

MEXICO

Mexico's land reform program was the first in Latin America and one of the most important in the world. More than 50 million hectares have been distributed since the first land reform law of January 1951 (3.5 million hectares in 1960–61 alone), and rights to this land have been given to more than 2 million agricultural workers. In addition under the 1947 colonization law more than 800,000 hectares were distributed to more than 70,000 farmers in the period 1958–61.

PARAGUAY

In 1951 Paraguay established the Institute of Agrarian Reform (Instituto de Reforma Agraria) to distribute land to farmers. Paraguay placed 14,000 farmers on about 500,000 hectares between 1948 and 1960. In 1961, 7,000 farmers were placed on 200,000 hectares.

URUGUAY

Uruguay adopted an agrarian reform law in 1947. Through 1959 it had distributed 288,000 hectares to 15,000 persons. No later data are available.

VENEZUELA

The agrarian reform law in Venezuela was approved by Congress in March 1960. The National Agrarian Institute (IAN) in 1960 gave 542,184 hectares (1.34 million acres) of arable land to 24,116 families. By the end of 1961, some 35,770 families had been settled.

Including previous settlement work done by the IAN, 1,271,371 hectares were distributed between 1959 and May 1961, 44.6 percent being public lands and 55.4 percent legally expropriated private lands.

TAX REFORMS

Mr. CUTLER. Now, on tax reform, new tax laws or administrative reforms have been also enacted within the last 2 years by Colombia, El Salvador, Ecuador, Peru, Uruguay. In 1961 the first income tax law Uruguay ever had in its hundred years——

Mr. PASSMAN. Would you give us the amount of taxes collected in each of the last 5 years? That might be a shortcut to finding out whether or not any new, or additional, revenue has come in. Passing a law is one thing; implementing it is something else.

Mr. CUTLER. If you will just permit me to finish this paragraph.

Mr. PASSMAN. Certainly.

Mr. CUTLER. I would just like to make a statement which is important from my point of view, although it may not be from yours.

Peru's income tax receipts, as a matter of fact, between 1958 and 1960, doubled.

These countries have draft tax reform laws in preparation. Brazil, the law is before the Congress. In Chile, it is being drafted. In Costa Rica it is to be introduced in the Assembly in 1962, and in Panama it is before the National Assembly.

(The following was subsequently submitted for the record:)

(A) TAX COLLECTIONS IN CERTAIN LATIN AMERICAN COUNTRIES (1957–61)

Argentina	Costa Rica	Panama
Brazil	Ecuador	Peru
Chile	El Salvador	Uruguay
Colombia	Mexico	Venezuela

NOTE.—For each country, tax collections are stated in terms of current year prices, and the cost-of-living index (in one country, the wholesale price index), with 1957 taken as 100, is shown. In the period covered, taxes collected in almost all countries were based on declining incomes resulting from a sharp fall in basic commodity prices.

Argentina: Central Government tax revenues, fiscal years 1957–61

[In billions of current pesos]

Type of tax	1957 [1]	1958	1959	1960	1961
1. Income		8.4	11.6	17.7	14.6
2. Property		1.2	1.4	4.3	3.4
3. Foreign trade		1.8	20.5	29.1	37.8
4. Other		12.5	17.8	25.4	45.0
Total		23.9	51.3	76.5	100.8
Cost-of-living index	100	132	281	358	407

[1] Information comparable to that of subsequent years is not available.

Source: Banco Central de la República Argentina, information transmitted to IDB, Dec. 15, 1961; IMF, International Financial Statistics.

Brazil: Central Government tax revenues, 1957–61

[In millions of current cruzeiros]

Type of tax	1957	1958	1959	1960	1961 [1]
1. Income and other direct	27,018	31,856	46,382	62,229	74,166
2. Foreign trade	2,764	12,926	19,114	22,032	24,300
3. Other	43,155	57,216	74,686	112,638	121,548
Total	72,937	101,998	140,182	196,899	220,014
Cost-of-living index	100	115	158	213	294

[1] Budget estimates.

Source: Anuario Estadístico de Brazil, 1961.

Chile: Central Government tax revenues, 1957–61

[In millions of current escudos]

Type of tax	1957 [1]	1958	1959	1960	1961 [2]
1. Income	----------	73.4	91.5	115.4	154.0
2. Property	13.0	22.8	28.5	33.1	46.9
3. Foreign trade	48.8	52.9	89.4	137.5	157.8
4. Other	----------	137.7	213.7	256.0	284.0
5. Tax on copper companies	----------	42.2	89.4	92.1	82.8
Total	----------	329.0	512.5	634.1	725.5
Cost-of-living index	100	120	166	185	199

[1] Information comparable with that of subsequent years is not available.
[2] Preliminary.

Source: IMF, International Financial Statistics; and information transmitted to IDB.

Colombia: Central Government tax revenues, 1957–61

[In millions of current pesos]

Type of tax	1957	1958	1959	1960	1961 [1]
1. Income and other direct	605.5	767.5	952.9	1,123.9	1,161.7
2. Foreign trade	184.1	193.1	361.4	567.7	870.0
3. Other	254.8	475.4	302.7	249.8	155.3
Total	1,044.4	1,436.0	1,616.0	1,941.4	2,187.0
Cost-of-living index	100	114	123	128	139

[1] Budget figures.

Source: Revista del Banco de la República, December 1961.

Costa Rica: Central Government tax revenues, 1957–61

[In millions of current colones]

Type of tax	1957	1958	1959	1960	1961 [1]
1. Income	42.6	46.1	38.0	37.2	55.0
2. Property and other assets [2]	10.5	11.2	13.0	14.7	----------
3. Foreign trade	175.5	192.0	194.6	204.9	200.1
4. Other	24.2	26.7	32.0	38.3	16.6
Total	252.8	276.0	277.6	295.1	271.7
Cost-of-living index	100	103	103	104	105

[1] Projection based on data for January to November 1961.
[2] It is believed that these figures include also the inheritance tax receipts.

Source: Annual reports of the Ministry of Economics and Finance and of the Central Bank.

Ecuador: Public sector tax revenues, 1957–61

[In millions of current sucres]

Type of tax	1957	1958	1959	1960	1961 [1]
1. Income and other direct	585.6	633.2	695.5	727.7	746.4
2. Foreign trade	608.7	639.8	660.1	743.1	817.4
3. Other	581.8	602.9	684.3	793.5	920.5
Total	1,776.1	1,875.9	2,039.9	2,264.3	2,484.3
Cost-of-living index	100	100	100	102	106

[1] Estimates, Economics Division, IADB.

Source: Banco Central del Ecuador, Memoria Anual, 1960.

El Salvador: Central Government tax revenues, 1957–61

[In millions of current colones]

Type of tax	1957	1958	1959	1960	1961
1. Income, inheritance and gifts	16.2	19.1	18.2	15.6	18.0
2. Property	3.3	3.5	3.8	3.9	3.9
3. Foreign trade	117.8	94.9	83.2	96.1	93.4
4. Other	37.9	36.0	35.9	39.1	38.6
Total	175.2	153.5	141.1	154.7	153.9
Cost-of-living index	100	105	105	104	[1] 104

[1] January to October average.

Source: Ministerio de Hacienda, Informe Complementario Constitucional, various years, and preliminary tables for 1960; budget data for 1961 are from Diario Oficial, Dec. 23, 1960; Cost-of-living index; International Financial Statistics, March 1962.

Mexico: Federal Government tax revenues, 1957–61

[In millions of current pesos]

Type of tax	1957	1958	1959	1960	1961 [1]
1. Income, inheritance, and gifts	2.768	2.772	3.084	3.660	4.100
2. Real estate and other assets	30	34	28	26	26
3. Foreign trade	2.296	2.204	2.480	2.682	2.448
4. Other	2.151	2.377	2.682	3.448	3.452
Total	7.245	7.387	8.274	9.816	10.026
Wholesale price index (1957=100)	100	104	105	110	112

[1] Estimated on the basis of preliminary data for major categories and the use of 1960 figures for taxes on inheritance and capital; these figures are not fully comparable with those for earlier years.

Source: Banco de México, Informe Anual and information supplied to the IDB; for 1958–60, totals and some details from information supplied to the IDB by Secretaría de Hacienda y Crédito Público.

Panama: Central Government tax revenues, 1957–61

[In millions of current balboas]

Type of tax	1957	1958	1959	1960	1961 [1]
1. Income, inheritance, and gifts	7.7	12.3	8.3	11.0	11.2
2. Property and other assets	2.4	2.1	2.2	2.7	3.2
3. Foreign trade	21.2	18.2	19.0	21.4	23.7
4. Other	19.4	20.3	22.1	22.9	26.0
Total	50.7	52.9	51.6	58.0	64.1
Cost-of-living index	100	100	100	99	[2] 100

[1] Budget figures.
[2] Estimated.

Source: Estadística Panameña: Hacienda Pública y Finanzas, Serie E. No. 1—1960; and message of the President of Panama to the National Assembly. FMI, International Financial Statistics, March 1962.

Peru: Central Government tax revenues, 1957–61

[In millions of current soles]

Type of tax	1957	1958	1959	1960	1961
1. Income	1,136.5	1,122.5	1,572.3	2,416.1	2,690.8
2. Property [1]	92.7	132.1	197.6	298.0	250.0
3. Foreign trade	918.2	690.1	598.7	730.4	733.6
4. Other	359.8	406.2	404.9	975.1	1,655.9
Total	2,507.2	2,350.9	2,773.5	4,419.6	5,330.3
Cost-of-living index	100	108	122	132	138

[1] Including rural and urban real estate, property transfers, and inheritance taxes.

Source: Central Reserve Bank of Perú, Boletín de Diciembre de 1961, p. 34.

Uruguay: Central Government tax revenues, 1957–61

[In millions of current pesos]

Type of tax	1957 [1]	1958	1959	1960	1961
1. Income	----------	----------	----------	----------	----------
2. Property [2]	----------	76.8	118.5	169.3	175.8
3. Foreign trade	----------	36.3	53.0	133.1	207.1
4. Other	----------	418.1	591.2	784.8	1,283.0
Total	----------	531.2	762.7	1,087.2	1,666.3
Cost-of-living index	100	117	164	227	278

[1] Comparable information not available.
[2] Includes inheritance and transfer taxes.

Source: Official information transmitted to IDB; IBRD; and IMF, International Financial Statistics

Venezuela: Central Government tax revenues, 1957–61

[In millions of current bolivares]

Type of tax	1957	1958	1959	1960	1961 [1]
1. Income and other direct	288	561	542	559	----------
2. Foreign trade	627	628	737	564	----------
3. Other	308	303	314	290	----------
4. Oil taxes	3,822	2,667	3,227	3,002	----------
Total	5,045	4,159	4,820	4,415	----------
Cost-of-living index	100	105	110	114	----------

[1] No data available.

Source: Banco Central de Venezuela, Memorias 1959 y 1960.

OTHER COUNTRIES ELIGIBLE FOR LOANS

Mr. PASSMAN. The other countries are eligible for loans, are they not?

Mr. CUTLER. We have not made a loan in them——

Mr. PASSMAN. Are they eligible?

Mr. CUTLER. I do not know if they are eligible or not.

Mr. PASSMAN. They are eligible to file applications for loans, are they not?

Mr. CUTLER. Yes, sir.

Mr. PASSMAN. And they have members on the Board of Governors?

Mr. CUTLER. We will investigate the country——

Mr. PASSMAN. According to your criteria, they are eligible to file applications for loans?

Mr. CUTLER. That is right.

Mr. PASSMAN. All right, sir.

COUNTRIES HAVING NATIONAL DEVELOPMENT PLANS

Mr. CUTLER. Then on national development plans, Chile and Colombia have submitted long-term plans, and the World Bank, as you know, is reviewing Chile's plans.

Ecuador and Venezuela have established short-term development plans.

Mr. PASSMAN. For what purpose?

Mr. CUTLER. Short-term development plans.

Mr. PASSMAN. To develop what?

Mr. CUTLER. Development of their economy, their socio-economic situation.

Mr. PASSMAN. Through land and tax reforms?

Mr. CUTLER. No; these are national planning bodies—first, I spoke of land reform——

Mr. PASSMAN. Yes.

Mr. CUTLER (continuing). Legislation. Then tax reform. And now whether the countries have responded to Punta del Esta in creating national development plans or planning bodies.

The following nations have established national planning bodies: Brazil, El Salvador, Peru, Uruguay. Costa Rica established in 1959 the basic elements for a short-term economic development plan. And Panama drafted a public plan for economic and social development.

Mr. PASSMAN. You are dealing with paper plans now, are you not, rather than with reality?

Mr. CUTLER. Mr. Passman, I am trying to explain——

Mr. PASSMAN. And I am trying to understand, but you say they are drafting plans. Have they implemented them with legislation?

Mr. CUTLER. Well, in some countries they have. I will give you my memo. Harley, let me have it, and perhaps it will be easier if you took it off of that.

Mr. PASSMAN. All right, sir.

(The memorandum referred to follows:)

SPTF: OVERALL REFORM

MARCH 14, 1962.

(1) The SPTF has made 20 loans for projects in 10 countries as of February 28, 1962: 10 for community water supply and sanitation facilities, 7 for low-income housing groups, 3 for agricultural and similar credit to small borrowers and cooperatives.

(2) In each of these 20 projects, the Administrator was satisfied (having regard for the differences between projects and countries) that the intrinsic SPTF criteria were met (priority under a national plan or policy; provision of an appropriate local share of cost; self-supporting in future time; a capable executing agency; a project (not a program) executable in about 2 years).

(3) As to the overall criteria of reform, self-help, mobilization of domestic resources, etc., there was naturally variation between countries in concrete performance and in reliable intentions expressed or implied from actions taken:

A. LAND REFORM

(*a*) Colombia (1961) and Venezuela (1960) have passed reform laws.

(*b*) Brazil, Ecuador, Panama, Peru, have laws under legislative consideration. The State of São Paulo enacted a good reform law (1961).

(c) Chile's legislature has received recently the report of an Inter-party Legislative Commission studying land reform. El Salvador has additional plans to benefit farmworkers, to distribute lands, to initiate supervised agricultural credit.
(d) Costa Rica set forth agrarian reform policy in October 1961 law.
(e) Uruguay is considering a number of measures short of reform, regarding the problem as economic.

B. TAX REFORM, INCLUDING IMPROVED COLLECTIONS, ETC.

(a) New tax laws or administrative reforms have been enacted within the last 2 years by Colombia, El Salvador, Ecuador, Peru, Uruguay (1961, first income tax in Uruguayan history), Venezuela. (Peru's income tax yield doubled between 1958–60, with resulting 1960 budget surplus. Uruguay undertook stabilization measures in 1960.)
(b) These countries have drafted laws in preparation: Brazil (before Congress), Chile (being drafted), Costa Rica (to be introduced in 1962), and Panama (before Assembly). (Brazil is currently working on a new stabilization program with the IMF. Chile has taken steps toward improving tax collections, setting up a savings and loan system based on mutual and cooperative associations, and toward combating in the past inflation.)

C. NATIONAL DEVELOPMENT PLANS OR PLANNING BODIES

(a) Chile and Colombia have submitted long-term plans. (The World Bank is reviewing Chile's plan.)
(b) The following nations have established short-term development plans: Ecuador (1961); Venezuela (1960).
(c) The following nations have established national planning bodies: Brazil (1961—National Planning Commission) (Brazil's regional plan for the Nordeste has been approved by Congress); El Salvador (1961—reorganized Economic Planning Committee); Peru (1961—National Planning Agency); Uruguay (1960—Investments and Economic Development Commission).
(d) Costa Rica (1959) established by law basic elements for a short-term economic development plan; Panama drafted a public plan for economic and social development.

DIFFERENCES BETWEEN LATIN AMERICAN COUNTRIES

Mr. CUTLER. The theory under which I have proceeded is to recognize the enormous differences between these countries, the enormous differences between these countries and the United States, the difficulty in implementing and getting into operation, even in our country, great and skilled as we are, and filled with competent people, basic tax, fiscal and land reform legislation.

I believe that we have to remember some things about Latin American countries, our nearest neighbors, who were in many cases in the last wars our allies, contributed troops, who have stood by us, by and large in the United Nations, and should be treated in this alliance with a certain amount of credibility.

I feel that when you are making a low-income housing loan or when you are making a sanitation loan or a potable water loan, if the intrinsic criteria are met; that is, if they put up an appropriate share, if the project is recognized as a priority by the country, if it is going to be self-supporting, if there is a good entity to execute it. All of these criteria are stated in the Social Progress Trust Fund Agreement, and are listed on page 4 of our annual fund report; pages 4 and 5.

Now you come to the more basic criteria of what is the country doing in land reform, in tax reform, and in creating national planning bodies.

If we can find that the country has taken these steps, is taking them, or has expressed what I judge is a credible intention that it is going

to do it, then I feel that it is appropriate, under the law and under the trust agreement, to make a loan for water supply and sanitation facilities, for low-income housing groups, for agricultural credit to small borrowers, like Father McClellan's little private cooperatives up in the highlands of Peru. I think it is proper to make these loans to encourage the Latin American people, to give them the belief that it is an alliance and, if they will keep on, there is hope for them.

I mean, Mr. Chairman—now, I know you think I am not as strong as I should be—I believe we are in a serious situation. I believe that the wave of revolution is sweeping over the whole world, and it is sweeping over Latin America too. And we cannot afford to lose those Latin American countries.

Just think of it—one-quarter of America's foreign trade is with Latin America. And we have $8 billion invested in Latin America. We have to find a way not to say to them: We are not going to help you, even though you are trying, but we are going to help you and we are going to help you to try harder.

Now, during the next period we come to, I expect, what the chairman called "paper steps," to see them implemented. I expect to be able to say next year to these people: You passed a land reform law, you passed a tax reform law; you are not going to get more money from us until you show us what you have done to implement such laws.

Now, this seems to me the only possible way to approach these countries, which do not have the skills, do not have the qualifications, do not have the education. They are not able to do these things rapidly. If they show the accomplishments and intentions which I stated in that paper, I believe there is a ground in giving them another chance.

Mr. PASSMAN. Thank you, General. I believe that I could tear your argument apart, but I am not going to attempt to do so.

We are substituting our wealth and our dollars for commonsense and reason. Our gold reserve is going down. Our debt is increasing. Our balance of payments deficit is continuing to climb.

You have made loans to Argentina, as one example. We have made grants to them. Only a few days ago I read that you were going to give them $350 million. In 1960, Argentina used dollars to purchase $50 million of U.S. gold. Then, in 1961, they pulled out another $90 million in gold. Now, I think we should have some explanation.

I quote from an article in the New York Times:

> Landowners and business groups in Latin America are not only fighting their governments' tax and land reform proposals intended to make U.S. aid more effective, but are circularizing U.S. and European bankers and businessmen urging opposition to the ill-conceived reform efforts.

I repeat, I believe I could tear your statement all to pieces, but I respect your views.

I think it is rather generally conceded that those countries are not making the reforms that had been envisioned and intended, and I am afraid they are going to conclude that they do not have to make them in order to get our money. I hope I am wrong, because this is going to go on and on and on.

And as far as I am concerned, I am sympathetic and understanding, and I want to help. But for whatever I have to do with it, they are going to have to help justify it.

Mr. CUTLER. Mr. Chairman——

Mr. PASSMAN. Yes, sir.

IMPORTANCE OF LATIN AMERICA

Mr. CUTLER. If I did not honestly believe——

Mr. PASSMAN. I know that you believe it.

Mr. CUTLER. What I have testified here, I would not be in Washington, I would be sitting at home in Boston taking it easy. I do believe that the retention of the Latin American countries on the free world's side is just about as important a thing——

Mr. PASSMAN. We are in accord.

Mr. CUTLER. I think that the only way to deal with the Latin Americans whom I have lived with now for 3 years is in a cooperative and friendly way, and that if you try to force these sensitive people with this high sense of pride, they will react against you.

I see Mr. Rhodes, who comes from nearer the border than I do, may not agree. But that is my belief.

Mr. PASSMAN. Yes.

Mr. CUTLER. Therefore, I believe that when you find a worthy project within the Social Progress Trust Fund, which is within itself technically sound and which does not directly concern land reform, which indirectly, of course, concerns its tax reform, which has some concern with planning; if you can find an intent which you honestly believe that they mean to carry these overall things out, then I am willing to take the intent at the beginning. But when they come back in a later time, that is the time to apply the pressure to them of the kind that you may be referring to.

Now the time is to urge them to do everything they can do to get them to improve their lot in these fields. And I think this record is quite an extraordinary one in countries as backward as some of these.

AID FUNDS FORTHCOMING BEFORE MEETING CRITERIA

Mr. PASSMAN. I shall quote further from the same article in the New York Times:

> AID officials no longer talk so firmly about withholding U.S. funds until local progress is an accomplished fact. More and more they lean to recognizing local problems and accepting promises to do better.

So, you are going to give them money hoping they will do these things.

I am convinced that unless real cooperation is received the poorer Latin American will remain just as poor, and the rich will become richer. On the other hand, our natural resources would be nearer depletion and our public debt would be higher. I issued a statement to that effect, and you would be surprised at the number of Latin Americans who agreed with this viewpoint.

Mr. CUTLER. Well, Mr. Chairman, you have lived almost as long as I have, and you know that we have well-to-do people in our country who find it very difficult to approve reform programs that are going to deprive them of something. And therefore it is not curious that in

Latin America, where they have been well to do for 300 or 400 years, that they take this position.

Mr. GARY. Will the Chairman yield?

Mr. PASSMAN. Yes, of course.

Mr. GARY. But it seems to me that when they look at Cuba and find out that in Cuba their failure to do so has resulted in anarchy and the confiscation of all their property, they would at least realize that if they do not do something, they are going to face a similar fate.

Mr. CUTLER. That is just what I think, and there are a great many in Latin America who think so. There are men like Pedro Beltran, who is a rich man and a great leader, and men like Lleras Camargo in Colombia. They know this. Colombia has made laws and passed reforms. Peru is in the forefront in——

Mr. PASSMAN. Your line of thinking seems to have softened somewhat since last year. So has the administration's.

You say now that they are sensitive and proud people, and, in effect, that we must not expect what was agreed upon. But when you offer them money, that is all right.

Mr. CUTLER. Can I just——

Mr. PASSMAN. Yes, go ahead.

Mr. CUTLER. I do not think I testified that way last year, sir. I think I testified the same way. In the beginning I would take credible intentions. But in the second period, no; they would have to perform. I want to give these people without skills a better chance to do what they want to do.

In the second place, $7 billion a year in trade, a quarter of our foreign trade, is Latin American.

Mr. PASSMAN. We had a trade deficit with Latin America in 1958–59. We bought more there than they bought here. Let us go to the record.

PROGRESS TOWARD ACHIEVING OBJECTIVES

You know, of course, of the assurances which were given as to what would be done before we started disbursing this money. Do you conclude that they have reasonably lived up to what they promised would be done?

I am talking about the overall program, in Latin America.

Mr. CUTLER. Well, in the 20 loans under Social Progress Trust Fund, which is my job, and which I have worked on, I believe we have done right and we have done in accordance with the trust agreement, and we have done in the best interest of my country. I believe that certainly we ought to stand up for the criteria we have established.

I am not saying that I am avoiding the criteria. I say that you must give a reasonable chance to them to meet this.

IDB OBLIGATIONAL STATUS

Mr. PASSMAN. Are you already obligated to an amount in excess of the U.S. contribution?

Mr. CUTLER. Oh, no, sir.

Mr. PASSMAN. Let us go to the record.

Mr. CUTLER. It is about $129 million, out of $394 million.

Mr. PASSMAN. We are going to clear this up. I am talking about the total amount of commitments that you have tentatively made.

Mr. CUTLER. Well, are you speaking of the Social Progress Trust Fund?

Mr. PASSMAN. The total amount, all parts of it.

Mr. CUTLER. Well, now, are you speaking of the Social Progress Trust Fund or of the Bank?

Mr. PASSMAN. Will you detail it, please?

Mr. CUTLER. Through February 28, we had committed, in ordinary capital, $145 million.

In the fund for special operations, $49 million.

And in the special progress trust fund, $129 million.

Mr. PASSMAN. How much, added up?

Mr. CUTLER. That is $323 million.

Mr. PASSMAN. All right.

PAID IN CAPITAL

Mr. CUTLER. Now, we have in the Bank's paid in capital so far $227 million, and in the fund for special operations $145.7 million, in the callable capital, $431 million, and in the Social Progress Trust Fund, $394 million. That is something over $1 billion.

Mr. PASSMAN. But it is $323 million, the total in obligations?

Mr. CUTLER. That is right, sir.

Mr. PASSMAN. How much had we paid in, total, as of February 28?

Mr. CUTLER. Well, you mean the United States or everybody?

Mr. PASSMAN. You can give the total.

Mr. CUTLER. Well, that is the figure.

Mr. PASSMAN. Which would mean, then——

Mr. CUTLER. About a third.

Mr. PASSMAN. Yes, about a third, and you have only had the program going for about a year.

Mr. CUTLER. Our first loan was made in February 1961, yes, sir.

Mr. PASSMAN. General, undoubtedly you understand the reasons for our alarm.

Mr. CUTLER. I do, Mr. Passman, I do.

NEED FOR EXPENSE ACCOUNT CONTROL

Mr. PASSMAN. If I had anything to do with this bank, I think I would tighten up on those expense accounts. I am thinking particularly now of the cost of the annual meeting of the 20-member Board of Governors.

Mr. CUTLER. Well, I have these items, and should I send them here, Mr. Chairman?

Mr. PASSMAN. I certainly think we are entitled to a breakdown of the expense of these three men to Europe.

Mr. CUTLER. I will try to get you that. I have that on my list, too.

Mr. PASSMAN. Mr. Rhodes?

EXPROPRIATION OF PROPERTY IN BRAZIL

Mr. RHODES. I want to bring up another old horse. I was not at all satisfied with your explanation of the lack of action taken on account of the expropriation of the property in Brazil. To me the

idea of excusing an expropriation just because it was done by a political subdivision within a nation is just a little short of folly. This would set a future formula for all expropriations of foreign property. If an expropriation can be made by a subdivision with impunity to the main body politic, then obviously from now on there will not be any expropriations by sovereign powers; it will all be by States. And to me this is just unconscionable.

Mr. CUTLER. I did not mean—maybe I did give the impression of that. What I meant to say was that the expropriation was by the governor of one State and not by the Government of Brazil.

Mr. RHODES. That is very interesting.

Mr. CUTLER. And, further, the Government of the United States is now working with the Government of Brazil to compel a fair compensation.

Mr. RHODES. I understand your Bank is not an agency of the U.S. Government at all. But nevertheless American money is going into Brazil for loans through your Bank as if no expropriation of American property had taken place. Saying that there is to be no responsibility borne by the Brazilian Government for the act of a sovereign State within the Brazilian Union to me is just unconscionable.

Mr. CUTLER. What would you do, Mr. Rhodes? Would you hold up this program? Would you make no loans, no more loans to Brazil? Would you drive Brazil away from us? If you do——

Mr. RHODES. Just a minute, General. You are just jumping to a conclusion I cannot justify and I do not think you can either. If you think we would lose Brazil because of an action taken in defending against an expropriation, then I would say our chance of keeping Brazil on our side is just so tenuous as to be of no consequence.

Mr. PASSMAN. Should the record not show here that the brother-in-law of the governor is the President of Brazil?

Mr. CUTLER. I am certainly as opposed as you are against it. I am interested in trying to save Latin America for the free world in the next few years. Because if we do not, it is going to disappear, just like Cuba did. And the way to do it, I think, is to try to get the Brazilian Government to tell this State that they have got to pay a reasonable amount and work it out.

Mr. RHODES. You and I are as far apart as the poles, General. I do not think that there is any possibility of getting people or nations on our side by acting or failing to act in matters which result in their having no respect whatsoever for us.

Now, I do not see how anybody could possibly respect a sovereign nation which sits by with expropriation staring it in the face and not only turns the other cheek, but also opens the purse.

Mr. CUTLER. You would not disburse any money? You would make no more loans to Brazil?

Mr. RHODES. Not until this matter of expropriation is settled satisfactorily.

Mr. CUTLER. Do you think that all of the Governors of our States have always acted in conformity with the best interests of the United States?

EXPROPRIATION IN OTHER COUNTRIES

Mr. RHODES. General, do you know any time that any sovereign State in the United States, in the American Union, has expropriated anybody's property?

Mr. CUTLER. No.

Mr. RHODES. If you knew any inst , ,(like that, then you might have a valid comparison. But, lacking that, I do not think you do.

Mr. PASSMAN. I wish the gentleman would yield briefly.

Mr. RHODES. Yes.

Mr. PASSMAN. There were many in high places in government, who are still in high places in government, who were assuring this country that we did not have anything particularly to worry about when Castro was about to come into power.

But, let that be as it may. Cuba is a clear case where we have given away the wealth of this country and our dollars—overall, about $2¼ billion, postwar.

The money just would not do it. You have got to have more commonsense and sound judgment, and some enforcible contracts worked into this program, or it will fail.

Mr. CUTLER. I am very aware of Cuba since they took the branch of my former bank that had been there since 1912.

INTEREST ON CAPITAL SUBSCRIPTION FUNDS

Mr. RHODES. I would like to make another statement in closing. I thoroughly disapprove of the idea of paying subscriptions of capital to international organizations prematurely and then turning around and paying interest on the same money. To me this was completely unconscionable; it was not good business. The other nations do not do it. We are the only nation—as far as I understand your testimony, we are the only nation which did this. If I have anything to say about it, there will be a limitation placed on any funds which we will appropriate this year which will not allow that to happen.

Mr. CUTLER. I believe that I may state without correction from my friend from the Treasury that the Governor, the Secretary, has told me with respect to the upcoming payment, he will, for the national currency part, so-called, that 50 percent, substitute notes when the payment is made.

Mr. RHODES. He will find that he is required by law to do it, if I have my way.

Mr. PASSMAN. I certainly concur in the gentleman's thinking.

Mr. HARLEY. To pick up an earlier statement, is the Bank not making interest in local currency on the contributions of the Latin American countries other than those five who gave non-interest-bearing notes?

Mr. CUTLER. They make some interest; yes. They are on deposit in central banks usually.

Mr. HARLEY. Yes. And they are paying interest too?

Mr. RHODES. Then maybe we should have a breakdown of this item that appears in your profit and loss statement, called "Income from investments" so we know the sources from which it came.

Mr. CUTLER. You mean how much is United States and how much is Latin American?

Mr. RHODES. Yes.

Mr. CUTLER. You do not want it by country, do you?

Mr. RHODES. Yes; if I could have it.

Mr. CUTLER. You would like to have it by country?

Mr. RHODES. Yes; if it is available.

(The information supplied follows:)

Inter-American Development Bank

Ordinary capital—Statement of income for the period Jan. 1 to Dec. 31, 1961

Country	In U.S. dollars	In local currency (dollar equivalent)	Total (expressed in dollar equivalent)
Income: Interest from loans:			
Argentina	$243	$161	$404
Brazil	23,793	11	23,804
Chile		1,231	1,231
Colombia		536	536
Guatemala	986		986
Honduras	1,024		1,024
Nicaragua	59		59
Venezuela		514	514
Total	26,105	2,453	28,558
Income: Commitment charges on loans:			
Argentina	247	163	410
Brazil	4,173	6,327	10,500
Chile	9,075	3,070	12,145
Colombia	6,464	4,644	11,108
El Salvador	588		588
Guatemala	137		137
Honduras	566		566
Nicaragua	1,837		1,837
Paraguay	7	4	11
Peru	2,494	4,680	7,174
Venezuela	6,665	2,609	9,274
Total	32,253	21,497	53,750
Income: Commissions on loans:			
Argentina	51	34	85
Brazil	5,009	2	5,011
Chile		259	259
Colombia		113	113
Guatemala	208		208
Honduras	216		216
Nicaragua	12		12
Venezuela		108	108
Total	5,496	516	6,012
Income from investments (see attached tabulation):			
From U.S. Government Obligations (maturing within 2 years)	1,977,900		1,977,900
From time deposits with U.S. commercial banks (maturing within 6 months)	422,813		422,813
Total	2,400,713		2,400,713
Income from other sources:			
Brazil: Agency fee for administering funds of an ICEM colony	7,020		7,020
Loans to Bank employees (relating to transfer and settlement in the District of Columbia)	1,138		1,138
Total	8,158		8,158
Grand total	2,472,725	24,466	2,497,191

Ordinary capital—Total of amounts received in payment of the first installment (Sept. 30, 1960 and the second installment (Oct. 31, 1961)

Country	Gold or U.S. dollars	U.S. dollar equivalent in local currency		Total
		Cash	Nonnegotiable, non-interest-bearing demand notes	
Argentina	$15,471,000	$127,000	$15,344,000	$30,942,000
Bolivia	1,242,000	14,140	1,227,860	2,484,000
Brazil	15,471,000	15,471,000		30,942,000
Chile	4,248,000	4,248,000		8,496,000
Colombia	4,245,000	4,245,000		8,490,000
Costa Rica	621,000	621,000		1,242,000
Dominican Republic	5,520			5,520
Ecuador	828,000	828,000		1,656,000
El Salvador	621,000	621,000		1,242,000
Guatemala	828,000	828,000		1,656,000
Haiti	621,000	621,000		1,242,000
Honduras	621,000	621,000		1,242,000
Mexico	9,945,000	9,945,000		19,890,000
Nicaragua	621,000	621,000		1,242,000
Panama	261,000	6,210	614,790	1,242,000
Paraguay	621,000	621,000		1,242,000
Peru	2,073,000	25,730	2,047,270	4,146,000
United States	90,000,000			90,000,000
Uruguay	1,659,000	16,590	1,642,410	3,318,000
Venezuela	8,289,000	303,930	7,985,070	16,578,000
Total	158,651,520	39,784,600	28,861,400	227,297,520

NOTE.—1st installment equal to 33⅓ percent of amount received; 2d installment equal to 66⅔ percent of amount received.

NOTE.—As to payments by Latin-American member countries, the gold or U.S. dollar payments received from the Latin American members of the Bank were dealt with as were the U.S. dollar payments received from the United States. Such payments were first deposited in the Federal Reserve Bank of New York to the account of the Inter-American Development Bank and subsequently invested in either U.S. Government securities or in interest-bearing negotiable certificates of deposit of U.S. commercial banks.

The national currency payments, received from the 19 Latin-American members of the Bank are represented either (*a*) in part by nonnegotiable, non-interset-bearing demand notes, or (*b*) by deposits with the respective central banks of such member countries, in order to assure immediate liquidity and to maintain the national currency values at the required rates. Such deposits (as with like deposits in the U.S. Federal Reserve Bank) bear no interest.

Fund for special operations—Statement of income for the period Jan. 1 to Dec. 31, 1961

Country	In U.S. dollars	In local currency (dollar equivalent)	Total (expressed in dollar equivalent)
Income: Interest from loans:			
Bolivia	$21,554		$21,554
Brazil	524		524
Total	22,078		22,078
Income: From investments (see attached tabulation):			
From U.S. Government obligations (maturing within 2 years)	1,667,263		1,667,263
From time deposits with U.S. commercial banks (maturing within 6 months)	490,772		490,772
Total	2,158,035		2,158,035
Income: From other sources: Brazil: Agency fee for administering funds of an ICEM colony	6,730		6,730
Grand total	2,186,843		2,186,843

Fund for Special Operations—Total of amounts received in payment of the 1st installment (Sept. 30, 1960) and the 2d installment (Oct. 31, 1961)

Country	Gold or U.S. dollars	U.S. dollar equivalent in local currency		Total
		Cash	Nonnegotiable, non-interest-bearing demand notes	
Argentina	$5,157,000	$25,785	$5,131,215	$10,314,000
Bolivia	414,000	9,000	405,000	828,000
Brazil	5,157,000	5,157,000		10,314,000
Chile	1,416,000	1,416,000		2,832,000
Colombia	1,415,000	1,415,000		2,830,000
Costa Rica	207,000	207,000		414,000
Dominican Republic	552			552
Ecuador	276,000	276,000		552,000
El Salvador	207,000	207,000		414,000
Guatemala	276,000	276,000		552,000
Haiti	207,000	207,000		414,000
Honduras	207,000	207,000		414,000
Mexico	3,315,000	3,315,000		6,630,000
Nicaragua	207,000	207,000		414,000
Panama	207,000	2,070	204,930	414,000
Paraguay	207,000	207,000		414,000
Peru	691,000	6,910	684,090	1,382,000
United States	75,000,000		25,000,000	100,000,000
Uruguay	553,000	5,530	547,470	1,106,000
Venezuela	2,763,000	13,815	2,749,185	5,526,000
Total	97,882,552	13,160,110	34,721,890	145,764,552

NOTE.—1st installment equal to 50 percent of amount received; 2d installment equal to 50 percent of amount received.

NOTE.—As to payments by Latin-American member countries the gold or U.S. dollar payments received from the Latin American members of the Bank were dealt with as were the U.S. dollar payments received from the United States. Such payments were first deposited in the Federal Reserve Bank of New York to the account of the Inter-American Development Bank and subsequently invested in either U.S. Government securities or in interest-bearing negotiable certificates of deposit of U.S. commercial banks.

The national currency payments, received from the 19 Latin American members of the Bank, are represented either: (*a*) in part by nonnegotiable, non-interest-bearing demand notes; or (*b*) by deposits with the respective central banks of such member countries, in order to assure immediate liquidity and to maintain the national currency values at the required rates. Such deposits (as with like deposits in the U.S. Federal Reserve Bank) bear no interest.

As administrator for the Social Progress Trust Fund—Statement of income for the period June 19 to Dec. 31, 1961

Country	In U.S. dollars	In local currency (dollar equivalent)	Total (expressed in dollar equivalent)
Income: Interest from loans:			
Costa Rica		$1,477	$1,447
Panama		3,842	3,842
Total		5,319	5,319
Income: Service charge (¾ of 1 percent per annum) on loans:			
Costa Rica	$404		404
Panama	1,048		1,048
Total	1,452		1,452
Grand total	1,452	5,319	6,771

Mr. LEVE. May I say for the record, Mr. Rhodes, that just prior to the payment of the first installment, the Assistant Secretary of the Treasury and others consulted with the chairman of the full committee here and with other congressional leaders on this to advise them of what we were doing. No question was raised.

Mr. RHODES. Do you know on what date that occurred?

Mr. CUTLER. June 1960.

Mr. LEVE. Yes.

Mr. RHODES. You consulted with the chairman, Mr. Cannon?

Mr. LEVE. Yes, sir; Chairman Hayden and Chairman Spence.

Mr. RHODES. Spence. You do not mean Spence. That would be Representative Morgan.

Off the record.

(Discussion off the record.)

Mr. RHODES. Well, this does not change my opinoin. Thank you for your contribution.

I think that is all, Mr. Chairman.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. We shall recess until 1 o'clock tomorrow afternoon

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WEDNESDAY, APRIL 11, 1962.

INTERNATIONAL DEVELOPMENT ASSOCIATION

SUBSCRIPTION OF FUNDS

WITNESSES

JOHN M. LEDDY, ASSISTANT SECRETARY OF THE TREASURY (INTERNATIONAL FINANCE) AND U.S. EXECUTIVE DIRECTOR OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION

ERLE COCKE, JR., ALTERNATE U.S. EXECUTIVE DIRECTOR OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION

E. JAY FINKEL, ECONOMIST, OFFICE OF INTERNATIONAL FINANCE

HARVEY A. LEVE, ATTORNEY, OFFICE OF GENERAL COUNSEL

SUMMARY OF REQUEST FOR 1963

Mr. PASSMAN. The committee will come to order.

We shall consider today the request for the subscription of funds to the International Development Association. The 1963 estimate is $61,656,000, the same amount that the Congress appropriated for fiscal year 1962.

We shall insert in the record at this point pages 1 and 2 of the justifications.

(The justifications follow:)

TREASURY DEPARTMENT

Subscription to International Development Association

Total appropriations authorized (Public Law 86–565):	
First installment payment (1961)	$73, 666, 700
Second installment payment (1962)	61, 655, 825
Third installment payment (1963)	61, 655, 825
Fourth installment payment (1964)	61, 655, 825
Fifth installment payment (1965)	61, 655, 825
Total appropriations authorized	320, 290, 000
Appropriated by the Supplemental Appropriation Act, 1961 (Public Law 86–651): First installment payment	73, 666, 700
Appropriated by the Foreign Assistance and Related Agencies Appropriation Act, 1962 (Public Law 87–329): Second installment payment	61, 656, 000
Appropriation estimate 1963: Third installment payment	[1] 61, 656, 000

[1] Rounded for budget presentation—payment will be $61,655,825.

SUBSCRIPTION TO INTERNATIONAL DEVELOPMENT ASSOCIATION

JUSTIFICATION

Public Law 86–565, approved June 30, 1960, authorized the President to accept membership for the United States in the International Development Association with an initial subscription of $320,290,000. On August 9, 1960, the United States deposited its Instrument of Acceptance with the International Bank for Reconstruction and Development. Public Law 86–651, approved July 14, 1960, contained an appropriation of $73,666,700 for the first installment of the U.S. subscription. Public Law 87–329, approved September 30, 1961, contained an appropriation of $61,655,825 for the second installment of the U.S. subscription.

The U.S. initial subscription of $320,290,000 is payable in five annual installments, consisting of a first installment of $73,666,700, and four additional installments of $61,655,825. The Association began operations on November 8, 1960. As provided in article II of the Articles of Agreement, the second through fifth installments are payable at annual intervals from that date. Accordingly, the third installment of $61,655,825 is due on November 8, 1962.

The International Development Association is an international organization affiliated with the International Bank for Reconstruction and Development, designed to provide development financing on flexible terms for its less developed member countries. Membership in the Association is open to all members of the International Bank; by mid-February 1962, there were 57 members, with total subscriptions of $914.9 million.

As of February 15, 1962, the Association had made 19 credits available to 10 countries, amounting to a total of $199.3 million.

Mr. PASSMAN. With us as witnesses this morning are Mr. John M. Leddy, Assistant Secretary of the Treasury (International Finance) and U.S. Executive Director of the International Development Association; Mr. Erle Cocke, Jr., Alternate U.S. Executive Director of the International Development Association; Mr. E. Jay Finkel, economist, Office of International Finance, and Mr. Harvey A. Leve, attorney, Office of the General Counsel.

It is my understanding that the Assistant Secretary of the Treasury, Mr. Leddy, wishes to make a statement to the committee.

Mr. LEDDY. Yes, sir.

Mr. PASSMAN. You may proceed, sir.

Mr. Leddy.

General Statement

Mr. Chairman and members of the committee, I am glad to appear before you today in support of the administration's request for fiscal year 1963 appropriations covering our subscription obligation to the International Development Association.

The request before you relates to the third installment on the total subscription of $320.29 million, which the United States agreed to upon joining the IDA in 1960. A first installment of $73,666,700 was approved by the Congress as part of the Supplemental Appropriation Act for fiscal 1961 (Public Law 86–651), and a second installment of $61,655,825 was approved last year as part of the Foreign Assistance and Related Agencies Appropriation Act, 1962 (Public Law 87–329). Both of these installments have already been paid to the Association.

Our request today is for the third installment, also amounting to $61,655,825. Payment of this amount is due not later than November 8, 1962, in accordance with the articles of agreement of IDA. Two further annual installments remain to be paid, each in the same amount as this year's payment. I am submitting for the record a table showing the schedule of subscription payments as well as other tables relating to IDA's membership and operations to date.

Participation by the United States in IDA was authorized by the International Development Association Act (Public Law 86–565), which also authorized the appropriation of our $320,290,000 subscription.

CONCEPT OF IDA

IDA is an affiliate of the World Bank and is open to membership by all of the World Bank's members. It is designed to provide financing for essentially the same purposes as the World Bank, but on terms which will bear much less heavily on the balance of payments of the borrowing country than do the terms of the Bank's loans. The need for development financing on terms better adapted to the payment capacity of the developing countries is well recognized today and is a major principle of our own aid program.

IDA provides an institutional framework within which aid resources from the other developed countries are mobilized in amounts which exceed the amounts provided by the United States. IDA thus helps our efforts to assure that other nations will share the financial burden of aid with us.

IDA's affiliation with the World Bank offers it the full benefits of the Bank's highly regarded management and staff. This arrangement, in which IDA utilizes the Bank's facilities and the services of the Bank's officials on a reimbursable basis, avoids an undesirable duplication of effort between the two institutions. In addition to the administrative economies involved, the Bank-IDA affiliation insures a coordinated policy approach to the problems of development.

OPERATIONS

IDA began operations in November 1960 and its first development credit was announced in May 1961. In the succeeding 10 months through February 15, 1962, IDA had signed credit agreements amounting to $199.3 million. The signed agreements involve 19

credits to 10 countries. Two of these countries—India and Pakistan—are countries for which the Bank has organized international consortia to help in meeting their very large requirements for external financing. Substantial further commitments of funds, beyond the amounts under the signed agreements just mentioned, have been made for financing the development plans of these two important nations. Five of the countries to which IDA has granted credits are in Latin America—Chile, Colombia, Costa Rica, Honduras, and Paraguay. China, Jordan, and Sudan complete the list of IDA borrowers.

IDA's development credits have been extended for projects of the same general kind as those financed by World Bank loans. Seven of the nineteen credits have been for agricultural development and irrigation; six for road and highway development; two for port and harbor improvements; two for potable water projects, one for electric power supply, and one to a local development bank for small loans to private enterprise.

In addition to the credits to India and Pakistan, which are coordinated with World Bank lending to further the development plans of those two countries, four of the IDA credits have been made in conjunction with concurrent World Bank financing. These are examples of the manner in which IBRD and IDA financing can be "blended" to produce a development package suited to the financial capacity of the country involved. Disbursements under IDA credits have not yet begun in significant volume, but may be expected to build up as actual contracts are let and construction gets underway.

PARTICIPATION BY OTHERS

IDA's membership through February 15, 1962, consisted of 57 of the World Bank's 74 members. The membership applications of six additional countries have been approved by the Board of Governors, and these countries will become full members when they complete certain formalities. Total subscriptions to IDA amounted to $914.9 million as of mid-February. Of this amount, a total of $386.5 million has actually been paid in on the first two installments, and of the amount paid in thus far $323.4 million has been paid in the form of dollars and other convertible currencies, the balance being in the currencies of less developed members.

The other advanced countries (the so-called part I members) are providing resources to IDA in excess of those provided by the United States. U.S. subscription payments to date have totaled $135.3 million whereas the hard currency subscription payments of the 14 other advanced countries have totaled $177.1 million.

With the payment in November 1962 of the funds now being requested, the amount paid in by the United States will be $197 million, as against $257.7 million by the other 14 advanced countries.

When all five annual subscription installments have been paid, in calendar year 1964, the total for these 14 countries will be $419.1 million, compared with $320.3 million for the United States.

In addition to the hard currencies being subscribed by the part I members of IDA, 10 percent of the subscriptions of the part II countries—the less developed members—are payable in hard currency. To date, $11 million has been paid in hard currency by these countries, along with $63.2 million equivalent in their own local currencies.

TERMS OF IDA LENDING

IDA has introduced a new concept of development loan terms. All of IDA's credits have been for a term of 50 years, with repayment commencing after a 10-year period of grace. Thereafter 1 percent per annum of the principal is to be repaid for 10 years, while in the remaining 30 years of the credit 3 percent of principal is to be repaid annually. No interest is charged on the credit but a service charge of three-fourths of 1 percent annually is made on amount disbursed and outstanding in order to provide IDA with funds to meet its administrative costs. The credits are repayable in dollars or other convertible foreign exchange, not in the borrower's own local currency.

IDA deserves continuing financial support from the United States. We played a major role in getting it started, and its early operations are promising. IDA complements the work of the World Bank and does so with funds drawn, not only from the United States, but from the entire community of industrialized free nations. I urge that the Congress act favorably on this request.

(The tables follow:)

TABLE I.—*International Development Association, U.S. subscription payments*

[In U.S. dollars]

Installments	Fiscal years	10-percent portion [1] (1)	90-percent portion [2] (2)	Total (3)
I	[3] 1961	[4] 16,014,500	[5] 57,652,200	[6] 73,666,700
II	[7] 1962	[8] 4,003,625	[5] 57,652,200	[9] 61,655,825
III	1963	[8] 4,003,625	[5] 57,652,200	[9] 61,655,825
IV	1964	[8] 4,003,625	[5] 57,652,200	[9] 61,655,825
V	1965	[8] 4,003,625	[5] 57,652,200	[9] 61,655,825
Total		32,029,000	288,261,000	320,290,000

[1] Payable in convertible currencies by all members.

[2] Payable in convertible currencies by pt. I members and in own currencies by pt. II members; non-interest-bearing notes may be substituted for this portion.

[3] Appropriated in Supplemental Appropriation Act for fiscal year 1961 approved July 14 1960. Payment to IDA made Nov. 30 1960.

[4] 50 percent of 10-percent portion (5 percent of total subscription) payable within 30 days after date on which Association begins operations or on date on which original member becomes a member whichever is later.

[5] 20 percent of 90-percent portion (18 percent of total subscription) payable within 30 days after date on which Association begins operations or on date on which original member becomes a member whichever is later and at annual intervals from date on which Association begins operations until 90-percent portion fully paid.

[6] 23 percent of total subscription (5 percent plus 18 percent).

[7] Appropriated in Foreign Assistance and Related Agencies Appropriation Act 1962 (Public Law 87-329) approved Sept. 30 1961. Payment to IDA made Nov. 8 1961.

[8] 12½ percent of 10-percent portion (1¼ percent of total subscription) payable 1 year after beginning of operations of Association and at annual intervals thereafter until 10-percent portion fully paid.

[9] 19¼ percent of total subscription (1¼ percent plus 18 percent).

TABLE II.—*IDA Membership as of Feb. 15, 1962*

Member	Subscription (dollars in millions)	Member	Subscription (dollars in millions)
Afghanistan	1. 01	Korea	1. 26
Australia*	20. 18	Libya	1. 01
Austria*	5. 04	Malaya	2. 52
Bolivia	1. 06	Mexico	8. 74
Canada*	37. 83	Morocco	3. 53
Ceylon	3. 03	Netherlands*	27. 74
Chile	3. 53	Nicaragua	. 30
China	30. 26	Nigeria	3. 36
Columbia	3. 53	Norway*	6. 72
Costa Rica	. 20	Pakistan	10. 09
Denmark*	8. 74	Panama	. 02
Ecuador	. 65	Paraguay	. 30
Ethiopia	. 50	Peru	1. 77
Finland*	3. 83	Philippines	5. 04
France*	52. 96	Saudia Arabia	3. 70
Germany*	52. 96	South Africa*	10. 09
Ghana	2. 36	Spain	10. 09
Greece	2. 52	Sudan	1. 01
Guatemala	. 40	Sweden*	10. 09
Haiti	. 76	Thailand	3. 03
Honduras	. 30	Tunisia	1. 51
Iceland	. 10	Turkey	5. 80
India	40. 35	United Arab Republic	6. 03
Iran	4. 54	United Kingdom*	131. 14
Iraq	. 76	United States*	320. 29
Ireland	3. 03	Vietnam	1. 51
Israel	1. 68	Yugoslavia	4. 04
Italy*	18. 16		
Japan*	33. 59	Total	914. 89
Jordan	. 30		

Of which:

15 part I members	739. 36
42 part II members	175. 53

*Part I members.

TABLE III.—*Paid-in subscriptions to IDA, as of Feb. 15, 1962*

[In millions of U.S. dollars]

In gold or convertible currencies:	
From subscriptions of part I countries	312. 38
From 10-percent portion of subscription of part II countries	10. 97
Total, gold or convertible currencies	323. 35
In national currencies:	
From 90-percent portion of subscriptions of part II countries	63. 19
Total	386. 54

APPENDIX A

INTERNATIONAL DEVELOPMENT ASSOCIATION

Statement of Condition

December 31, 1961

Expressed in United States Currency — *See Notes to Financial Statements, Appendix D*

ASSETS

DUE FROM BANKS AND OTHER DEPOSITORIES		
Member currencies		
Unrestricted	$ 5,440,488	
Subject to restrictions—Note B	14,535,002	$ 19,975,490
INVESTMENTS		
Government obligations (at cost or amortized cost)		
Face amount $63,414,000 including $58,052,000 United States government obligations	$ 62,624,600	
Time deposits maturing within six months—United States dollars	20,000,000	
Accrued interest	363,330	82,987,930
RECEIVABLE ON ACCOUNT OF SUBSCRIPTIONS		
Non-negotiable, non-interest-bearing, demand notes		
Unrestricted	$235,428,872	
Subject to restrictions—Note B	44,415,201	$279,844,073
Amounts past due	3,455,963	283,300,036
EFFECTIVE DEVELOPMENT CREDITS HELD BY ASSOCIATION (including undisbursed balance of $136,305,096) (*See Appendix C*)—Note C		136,800,000
ACCRUED SERVICE CHARGE ON DEVELOPMENT CREDIT—Note C		383
TOTAL ASSETS		$523,063,839

LIABILITIES, SUBSCRIPTIONS AND ACCUMULATED NET INCOME

LIABILITIES			
Accounts payable and other liabilities			$ 138,641
Undisbursed balance of effective development credits (*See Appendix C*)			136,305,096
SUBSCRIPTIONS—Note D			
Amounts subscribed		$912,370,000	
Less portion for which payment is not yet due—Note E			
Unrestricted	$433,468,275		
Subject to restrictions—Note B	93,425,400	526,893,675	385,476,325
Prepayment and payment on account of pending subscription			296,250
ACCUMULATED NET INCOME			
At June 30, 1961		$354,725	
The period from July 1, 1961 to December 31, 1961		492,802	847,527
TOTAL LIABILITIES, SUBSCRIPTIONS AND ACCUMULATED NET INCOME			$523,063,839

APPENDIX B

INTERNATIONAL DEVELOPMENT ASSOCIATION

Statement of Income and Expenses

For the Period from July 1, 1961 to December 31, 1961

Expressed in United States Currency — *See Notes to Financial Statements, Appendix D*

	July 1, 1961–December 31, 1961
INCOME	
Income from investments	$ 992,459
Income from development credit	383
Other income	21,475
GROSS INCOME	$1,014,317
EXPENSES	
Administrative expenses:	
Personal services	$285,860
Contributions to staff benefits	40,120
Fees and compensation	34,066
Representation	497
Travel	90,600
Supplies and materials	5,510
Office occupancy	29,238
Communication services	14,977
Furniture and equipment	4,970
Printing	12,766
Insurance	2,757
Handling and storage of gold	154
GROSS EXPENSES	$521,515
NET INCOME	$492,802

INTERNATIONAL DEVELOPMENT ASSOCIATION

Statement of Development Credits

December 31, 1961

Expressed in United States Currency

Borrower	Development credit number	Semi-annual payment dates	Program or project	Date of development credit agreement	Maturities	Service charge rate	Original principal amount	Development credits not yet effective (1)	Effective development credits held by Association	Principal amount disbursed	Undisbursed balance of effective development credits
CHILE (CH)	4	J/D 1	Road Construction	June 28, 1961	1971-2011	¾ of 1%	$ 19,000,000	$ —	$ 19,000,000	$ —	$ 19,000,000
CHINA (CHA)	6	M/S 15	Harbor Dredging	Aug. 30, 1961	1972-2011	¾ of 1%	2,200,000	—	2,200,000	—	2,200,000
	7	M/S 15	Ground Water Development	Aug. 30, 1961	1972-2011	¾ of 1%	3,700,000	—	3,700,000	—	3,700,000
	9	M/S 15	Municipal Water Supply	Sept. 6, 1961	1972-2011	¾ of 1%	4,400,000	—	4,400,000	—	4,400,000
	17	M/S 15	Development of Private Industry	Dec. 1, 1961	1972-2011	¾ of 1%	5,000,000	5,000,000	—	—	—
						TOTAL	15,300,000	5,000,000	10,300,000	—	10,300,000
COLOMBIA (CO)	5	J/D 1	Road Project	Aug. 28, 1961	1971-2011	¾ of 1%	19,500,000	—	19,500,000	—	19,500,000
COSTA RICA (CR)	10	M/N 1	Road Construction and Maintenance	Oct. 13, 1961	1971-2011	¾ of 1%	5,500,000	5,500,000	—	—	—
HONDURAS (HO)	1	M/S 1	Western Highway Improvement	May 12, 1961	1971-2011	¾ of 1%	9,000,000	—	9,000,000	—	9,000,000
INDIA (IN)	3	F/A 15	Highway Construction and Improvement	June 21, 1961	1971-2011	¾ of 1%	60,000,000	—	60,000,000	—	60,000,000
	8	M/N 1	Tubewell Irrigation	Sept. 6, 1961	1971-2011	¾ of 1%	6,000,000	—	6,000,000	—	6,000,000
	13	A/O 15	Shetrunji Irrigation Project	Nov. 22, 1961	1972-2011	¾ of 1%	4,500,000	4,500,000	—	—	—
	14	A/O 15	Salandi Irrigation Project	Nov. 22, 1961	1972-2011	¾ of 1%	8,000,000	8,000,000	—	—	—
	15	M/N 15	Punjab Flood Protection and Drainage	Nov. 22, 1961	1972-2011	¾ of 1%	10,000,000	10,000,000	—	—	—
						TOTAL	88,500,000	22,500,000	66,000,000	—	66,000,000

INTERNATIONAL DEVELOPMENT ASSOCIATION

Statement of Development Credits

December 31, 1961 (continued)

Expressed in United States Currency

Borrower	*Development credit number*	*Semi-annual payment dates*	*Program or project*	*Date of development credit agreement*	*Maturities*	*Service charge rate*	*Original principal amount*	*Development credits not yet effective* (1)	*Effective development credits held by Association*	*Principal amount disbursed*	*Undisbursed balance of effective development credits*
JORDAN (JO)	18	M/N 15	Amman Water Supply Project	Dec. 22, 1961	1971-2011	¾ of 1%	2,000,000	2,000,000	—	—	—
PAKISTAN (PAK)	11	A/O 1	Dacca Irrigation Project	Oct. 19, 1961	1972-2011	¾ of 1%	1,000,000	1,000,000	—	—	—
	16	A/O 1	Inland Ports Project	Nov. 22, 1961	1972-2011	¾ of 1%	2,000,000	2,000,000	—	—	—
						TOTAL	3,000,000	3,000,000	—	—	—
PARAGUAY (PA)	12	F/A 15	Highway Improvement and Maintenance	Oct. 26, 1961	1972-2011	¾ of 1%	6,000,000	6,000,000	—	—	—
SUDAN (SU)	2	J/J 15	Roseires Irrigation Project	June 14, 1961	1971-2011	¾ of 1%	13,000,000	—	13,000,000	494,904	12,505,096
						GRAND TOTAL	$180,800,000	$ 44,000,000	$ 136,800,000	$ 494,904	$ 136,305,096

Note (1)—Agreements providing for these development credits have been signed, but the development credits do not become effective and disbursements thereunder do not start until the borrower takes certain action and furnishes certain documents to the Association.

APPENDIX D

INTERNATIONAL DEVELOPMENT ASSOCIATION

Notes to Financial Statements

December 31, 1961

NOTE A

Amounts in currencies other than United States dollars have been translated into United States dollars:

(i) In the cases of 43 members, at the par values as specified in the "Schedule of Par Values", published by the International Monetary Fund.

(ii) In the cases of the remaining 13 members (Afghanistan, Bolivia, Canada, Chile, China, Korea, Malaya, Nigeria, Paraguay, Peru, Thailand, Tunisia and Viet-Nam), at the rates used by such members in making payments of subscriptions to the Association.

NOTE B

Pursuant to Article IV, Section 1 (a) these amounts may be used by the Association for administrative expenses incurred by the Association in the territories of any Part II member whose currency is involved and, insofar as consistent with sound monetary policies, in payment for goods and services produced in the territories of such member and required for projects financed by the Association and located in such territories; and in addition when and to the extent justified by the economic and financial situation of the member concerned as determined by agreement between the member and the Association, such currency shall be freely convertible or otherwise usable for projects financed by the Association and located outside the territories of the member.

NOTE C

The principal disbursed and outstanding on development credit and the accrued service charge are receivable in freely convertible currencies.

NOTE D

Subscriptions are expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960.

NOTE E

Payment of this portion of the subscriptions of members is due on November 8 in each of the years 1962 through 1964 as follows: One and one quarter percent of the subscription of each member is payable annually in gold or freely convertible currency; eighteen percent of the subscription of each member is payable annually (a) in gold or freely convertible currency by Part I members and (b) in the currency of the subscribing member by Part II members.

NOTE F

Under Article IV, Section 2 each member is required, if the par value of its currency is reduced or the foreign exchange value of its currency has in the opinion of the Association depreciated to a significant extent within that member's territories, to maintain the value of the Association's holdings of its ninety percent currency, including the principal amount of any notes substituted therefor, and the Association is required if the par value of the member's currency is increased, or the foreign exchange value of the member's currency has in the opinion of the Association appreciated to a significant extent within that member's territories, to return to the member the increase in the value of such ninety percent currency held by the Association; provided, however, that the foregoing shall apply only so long as and to the extent that such currency shall not have been initially disbursed or exchanged for the currency of another member.

COMMITTEE RULES AND PROCEDURES

Mr. PASSMAN. Thank you, Mr. Director.

Perhaps I should state for the record at this point that certain policies with relation to the hearings must be observed. My reference here refers particularly to committee policy with relation to the editing of the typewritten transcript of the proceedings.

Editorial changes by the witnesses will be held to a minimum and limited to changes of grammatical and other obvious errors, plus additions of such statements and other material as may be approved by the chairman of the subcommittee or requested by members.

One agency which appeared this year before this subcommittee went so far beyond these reasonable limitations in revisions of, deletions from, and additions to the testimony of its principal witness that it was necessary to discard the entire transcript of more than 200 legal-size pages and have the full day's record of the hearings reedited, within the rules of the committee, from the carbon copy of the committee reporters' typewritten transcriptions of the proceedings.

I point out this situation for the obvious purpose of avoiding a similar action on the part of any agency or witness in the future. The published hearings are intended, of course, to reflect an accurate record of the testimony presented.

Now, with that comment out of the way, we shall proceed with the item under consideration.

BUDGET REQUEST, 1963

Mr. Secretary, this request is for $61,656,000, for the third installment, of the U.S. subscription to the Association?

Mr. LEDDY. That is correct.

Mr. PASSMAN. If approved, the Congress will have to appropriate $61,656,000 for fiscal year 1964 and the same amount for fiscal 1965 to complete our subscription commitment?

Mr. LEDDY. That is correct, sir.

NON-INTEREST-BEARING, NONNEGOTIABLE NOTES

Mr. PASSMAN. Of the total amount paid in by the United States to date, how much has been in the form of non-interest-bearing nonnegotiable demand notes, such as provided for in the act itself?

Mr. LEDDY. $115 million. If you will look at table I, sir, that is attached to the testimony, under column II in table I described as the 90-percent portion, amounting in each of the first 2 years, $57,652,200 of each of those installments has been paid in in the form of non-interest-bearing notes.

Under the 10-percent portion, column 1, you will see the amounts that have been paid in in the form of cash. Together that amounts to roughly $20 million in cash, $115 million in non-interest-bearing notes.

Mr. PASSMAN. Is the note that we give over the signature of the Secretary of the Treasury?

Mr. LEDDY. Yes, it is a non-interest-bearing demand note that is cashable when needed by the Bank to meet disbursements.

Mr. PASSMAN. What we are trying to establish for the record now is whether or not this is one of the postponed obligations or is on a

Treasury statement as an obligation? There is a demand note out. Is it included in the public debt?

Mr. LEDDY. I believe it is in the public debt, sir.

Mr. PASSMAN. You have obligated the money appropriated?

Mr. LEDDY. Yes, sir.

Mr. PASSMAN. Is this not a rather unusual type of transaction?

Mr. LEDDY. We have in the international institutions, Mr. Chairman.

For example, in the International Monetary Fund, our subscription payments to the Fund are normally held in the form of non-interest-bearing notes until the Fund actually needs to use the dollars and drawings. That has been traditional, I think, in the international institutions, to make a portion.

Mr. PASSMAN. Not all of the international institutions. In the Inter-American Development Bank——

Mr. LEDDY. I believe the Inter-American Bank about which General Cutler testified previously—I believe some portion of the funds provided there were also in the form of non-interest-bearing notes. I would have to defer to him on that.

Mr. GARY. Non-interest-bearing?

Mr. PASSMAN. We were paying interest on our own note to the Inter-American Development Bank, if I recall correctly.

Mr. GARY. What they did, Mr. Chairman, if I am not mistaken—I think it was in the International Bank—we were supposed to put up a certain amount of money when called for. It had not been called for in the case of other nations, but they called for it in the case of the United States and took the money and then loaned it back to us at interest. We are paying interest on that money.

Mr. PASSMAN. I think that is true.

Mr. LEDDY. I think that is correct with respect to a portion of it.

LEGISLATION AUTHORIZING NON-INTEREST-BEARING NOTES FOR CAPITAL

Mr. PASSMAN. Do you have legislation permitting that practice?

Mr. LEDDY. Yes.

Mr. PASSMAN. Would you cite the act?

Mr. LEDDY. In the case of the Inter-American Bank?

Mr. PASSMAN. Yes, since we are discussing the Inter-American Bank. It is a little unusual that we would be called upon to pay ours in but other nations are not paying theirs in. They would make a loan back to the United States and collect interest.

Mr. LEDDY. The provision for making non-interest-bearing notes or transmitting non-interest-bearing notes to the Inter-American Development Bank is provided for in the Inter-American Development Bank Act, Public Law 86–147. I will read now from section 7(b), under the provision for payment of subscription, which reads as follows:

> For the purpose of keeping to a minimum the cost to the United States of participation in the Bank, the Secretary of the Treasury, after paying the requisite part of the subscription and quota of the United States in the Bank required to be made under article 2, section 4, and article 4, section 3, respectively, of the agreement, is authorized and directed to issue special notes of the United States from time to time at par and to deliver such notes to the Bank in exchange for dollars to the extent permitted by the agreement. The special notes provided for in this subsection shall be issued under the authority and subject to the pro-

visions of the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include the purposes for which special notes are authorized and directed to be issued under this subsection but such notes shall bear no interest, shall be nonnegotiable and shall be payable on demand of the Bank.

Mr. PASSMAN. We are paying interest, though, are we not? We are advancing our money, then borrowing it back and paying interest, and the money has not been disbursed.

Mr. LEDDY. Mr. Chairman, I believe what happened in the case of the Inter-American Development Bank—I do not have at hand the precise figures—that some portion of the funds that we provided to the Bank was in the form of non-interest-bearing notes, some portion was in the form of cash. The Bank used that cash to make investments on which it earned interest, which was then used to begin to take care of its beginning operations and administrative expenses.

PAYMENT OF CAPITAL SUBSCRIPTION BY OTHER COUNTRIES

Mr. PASSMAN. Did they call upon the other member nations of the Inter-American Development Bank to put their funds up to be handled similarly?

Mr. LEDDY. That I cannot answer. We will supply the answer.

Mr. PASSMAN. Do you know whether or not that is true?

Mr. LEVE. I believe it is true in some countries.

Mr. PASSMAN. Let us get it for the record.

Mr. LEVE. I do not have that.

Mr. PASSMAN. Are you guessing, then, as to whether any of them, other than the United States, has been called upon to put up their money?

Mr. LEVE. I believe they have, yes.

Mr. PASSMAN. Could you find out during the morning?

Mr. LEVE. Yes, sir.

Mr. PASSMAN. Mr. Secretary, we are called upon to put up billions of dollars to help foreign countries. Almost every day, however, it is suggested that we be very careful about criticizing any of the recipients, that we may offend them.

Do you find anything objectionable about honest criticism?

Mr. LEDDY. No, sir.

EXTENT OF IDA OPERATIONS

Mr. PASSMAN. You operate in how many countries?

Mr. LEDDY. The list of countries is given here in table II—57 countries.

Mr. PASSMAN. It is international?

Mr. LEDDY. That is right.

Mr. PASSMAN. You do not necessarily, then, go out into various countries, for other reasons, than the 57 you are in?

Mr. LEDDY. No, sir.

EXCESSIVE EXPENSE ACCOUNTS

Mr. PASSMAN. We set up the Inter-American Development Bank for Latin America and the ink had hardly dried on the document before the Directors got Latin America mixed up with Europe. Three of the Bank's representatives were gone 35 days, on a European trip, and their subsistence alone, including gratuities and representation, amounted to about $64.51 per man per day.

We want the record to show that this subcommittee is unhappy with this very expensive junket to Europe, and especially so when they had no really valid business there of which we are aware.

Then, the same organization had a meeting down in Rio. I think it cost about $143,000 for this 1 week's party. The representation allowance alone was $17,000. They requested $225,000 for a similar purpose for fiscal year 1963.

Gentlemen, that, in my opinion, is justified criticism. It is not right to take unsupervised U.S. American dollars and throw them away like yesterday's newspaper. We are pleased to note that you are operating a similar organization and that you do not have expense accounts of such nature as those mentioned.

INDIAN AGGRESSION

Mr. GARY. Mr. Chairman, with reference to your remarks citing instances of displeasure against these countries, I am very anxious for India to know that I personally thoroughly disagree with their capture of Goa. I think it was an act of aggression. We have told the world that we are opposed to aggression. We even stopped Israel and England when they went into Egypt. We fought on the side of the Russians to drive them out and see that they did not stay in there. India shows this act of aggression. What have we done? Absolutely nothing. They are dipping their fingers into every pie in the entire United States. I want the world to know that I do not agree with it.

Mr. PASSMAN. Let me say to the distinguished gentleman from Virginia that I concur 100 percent in the views he has expressed.

As you say, they are getting their finger in every pie. For the item we are now considering, they are not putting only their finger in the pie, however; they have got their foot in it. They are getting 49 percent of the total amount made available under this one agency.

CAPITAL SUBSCRIPTION BY OTHER NATIONS

Page 4 of your statement, Mr. Secretary, seems to emphasize that the other 14 "advanced" members have paid in and will pay in more than the United States.

Mr. LEDDY. That is right.

Mr. PASSMAN. You are talking about 57 nations?

Mr. LEDDY. That is right.

Mr. PASSMAN. I do not see anything about that fact which would make a very good case for this money, even though it is following the formula.

Is it not a fact that we pay in approximately 47 percent of the hard currency funds and approximately 35 percent of the total capital of the Association?

Mr. LEDDY. The statement on page 4, Mr. Chairman, refers to the other 14 advanced countries paying in together more than we are paying in, not just the 57 countries.

The percentage of hard currencies that we put in is, I believe, 43 percent. May I give you the total for the whole amount of the contribution?

Mr. PASSMAN. The hard currency is $739,036,000; is that correct?

Mr. LEDDY. It is $756.9 million total, if you add 10 percent.

Mr. PASSMAN. Why do you not give it to us complete?

I am looking at table II. You have 15 part I members.

Mr. LEDDY. That is correct.

Mr. PASSMAN. You show $739,036,000; is that correct?

Mr. LEDDY. All of that contribution is in hard currency but in addition, sir, 10 percent of the $175.53 million provided by the 42 part II members is also in hard currency. I was simply giving you the total of that, which amounts to $756.9 million.

Mr. PASSMAN. If we had not brought this up we could not have obtained the information from this table, could we?

Mr. LEDDY. No, sir. The table I think was deficient in that respect. I noted this in my testimony because I was sure you would ask the question.

Mr. PASSMAN. This goes in the record?

Mr. LEDDY. Yes, sir. I think it should.

Mr. PASSMAN. People reading this——

Mr. LEDDY. If you wish us to supplement that particular table to show at the bottom the total contribution in hard currency, we would be glad to do so.

Mr. PASSMAN. I have no right to withdraw anything from the record while other Members who permitted its insertion are absent. We shall put this in as you gave it, and you insert a corrected table.

Mr. LEDDY. Yes, sir.

(The information supplied follows:)

TABLE II.—*IDA membership as of Feb. 15, 1962*

Member	Subscription (dollars in millions)	Member	Subscription (dollars in millions)
Afghanistan	1.01	Korea	1.26
Australia*	20.18	Libya	1.01
Austria*	5.04	Malaya	2.52
Bolivia	1.06	Mexico	8.74
Canada*	37.83	Morocco	3.53
Ceylon	3.03	Netherlands*	27.74
Chile	3.53	Nicaragua	.30
China	30.26	Nigeria	3.36
Colombia	3.53	Norway*	6.72
Costa Rica	.20	Pakistan	10.09
Denmark*	8.74	Panama	.02
Ecuador	.65	Paraguay	.30
Ethiopia	.50	Peru	1.77
Finland*	3.83	Philippines	5.04
France*	52.96	Saudia Arabia	3.70
Germany*	52.96	South Africa*	10.09
Ghana	2.36	Spain	10.09
Greece	2.52	Sudan	1.01
Guatemala	.40	Sweden*	10.09
Haiti	.76	Thailand	3.03
Honduras	.30	Tunisia	1.51
Iceland	.10	Turkey	5.80
India	40.35	United Arab Republic	6.03
Iran	4.54	United Kingdom*	131.14
Iraq	.76	United States*	320.29
Ireland	3.03	Vietnam	1.51
Israel	1.68	Yugoslavia	4.04
Italy*	18.16		
Japan*	33.59	Total	914.89
Jordan	.30		

Payments by class of membership:	
15 part I members	739.36
42 part II members	175.53
Total	914.89
Payment by type of currency:	
Convertible currency	756.91
National currencies of part II members	157.98
Total	914.89

*Part I members.

COUNTRIES WITH CURRENCY RESTRICTIONS

Mr. PASSMAN. What countries have restricted the use of their currencies?

Mr. LEDDY. All of the part II countries restrict.

Mr. PASSMAN. Will you give us the name of the country and the amount for each one?

Mr. LEDDY. Yes.

Mr. PASSMAN. And tell us why they restricted the use of their currencies?

Mr. LEDDY. Table II, which has been submitted for the record, the table that we were just talking about, all of the countries on the list other than those for which an asterisk is shown have restricted 90 percent of their subscriptions; that is to say, 90 percent of their subscriptions are paid in their own currency, which cannot be used outside the countries concerned without their permission. The reason for

that is that these countries are the countries which will be on the receiving end of loans and their currencies are basically not convertible and could not be used outside the countries without burdening their balance of payments.

Mr. PASSMAN. They expect, then, to get back more than they put in?

Mr. LEDDY. Yes, sir.

Mr. PASSMAN. Why did you ever put them in, just to make this list look big?

Mr. LEDDY. They have contributed something. They have contributed 10 percent in the hard currencies.

Mr. PASSMAN. $17 million, to be correct.

Mr. LEDDY. $17 million.

Mr. PASSMAN. But they will get back more than they put in?

Mr. LEDDY. That is correct.

Mr. PASSMAN. What advantage is there in having them in?

Mr. LEDDY. Just the advantage; these are countries, all members of the World Bank in any case.

Mr. PASSMAN. It would appear, on the surface, that they are making a contribution to this organization, but in reality they are not making a net contribution.

Mr. LEDDY. They are not.

Mr. PASSMAN. That does not make this any less complicated, does it?

COUNTRIES MEETING SUBSCRIPTION PLEDGES

Have all countries met their subscriptions to date, Mr. Secretary?

Mr. LEDDY. In appendix A, Mr. Chairman, under the statement of condition, you will find——

Mr. PASSMAN. Could you answer my question, and then give the other information?

Mr. LEDDY. All except Syria, in the amount of $11,700.

STATEMENT OF DEVELOPMENT CREDITS

Mr. PASSMAN. We shall insert in the record appendix C, the list of 10 nations which have received the 19 credits extended by the Association.

(The appendix follows:)

INTERNATIONAL DEVELOPMENT ASSOCIATION

Statement of Development Credits

December 31, 1961

Expressed in United States Currency

Borrower	Development credit number	Semi-annual payment dates	Program or project	Date of development credit agreement	Maturities	Service charge rate	Original principal amount	Development credits not yet effective (1)	Effective development credits held by Association	Principal amount disbursed	Undisbursed balance of effective development credits
CHILE (CH)	4	J/D 1	Road Construction	June 28, 1961	1971-2011	¾ of 1%	$ 19,000,000	$ —	$ 19,000,000	$ —	$ 19,000,000
CHINA (CHA)	6	M/S 15	Harbor Dredging	Aug. 30, 1961	1972-2011	¾ of 1%	2,200,000	—	2,200,000	—	2,200,000
	7	M/S 15	Ground Water Development	Aug. 30, 1961	1972-2011	¾ of 1%	3,700,000	—	3,700,000	—	3,700,000
	9	M/S 15	Municipal Water Supply	Sept. 6, 1961	1972-2011	¾ of 1%	4,400,000	—	4,400,000	—	4,400,000
	17	M/S 15	Development of Private Industry	Dec. 1, 1961	1972-2011	¾ of 1%	5,000,000	5,000,000	—	—	—
						TOTAL	15,300,000	5,000,000	10,300,000	—	10,300,000
COLOMBIA (CO)	5	J/D 1	Road Project	Aug. 28, 1961	1971-2011	¾ of 1%	19,500,000	—	19,500,000	—	19,500,000
COSTA RICA (CR)	10	M/N 1	Road Construction and Maintenance	Oct. 13, 1961	1971-2011	¾ of 1%	5,500,000	5,500,000	—	—	—
HONDURAS (HO)	1	M/S 1	Western Highway Improvement	May 12, 1961	1971-2011	¾ of 1%	9,000,000	—	9,000,000	—	9,000,000
INDIA (IN)	3	F/A 15	Highway Construction and Improvement	June 21, 1961	1971-2011	¾ of 1%	60,000,000	—	60,000,000	—	60,000,000
	8	M/N 1	Tubewell Irrigation	Sept. 6, 1961	1971-2011	¾ of 1%	6,000,000	—	6,000,000	—	6,000,000
	13	A/O 15	Shetrunji Irrigation Project	Nov. 22, 1961	1972-2011	¾ of 1%	4,500,000	4,500,000	—	—	—
	14	A/O 15	Salandi Irrigation Project	Nov. 22, 1961	1972-2011	¾ of 1%	8,000,000	8,000,000	—	—	—
	15	M/N 15	Punjab Flood Protection and Drainage	Nov. 22, 1961	1972-2011	¾ of 1%	10,000,000	10,000,000	—	—	—
						TOTAL	88,500,000	22,500,000	66,000,000	—	66,000,000

INTERNATIONAL DEVELOPMENT ASSOCIATION

Statement of Development Credits

December 31, 1961 (continued)

Expressed in United States Currency

Borrower	*Development credit number*	*Semi-annual payment dates*	*Program or project*	*Date of development credit agreement*	*Maturities*	*Service charge rate*	*Original principal amount*	*Development credits not yet effective* [1]	*Effective development credits held by Association*	*Principal amount disbursed*	*Undisbursed balance of effective development credits*
JORDAN (JO)	18	M/N 15	Amman Water Supply Project	Dec. 22, 1961	1971-2011	¾ of 1%	2,000,000	2,000,000	—	—	—
PAKISTAN (PAK)	11	A/O 1	Dacca Irrigation Project	Oct. 19, 1961	1972-2011	¾ of 1%	1,000,000	1,000,000	—	—	—
	16	A/O 1	Inland Ports Project	Nov. 22, 1961	1972-2011	¾ of 1%	2,000,000	2,000,000	—	—	—
						TOTAL	3,000,000	3,000,000	—	—	—
PARAGUAY (PA)	12	F/A 15	Highway Improvement and Maintenance	Oct. 26, 1961	1972-2011	¾ of 1%	6,000,000	6,000,000	—	—	—
SUDAN (SU)	2	J/J 15	Roseires Irrigation Project	June 14, 1961	1971-2011	¾ of 1%	13,000,000	—	13,000,000	494,904	12,505,096
						GRAND TOTAL	$180,800,000	$ 44,000,000	$ 136,800,000	$ 494,904	$ 136,305,096

Note [1]—Agreements providing for these development credits have been signed, but the development credits do not become effective and disbursements thereunder do not start until the borrower takes certain action and furnishes certain documents to the Association.

Mr. PASSMAN. Did you get the information which was requested, Mr. Leve?

Mr. LEVE. No, sir; I asked it be called here as soon as it was available.

I think it may be difficult finding a man with the information.

Mr. PASSMAN. Where are the people whom you called?

Mr. LEVE. At the Bank.

Mr. PASSMAN. If you do not have that kind of information with a new organization you had better go downtown and suggest they tighten it up.

Let us say for the record at this point that according to the information which we have the U.S. Government obligations of $1,977,900 are interest-bearing for IDA, but there is no indication that you have called upon the other nations to pay interest or that they are paying interest. We will correct the record accordingly if information to the contrary is presented.

ACTIVITIES ASSOCIATED WITH THE WORLD BANK

Mr. Secretary, what effect, if any, has the Association had on the lending operations of the World Bank?

Mr. LEDDY. Several of these credits, Mr. Chairman, have been made by the Association, together with the World Bank. There are four of these countries apart from India and Pakistan, which I mentioned in my testimony: Colombia, Costa Rica, Chile, and the Sudan. In Latin America all these loans are for roads. In the Sudan they have been for irrigation.

A portion of the funds has been put up by the World Bank on conventional terms; that is to say, they carry 5¾ percent interest. They are usually repayable within 15 to 20 or 25 years and the IDA credit has gone into the same project along with the World Bank loan.

Mr. PASSMAN. On more liberal terms?

Mr. LEDDY. On more liberal terms, taking into account the condition of the country.

The effect on World Bank operations, of course, all of the staffing, all of the analysis, engineering, preparation of these projects of the IDA is carried out by the staff of the World Bank. In other words, there is no duplicate staff. It is a single staff.

These are not soft currency loans. These are hard currency loans. That is to say, IDA credits——

Mr. PASSMAN. The World Bank portion?

Mr. LEDDY. No; the IDA portion is repayable in dollars in hard currencies, not in local currencies.

LOANS TO INDIA

Mr. PASSMAN. Now, Mr. Secretary, we note that India has already nicked the Association for $88,500,000, approximately 49 percent of the total authorized credits, and there are 57 nations involved; is that correct?

Mr. LEDDY. That is correct.

Mr. PASSMAN. Do you know of any bank, any fund, any grant, any credit of which India is not the recipient?

What is the total amount of the loans, or credits, for India which are to be repaid in 50 years?

Mr. LEDDY. I could tell you that now. The only loans that India has obtained on a 50-year basis are the loans obtained or the credits it obtained from IDA.

Mr. PASSMAN. There are a lot of soft currency loans for India, Mr. Secretary, which have been accruing over a period of years.

Mr. LEDDY. That is correct.

Mr. PASSMAN. Let me ask, what is the total amount of loans and credits for which India is committed to repay in the next 50 years, and the amount that India has received from all sources—whether it is local currency to be plowed back into their own economy, whether it is one of these 50-year things they call development credits, whether it is Export-Import Bank, or whatever the source?

Mr. LEDDY. We can get a statement for you of the amount of borrowing that India has done.

Mr. PASSMAN. We are not talking about borrowing. We are talking about these giveaway propositions, through which we have given India billions of dollars. It was not actually borrowing, but outright grants. There is also a lot of local currency. Let us not let the record show "loans," because like, for example, these development credits for 50 years—those things are not any more loans than I am Mr. Nehru. Mr. Dillon himself put it in the record that they are not actually loans, but are "credits."

Mr. LEDDY. We will supply a statement on India for the record.

Mr. PASSMAN. You know what we want, do you?

Mr. LEDDY. I think we do.

(The information supplied follows:)

Financial Data—Country: India

Obligations and commitments

[Millions of dollars and dollar equivalent]

	Fiscal year 1946–61	Fiscal year 1961	Fiscal year 1962
Agency for International Development—total	1,021.9	201.6	403.3
Development loans	546.4	180.1	388.1
Development grants (T.C. prior to fiscal year 1961)	133.5	21.5	15.2
Supporting assistance (DS/SA prior to fiscal year 1961)	342.0	----	----
Other MSP economic	----	----	----
Food for Peace (Public Law 480):			
Title I, country uses	1,467.4	368.8	298.2
(Sales agreements)	(1,694.0)	(412.8)	(335.0)
Title II	5.2	.3	2.6
Title III	143.7	18.4	30.5
Title IV	----	----	----
Export-Import Bank long-term loans	246.2	80.7	[1] .7
Other U.S. economic programs	230.7	----	----
Military assistance (programs):			
MAP—Grant aid	----	----	----
MAP—Credit assistance	----	----	----
Non-MAP military assistance	----	----	----
Assistance from international agencies:			
IBRD—World Bank	678.3	90.0	[1] 125.5
International Finance Corporation	1.6	.2	----
Internationational Development Association	60.0	60.0	[1] 28.5
U.N. technical assistance—current year ending in fiscal year	19.4	3.0	2.1
U.N. Special Fund	13.7	5.2	[1] 2.0
Other free world assistance: [2]			
United Kingdom	368.4	182.0	68.0
Canada	180.6	28.0	28.0
Germany	384.5	225.0	139.0
Japan	108.0	50.0	30.0
Italy	100.0	100.0	----
All other	62.9	62.9	15.0
Sino-Soviet bloc assistance	945.0	139.0	[1] 37.2
U.S. dollar loan repayments:			
Export-Import Bank	2.1	1.7	[1] 2.5
Other Government loans	154.4	----	----

[1] July-December 1961.
[2] Assistance extended prior to fiscal year 1958 not known.

IBRD Consortium for India

Aid commitments indicated by members

[In millions of dollars]

	Year of commitment: Indian fiscal years				
	1961–62	1962–63	2-year total	1963–64—1965–66	Total commitment
Canada	28	28	56	----	56
France	15	15	30	----	30
Germany	225	139	364	61	425
Japan	50	30	80	----	80
United Kingdom	182	68	250	----	250
United States	545	500	1,045	----	1,045
IBRD and IDA	250	150	400	----	400
Total	1,295	930	2,225	61	2,286

In addition to the above commitments, the United States has already undertaken to assist India's third plan by making available surplus commodities in the amount of about $1,300 million. India is also receiving grants of wheat from Canada.

It was understood that the commitment indicated for the United States in 1962–63 was related to the prospects for additional aid commitments by other countries which are already members—or might subsequently become members—of the consortium, in amounts which would raise the total contributions of these countries in that year to a level comparable with the proposed U.S. contribution.

COMPARISON OF LOAN-REPAYMENT TERMS

Mr. PASSMAN. How does the Association's repayment terms of 50 years, with a 10-year grace period, 1 percent of principal for 10 years and 3 percent of the principal for the last 30 years, with no interest, but a service charge of three-quarters of 1 percent, compare with other banks, or funds, in which the United States is the largest or only contributor?

Mr. LEDDY. The World Bank loans are on a basis of 5¾ percent currently. The interest rates for World Bank loans are designed to cover the cost of money to the Bank, plus a charge of 1¼ percent.

As you know, the World Bank initially raises its money in the private market. The World Bank loans generally run between 15 and 25 years and they are regarded as conventional loans.

The Export-Import Bank, which is of course a national U.S. institution, provides loans also on a conventional basis, fully repayable in dollars, I believe at the current interest rate of 5¾ percent and terms and maturities that normally do not go beyond 20 or 25 years at the most.

The AID Agency, there have been two kinds of loans under the AID Agency. Under the old Development Loan Fund, as you recall, loans were made which were repayable, not in dollars, but in the currency of the borrowing country.

As a result of last year's AID legislation that policy was changed.

Mr. PASSMAN. It did not modify the previous loans or gifts?

Mr. LEDDY. It did not modify the previous loans.

Mr. PASSMAN. Or gifts?

Mr. LEDDY. Or grants, did not modify what had been done before but the policy was changed that hereafter loans under the Development Loan Fund will be made repayable in dollars, the intention being that they should be on very long terms, along the lines of IDA credits but they may vary. They may be more flexible and it will be up to Mr. Hamilton, head of the AID agency to decide basically the pattern that he wishes to establish there.

We assume that they will be on substantially liberal terms in order that they may be repaid without burdening the balance of payments.

Mr. PASSMAN. Does Mr. Hamilton confer with the State Department on these matters?

Mr. LEDDY. Yes.

Mr. PASSMAN. Before he makes his decision?

REVIEW OF LENDING OPERATIONS PRIOR TO LOANS

Mr. LEDDY. Mr. Hamilton has an Advisory Committee on Lending Operations, or on general lending operations and also the general terms of loans are looked at by the National Advisory Council on International Financial and Monetary Problems. That is under the chairmanship of the Secretary of the Treasury.

Whatever policies emerge there are discussed by an interagency group one way or another—the Treasury Department, the Export-

Import Bank, the Federal Reserve and Commerce Department, in the case of the National Advisory Council consideration.

Mr. PASSMAN. Mr. Secretary, of course the Congress passed legislation setting up this Agency. If I should appear critical, it is not directed at you personally, but it is rather difficult to understand some of these things. I hope you accept it in that spirit.

Mr. LEDDY. I have no objection.

EFFECT OF IDA LOAN OPERATIONS ON WORLD BANK OPERATIONS

Mr. PASSMAN. We have heard along the way that a rotten apple can destroy a full barrel, if you leave it in. I wonder if this giveaway or complicated formula of local and hard currencies, mixed up with the World Bank, might possibly contaminate the whole operation of that institution?

Mr. LEDDY. I am not sure I understand you, Mr. Chairman.

Mr. PASSMAN. This is more or less the soft currency operation of the World Bank.

Mr. LEDDY. Yes.

Mr. PASSMAN. IDA makes loans on different conditions, to be repayable without interest, some of them for as long as 50 years. That is much more liberal than the World Bank.

Mr. LEDDY. Right.

Mr. PASSMAN. I preface my observation by saying that the Congress set up this Agency, not by your request in all probability. It is a complicated matter, and I wonder if it might not damage the other operations of the World Bank.

Mr. LEDDY. No, sir.

Mr. PASSMAN. You do not think so?

Mr. LEDDY. I do not think so.

This comes out of separate funds whereas the World Bank loans have to be made out of the funds that they get on the market and therefore, they have to operate on a hard loan, conventional basis. I do not think there is any danger of that kind.

Mr. PASSMAN. Why do they go to the World Bank for hard dollars when they can go to IDA and get soft loans, if it will serve the same purpose in the respective nations?

Mr. LEDDY. I think the answer to that is that this is in the hands of the Bank to decide what loans will be offered to a country and what will not. I think this is certainly one of the advantages in having IDA as an affiliate of the World Bank and a part of the same institution. The Bank is not prepared to make an IDA loan to a country instead of a conventional loan just because it has asked for it. The Bank makes a judgment as to whether or not, taking into account everything, the country's capacity to repay, it should get a World Bank loan or an IDA loan or some combination of the two.

COUNTRIES EARNING HARD DOLLARS

Mr. PASSMAN. Most of the nations of the world, if not all of them, earn dollars or other hard currency from their exports, do they not?

Mr. LEDDY. Yes. I would say all countries engaged in international trade, which do not operate on strictly a barter basis, such as the Iron Curtain countries, but all countries are capable of earning hard currencies from their exports.

The problem in those countries is that the amount that they earn is in many cases insufficient to pay for the imports which they also have to pay for in hard currencies and therefore most of these countries are in balance of payments, or are confronted by balance-of-payments problems.

Mr. PASSMAN. But, these countries which earn dollars or other hard currencies from their exports to the amount needed to deal in world commerce, if through the various aid programs we make dollar credits available to the full extent, or even to a partial extent, of the amount needed to pay for what they would import from the United States, then that would make available the money they earn from exports for them to use for whatever purpose they might see fit to use it?

Mr. LEDDY. Yes, I think so. The provision of dollar credits or the provision of hard-currency loans to these countries obviously enlarges the total availabilities to them and enables them to import.

Mr. PASSMAN. These countries deal in world trade and from their exports they earn dollars.

Mr. LEDDY. Certainly.

Mr. PASSMAN. Of course, some of those dollars are earmarked to buy something that is produced in America.

If we provide for them credits or gifts, or grants, then they can requisition from America what they would normally buy with the dollars which they earn from exports.

They find that they have a credit under one of our aid programs, so it naturally follows that the dollars they earn from the exports can be used for whatever purpose they consider to be in their interest? That is my question. I believe you answered it affirmatively.

Mr. LEDDY. I think for example if you take these IDA credits, what they go into——

Mr. PASSMAN. I am referring strictly to facts now, regardless of whether it is IDA or one of the other agencies through which we are giving away money.

Mr. LEDDY. Mr. Chairman, except for this one thing, that the normal effect of any provision of AID funds or development credits for development purposes in these countries tends in and of itself to increase the total demand for imports into those countries.

Mr. PASSMAN. At least we hoped so.

Mr. LEDDY. It has shiftability. It means you have to import more goods to go into the project, it means you have to spend more money internally for labor, et cetera, which then creates a demand for imports. I do not believe that it is correct to say that the effect of lending for development purposes is simply to add to the free dollar resources of these countries.

Mr. PASSMAN. I did not say anything about just lending. I said under the various agencies through which we are disbursing U.S. funds. And I think you answered my question, or responded to my comment, affirmatively.

Mr. LEDDY. I think that is correct, yes, sir.

GOLD HOLDINGS OF VARIOUS COUNTRIES

Mr. PASSMAN. Then, that has a lot to do with this situation:

In 1953 our gold holdings amounted to $23,252 million. The other "free world" countries had gold holdings of $13,028 million.

During a brief 10-year period, through our generosity, those nations not only had sufficient dollars to reduce our gold reserves by $6,305 million, but also to buy $3 billion in gold from other nations. So, in effect, during that period the other "free world" nations succeeded in helping to reduce our gold reserve from $23,252 million to $16,947 million, while increasing their own gold holdings from $13,028 million to $23,683 million.

That fact, within itself, would not cause us to pull all of our hair out—just part of it—but when you observe that short-term dollar assets held by foreign "free world" nations in 1952 amounted to $10,546,100,000, but had more than doubled by the end of 1961 to $22,558 million, then there is some real cause for alarm.

If you were frightened by the situation existing in 1952, you ought to be scared half to death today.

We find also, of course, that the U.S. balance-of-payments position in the past 10 years has steadily deteriorated to the point that every year, for the 10 years, with the exception of 1, we had a substantial balance-of-payments deficit. The net deficit for the 10-year period actually was $19,600 million.

If you will check the first few months of this year, the outflow of gold and the balance-of-payments deficit are similarly discouraging.

DOLLAR ASSETS OF COUNTRIES ACCEPTING IDA LOANS

Consider some of the nations to which we are giving these 50-year credits. Some of them have dollars, apparently, so far in excess of needs that they, too, are buying our gold—Argentina, for one example.

Against the diplomatic protests of this country, Argentina converted dollars which were invested in U.S. securities, drawing about 3¼ percent interest, to $50 million in gold in 1 year.

And Chile, which is in on this 50-year proposition, last year alone converted 19 million of dollar assets into gold.

Our gold is going out again at a faster rate than in the closing weeks of last year, and even the balance-of-payments situation is getting worse.

Perhaps, along the way, you can help us find out whether or not this worldwide giveaway program has not been a major factor in undermining our economy. We have so much free stuff going out, I do not know how you can really separate the good from the bad and find out what we are actually doing.

U.S. GOVERNMENT LOANS TO IDA MEMBER COUNTRIES

How much money has been loaned, to date, to IDA member countries by ICA (now AID), Export-Import Bank, and other U.S. lending agencies?

Mr. LEDDY. We will supply that information.

(The information supplied follows:)

U.S. Government loan assistance to IDA member countries, net of repayments (from July 1, 1945 to Sept. 30, 1961)

[Millions of dollars or equivalent]

Member	Amount	Member	Amount
Afghanistan	51	Jordan	1
Australia	7	Korea	26
Austria	52	Libya	7
Bolivia	36	Malaya	2
Canada	−7	Mexico	259
Ceylon	9	Morocco	141
Chile	212	Netherlands	121
China-Taiwan	188	Nicaragua	7
Colombia	131	Nigeria	1
Costa Rica	11	Norway	46
Denmark	40	Pakistan	238
Ecuador	28	Panama	13
Ethiopia (including Eritrea)	2	Paraguay	13
Finland	66	Peru	142
France	1,451	Philippines	85
Germany	239	Saudi Arabia	−7
Ghana	-----	South Africa	72
Greece	120	Spain	259
Guatemala	4	Sudan	8
Haiti	22	Sweden	16
Honduras	9	Thailand	48
Iceland	29	Tunisia	8
India	750	Turkey	195
Iran	231	United Arab Republic (Egypt and Syria)	110
Iraq	[1]	United Kingdom	3,896
Ireland	122	Viet-Nam	50
Israel	271	Yugoslavia	300
Italy (including Trieste)	257		
Japan	296		

[1] Less than $500,000.

Source: "Foreign Grants and Credits," U.S. Government, U.S. Department of Commerce.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. What were the administrative expenses for the Association during the period January 1–June 30, 1961?

Mr. LEDDY. That is shown in appendix B.

Mr. PASSMAN. It is not shown, or we would not be asking the question.

Mr. LEDDY. I am sorry.

Do we have a statement of the first 6 months of 1961?

The first loans, as I recall, were made in May of 1961.

Mr. PASSMAN. You did have expenses during that period, did you not, January 1–June 30, 1961?

Mr. LEDDY. We have that information which we will submit for the record showing the actual expenses for the partial year ending June 30, 1961, to supplement what we have given you.

(The information supplied follows:)

IDA administrative expenses from inception through Dec. 31, 1961

[In U.S. dollars]

	Sept. 24, 1960–June 30, 1961	July 1, 1961–Dec. 31, 1961	Total, from inception to Dec. 31, 1961
Personal services	259,895	285,860	545,755
Contributions to staff benefits	36,801	40,120	76,921
Fees and compensation	119,128	34,066	153,194
Representation	407	497	904
Travel	79,859	90,600	170,459
Supplies and materials	5,420	5,510	10,930
Office occupancy	24,659	29,238	53,897
Communication services	14,772	14,977	29,749
Furniture and equipment	7,967	4,970	12,937
Printing	5,975	12,766	18,741
Insurance	3,703	2,757	6,460
Handling and storage of gold	72	154	226
Gross expenses	558,658	521,515	1,080,173

Mr. PASSMAN. You had administrative expenses from January 1, 1961, to June 30, 1961; did you not?

Mr. LEDDY. Yes; we did.

Mr. PASSMAN. Why did you leave it out of the record and pick up only the last 6 months? Was there anything excessive about it?

Mr. LEDDY. No.

Mr. PASSMAN. Why did you just give us the last half?

Mr. LEDDY. I cannot explain that, Mr. Chairman.

Mr. PASSMAN. If you will, inform us as to the total amount.

Mr. LEDDY. Between September——

Mr. PASSMAN. That is not the question.

Do you have one of those papers that is not classified?

Mr. LEDDY. Yes.

Mr. PASSMAN. We shall accept this, Mr. Secretary, rather than take out the last few weeks of the year. I would like to know why you omitted it in the presentation.

Mr. LEDDY. I suppose we were just thinking of dealing with the fiscal year beginning July 1, 1961. I assure you there was no intent to withhold information at all.

ADMINISTRATIVE EXPENSE ESTIMATE, FISCAL YEAR 1962

Mr. PASSMAN. Could you give us an estimate, if you do not have the totals, of your administrative expenses for the full fiscal year?

Mr. LEDDY. Yes. We have an estimate. We have the budget for 1962.

For fiscal year 1962 we have the budget here shown at $1.5 million.

Mr. PASSMAN. That is greater than the two totals; is that correct?

If you pick up the $492,802 and $558,658, does that balance out with the figure you gave?

Mr. LEDDY. The $521,515 are the total expenses for July 1, 1961, through December 31, 1961. If you add to that the expenses for ending June 30, 1961, that is $558,658, and that gives you a total of a little over $1 million. The budget for fiscal year 1962 is $1.5 million.

Mr. PASSMAN. Are you talking about the budget recommendation?

Mr. LEDDY. The bank estimates what they are going to spend during the year, and it is higher than the first year's operation because they anticipate their operations will be larger.

Mr. PASSMAN. What we are trying to do is to pin down the actual expense. Can we do that?

Mr. LEDDY. Yes, we can give you the actual expense up through the end of 1961. That is what you get by adding these two tables. We will submit another table if you like which puts them together.

Mr. PASSMAN. We wish that you would do so.

Mr. LEDDY. We can give you another table where we combine. The bank did not publish them that way.

(The table referred to appears on page 303.)

INFORMATION FOR FUTURE HEARINGS

Mr. PASSMAN. Are you going to give us a statement on fiscal 1963?

Mr. LEDDY. Next year, Mr. Chairman, we will recall the nature of the information you requested this time.

Mr. PASSMAN. Do you think what we are asking is in order? Do you not believe it would make a better presentation, and be more understandable, to have the table?

Mr. LEDDY. I agree.

TRAVEL EXPENSES

Mr. PASSMAN. Let us discuss travel expenses.

You have $90,600 and $79,985.

Mr. LEDDY. $170,000. The total is $170,000.

Mr. PASSMAN. How many directors do you have on this board?

Mr. LEDDY. We have 18 I believe that are on the board now.

Mr. PASSMAN. What is the total amount of the capital?

Mr. LEDDY. Of the IDA?

Mr. PASSMAN. Yes.

Mr. LEDDY. The total is $915 million.

Mr. PASSMAN. What is the amount paid in, the amount with which you are operating today?

Mr. LEDDY. Table 3 shows that, Mr. Chairman. The amount paid in as of February 15, 1962, was $386,540,000.

RELATIONSHIP OF FIELD OPERATIONS OF IDA, WORLD BANK, AND OTHER LENDING AGENCIES

Mr. PASSMAN. Do you have much trouble getting these nations to accept your loans when they need them?

Mr. LEDDY. I do not think there is very much difficulty.

Mr. PASSMAN. Are you able to handle any of it by correspondence?

Mr. LEDDY. Mr. Chairman, no. These credits are done in respect of well-engineered projects. They send people to the field. They inspect them. They work the thing out in the field, and there is no possible way of handling this by correspondence.

Mr. PASSMAN. Do you not have personnel out in the field? Do you not work in connection with the World Bank personnel and AID? They have personnel in the field. Do you work with those people on these projects and use their personnel?

Mr. LEDDY. We are in touch with what the Bank and IDA do through our missions in the field, but the Bank has to have its own personnel in the field and send people to the field.

Mr. PASSMAN. Do you have the same people in the field who would work both with the World Bank and IDA in checking these projects? Do you use the same personnel?

Mr. LEDDY. We as a Government do not attempt to supervise what the World Bank and IDA does.

Mr. PASSMAN. I did not say "supervise." I said check on projects as to whether or not they meet the criteria.

Mr. LEDDY. We do not attempt to make an independent check of World Bank loans and credits through our field missions. They are in touch with what is going on. If anything came to their attention they thought was wrong, we would get a report of that. We rely upon the Bank management and staff to carry these things out effectively, and I think they have.

BOARD OF GOVERNORS

Mr. PASSMAN. Do you have a Board of Governors?

Mr. LEDDY. The Board of Governors represents all of the nations.

Mr. PASSMAN. One from each nation?

Mr. LEDDY. Yes.

Mr. PASSMAN. Do the Board members get a salary?

Mr. LEDDY. They are paid actually by their governments. They do not get a salary from the Bank.

Mr. PASSMAN. They draw no salary from the Association?

Mr. LEDDY. They do not.

Mr. PASSMAN. Do you know whether or not that is true with respect to the Inter-American Development Bank?

Mr. LEDDY. That is also true of the Inter-American Bank.

Mr. PASSMAN. They get no salary? They do not need any if you make available to them the same type of expense accounts the Inter-American Development Bank makes available.

Mr. LEDDY. I think you are talking about the Executive Directors and not the Governors.

Mr. PASSMAN. I am talking about the Governors. The Governors held a week's meeting that cost $143,000.

TRAVEL OF BANK PERSONNEL

Do you think $170,000 is excessive for travel expense for this agency?

Mr. LEDDY. I certainly do not, given the fact the Bank staff is engaged in very heavy travel.

Mr. PASSMAN. How do they travel, usually?

Mr. LEDDY. Commercial airlines.

Mr. PASSMAN. Would it be too much trouble to give us a breakdown on this travel?

Mr. LEDDY. We can give you whatever is available to the member governments.

Mr. PASSMAN. You could not write the check without figures available. You had to get these figures someplace. Wherever you got these figures, please go back to that place and give us the information.

Mr. LEDDY. Can I give you the breakdown on travel, what we call staff travel cost for the whole Bank?

Mr. PASSMAN. Let me see what you have there.

Mr. LEDDY. This is for the whole World Bank.

As I mentioned earlier, the expense is first acquired by the Bank, and then a portion is attributed to IDA for IDA business. These figures I am showing you are a breakdown for the whole Bank, and that is the information that is available to the members of the Bank.

Mr. PASSMAN. And you merely take a percentage of it and reimburse them?

Mr. LEDDY. No. If some of the Bank staff have to go to Taiwan to look at a project, the ground-water project, they make a record of the actual staff travel involved in that mission, and they attribute that to the IDA because it was an IDA project.

What they attempt to do is to come as close as possible in attributing the expenses to the IDA——

COMPARISON OF IDA AND OTHER AID OPERATIONS

Mr. PASSMAN. The Export-Import Bank probably has to be a little bit more exacting on credits than this organization because they are dealing entirely in dollars?

Mr. LEDDY. I do not believe there is any lack of exactitude in this organization. I think they are quite exacting in their standards, the Bank and IDA.

Mr. PASSMAN. You are doing business altogether differently. You have some of the currencies. In all probability, the Export-Import Bank would have to be a little more careful in checking credits, where strictly an outlay of dollars is involved.

Mr. LEDDY. I do not think there is any difference in the care.

Mr. PASSMAN. Do they not cover a larger area than your organization?

Mr. LEDDY. Well, the Bank and IDA, of course, operate on a worldwide basis.

Mr. PASSMAN. You are in 57 nations?

Mr. LEDDY. That is correct. The Export-Import Bank does make loans over a wide range geographically.

Mr. PASSMAN. They go all over the world.

Mr. LEDDY. Yes.

Mr. PASSMAN. The amount of money they deal with is much more substantial than that of your organization?

Mr. LEDDY. Well——

Mr. PASSMAN. Where you are dealing in hundreds of millions, they are dealing in billions, are they not?

Mr. LEDDY. I would say the average lending operations of the World Bank——

Mr. PASSMAN. Not the World Bank; Export-Import Bank.

Mr. LEDDY. I was trying to compare the level of the operation.

Mr. PASSMAN. You are including the World Bank. You are not running the World Bank; you are running IDA.

The Export-Import Bank makes dollar loans, and they would have to be at least as careful as you in making loans, would they not?

Mr. LEDDY. Certainly.

Mr. PASSMAN. They operate on a worldwide basis, do they not?

Mr. LEDDY. I believe there is a much greater concentration of Export-Import Bank lending in Latin America than would be the case of IDA or the World Bank.

Mr. PASSMAN. They are all over the world. What is the total of the capital structure of the Export-Import Bank?

Mr. LEDDY. I believe they have authority to borrow up to about $7 billion.

TRAVEL EXPENSES

Mr. PASSMAN. The point is, how could the Export-Import Bank, which is worldwide, with about seven times as much capital as you have, covering more areas than you do, manage with travel expenses of $98,000 a year, and you have $170,000 for your first year.

Mr. LEDDY. I think the answer to that is that the Export-Import Bank, being a U.S. institution, has the facilities available to it of the U.S. establishments all over the world.

Mr. PASSMAN. Do you not have the same type of facilities available?

Mr. LEDDY. No. The International Development Association have to operate through their own staff.

Mr. PASSMAN. You do not exchange information with the American Ambassadors and the other aid representatives in the field?

Mr. LEDDY. We exchange information, but the Bank has to use its own staff. This would not be acceptable to any of the countries for them——

Mr. PASSMAN. They are operating an organization with about seven times the capital, operating with $7 billion in borrowing authority. What is yours—$900 million?

Mr. LEDDY. $900 million, correct.

Mr. PASSMAN. So, you are about 15 percent of their size?

Mr. LEDDY. Yes.

Mr. PASSMAN. And you do not operate on as broad a scale as they do, and your credits are not as restricted; you are going up to 50 years with no interest. I cannot believe that it is not the practice to exercise more judgment in approving a hard-dollar loan than a credit under one of these giveaway programs. We think you have an expensive travel account, and we want more information than you have given us on it. Who is doing all this traveling?

Mr. LEDDY. The staff and management of the Bank.

Mr. PASSMAN. Domiciled where?

Mr. LEDDY. Domiciled here in Washington.

Mr. PASSMAN. The 19 directors and the personnel domiciled in Washington are the people who are doing the traveling?

Mr. LEDDY. Not the directors.

Mr. PASSMAN. The directors do not travel?

Mr. LEDDY. The directors travel only to the annual meetings when those annual meetings are held outside of Washington, which is every third year.

Mr. PASSMAN. Who does the traveling?

Mr. LEDDY. The staff and the management of the Bank.

Mr. PASSMAN. And the Bank is domiciled here; all the traveling originates in Washington?

Mr. LEDDY. Right.

Mr. PASSMAN. The other members who are making contributions have no travel expenses for which you reimburse them?

Mr. LEDDY. No; except for the travel of the executive directors and the governors to these meetings, annual meetings when held outside of Washington.

Mr. PASSMAN. Are you going to be able to tell us who spent this $170,000 for travel? You are not going to come in here and say $170,000 for travel, period, next question. We want to know something about the details.

RELATIONSHIP OF LOANS DISBURSED AND TRAVEL

How much have you disbursed already in loans?

Mr. LEDDY. $200 million, IDA; not disbursed, committed.

Mr. PASSMAN. I am talking about disbursed.

Mr. LEDDY. $400,000.

Mr. PASSMAN. Your travel costs, then, represent about 40 percent of the total amount of the disbursed funds?

Mr. LEDDY. There is no connection.

Mr. PASSMAN. There is connection as far as this committee is concerned; you have disbursed $400,000, and you have spent $170,000 for travel.

Mr. LEDDY. But the travel is in connection with setting up the project and committing the funds.

Mr. PASSMAN. Let us see how you spend this travel money. You do not think this is an unfair question?

AVAILABILITY OF TRAVEL INFORMATION

Mr. LEDDY. We will provide the information available to the U.S. Government.

Mr. PASSMAN. You just told us the organization was domiciled here in Washington.

Mr. LEDDY. Yes; but it is an international institution.

Mr. PASSMAN. How did you arrive at this figure, if you did not have access to the travel records? You cannot reach up in the air for it.

Mr. LEDDY. We have the information that is provided to the member governments by the management. That information we are prepared to give you. We cannot give you information we do not have. We will give you the fullest detail we can on what is available to the U.S. Government.

Mr. PASSMAN. If we are going to contribute $320 million to this organization, are we not entitled to all the information that is available to the recipient countries? I do not think this request is unreasonable. This agency is domiciled in Washington.

Mr. LEDDY. That is correct.

Mr. PASSMAN. You told us that travel originates here.

Mr. LEDDY. That is correct.

Mr. PASSMAN. Only people out of Washington go at the expense of this organization?

Mr. LEDDY. That is correct.

Mr. PASSMAN. Certainly, then, all those records are available here in Washington as to the expenditure for this travel. You certainly should be able to tell us what it represents, whether it was an engineer, a director, or an investigator who traveled, when and to where he traveled, and the cost. You are not having to go to the recipient nations to get this information; you have it downtown.

Mr. LEDDY. Well, we will inquire of the management what additional information they have that is available to governments.

Mr. PASSMAN. Available to what?

Mr. LEDDY. To the members of the institution.

Mr. PASSMAN. That does not have anything to do with it. This is a Washington domiciled organization. You keep your books here and you disburse from here. You pay your bills from here, do you not?

Mr. LEDDY. Yes.

Mr. PASSMAN. If you pay your bills from here, if all the disbursements are made from here, you must have these travel records available before you issue the checks.

Mr. LEDDY. The records are there, Mr. Chairman. I am just saying we will give you whatever is available to the governments of the institution.

Mr. PASSMAN. There is no security matter involved with respect to the travel expense?

Mr. LEDDY. There is no security question. But there are internal staff operations that are under the Bank, and all that detail is not normally given to the member governments.

What is available to the United States is available to every other member of this institution.

Mr. PASSMAN. Are you trying to tell us, Mr. Secretary, that you cannot make available to the committee an itemized statement on this travel?

Mr. LEDDY. Mr. Chairman, let me talk to the management of the Bank, and we will give you the best possible statement.

Mr. PASSMAN. That may not be satisfactory. You are endeavoring to justify this money. We have already agreed the agency is domiciled in Washington, and that all disbursements are made from here. You do not write checks until you get a bill, do you?

Mr. LEDDY. That is correct.

Mr. PASSMAN. Then you must have the bills downtown.

We want an itemized list of who did the traveling, by the month, and what it cost.

(The information supplied follows:)

TRAVEL EXPENDITURES BY IDA

Amounts expended.—The figures below indicate expenditures of IDA for trave from IDA's inception through December 31, 1961.

Period	Average monthly expenditure	Total amount expended during period
Sept. 24, 1960–Mar. 31, 1961	$9,606	$59,555
Apr. 1–June 30, 1961	6,768	20,304
July 1–Sept. 30, 1961	11,716	35,147
Oct. 1–Dec. 31, 1961	18,484	55,453
Total		170,459

Persons performing travel.—All of the travel was performed by economists, engineers, and financial analysts from IBRD/IDA's regular operating staff.

Purposes of travel.—All of the travel shown was in connection with investigation and evaluation of projects to be financed by IDA. Within the period covered by these figures, IDA made 18 credits in 10 different countries and had investigations underway on additional credits. Each of these credits required field survey by staff personnel from IDA's headquarters.

RELATIONSHIP OF FOREIGN AID AND BALANCE OF PAYMENTS

Mr. PASSMAN. Do you think, Mr. Finkel, that there is a connection between our foreign aid program and our balance-of-payments position?

Mr. FINKEL. I think there is a connection in all our foreign transactions with our balance of payments.

Mr. PASSMAN. And you think this has gotten out of kilter during the period of the operations of our foreign aid programs?

Mr. FINKEL. A lot has gone on.

Mr. PASSMAN. That is not the question.

We are dealing now with money. Our gold reserves are going down, our balance-of-payments deficit is continuing to increase.

Do those figures which I have handed to you appear to be accurate? Have you had an opportunity to check them?

Mr. FINKEL. I have looked at them.

I think in very broad terms—I think the Treasury probably has some definitional differences in reconciling those various figures.

I think we have some qualifications relating to that presentation on a statistical basis.

Mr. PASSMAN. Those figures are accurate, and I am going to repeat that fact.

You are an economist; I am not.

I could have added 2 more years to the table. I could have shown the balance-of-payments deficit for 12 years instead of 10. But 10 years is easy to talk about. Ten years is a long enough period to make a comparison of the effect it is having.

Mr. FINKEL. I think it is clear over the past 10 years there has been a trend.

Mr. PASSMAN. It is a matter of fact that we have had a substantial balance-of-payments deficit during the past 10 years.

Mr. FINKEL. That is a statement of fact.

Mr. PASSMAN. Is it a statement of fact that the dollar holdings by foreign governments have increased substantially in the past 10 years?

Mr. FINKEL. That, too, is a statement of fact.

Mr. PASSMAN. Do you think our possibly $80 billion foreign-aid program during that time could have had any effect on the situation?

Mr. FINKEL. Our foreign aid program enters into our balance of payments, just as do our various programs of military assistance, just as do all other transactions externally of the United States.

DOLLAR CREDITS FROM EXPORTS

Mr. PASSMAN. Mr. Finkel, you heard the statement earlier to the effect that all nations earn dollar credits or other hard currency from their exports. Do you concur in that statement?

Mr. FINKEL. All nations earn some foreign currency from their exports.

Mr. PASSMAN. I am talking about hard currencies, or dollars.

Mr. FINKEL. Hard currencies, or dollars, broadly speaking, yes.

Mr. PASSMAN. The nations which are recipients of our generosity would normally take those dollars earned from exports, many of them, and buy something produced in America?

Mr. FINKEL. Yes.

Mr. PASSMAN. If through our aid programs, whether it is an outright grant or a 50-year loan without interest, and we credit dollars to these recipient nations, when they make their requisition, the invoice is paid by the credit, and not by earned dollars?

Mr. FINKEL. Ordinarily, these funds that are provided, in IDA credits, are provided as payments, progress payments.

Mr. PASSMAN. By America?

Mr. FINKEL. Progress payments for costs of the projects financed, not provided simply as a bank account.

Mr. PASSMAN. I did not say anything about a bank account. I am talking of the overall world trade picture. If we credit dollars to X nation, then they can requisition, whether it be engineers, technicians, or actual materials, raw or fabricated, and they can be paid for with their credits; is that not right?

Mr. FINKEL. If the funds are provided on a free basis.

Mr. PASSMAN. That would automatically release to them, maybe with some restrictions, the dollars they have earned from their exports to use in such manner as they might see fit?

Mr. FINKEL. Their total resources are increased.

Mr. PASSMAN. If they should elect to buy gold, or increase their dollar holdings, that is their option, is it not?

Mr. FINKEL. It depends in part on the form we credit them with dollars.

Mr. PASSMAN. I am talking now about the dollars they earn from their exports. They own and control those dollars, do they not?

Mr. FINKEL. Yes, and must disburse them for their imports.

Mr. PASSMAN. They can either buy gold, or they can accrue them. Would that be their right, since it is internationally understood you can buy gold with hard currencies?

They would have the right, if they own dollars earned from exports, to either buy gold, or pay debts, or they can accrue them to be used at some subsequent date; is that not so?

Mr. FINKEL. If they have dollars in excess of foreign——

Mr. PASSMAN. I am not talking about excess. These are their dollars, and they can control them according to their own desires, can they not?

Mr. FINKEL. Yes, sir.

I would say perhaps what you are suggesting is truer of the advanced countries of Western Europe than it is true of the least developed countries that make up the recipient countries of IDA.

GOLD PURCHASES OF LESS DEVELOPED COUNTRIES

Mr. PASSMAN. Do you know that some of the less developed countries are buying more of our gold than the countries of Europe? Have you had a chance to check that?

Mr. FINKEL. I would be surprised——

Mr. PASSMAN. Do not be surprised any longer. Just have a look at this statement.

This is a Treasury statement, made up on their mimeograph machine.

Mr. FINKEL. I do not believe the total of gold purchases by less developed countries exceeds that——

Mr. PASSMAN. I say some of the less developed countries are buying more gold than some of the European countries.

The point is, when these countries earn dollars from their exports, those dollars belong to them to buy gold, or to build up, and if we give them dollar credits, whatever they would normally buy from America with what they earn, they will buy it against foreign aid; and that is why in all probability dollar holdings have gone from $10.5 billion at the end of 1952 to $22.5 billion at the end of 1961, and their gold has increased from $13 billion to $23.6 billion.

CREDIT EXTENSIONS IN LATIN AMERICA

Mr. NATCHER. I notice from your statement, Mr. Secretary, on page 3 you point out the countries where certain credits have been granted.

Mr. LEDDY. Yes.

Mr. NATCHER. I notice five of the countries where credits have been granted are in Latin America. This holds true, I believe, with the Export-Import Bank.

According to their testimony when they appeared before our committee, a little over half of the $900 million committed was for Latin America. Can you tell me as to the World Bank the number of loans, or the number of credits for the past few months that represent Latin American loans?

Mr. LEDDY. I can give you the total of the IDA credits in Latin American countries involved in this presentation now, and I can supply the information for the World Bank for the record.

The total amount of credits provided to Latin America were $59 million in these five countries, Honduras, Chile, Colombia, Costa Rica, and Paraguay. That is out of a total of $199 million in credits which have been made by the IDA as of February 15 of this year.

Mr. NATCHER. If you will supply the information pertaining to the World Bank, I will appreciate it.

Mr. LEDDY. I can give you now the total amount of all the loans made by the World Bank in Latin America as of March 15, 1962. This is the World Bank and not the IDA.

The total amount for that was $1,465,720,000; 113 separate loans covering not quite all the individual countries of Latin America. That is the figure for the group.

IDA LOANS TO INDIA

Mr. NATCHER. Now, Mr. Secretary, I want to direct your attention to the statement that you filed concerning the International Development Association development credits as of December 31, 1961. That part pertaining to India.

Mr. LEDDY. Yes.

Mr. NATCHER. You have here the loans for highway construction, irrigation, and protection and drainage. Can you tell me if any other loans are now being considered for India that pertain to anything other than irrigation, or highway construction, or protection and drainage matters?

Mr. LEDDY. Yes. There was one credit which is not listed on this sheet because I think it was given in the first 2 months of this year, which was a power credit.

Mr. NATCHER. What was the amount of that request?

Mr. LEDDY. That amount was $18.5 million.

Mr. NATCHER. Can you tell me how many kilowatts were involved?

Mr. LEDDY. Yes, I think so.

The statement is the IDA credit will help to finance the addition of a 140,000-kilowatt generating unit at an existing 165,000 kilowatt thermal power station.

IDA LOANS FOR HEALTH AND SANITATION FACILITIES

Mr. NATCHER. According to information I received during the past few months, people who travel in India are very much amazed and shocked at sanitary conditions generally throughout the country.

Under the International Development Association loan program, do you have the authority to make loans pertaining to hospitals, health units, or anything pertaining to sanitation and health generally?

Mr. LEDDY. Mr. Chairman, I believe the articles of the International Development Association are broad enough to permit that type of loan.

I would say, however, in the case of India, these loans not only by the IDA, but by the World Bank and the United States and other countries, are made in relation to the overall Indian development program. They try to finance what is in that program. I just do not know in detail to what extent this area of facility is envisaged in the overall program. They try to lend in relation to what the program has been. The authority to lend for this purpose, I think, is within the competence of the IDA.

BASIS FOR APPROVING LOAN REQUESTS

Mr. NATCHER. Do you make any suggestion concerning the type of loans that should be made in countries, or do you just pass upon the request as submitted?

Mr. LEDDY. The way the World Bank and the IDA operate is on the basis of a recommendation which is made to the Board by the management and the staff of the bank. They do not simply finance what is requested, but they often propose specific projects as a part of their relationships with these countries with their development programs. The Executive Directors then consider on the basis of the management's recommendations to the Board. This has been the practice in the Bank since it was begun many years ago.

TYPE OF LOANS TO INDIA

Mr. NATCHER. The thing that concerns me, Mr. Secretary, about India and the type of loans is the fact ever since I have been a member of this committee we have irrigation and highway matters, but very few applications are requests for loans that would really produce benefits as far as the country is concerned.

I am just wondering if it is a matter of loaning money and granting loans, or if there is any procedure being followed anywhere along the line to really do something for India.

Mr. LEDDY. I would say this is a question of priority in the use of resources. The purpose of the Indian development program overall is to try to set these priorities. The mere fact also that the World Bank, or IDA, or other countries are not financing particular things,

such as hospitals, does not mean they are not provided for in the overall Indian program and may be handled by India's resources.

Of the total program, some 80 percent of all the resources taken into that program are from India's own internal investment and resources. It is only the balance that comes from outside. The Bank by and large, however, has tended to concentrate on these rather basic facilities of roads and irrigation projects, transportation, and that sort of thing.

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. ALEXANDER. Mr. Secretary, in your participation by other countries, I believe you said there were 57 countries involved.

Mr. LEDDY. Yes.

AID TO YUGOSLAVIA

Mr. ALEXANDER. How many countries behind the Iron Curtain do you have involved?

Mr. LEDDY. None.

Mr. ALEXANDER. I notice you have listed here Yugoslavia. Is that one of your countries?

Mr. LEDDY. That is a country, but we do not consider it as being behind the Iron Curtain.

Mr. ALEXANDER. You do not consider Yugoslavia as a Communist country?

Mr. LEDDY. I consider it Communist, but I do not consider it part of the Soviet bloc, an appendage, or in a position of being under the domination of the Soviet bloc.

Mr. ALEXANDER. How many loans, if any, have you made to Yugoslavia?

Mr. LEDDY. None by the IDA. World Bank loans, these are not IDA——

Mr. ALEXANDER. That is not in your sphere?

Mr. LEDDY. That is not involved in IDA.

Mr. ALEXANDER. The World Bank does make loans with which you have some connection?

Mr. LEDDY. The IDA, which is the subject before the committee at the moment, is an affiliated institution of the World Bank, and is run by the same Board of Directors as the World Bank.

Mr. ALEXANDER. The World Bank has been making some loans in Yugoslavia?

Mr. LEDDY. The World Bank has been making some loans in the past.

Mr. ALEXANDER. What is the total amount of that?

Mr. LEDDY. I think $90 million, if you will let me just check it.

Mr. ALEXANDER. And you might tell us what that is for.

Mr. PASSMAN. The total amount to Yugoslavia last year was $150 million in one package.

Mr. LEDDY. I will read the loans made to Yugoslavia by the World Bank.

One loan for power, agriculture, industry, and transport in 1951, $28 million. A second loan for the same purposes in 1953 for $30 million. A third loan in 1961 for power through the Yugoslav Investment Bank for $30 million.

Mr. ALEXANDER. Were any loans made for textile plants?

Mr. LEDDY. No, not that I know of.

Mr. ALEXANDER. Yugoslavia contributes a small amount. They would be eligible for loans, and I take it if they were to apply, they would be given the same consideration as Canada, or any other country that is a member of your association; is that correct?

Mr. LEDDY. Well, I would like to qualify that a little bit, not in relation specifically to Yugoslavia as a country, but you mentioned Canada.

We would not consider, and the bank would not consider, that Canada would be eligible for an IDA credit.

Mr. ALEXANDER. Any of the underdeveloped countries?

Mr. LEDDY. They would be given the same consideration as any underdeveloped country, but whether or not they would get a loan would depend on the judgment of the Bank as to whether their ability to repay was so limited they should get this type of a credit rather than a conventional loan. I could not say whether the Bank would recommend an IDA credit to Yugoslavia.

CONTRIBUTIONS OF ADDITIONAL COUNTRIES TO IDA

Mr. ALEXANDER. You state the Board of Governors have approved the application of six additional countries?

Mr. LEDDY. Yes.

Mr. ALEXANDER. What countries are those?

Mr. LEDDY. I will read them: Cyprus, Liberia, Senegal, Sierra Leone, Syria, and Togo.

Mr. ALEXANDER. How much will each one of those countries contribute to the total capital stock of the Association?

Mr. LEDDY. Cyprus, $760,000; Liberia, $760,000; Senegal, $1,680,000; Sierra Leone, $760,000; Syrian Arab Republic, $950,000; Togo, $760,000. Total for those six, $5,670,000.

Mr. ALEXANDER. All of those contributions are made in local currency except the 10 percent.

Mr. LEDDY. That is correct.

Mr. ALEXANDER. It has to be used in their own country?

Mr. LEDDY. That is right.

NO RELATIONSHIP BETWEEN MEMBER CONTRIBUTIONS AND LOANS ALLOWED

Mr. ALEXANDER. What would these countries be eligible to receive?

Mr. LEDDY. There is no relationship between the quotas of an underdeveloped country and the amount of loans or credits that it may get.

In other words, it is not limited by the amount of its subscription.

FORMULA FOR DETERMINING SUBSCRIPTION AMOUNT

Mr. ALEXANDER. Do you have a set formula to determine how much contribution a country would make in the International Development Association?

Mr. LEDDY. Yes. I believe the formula was based pretty much, with some variations, on the original quota subscriptions of the World Bank that were developed many years ago. There have been certain changes in that but by and large that is the formula used.

I would like to get a confirmation of that.

Mr. LEVE. That is correct.

U.S. SHARE OF IDA SUBSCRIPTION

Mr. ALEXANDER. Who determined how much the United States would pay? They pay almost half of what all of these other member countries pay. How did they reach that figure?

Mr. LEDDY. I believe the figure is 30 percent, sir, and that formula was worked out at the time of the Bretton Woods Act in 1944. The basic formula applies to the Bank and to the International Monetary Fund.

There have been over the years some changes in the quotas, notably a few years ago to increase the contributions of some of the European countries.

NUMBER OF UNDERDEVELOPED COUNTRIES PARTICIPATING

Mr. ALEXANDER. Do you expect your Board of Governors to approve practically all of the underdeveloped countries of the world?

Mr. LEDDY. Do you mean IDA to lend in every one of the underdeveloped countries? I do not know.

Mr. ALEXANDER. About all these underdeveloped countries would have to do in order to become a member of this Association would be to apply and to say that they wanted to share in this program.

Isn't that about right?

Mr. LEDDY. That is correct. I think it is correct to say that the basic purpose of this International Development Association is to assist in the providing of resources from the developed countries to the underdeveloped countries. The advantage of this to us is that it does get funds from the other developed countries and not just from the United States, which is the case——

Mr. ALEXANDER. I understand that. Actually, as soon as you are able to do it, you intend to get all of the countries in this program; isn't that correct?

Mr. LEDDY. I think all of the countries that negotiated the original—I wouldn't say all of the underdeveloped countries. As I say, we do not have the countries behind the Iron Curtain in the World Bank. It is only the countries that are members of the World Bank, which can join this institution.

Mr. ALEXANDER. I yield to the chairman.

Mr. PASSMAN. I think we should restate for the record the testimony developed previously, that because a nation makes a contribution in some amount does not mean that it would not receive back out of the fund a much larger amount than it put in.

Mr. LEDDY. That is correct.

Mr. PASSMAN. It could very well be that a nation would put in a dollar and get back seven.

Mr. LEDDY. It would normally be the case, Mr. Chairman, because of the fact that IDA will not be lending to the developed countries at all.

Mr. PASSMAN. Of course, these nations have to make some contribution to be eligible and to join.

Mr. LEDDY. That is right.

Mr. PASSMAN. You put in $1. We assure you you will get $5 back for it. It is just about that simple, is it not?

Mr. LEDDY. It is certainly evident that all of the undeveloped countries will get back more than they put in.

Mr. PASSMAN. The amount they put in has nothing to do with what they draw out?

Mr. LEDDY. That is right.

TOTAL AID TO YUGOSLAVIA

Mr. PASSMAN. I should state at this time that on page 968 of our fiscal 1962 hearings the total amount of aid under various programs which we can identify under mutual security that went to Yugoslavia in 1961 is shown at $151,100,000.

I thank the gentleman for yielding.

REGULATIONS FOR INDUSTRIAL DEVELOPMENT LOANS

Mr. ALEXANDER. Do you have any regulations with reference to loans in regard to industrial development in underdeveloped countries which would pertain to the problem of, say, for instance, textiles, which in this country and throughout the world is right much of a competitive business already? Do you have any rules with reference to what these industrial loans would be made for?

Mr. LEDDY. There is no prohibition on the making of any particular type loan under the IDA or the Bank. I should repeat, however, that the Bank and IDA have tended to focus pretty heavily in the field of transportation, power, irrigation. There have been some loans to private industry usually through industrial development banks. The industrial development banks, of course, relend the money to a wide variety of domestic industries, which could include a textile industry but there is no general policy laid down in the international institutions as such which would prohibit any particular type of loan or any particular industry.

U.S. REPRESENTATION ON BOARD OF GOVERNORS

Mr. ALEXANDER. Of the 18 Governors, how many are from the United States?

Mr. LEDDY. One—of the Executive Directors.

Mr. ALEXANDER. We furnish more than 30 percent of the total working capital and yet we have very little control of the Board; is that a true statement?

Mr. LEDDY. The U.S. Executive Director and Governor can cast a vote equal to 30 percent.

In other words, the voting power in the institution is related to the quotas.

Mr. ALEXANDER. In other words, the amount they pay determines how much weight their vote would get?

Mr. LEDDY. That is right.

Mr. ALEXANDER. I yield to my distinguished colleague, Mr. Gary.

REFORMS IN COUNTRIES PARTICIPATING IN ALLIANCE FOR PROGRESS

Mr. GARY. Mr. Chairman, I simply wanted to state for the record that insofar as the Alliance for Progress is concerned, we had a definite agreement with the Latin American countries that our loans and our assistance to the Latin American countries would be conditioned upon certain reforms in those countries with respect to their social conditions. I, for one, am absolutely opposed to any loans or advance-

ments of any kind to the Latin American countries until they show a disposition to meet their part of the agreement made in the Alliance for Progress.

I am against it for several reasons. In the first place, I think we would be throwing our money away. The difficulty in South America is that there are the very rich and the very poor. The reason you have that, as I understand it, is because the very rich control the countries and they have never permitted any social legislation to help the great mass of people.

We cannot go down there and with a few dollars change that situation. In order that there may be substantial improvement, you must have the proper legislation and you must have adequate tax laws to make these rich people pay their proportionate part of this program of progress.

I am absolutely and diametrically opposed to taxing the taxpayers of America to help pay the way of tax dodgers in Latin America.

I think that ought to be clearly kept in mind in any aid that is given to those countries.

Mr. PASSMAN. I want to thank the gentleman. As I mentioned earlier today, it has been repeatedly suggested that we withhold our criticism, because it would be offensive if we criticized them for not coming up with their end of the bargain.

Mr. GARY. If they do not come up with their end of it we should not go through with ours.

Mr. PASSMAN. I agree with you 100 percent, but I am afraid they will get the money without the reforms. We have consistently demonstrated our gullibility.

Mr. GARY. I have been supporting the program for a long time. If we distribute this money without the program of progress agreed upon, then I am voting the other way. I am against the program

AFTERNOON SESSION

Mr. PASSMAN. The committee will come to order.

ADDITIONAL CAPITAL

Under your charter, can you solicit or accept additional capital as an investment from member nations?

Mr. LEDDY. Yes.

Mr. PASSMAN. Or outside capital?

Mr. LEDDY. Yes, we can.

Mr. PASSMAN. Similar to the operation of the Inter-American Development Bank?

Mr. LEVE. Yes.

Mr. PASSMAN. Have any members of your Board of Directors been in areas where you do not normally operate, soliciting additional capital for your institution?

Mr. LEDDY. There have been indications that some of the European countries might make additional contributions to the IDA. The only specific one that I know of is Sweden.

Mr. PASSMAN. You misunderstood my question. Have any of your Directors been out into other nations in which you do not operate soliciting capital for IDA up to this time?

Mr. LEDDY. Not to my knowledge.

Mr. PASSMAN. Thank you.

AMOUNT OF FUNDS OBLIGATED

Mr. TABER. As I understand it, the U.S. funds that have been under your control are $73,666,700, which is described as your first installment payment, made in 1961, and a second installment of $61.7 million made last year.

How much of these funds are presently obligated?

Mr. LEDDY. Mr. Taber, I can only give you the obligations of the IDA with respect to all of its funds which are merged together. I cannot attribute it to this specific portion.

In the statement we made we indicated that as of February 15, 1962, the IDA had obligated, that is to say, agreed to specific developmental credits, of $199 million, but that was against the contributions of all of the countries.

On table I, the figure you cited was the first installment of the United States.

We could make a proportion, I suppose of the $199 million. Roughly speaking, since we contributed broadly 43 percent—well, now we have to use a different proportion on that. We could get you a figure.

Mr. TABER. We do not know anything about it the way the thing is presented to us. We might just as well not have any hearings.

Mr. LEDDY. Mr. Taber, if I may go back into the testimony a minute, perhaps I can help on this.

The hard-currency subscriptions of all countries that have so far been paid in—that is, the first two installments—consist of $135.3 million from the United States, and $177.1 million from the other 14 part I countries. This is a total of $312.4 million.

Against that $312.4 million, the IDA has made development credits of roughly $200 million. That is to say, $199 million. Broadly speaking, two-thirds of all of the hard currency that has been paid in by the United States and by the other 14 countries has been obligated.

If we were to apply that to the United States, taking these totals, we would see that the United States has put in $135.3 million and you take two-thirds of that. I would say that of the $135 million we have put in, applied proportionately, $90 million has been obligated in these development credits, specifically approved by the IDA. If you wish an additional statement on that explaining it carefully, I can put that in the record.

DISPOSITION OF FUNDS APPROPRIATED FOR IDA

Mr. TABER. Is this money turned over to IDA immediately when it is appropriated? Is that the way you operate?

Mr. LEDDY. No. The way we operate, sir, is that of the first installment, we paid in—that is, in fiscal 1961, we turned over to IDA $16 million in cash and $57.7 million in non-interest-bearing notes. Then in fiscal 1962, last year, we turned in $4 million in cash and $57,652,000 in non-interest-bearing notes so that as of now we have turned over to IDA $20 million in cash and $115 million in non-interest-bearing notes.

IDA will not cash those non-interest-bearing notes until they are actually required to meet the disbursements under the specific com-

mitments that IDA has made and those disbursements will, of course, take some time to go out.

In other words, let us say that proportionately, of the $135 million that we have turned over to IDA, $20 million in cash and $115 million in non-interest-bearing notes, IDA has committed proportionately of our money about $90 million, but IDA has not yet disbursed any significant amount against these commitments.

IDA DISBURSEMENTS

I believe that the disbursements are about $400,000 to $500,000 so far because the disbursements will take place only over a period of years as the projects go forward.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. You said $400,000 this morning. Now you pop up with another figure. Do you want to give us the correct figure?

Mr. LEDDY. $490,900.

MANNER OF OPERATING

Mr. TABER. I wonder if you could give us a little picture as to how you operate?

For instance, I note a statement of development credits. I assume that is in the record, is it not?

Mr. LEDDY. Yes, sir.

Mr. PASSMAN. That is for bridges, highways, harbor dredging, municipal water supply, ground waters development, and irrigation and harbor development, I suppose.

There are approximately 10 countries described there as having been allotted certain sums. When an appropriation is made on this thing, does the Government immediately turn that over to IDA?

Mr. LEDDY. Yes, in the form of cash and non-interest-bearing notes in the proportions I have described.

Mr. TABER. Are those notes treated as a part of the public debt?

Mr. LEDDY. Yes, sir.

Mr. TABER. So that our balance sheet has funds that are withdrawn. Do you have a story of how that operates? After the money has been turned over to IDA, you go out into the field or send people out into the field to hitch up projects?

Mr. LEDDY. That is the international staff and management that does that, yes.

LOAN TO SWAZILAND

Mr. TABER. Beyond the 10 different countries that were named on those 2 sheets there aren't any commitments on the part of IDA, are there?

Mr. LEDDY. There is one that was made in the last week, or a week or two after this statement was prepared, to Swaziland, I believe in the amount of about $2 million. It is $2.3 million.

Mr. TABER. What is the name of the place?

Mr. LEDDY. Swaziland. This is in Africa.

Mr. PASSMAN. Is that a nation?

Mr. LEDDY. It is a territory of the United Kingdom still.

Mr. TABER. A territory of what?
Mr. LEDDY. Of the United Kingdom.
Mr. TABER. What is this loan for?
Mr. LEDDY. This is a road loan, Mr. Taber, a highway loan, of 112 miles from the border of the Republic of South Africa to Mozambique, border on the east.
Mr. PASSMAN. If the gentleman will yield, you are speaking of a British possession, are you not?
Mr. LEDDY. That is correct.
It is a British dependency still.
Mr. PASSMAN. Which would be the same type of relationship as Guam to the United States?
Mr. LEDDY. That is right.
Mr. TABER. What kind of a road is it?
Mr. LEDDY. This is a two-lane highway. It will be paved part of the distance and partly in gravel. We have a complete description of the project, including a map, which we could submit for the record if you desire.
Mr. TABER. What kind of a road is it to be?
Mr. LEDDY. You mean the makeup of the road?
Mr. TABER. Yes.
Mr. LEDDY. It is a highway, truck and traffic, vehicles, partly paved and partly gravel.
Mr. TABER. How long is it?
Mr. LEDDY. The distance of 70 miles will be paved and the remainder will be surfaced with gravel out of the 112. That makes 42 miles in gravel and 70 miles paved.
Mr. PASSMAN. Two-lane?
Mr. LEDDY. A two-lane highway, yes, sir.

CHILEAN PROGRAM

Mr. TABER. Let's take these items on page 1. Chile, for example road construction, $19 million. How much of that is advanced out of the IDA funds to Chile?
Mr. LEDDY. The whole amount of the $19 million shown here is from IDA funds. The Chileans will put up $37,500,000 in local currency; that is, escudos, to help complete this particular stretch of highway. This is in southern Chile in the earthquake region. As I understand it, there will be about 950 kilometers of new and improved roads in the stretch of highway of about 2,500 kilometers so that the International Development Association would be putting in $19 million to cover the foreign exchange costs and the Chilean Government would put in $37,500,000 in local currency.
Mr. TABER. This is what they arranged to do? It does not cover what they have done?
Mr. LEDDY. No, sir. This is an expenditure for new and improved activities. It does not cover anything already there.
These are new projects.
Mr. TABER. Have they actually been given the money to do the job?

Mr. LEDDY. No, sir. They have made a commitment against engineering surveys. They had a mission that went to Chile and examined this. They have made a commitment to Chile to provide this amount of money against a plan of building a highway and the money will be released only as the road goes forward and as the money is required to pay for the equipment and the materials and the labor.

Mr. TABER. How far back does this project date?

Mr. LEDDY. This project was approved in June of last year.

Mr. TABER. And the road runs from where to where?

Mr. LEDDY. It is in southern Chile. I do not have with me the documentation and the map for this particular project, but I can supply that information for the record.

Mr. TABER. It is down in southern Chile?

Mr. LEDDY. That is correct.

Mr. TABER. Where is it located with reference to the earthquake area?

Mr. LEDDY. It is in the area where the worst earthquake damage took place.

Mr. TABER. Last year we gave $100 million to Chile to rehabilitate a lot of their highway difficulties and other difficulties resulting from the earthquake. Is this in addition to that money?

Mr. LEDDY. It is certainly not a duplication. As I understand that $100 million, which is provided for under the AID program, that that $100 million will be spent only against specific projects so no part of that could be used for this particular project where this is covered.

Mr. PASSMAN. If the gentleman would yield, the $100 million to Chile was changed, upon request, to a loan and not a grant. You would not impose the same type restriction on a loan as on a soft currency or grant operation, would you?

Mr. LEDDY. This is not a grant.

This is repayable in hard currency, but it is on these very long terms.

Mr. PASSMAN. It is a lot of monkey business—50 years, no interest, 10-year grace, 1 percent, the right to cancel it, and so forth, whereas the other was a loan.

Mr. LEDDY. Yes.

Mr. TABER. Do you have any way of getting from where to where via this road?

Mr. LEDDY. Yes, sir. We will provide that information.

(The information referred to follows:)

TABLE 5.—*Chile: Works included in the IDA project*

[Kilometers]

Sectors	Total road length	Construction	Betterment	Paving	Cost (thousand Escudos)	U.S. dollar equivalent in thousands
1. Chillan (East)	165	11	128		940	
2. Chillan (West)	383	40	277		2,570	
3. Coelemu	98	20	75		914	
4. Concepcion (North)	176	15	31	33	1,624	
5. Bio-Bio bridge					3,000	
6. Concepcion-Arauco	257	88	120	18	3,025	
7. Concepcion-Malleco	379	73	195	71	4,241	
8. Concepcion-Yungay	164	50	41	80	2,966	
9. Chillan (South)	206	34	78	15	1,900	
10. Los Angeles	227	53	126	38	3,648	
11. Victoria/Lautaro	341	64	181	27	2,703	
12. Temuco	129	36	50		1,160	
13. Cautin (South)	303	61	172	13	2,524	
14. Valdivia (North)	166	75	39		1,815	
15. Los Lagos (East-West)	202	12	124		1,150	
16. Los Lagos (South)	141	55	36		1,415	
17. Rio Bueno	86	28	58	13	840	
18. Osorno (Southeast)	185	3	142		638	
19. Osorno (East-West)	196	17	128	34	1,581	
20. Osorno (North-South)	185	17	153		930	
21. Llanquihue (East)	136	38	97	49	1,385	
22. Llanquihue (West)	384	48	221	2	2,695	
23. Chiloe	279	116	54		2,136	
(*a*) Total	4,788	954	2,526	393	45,800	43,619
(*b*) Construction contingency (20 percent of *a*)					9,160	8,724
(*c*) Total, including construction contingency					54,960	52,343
(*d*) Real local currency cost (65 percent of *c*)					35,724	34,023
(*e*) Local cost contingency (10 percent of *d*)					3,572	3,402
(*f*) Current local currency cost, including price contingency					39,296	37,425
(*g*) Foreign exchange cost (35 percent of *c*)					19,236	18,320
(*h*) Total cost, including construction and local price contingencies					58,532	55,745

LOANS TO NATIONALIST CHINA

Mr. TABER. Let us go next to China. The first item is a harbor dredging job. When it says China, what does that mean?

Mr. LEDDY. That is Taiwan, sir. This is the port of Kaohsiung in the south part of Taiwan.

Mr. TABER. How deep will you dredge the harbor and how will you dredge it? How much of a job is it?

Mr. LEDDY. I cannot give you the full detail on that now but I will supply it as to a complete description of the harbor dredging operation in these Chinese-Taiwanese ports.

Mr. TABER. Didn't you think we might be asking questions about that?

Mr. LEDDY. Yes, sir. I can read you a brief description on this now in the record and any additional information. This credit will finance dredging equipment, engineering services, and the training of personnel for the improvement and maintenance of Taiwan's three commercial harbors, Keelung, Kaohsiung, and Haulein.

Keelung and Kaohsiung serve the Western Plain which contains most of Taiwan's population and economic activity; Hualein serves the narrow eastern coastal region and is only now being developed into a port for international trade.

The volume of traffic is expected to increase at all three ports. The new equipment will not only be used to expand the capacity of the

ports to handle the growing trade, but will also replace existing equipment which is past its economic life and is already inadequate for present maintenance operations.

Maneuvering areas will be enlarged at the western ports to avoid congestion and provide protection from typhoons, and the harbor areas will be deepened to accommodate larger ships. At Hualein the harbor will be deepened and extended to accommodate ocean-going vessels.

Mr. TABER. You have an item in here for ground water developments, $3.6 million. The money for that first job has been turned over to IDA?

Mr. LEDDY. All of this money is available from IDA. The actual expenditure, however, by IDA has only barely begun.

TOTAL IDA COMMITMENT

Mr. TABER. How much expenditure has IDA been making altogether on all these projects?

Mr. LEDDY. On all these projects the total of the specific development projects approved so far is $199 million as of February 15 of this year, plus the $2 million that I mentioned for Swaziland, which has just been approved, so that would make it $201 or $202 million as of today.

Mr. PASSMAN. Obligations, not expenditures?

Mr. LEDDY. Those are commitments, sir, not expenditures. I believe we gave you the expenditure figure of $490 thousand plus. We will give you the precise figure as of a given date. It is $494,904.

PROCEDURE FOR DISBURSING PROJECT FUNDS

Mr. TABER. How do you figure to do business in a different way than ordinary folk in ordinary communities in constructing a building project of one kind or another? For instance, when we approve a powerplant project or something of that kind, the funds are only made available as they are required to meet the progress of the work.

Mr. LEDDY. That is exactly the case here, sir.

Mr. TABER. How can it be that way?

Mr. LEDDY. Well, because——

Mr. TABER. Don't you turn the money over to the country?

Mr. LEDDY. No. The money is not turned over to the recipient country by IDA until it is actually required to meet expenditures. In other words, the money is held by the IDA in the form of partly cash, partly non-interest-bearing notes and is not disbursed by them to the recipient country until the expenditures are needed to meet the payments provided for in the project so that it is very much like one getting a construction loan on a house, you get the money as progress is made and needed in an even flow.

CHINESE GROUND WATER PROJECT

Mr. TABER. The next project is for ground water development. That is another Chinese job. How did you come to have this one?

Mr. LEDDY. The reason for this, sir, is to help in irrigating the southwest coast of Taiwan, in order to increase the food supply for

the people. This involves particularly some 765 deep wells, tube wells that bring up the water and put it into the canals and it will help some 100,000 farmers in that area.

Of this amount the IDA is putting in $3.7 million to meet the foreign exchange cost and China is putting in $7.7 million in local currency to meet the local cost.

Mr. TABER. How much acreage is involved?

Mr. LEDDY. 207,500.

Mr. TABER. Will the government own the land when they get through with it?

Mr. LEDDY. No, sir. This land is owned by the farmers in the region who operate through these irrigation associations and what happens is that they pay the central government. They pay this off over a much shorter period of time for the benefit that they have received, so the government would not own the land. The land is owned by small farmers, who are organized through irrigation associations in this area.

Mr. TABER. Then you have a municipal water supply project.

Mr. LEDDY. Yes, sir. That is up in the metropolitan area of Taipei, where the existing public water supply is inadequate. That is to help the capital to increase the water supply system. There are about a million people who live in this area.

IDA is putting in $4.4 million to meet the foreign exchange cost and from other sources of China will come $7 million. In other words, the total cost of this will be about $11.4 million, of which IDA is putting in $4.4 million.

LOAN TO CHINA DEVELOPMENT CORPORATION

Mr. TABER. You have a project for development of private industry. What does that mean?

Mr. LEDDY. That is a loan that is made to the China Development Corporation, which in turn makes loans to individual private industries, small industries in the country. The purpose of this is to help widen the private enterprise sector and increase the industrialization of the country.

At the time that this IDA credit was made, the corporation, which had been in existence for some while, had made about 70 loans, aggregating about $10 million, mostly medium and long-term loans.

Mr. TABER. $10 million. That is double the amount that is shown here.

Mr. LEDDY. Those are the loans that had been previously made from the China Development Corporation from other resources. This loan of IDA to the China Development Corporation is to enable it to expand its operations.

Mr. TABER. Did they come to you and ask you to put up this money.

Mr. LEDDY. They went to the International Development Association and made a request or an application for a loan. The Development Association looked into it, examined the project, sent a mission there and made a recommendation to the Board of Directors that the loan be granted and the Board of Directors approved it.

LOANS IN COLOMBIA

Mr. TABER. Going to Colombia, there is a $19 million allotment to them for a road project.

Mr. LEDDY. Yes, sir. This is one of the projects, this highway project in Colombia that the IDA is providing a development credit in association with a loan from the World Bank as well. The IDA loan of $19,500,000 will be accompanied by a loan from the World Bank of $19,500,000 and the provision by Colombia of its own resources in the amount of $60 million so that in effect it is roughly a $99 million project of which the IDA is putting in $19,500,000.

Mr. TABER. It would be 69, would it not?

Mr. LEDDY. No. It is $19,500,000 from IDA, $19,500,000 from the World Bank on a conventional basis, that is, an interest rate of five and three-quarters percent, and $60 million from the Colombian Government, itself.

If you add those up it comes to $99 million for the total cost of the project.

Mr. TABER. What is the population here?

Mr. LEDDY. I do not want to guess it because I would have to correct the figure.

We will insert that in the record, sir.

The population, as reported by the International Monetary Fund in 1961 was 14.4 million.

LOAN TO COSTA RICA

Mr. TABER. We will go down to Costa Rica and see what you say about that. This seems to be a $5.5 million loan.

Mr. LEDDY. Yes.

Mr. TABER. It is for development credits not yet effective. What does that mean?

Mr. LEDDY. What that means, sir, is that all of the formal documents between the International Development Association and Costa Rica have not yet been signed by the Costa Rican Government. Until they are signed they keep them in this category of not yet effective because all of their loan arrangements require these.

Mr. TABER. They have not made up their minds yet, whether or not they want it?

Mr. LEDDY. No, sir. I think they have made up their minds. It is just a matter of formality and completing the documentation. If they do not sign, of course, the loan won't be made.

Mr. TABER. As I understand the money has been turned over to IDA, or will be. It goes into the fund and they loan it out according to a queer kind of loan program where they do not pay any interest at all for the first 10 years. I suppose all of these projects are in that category?

Mr. LEDDY. All of these projects, all of these International Development Association credits are in precisely the same terms; yes, sir.

LOAN FOR HONDURAS ROAD PROGRAM

Mr. TABER. We will go down to Honduras. You have $9 million for highway improvement. What is that?

Mr. LEDDY. This is a road, sir, that runs between the western part of Honduras across the mountains into El Salvador. Its purpose is

to open up agricultural lands in the western part of Honduras and connect them with the markets in El Salvador. It will cut off a roundabout highway that now exists, where you have to go many more miles to get to the market.

This was among the first, I believe, of the IDA credits. Honduras, of course, is one of the poorest countries in Latin America. I believe its per capita is roughly $185. Honduras is putting some money into this. The Inter-American Development Bank is putting some money into it and IDA is putting some money into it.

Mr. TABER. How big a highway is it?

Mr. LEDDY. It is roughly 70 miles.

Mr. TABER. It is $9 million for the job. That means something in the nature of $140,000 a mile.

Mr. LEDDY. It has to cut through the mountains in that area. It is a fairly difficult terrain there.

Mr. TABER. This is a coastal job, is it not?

Mr. LEDDY. This is a what, sir?

Mr. TABER. Coastal?

Mr. LEDDY. Coastal?

Mr. TABER. Yes. It is the Western Highway, they call it?

Mr. LEDDY. It is not on the coast at all. It is inland. It runs between Honduras and El Salvador, which lies to the west of Honduras and it is all inland.

It cuts across the mountains and thereby reduces the distance between the agricultural production in Honduras and the markets for that agricultural production in Salvador.

HIGHWAY LOANS FOR INDIA

Mr. TABER. Then you have India.

Mr. LEDDY. Yes, sir.

Mr. TABER. You start off with a $60 million bite. What is that for?

Mr. LEDDY. This is part of India's overall highway program. This is a part of India's third 5-year plan. It involves some 660 miles, this particular section being financed by the IDA, together with 80 bridges. It will take about 3½ years to finish the construction.

IDA is putting in $60 million. The Indian contribution to this particular project is $20 million. However, if you take IDA credit as a whole, it is only about 10 percent of the total highway program in India, the balance being provided from other sources.

Mr. TABER. What are the other sources?

Mr. LEDDY. If you take the total program of India, the other sources include the Western European countries, Canada, Japan, the United States, and the World Bank. This is a part of the Indian consortium that was arranged to try to get resources from all the developed countries and the financial institutions in support of India's 5-year program.

Mr. TABER. The money is all contributed by outside countries, is it not?

Mr. LEDDY. No, sir.

In all these projects, India puts in a portion of its own resources. If you take the 5-year program as a whole, the estimate is India will put in 80 percent of the total resources going into development, and

outside sources, including Western European and the other countries, the United States and these institutions, about 20 percent. That is the general plan.

Mr. TABER. India is really not putting in anything?

Mr. LEDDY. Putting in 80 percent.

Mr. TABER. You told us a minute ago it was 20 percent.

Mr. LEDDY. I was referring only to this particular credit for this particular piece of highway, India is putting in $20 million, IDA is putting in $60 million. But when I spoke of India putting in 80 percent, I was talking about the whole Indian 5-year program; that is, the amount of resources involved in that total program, which includes not only roads such as this, but everything else in the Indian development program.

Mr. TABER. What has been the progress of this credit?

Mr. LEDDY. This credit was just approved last June. So far as I know, there have been no disbursements under the loan. It will take about 3½ years to disburse the total amount. It will be disbursed as the highway progresses.

Mr. TABER. How much highway?

Mr. LEDDY. 660 miles of highway.

Mr. TABER. A gravel road or a dirt road?

Mr. LEDDY. That I do not know. We can give you a specific description of the type of highway if you wish. We do not have the information with us. It is in the detailed documentation.

(The following was subsequently submitted for the record:)

TYPES OF HIGHWAY FINANCED BY IDA CREDIT OF $60 MILLION FOR INDIA

About 287 miles of the highways financed by the IDA credit will be bituminous-surfaced two-lane highways of 22-foot width, designed for 50-mile-per-hour speeds in level country. Certain sections of National Highways 5, 28, and 31, totaling 332 miles, will be built as one-lane highways of 12-foot width, also with bituminous surface. The 13-mile Bombay Expressway and a 26-mile portion of National Highway 2 are to be constructed as four-lane bituminous-surfaced highway.

Mr. TABER. That means $80,000 a mile. You told us they were putting in $29 million out of $80 million.

Mr. LEDDY. Yes, sir.

LOAN FOR IRRIGATION IN INDIA

Mr. TABER. Now, the irrigation project, $6 million. What is that?

Mr. LEDDY. This is an irrigation project of drilling some 800 tube wells in the north of India. It will irrigate some 320,000 acres. The Indians are putting in about $6 million of their own money in this so it is a total cost of $12 million, 50 percent put in by the Indians and 50 percent by IDA.

Mr. TABER. Down below that you have the Shetrunji irrigation project. What is that?

Mr. LEDDY. This is an irrigation canal system and works which will irrigate some 86,000 acres. Basically, it is the same type of objective—to help increase India's food production. Here again the Indian Government is putting in $4.5 million to meet local costs. The total cost of the project is $9 million, of which the IDA puts in 50 percent and the Indian Government 50 percent.

Mr. PASSMAN. The Indian Government is the recipient of the total?
Mr. LEDDY. Yes, the Indian people are.
Mr. PASSMAN. We hope so. That is not the case in all countries.

DEVELOPMENT CREDITS NOT YET EFFECTIVE

Mr. TABER. And this comes within the purview of the note up at the top of the page, "Development credits not yet effective." I do not know what that means. I think we ought to know.

Mr. LEDDY. There is a footnote on this table which explains agreements providing for these development credits having been signed, but the development credits do not become effective, and disbursements thereunder do not start, until the borrower takes certain action and furnishes certain documents to the Association. What those documents and actions are would tend to vary from credit to credit. In some cases, for example, in connection with water supply and that sort of thing, the World Bank and the International Development Association would ask for the fees for the use of the water be adjusted so the credit can be repayable. They would want evidence that was done. It is this kind of documentation that I am pretty sure the Bank is referring to in this footnote. Until they get that, they do not make the credit effective.

SALANDI IRRIGATION PROJECT

Mr. TABER. Here is another irrigation project, Salandi, $8 million. How many acres are involved in that?

Mr. LEDDY. 225,000 acres.

Mr. TABER. Is there any local contribution?

Mr. LEDDY. Yes, sir. There is a local contribution of an equal amount of $8 million. The total cost of the project is $16 million, and $8 million is provided by India and $8 million provided by the IDA.

Mr. TABER. Where do the Indians get their $8 million that they provide?

Mr. LEDDY. They get their $8 million for projects of this sort out of their own budget, or collections made from the beneficiaries of these projects.

For example, they would collect some sort of a fee from the users of water and collect back from them. Otherwise, it would be provided by the Indian budget, or in some cases it might be provided out of the provincial budget.

Mr. PASSMAN. Their contribution could be labor, too, could it not?

Mr. LEDDY. Well, their contribution is normally used for local costs.

Mr. PASSMAN. We supply the cash. A certain percentage of the total cost would be materials, running 34 percent. Labor could go as high as 66 percent on a highway. In all probability, their contribution would be labor from their own nationals?

Mr. LEDDY. Oh, yes; local materials or labor. But they would have to pay their own nationals for this labor, of course, out of their own resources.

Mr. PASSMAN. They are idle now, so that would not add too much to the cost of running the Government.

PUNJAB PROTECTION AND DRAINAGE, INDIA

Mr. TABER. Here is another one right below that, Punjab protection and drainge, $10 million.

Mr. LEDDY. That is correct. This is like the other projects. It is aimed at increasing food production. In this case, they have a twofold problem of draining water out of the fields because of excessive salinity, as well as providing some irrigation.

In this case, as in the other two cases I mentioned, the Indian Government would put in an equivalent amount to the credit of the IDA. In other words, the total cost of the project would be $20 million; the Indians would put in $10 million and IDA would put in $10 million.

AMMAN WATER SUPPLY PROJECT

Mr. TABER. Now we go to Jordan, $2 million for the Amman water supply project. What can you tell us about that?

Mr. LEDDY. Well, this is for the city of Amman of about 200,000 population; it is designed to provide wells, pumping stations, storage, and distribution facilities, as well as chlorination for the city.

Now, the total cost of this project is $3 million, of which the Jordanians are putting in $1 million in local currency.

Mr. TABER. This is another project where the development credits are not yet effective?

Mr. LEDDY. Yes, sir.

Mr. TABER. About half your jobs are in that column.

PROJECTS IN PAKISTAN

Pakistan is next. You have two projects, one of them $1 million and the other one $2 million. What would you say about them?

Mr. LEDDY. Well, there is an irrigation project for $1 million designed to provide flood control and drainage in East Pakistan, again related to this question of food production. In this case, the total cost of the project in Pakistan is $2 million, of which the Pakistani are putting in $1 million in local currency.

The second project, which is a port project, is in an area of Pakistan which relies very heavily on inland water transport and this project is intended to improve the port system by building wharves and jetties and improving the system so they can handle a larger amount of traffic. Here again, the Pakistani are putting in half the cost, contributing half the cost themselves.

The total cost of the project is $4 million, and the Pakistani are putting in $2 million.

Incidentally, in this area they estimate watercraft account for about 60 percent of the total transport of cargo.

Mr. PASSMAN. It is not unusual for a nation to spend money on its own economy.

Mr. LEDDY. It is perfectly correct they should put up as much as they possibly can.

Mr. PASSMAN. We are certainly not in disagreement on that point.

PARAGUAY ROAD PROJECT

Mr. TABER. Then you have Paraguay, $6 million. That is under the column of development credits not yet effective.

Mr. LEDDY. This is a road project in Paraguay. It connects the city of Asuncion to the city of Encarnacion.

I gather this is a distance of about 190 miles. This would be with the exception of a 40-mile section, a narrow dirt or gravel road. It will be widened and given a bituminous surface, making it possible to travel over it in all seasons.

SUDAN IRRIGATION PROJECT

Mr. TABER. They have an irrigation project involving $13 million. What can you tell us about that?

Mr. LEDDY. This is the Sudan?

Mr. TABER. Yes, the last one on the page.

Mr. LEDDY. This is a credit that is being provided by IDA in conjunction with a regular loan on conventional terms from the World Bank. The World Bank is putting in $19.5 million and the IDA credit $13 million. In addition, there is some financing by Germany of $18.4 million, so you have a total of $50.9 million available to finance the extension of this irrigation system on the Nile in upper Sudan.

With this irrigation, it will be possible to bring in about 900,000 acres to production for the first time, or under irrigation for the first time and increase the yields.

LOAN TERMS

Mr. PASSMAN. Would you give us the terms of this German loan?

Mr. LEDDY. Yes, we will undertake to supply the information on that.

Mr. PASSMAN What do you mean, you will undertake?

Mr. LEDDY. I do not have a description of the precise terms here.

Mr. PASSMAN. Is it short-term, high-interest, hard currency?

Mr. LEDDY. I think it is a long-term loan.

Mr. PASSMAN. You do not know.

Again, can you have someone call the Department? I do not know of any Canadian loans, or of any German loans, that would not be in the category of short-term, hard-boiled interest rates.

STATUS OF BELGIUM AND LUXEMBOURG

Mr. TABER. If you will turn to table 2, I do not see anything in the list for Belgium.

Mr. LEDDY. Belgium and Luxembourg have not yet joined the IDA. They were among the members who originally negotiated, but they have not yet made their contribution or joined.

Mr. TABER. What is the trouble?

Mr. LEDDY. They have not yet, so far as I know, completed their decision in the government whether or not they are going to belong to this institution. We certainly hope they will.

Mr. PASSMAN. Belgium is not on the list?

Mr. LEVE. They are not on the list. They have a quota in the initial proposal. I do not know whether that is the list Mr. Taber has.

INITIAL SUBSCRIPTIONS OF INDIVIDUAL COUNTRIES

Mr. LEDDY. If you wish, we will present you a list of those countries who were in the initial negotiation, but who have not yet joined.

Mr. PASSMAN. They were listed last year?

Mr. LEVE. Yes.

Mr. PASSMAN. You omitted their names this year?

Mr. LEVE. That is correct.

Mr. LEDDY. These are the only two countries among the advanced countries, who put in all their subscriptions in hard currency who have not yet joined. We will put that list in the record.

(The list follows:)

PROPOSED INTERNATIONAL DEVELOPMENT ASSOCIATION

Schedule A—Initial subscriptions

[U.S. dollars in millions] [1]

PART I

Australia	20. 18	Luxembourg [2]	1. 01
Austria	5. 04	Netherlands	27. 74
Belgium [2]	22. 70	Norway	6. 72
Canada	37. 83	Sweden	10. 09
Denmark	8. 74	Union of South Africa	10. 09
Finland	3. 83	United Kingdom	131. 14
France	52. 96	United States	320. 29
Germany	52. 96		
Italy	18. 16	Subtotal	763. 07
Japan	33. 59		

PART II

Afghanistan	1. 01	Korea	1. 26
Argentina [2]	18. 83	Lebanon [2]	. 45
Bolivia	1. 06	Libya	1. 01
Brazil [2]	18. 83	Malaya	2. 52
Burma [2]	2. 02	Mexico	8. 74
Ceylon	3. 03	Morocco	3. 53
Chile	3. 53	Nicaragua	. 30
China	30. 26	Pakistan	10. 09
Colombia	3. 53	Panama	. 02
Costa Rica	. 20	Paraguay	. 30
Cuba [2]	4. 71	Peru	1. 77
Dominican Republic [2]	. 40	Philippines	5. 04
Ecuador	. 65	Saudi Arabia	3. 70
El Salvador [2]	. 30	Spain	10. 09
Ethiopia	. 50	Sudan	1. 01
Ghana	2. 36	Thailand	3. 03
Greece	2. 52	Tunisia	1. 51
Guatemala	. 40	Turkey	5. 80
Haiti	. 76	United Arab Republic	6. 03
Honduras	. 30	Uruguay [2]	1. 06
Iceland	. 10	Venezuela [2]	7. 06
India	40. 35	Viet-Nam	1. 51
Indonesia [2]	11. 10	Yugoslavia	4. 04
Iran	4. 54		
Iraq	. 76	Subtotal	236. 93
Ireland	3. 03		
Israel	1. 68	Total	1, 000. 00
Jordan	. 30		

[1] In terms of U.S. dollars of the weight and fineness in effect on Jan. 1, 1960.
[2] Have not yet joined.

Mr. TABER. That is all I have.

GERMAN LOAN TO SUDAN

Mr. PASSMAN. Did you get the information on the German loan?

Mr. FINKEL. It is on the way. It is described as a long-term loan in the IDA's annual report.

(The following was subsequently submitted for the record:)

TERMS OF GERMAN LOAN FOR IDA PROJECT IN SUDAN

In connection with the IBRD and IDA loans of $19.5 million and $13 million respectively for the Roseires Dam project, a loan of $18.4 million equivalent was extended to the Sudan by the Kreditanstalt fur Wiederaufbau, an agency of the German Government, at an interest rate of 5½ percent (subsequently reduced to 4¾ percent) with a maturity of 20 years including a 7-year grace period.

COMPLEXITIES OF FOREIGN AID PROGRAM

Mr. PASSMAN. I think I should state that the legislation is broad enough for you people to do everything you are doing. Again, the criticism is not directed at the individuals attempting to justify this appropriation. But to say the least, this is complicated. In all probability, if a medal should be given to the people who drafted the legislation, it would be given downtown and not on the Hill.

ELIGIBILITY FOR LOANS

Is the United States eligible to receive a loan from this program?

Mr. LEDDY. I would like to read.

Mr. PASSMAN. I just asked you a question.

Mr. LEDDY. No.

Mr. PASSMAN. Is Great Britain eligible?

Mr. LEDDY. No, sir.

Mr. PASSMAN. Would Guam, under the United States as a possession, be eligible?

Mr. LEDDY. I believe Guam would be.

Mr. PASSMAN. You do not know, do you?

Mr. LEDDY. My judgment as of now is, I think they would be.

Mr. PASSMAN. That means the possessions of Great Britain would likewise be eligible?

Mr. LEDDY. Yes, sir.

Mr. PASSMAN. Would that situation also be true with regard to the other so-called developed countries, the part 1 members?

Mr. LEDDY. Yes.

Mr. PASSMAN. Why do we come out with the short end of the stick every time?

You have Great Britain and all the other so-called developed countries who have very thriving economies being eligible and their territories are eligible, yet the United States would not be.

Mr. LEDDY. The less developed territories of the United States would be eligible.

Mr. PASSMAN. That would be a little bit indirect manner in which to get money

Mr. LEDDY. No request has been made for a dependent territory of the United States. The fact of the matter is, under the statutes of the organization, and under the report submitted to the Congress when this was approved, it was clearly stated that the association's

finances are to go to the less developed countries and less dependent territories included within the membership of member countries.

Mr. PASSMAN. Do you know whether or not——

Mr. LEDDY. The test is less developed, not whether or not it is a dependent territory.

Mr. PASSMAN. They are going to prove we are underdeveloped, especially mentally.

LOAN APPLICATIONS PENDING FROM TERRITORIES AND POSSESSIONS OF DEVELOPED MEMBER COUNTRIES

Do you know whether or not there is an application pending for Guam under this program?

Mr. LEDDY. No, there is not.

Mr. PASSMAN. Do you know whether or not there is an application pending for any U.S. possession?

Mr. LEDDY. There is no application pending for any U.S. possession.

Mr. PASSMAN. How many applications do you have pending for aid from territories and possessions of the so-called developed countries, such as the United Kingdom, and other developed countries that are making a cash contribution?

Mr. LEDDY. I know of no application pending other than the loan just approved for Swaziland, but if there are any, I will endeavor to supply that for the record.

COMPARISON OF IDA AND IDB LOAN OPERATIONS

Mr. PASSMAN. What is the basic difference between the IDA and the IDB as to loan operations in Latin America?

Mr. LEDDY. I would say the basic difference is, first, in the fact in the IDA the capital is contributed, an important part, by other countries than the United States, whereas in the IDB, the United States contributes the bulk of the capital and the Latin American countries relatively smaller amounts; second, the lending terms, the type of loans that are made by the IDA have been somewhat different. They have been of the very same sort made by the World Bank, but they have been made on these very long terms.

Now, the IDB, so far to my knowledge, has not made loans of this precise character of 50-year, 10-year grace and no interest. They have made loans, however, that are repayable in local currency from their Special Operations Fund.

Mr. PASSMAN. There is very little difference in the way they operate, other than the terms of the loans?

Mr. LEDDY. In the membership?

Mr. PASSMAN. I am talking about the money. I do not care what the membership is. If you are making available funds to do the same type of projects in a country, then the only difference would be in the terms. You make loans to Latin America for bridges and for highways and anything that would go toward developing their country, do you not?

Mr. LEDDY. Yes.

Mr. PASSMAN. And so far as projects and programs are concerned, they are no different than those you would get under IDB, and under the AID program's development credit fund?

Mr. LEDDY. They are all related to the same basic purpose, which is the development of the recipient country.

CONSOLIDATING ASSISTANCE PROGRAMS

Mr. PASSMAN. Do you think this would be less complicated if we had perhaps 1 agency handling it, rather than, say, 17 different agencies?

I am wondering why this could not be coordinated to the point of one application to one organization for one amount of money. No person can possibly keep up with the amount of money that is being poured into a country when you are pouring in from about 17 different spigots into the same or related projects. In many instances, if it is a road, you are drawing off from three spigots money into that same road project.

Let us be specific and pin some of this down.

SEVERAL SOURCES OF FUNDS FOR HONDURAS HIGHWAY PROGRAM

Let us take a look at Honduras.

For the western highway improvement program, you have $9 million from your association; is that correct?

Mr. LEDDY. That is correct, from the IDA.

Mr. PASSMAN. Your figures are not classified?

Mr. LEDDY. No, sir.

Mr. PASSMAN. You have in the green book, page 283, "Highway development No. 1." It was approved April 4, 1958, $5 million for the western highway.

Now, did you know at the time you approved this loan they had already approved funds under the AID Agency for the same highway?

Mr. LEDDY. That is not the same stretch of road.

Mr. PASSMAN. It says here, "The Western Highway."

Mr. LEDDY. This is the western highway extension.

Mr. PASSMAN. What does this book cover?

Mr. LEDDY. Ours is an aid program. I do not know what that covers.

Mr. PASSMAN. Did you know at the time you approved this $9 million that money had already been approved under the ICA, now the AID?

Mr. LEDDY. To my knowledge, there is no loan approved under the AID program for this particular stretch.

Mr. PASSMAN. What stretch does it cover? You are asking for $9 million for one piece of the highway?

Mr. LEDDY. Correct.

Mr. PASSMAN. Now, under the development loan program they request money for another piece of highway. Then, in all probability the Inter-American Development Bank has a piece in there?

Mr. LEDDY. The Inter-American Development Bank is joining in sharing of this specific expense.

Mr. PASSMAN. How long is this road?

Mr. LEDDY. This particular road is a 62-mile stretch.

Mr. PASSMAN. What is the total cost of this 62 miles?

Mr. LEDDY. $13 million.

Mr. PASSMAN. We have already run into an amount far in excess of that amount. You have $9 million. We are looking here under the AID program, $5 million, and that makes $14 million.

You just said the Inter-American Development Bank had a slice. How much is it?

Mr. LEDDY. The Inter-American Bank is putting in $2 million, the Honduras Government $2 million, and IDA $9 million, making $13 million for this specific stretch of the highway.

Mr. PASSMAN. How long is the overall highway?

Mr. LEDDY. That, I do not know.

Mr. PASSMAN. Do you realize that if you do not know the length of this highway, the request could conceivably come in for ten times that much?

Mr. LEDDY. I know there is no duplication.

Mr. PASSMAN. I would not accuse you of building one highway on top of the other. If you are approving a $9 million loan, and then out of two other sections you bring it up to $13 million, and in another agency of a giveaway program we find there is $5 million, how long is this overall highway?

Mr. LEDDY. The stretch to which IDA is contributing is a specific 62-mile stretch between definite points.

Mr. PASSMAN. Do you know whether or not there is a duplication?

Mr. LEDDY. Yes, sir; I know there is no duplication.

Mr. PASSMAN. Could you tell us where this $5 million shown on the confidential sheet is to be spent?

Mr. LEDDY. No.

Mr. PASSMAN. How do you know it is not a duplication?

Mr. LEDDY. I have examined the report of the bank and the documentation.

Mr. PASSMAN. If you eliminated this $5 million, you had to know where this money is, in order to know whether or not there was a duplication. That is a statement of fact. You say there is no duplication, yet you do not know where this money is to be used. I do not think you have the answer, and I do not think the people who come down to justify this $5 million will have the answer regarding your $13 million. It is confusing. You have three different agencies from which the United States is contributing which we have discovered since 10 o'clock this morning, and there is a fourth one here, the IBRD, on the same highway.

There should be some place we could get the information as to how many different agencies are contributing to this same highway, and what your stretch represents and what the other agencies represent. You are bound to agree this is pertinent information.

Mr. LEDDY. I am sure I can obtain from the AID Agency the specifics you want.

Mr. PASSMAN. That is the point I am trying to make. This thing has become so complicated, and it is in so many different agencies, there is no way to put it together.

Did you know they had funds already approved for the same highway?

Mr. LEDDY. I repeat, it is not the same highway.

Mr. PASSMAN. You do not know whether it is or not, unless you have eliminated this from your search. Where is this going; I am talking about the $5 million?

Mr. LEDDY. The $5 million apparently goes to a port.

Mr. PASSMAN. You are reading from the green sheets. You do not know that from your own records?

Mr. LEDDY. No.

Mr. PASSMAN. That is exactly what I am trying to pin down; you do not know, and I do not know, and the others probably do not know that you have approved money.

PORTION OF U.S. MONEY IN HONDURAS HIGHWAY

Is the 30 percent in contribution of dollars made by the United States, 30 percent of the total contribution made by all member nations, whether soft currency or hard?

Mr. LEDDY. Yes.

Mr. PASSMAN. If we remove from the total contribution the soft currency part, what percentage of the total hard dollars would we be contributing?

Mr. LEDDY. I believe it is 43 percent.

Mr. PASSMAN. As it would apply to dollars, our contribution is 43 percent, and not 30 percent?

Mr. LEDDY. Correct.

CONTRIBUTIONS OF UNDERDEVELOPED COUNTRIES

Mr. PASSMAN. For all practical purposes, the countries which make their contribution in local currencies, with the local currency being spent back in their own country, could just as easily have stayed out, as far as what they have actually contributed, because they are going to be the recipients of an amount far in excess of what they contribute?

Mr. LEDDY. That is right.

Mr. PASSMAN. I wonder what contribution they actually make by putting in a small amount of local currency, realizing then they would be eligible to draw out substantial amounts of hard currency.

Mr. LEDDY. To be perfectly clear, all of these underdeveloped countries do not make a net contribution——

Mr. PASSMAN. We know that.

Mr. LEDDY (continuing). Outside their countries. The purpose of this is to get resources from the developed countries into the underdeveloped countries.

Mr. PASSMAN. I am speaking about so far as the actual contribution they are making as such is concerned. It is on the minus side and not on the plus?

Mr. LEDDY. Yes.

Mr. PASSMAN. All of these countries are also eligible for aid under our various other programs?

Mr. LEDDY. Yes.

Mr. PASSMAN. Would it not follow that the more of these agencies which are built up within our own Government, the more complicated the thing is going to become?

Mr. LEDDY. I agree the problem is complicated. I get back to this fundamental point. By setting up something like the IDA, we do get contributions from other developed countries such as Germany and France and Italy. The fact remains for every $4.30 we put in, they put in $5.70.

Mr. PASSMAN. The possessions of these so-called developed countries may apply to IDA for aid?

Mr. LEDDY. One of them has so far; yes, sir, they may.

Mr. PASSMAN. All of them with the exception of the United States could ask for aid?

Mr. LEDDY. Well, so far, there has been one small loan.

Mr. PASSMAN. You cannot expect a month-old child to walk.

I wish the Congress, in its wisdom, had sufficient time, along with the determination, to bring all this under control. It is getting so complicated, I do not know what we are going to do about it.

INTEREST COST ON MONEY LOANED ON 50-YEAR TERM

All of the IDA credits deal with the long-term version?

Mr. LEDDY. Yes.

Mr. PASSMAN. Which means repayable in 50 years?

Mr. LEDDY. Yes.

Mr. PASSMAN. On $1 million at 4-percent interest, and that is about what we are paying to borrow money, during this 10 years of grace which we allow we would pay $400,000 in interest, would we not?

Mr. LEDDY. Yes.

Mr. PASSMAN. Would you get your economist to figure out how much money we are going to have to pay in interest to be able to give away this $1 million.

Mr. LEDDY. We can provide a statement of that sort. The interest cost——

(The statement follows:)

INTEREST COST OF FUNDS BORROWED AT 50-YEAR TERM

On a sum of $1 million borrowed for 50 years, repayable after a 10-year grace period at 1 percent of principal per year for 10 years and then 3 percent of principal per year for 30 years, the total interest cost at a rate of 4 percent would be as follows (semiannual payments assumed):

During 10-year grace period	$400,000
During next 10 years	381,000
During final 30 years	549,000
Total	1,330,000

INVESTMENT OF SUBSCRIPTION PAYMENTS IN U.S. SECURITIES

Mr. PASSMAN. Now, Mr. Leve, do you have the information you called for as to whether any other member nation of the IDB has paid in its subscription, only to have the IDB invest those funds in U.S. securities to draw interest?

Mr. LEVE. All the members, sir, have paid in half of their subscription in dollars or gold and some of that has been invested by the IDB in U.S. securities, drawing interest.

Mr. PASSMAN. It has been reinvested in U.S. securities?

Mr. LEVE. Yes, sir.

Mr. PASSMAN. They paid in half. What did we pay in?

Mr. LEVE. As you recall from the articles, they provide that half of the subscription shall be paid in dollars and half in local currencies. For the United States, the local currency portion is dollars.

Mr. PASSMAN. We put all of ours in dollars and we are paying interest on the entire amount?

Mr. LEVE. No, for $25 million of that, we have taken advantage, as have six other countries in the Bank, of the provision that enables them to substitute non-interest-bearing notes for the cash subscription.

Mr. PASSMAN. We have issued a non-interest-bearing note for $25 million, out of what total?

Mr. LEVE. Our total subscription is $450 million.

Mr. PASSMAN. Of ours?

Mr. LEVE. Yes. $200 million of that is callable.

Mr. PASSMAN. Thank you very much. How much is the $25 million of the total?

Mr. LEVE. Of the total?

Mr. PASSMAN. Yes. This is peanuts as compared to the total.

Mr. LEVE. Of $190 million paid in to date.

Mr. PASSMAN. Then, on the remainder, we are paying interest on the total amount?

Mr. LEVE. We pay the balance in cash and the Bank has invested——

Mr. PASSMAN. We are paying interest?

Mr. LEVE. That is correct.

Mr. PASSMAN. The others only pay in half of theirs in dollars and half in local currency?

Mr. LEVE. That is right.

Mr. PASSMAN. The United States is paying interest to the Bank, then, on the half that is paid in in dollars?

Mr. LEVE. To the extent the Bank has invested that in U.S. securities.

Mr. PASSMAN. There is no interest paid on the local currency they pay in, is there?

Mr. LEVE. No, sir.

Mr. PASSMAN. Thank you, gentlemen.

FRIDAY, MARCH 16, 1962.

MILITARY ASSISTANCE PROGRAM

WITNESSES

HON. ROBERT S. McNAMARA, SECRETARY OF DEFENSE
GEN. L. L. LEMNITZER, CHAIRMAN, JOINT CHIEFS OF STAFF
GEN. W. B. PALMER, DIRECTOR OF MILITARY ASSISTANCE

Object classification

[In thousands of dollars]

	1961 actual	1962 estimate	1963 estimate
Grant aid operations:			
DEPARTMENT OF DEFENSE—MILITARY			
Reservations:			
25 Other services	88,228	75,572	85,237
26 Supplies and materials	383,415	299,460	269,360
31 Equipment	579,934	425,968	445,402
Subtotal	1,051,578	801,000	800,000
Obligations:			
11 Personnel compensation:			
Permanent positions	20,413	19,860	20,581
Positions other than permanent	40	45	55
Other personnel compensation	1,256	1,134	1,210
Total personnel compensation	21,709	21,039	21,847
12 Personnel benefits	5,888	6,365	6,786
21 Travel and transportation of persons	36,304	44,994	47,719
22 Transportation of things	56,970	62,511	67,219
23 Rent, communications, and utilities	2,867	3,522	3,616
24 Printing and reproduction	174	199	208
25 Other services	148,488	165,943	147,884
26 Supplies and materials	52,063	55,085	57,388
29 Contract field printing	22	23	24
31 Equipment	310,017	312,260	222,951
32 Lands and structures	21,282	22,071	22,725
41 Grants, subsidies, and contributions	67,832	86,274	93,565
42 Insurance claims and indemnities	−59		
44 Refunds	3	3	3
Total, Department of Defense—Military	723,560	780,289	691,935
ALLOCATIONS TO OTHER AGENCIES			
11 Personnel compensation:			
Permanent positions	1,375	1,107	1,207
Positions other than permanent	11	8	12
Other personnel compensation	263	75	50
Total personnel compensation	1,649	1,190	1,269
12 Personnel benefits	45	41	8
21 Travel and transportation of persons	284	71	30
22 Transportation of things	130	100	140
23 Rent, communications, and utilities	1,229	977	1,429
24 Printing and reproduction	5	3	5
25 Other services	6,448	4,497	4,121
26 Supplies and materials	613	450	550
31 Equipment	448	325	500
41 Grants, subsidies, and contributions	281	303	13
Total, allocations to other agencies	11,132	7,957	8,065
Total, grant aid operations	1,786,270	1,589,246	1,500,000

Object classification—Continued

[In thousands of dollars]

	1961 actual	1962 estimate	1963 estimate
Sales operations:			
25 Other services	3,584	20,000	6,000
26 Supplies and materials	61	3,000	1,000
31 Equipment	−2,771	58,933	18,000
Total, sales operations	874	81,933	25,000
Total program	1,787,145	1,671,179	1,525,000
Increase (−) or decrease in outstanding reservations for requirements ordered from military services (69 Stat. 438)	−243,747	49,000	−75,000
Total obligations	1,543,398	1,720,179	1,450,000
Obligations are distributed as follows:			
Secretary of Defense	97,972	98,423	105,200
Army	604,245	631,838	594,700
Navy	156,321	269,301	205,285
Air Force	673,728	712,661	536,750
Department of State	6,840	6,814	8,065
International Cooperation Administration	4,292	1,143	

Personnel summary

	1961 actual	1962 estimate	1963 estimate
DEPARTMENT OF DEFENSE			
Total number of permanent positions	4,396	4,157	4,254
Full-time equivalent of other positions	5	4	5
Average number of all employees	4,012	4,005	4,128
Number of employees at end of year	4,166	4,014	4,069
Average GS grade	7.6	7.9	8.0
Average GS salary	$6,653	$6,959	$7,041
Average salary of ungraded positions	$2,218	$1,803	$1,787
ALLOCATIONS TO OTHER AGENCIES			
Total number of permanent positions	768	963	849
Full-time equivalent of other positions	7	5	8
Average number of all employees	707	648	797
Number of employees at end of year	727	815	830
Average grade established by the Foreign Service Act of 1946, as amended (22 U.S.C. 801–1158):			
Foreign service reserve	4.4	4.1	
Foreign service staff	11.4	11.1	
Average salary established by the Foreign Service Act of 1946, as amended (22 U.S.C. 801–1158):			
Foreign service reserve	$10,733	$11,617	
Foreign service staff	$4,917	$5,256	
Average salary of ungraded positions	$1,516	$1,500	$1,514

Mr. PASSMAN. The committee will come to order.

We have with us at this time Gen. L. L. Lemnitzer, the Chairman of the Joint Chiefs of Staff, and other distinguished witnesses. The Secretary of Defense will be here later.

General Lemnitzer will testify in behalf of the President's request of funds for the military assistance program for the fiscal year 1963.

General, we welcome you before this subcommittee and shall be pleased to hear your statement.

STATEMENT OF GEN. LYMAN LEMNITZER

General LEMNITZER. Thank you very much, Mr. Chairman.

Mr. Chairman and members of the committee, I am pleased to have the opportunity to appear before you in support of the military assistance program for fiscal year 1963. This program of military assistance to our allies, in my opinion, is absolutely essential to our own U.S. national security interests. In my statement this morning, I shall give you the reasons which I believe support this opinion.

The threat our country and our allies face today is a very real one. There can be no question but that the military strength of the Communist powers is steadily increasing—no question but that the Communists remain committed to their goal of world domination—no question but that they are using every resource and every tactic, on a global scale, to subjugate and control peoples now free and extend the influence of communism. This is a long-term struggle for survival in which we are engaged. The stakes could not be higher. This assessment of the threat is accepted by every military leader I know.

It is a simple truth, in the light of the magnitude of this threat, that we need to apply our resources with wisdom in facing the long haul ahead. The military assistance program as it will be described for you in detail during the course of this hearing, is a wise application of our resources.

NEED FOR UNITED FRONT AGAINST COMMUNISM

I want to stress the fact that the nature of the threat is such that we cannot successfully meet it by ourselves, or with only our own resources. But, the strengths of the free world, bound together through a system of alliances, with each member of the alliances contributing to the common defense, provide a basis for facing the future with confidence. The collective security arrangements are in the interests of all who have joined in them—and specifically they are in the interests of the United States. As President Kennedy stated in his message to the Congress on this subject, referring to the nations to be aided by our programs—

> * * * all of our armies and atoms combined will be of little avail if these nations fall, unable to meet the needs of their own people, and unable to stave off within their borders the rise of forces that threaten our security. This program—and the passage of this bill—are vital to the interests of the United States.

PRESIDENT'S STUDY OF MILITARY ASSISTANCE

I recently reviewed again the report submitted by the President's Committee to Study the United States Military Assistance Program in 1959. This report made certain observations which were important then—and which remain pertinent today.

Addressing the question as to whether these programs are more useful implements of national security policy than equivalent efforts and resources devoted to other uses, the Committee had this to say:

> The only alternate we can see to the interdependent allied free world, strengthened by our aid where needed, would be the Fortress American concept—taking our first stand in the last ditch.
>
> We are all convinced that the mutual security program both in its military and in its economic aspects is a sound concept. What is needed is the determination to continue it and the ability to administer it well.

In my opinion, the committee chose its words well. The security of the United States, which depends upon the security of the free world alliance as a whole, requires the continuance of our military and economic assistance programs.

The threat we face is a global threat. The security problems arising from this threat are therefore global problems, problems which can only be solved by mutual effort. I would like to mention some of the ways our security interests are served by our military assistance programs.

GUERILLA WARFARE

The recent increase in Communist guerilla activities represents a grave danger to many of our allies, and for an understanding of this danger we need only read Chairman Khrushchev's speech of January 6, 1961, entitled "For New Victories of the World Communist Movement," in which he reported on the results of the November 1960 Conference of World Communist Parties.

Khrushchev stated that—

> liberation wars and popular uprisings will continue to exist as long as imperialism exists. Such wars—

he asserted—

> are not only admissible but inevitable * * *. We recognize such wars. We help and will help the people striving for their independence.

We are clearly warned by these statements—which reinforced the conclusions to be drawn from the pattern of Communist activities that we have observed all over the world—that the Soviets have every intention of sponsoring subversion wherever they see the opportunity to do so.

Our mutual security programs provide us with a means of meeting this threat to our allies—the threat of Communist-sponsored guerrilla warfare, the object of which is to subvert existing governments and substitute Communist rule, not "liberation," as Mr. Khrushchev would have the world believe.

The real source of the guerrillas' ability to fight is provided by the people of the countryside whose support is extorted by the ruthless use of terrorism. The support of the local population is absolutely essential if the Communist guerrilla forces are to be defeated. This fact emphasizes a point which I believe to be of fundamental importance in assessing the contribution which our programs—both economic and military—can make. To counter the pressures used by the guerrillas to extort support from local populations, a key requirement is for local government programs which make it clear to their people that their interests lie with those of the government, and not with the interests of the Communist guerillas. But such programs, on the scale required, are beyond the capabilities of certain governments which now face a guerrilla threat. Only with our assistance can the threatened friendly governments pursue the local programs needed to successfully meet and overcome the guerrilla threat. Our programs for southeast Asia, for example—and again I speak of both the economic and military programs—are vital to the accomplishment of our objectives in that area.

PROGRESS THROUGH MILITARY ASSISTANCE

I believe that through our military assistance programs we have made substantial progress in providing a firmer foundation for the alliances on which the collective security of the free world is based. Quite clearly, they need to be further strengthened, and such strengthening is important to the future posture of the free world. Devoting approximately 3 percent of our total defense expenditures to such an end seems to me to be a wise use of our resources. As I stated in my appearance before this committee last year, our military assistance programs are a realistic, hard-headed, commonsense approach to our very difficult security problems—problems we mutually share with other nations of the free world. It is in this sense that I urge your support of programs designed to contribute to the vitality, cohesiveness, and military strengths of the alliances upon which the free world is dependent for its security.

It is necessary that we fully appreciate the extent to which the friendly and noncommitted nations are looking to us for leadership in the struggle of the free world against the threat of communism. The manner in which we exercise our leadership through our mutual security programs is being watched closely in all areas of the world. Continued acceptance of our responsibilities—evidenced by our willingness to assist where assistance is required—will stimulate the determination of our friends to remain firm with us in opposing communism. Such determination is one of the keys to the future.

Mr. Chairman, before concluding there is a collateral benefit of our military assistance programs which is not generally appreciated. As Secretary McNamara will mention when he appears before you later, our military assistance programs do not result in a flow of gold from the United States. The contrary is true. The net result of all military assistance programs for fiscal year 1962 will be an inflow of gold. Out of the total military assistance program for fiscal year 1962, $335 million will be spent outside the United States which is more than offset by the $800 million to be received from the sale of U.S. military equipment under the military assistance program.

In conclusion, Mr. Chairman, in making this statement I am speaking not only for myself, but also on behalf of all the members of the Joint Chiefs of Staff. They join me in endorsing the essentiality of the military assistance program. The Joint Chiefs of Staff regard the program as an extremely important part of our total defense effort.

Mr. PASSMAN. Thank you very much, General Lemnitzer.

As I recall the substance of the report, the President's committee to study the military assistance program in 1959 supported, in effect, a $2 billion annual appropriation. Obviously their conclusions were not based entirely soundly. This appears evident from the reductions in funds made in the years subsequent to the report, and also by the Executive's reductions in the budget estimates.

It has been my purpose to help contain the foreign aid program. There are many reasons, of course, why the entire program must be watched carefully by the Congress.

I wish it were possible for me to always agree with our distinguished witnesses, but the statistics frequently contradict statements made during the hearings.

EFFECT OF FOREIGN AID ON U.S. GOLD RESERVES

With regard to the reported inflow of gold which you state is brought about by our military aid, the record indicates that some of these aid-recipient nations are purchasing more gold than some of the other countries.

On December 31, 1952, the United States had gold reserves of $23,252 million. Foreign nations, most of them recipients of foreign aid, have reduced our gold holdings by $6,305 million in the intervening years. On December 31, 1961, the gold reserves of the United States had declined to $16,947 million.

INCREASING GOLD RESERVES OF OTHER FREE WORLD COUNTRIES

Contrast that condition with the gold holdings of the other "free world" countries:

At the end of December 31, 1952, those countries held $13,028 million in gold. During the subsequent years they increased their gold by $10,655 million, which gave them as of December 31, 1961, gold holdings in the amount of $23,683 million.

Simultaneously, the short-term dollar holdings of other "free world" countries went up from $10,546,100,000 as of December 31, 1952, by $12,011,900,000, to $22,588 million as of December 31, 1961.

U.S. BALANCE-OF-PAYMENT DEFICIT

The U.S. balance-of-payments position from 1952 through 1961, inclusive, showed a deficit of $19.6 billion. In only one year during the 10 years did we have a favorable balance-of-payments position, and that was for only $500 million in 1956.

INCREASING OUTFLOW OF GOLD TO COUNTRIES RECEIVING FOREIGN AID

Then, for instance, looking at some of the Latin American countries receiving military and economic aid—Argentina, for example, in the second and third quarters of 1960 purchased with American dollars, which they previously had invested in this country at 3.5 percent interest, $50 million of our gold. So great had been their accumulation of American dollar credits that in December of 1961 they purchased an additional $90 million of our gold.

If you examine the Treasury statements and add up the amount of gold that has flowed out of the United States into the countries which are receiving U.S. aid, it is indeed a disturbing situation.

General LEMNITZER. These are accurate figures, Mr. Chairman.

Mr. PASSMAN. My figures are accurate, too, General.

EFFECT OF MILITARY AID PROGRAM ON BALANCE OF PAYMENTS

General LEMNITZER. The military aid program for fiscal year 1962 was not a cause of the outflow of gold you mentioned. Of the total program for fiscal year 1962, $335 million was spent overseas, and only this amount had an effect on our balance of payments. Offsetting this, our allies, principally Western Germany, made large purchases of U.S. military equipment in the United States for which they paid

dollars. The net result of our programs was favorable with respect to the balance-of-payments problem.

Mr. PASSMAN. Our gold is flowing out at a rapid rate, whether it is military, economic, or whatever. Not only are we losing gold, but many of the nations buying gold are also increasing their short-term dollar credits.

General LEMNITZER. But not as a result of military aid.

FACTORS AFFECTING BALANCE OF PAYMENTS

Mr. PASSMAN. Of what is it a result? Some of them are getting as many as 10 types of aid.

General LEMNITZER. One factor is the expenditures required to support our forces deployed overseas which are very essential in the interests of our own security. Other factors are tourism and U.S. business expenditures in foreign countries. But military assistance is definitely not one of the factors.

Mr. PASSMAN. The outflow of dollars is greater than the inflow.

General LEMNITZER. Overall, yes; but as a result of military assistance, no.

Mr. PASSMAN. So much so, overall, that not only can they reduce our gold reserves—last year there was a net reduction of $820 million and they also increased more than $1.1 billion their short-term dollar assets. Our balance-of-payments deficit is going on at an alarming rate, and at the same time our gold reserves are contining to decline.

Now, many of the same nations getting military aid are also receiving very substantial economic aid.

General LEMNITZER. No, sir; I do not think that is generally true, Mr. Chairman.

Mr. PASSMAN. Many of them.

What would the situation be if we did not have the military aid program?

General LEMNITZER. I think we would have to spend a much greater amount of money——

Mr. PASSMAN. I am speaking with reference to gold.

General LEMNITZER. I am getting to that.

I think it would require a much larger deployment of American forces overseas, which would increase the outflow of gold. We have to deal with these security problems with armed forces, and if we could rely only on U.S. Armed Forces deployed overseas, the effect would be a further outflow of gold.

RELATIONSHIP OF MILITARY ASSISTANCE TO GOLD RESERVES

Mr. PASSMAN. Some 65 nations are getting military aid, and many, if not most, of them are likewise increasing their gold reserves and at the same time increasing their dollar credits. I do not know how to untangle this complicated situation, but I do know that our gold reserve is continuing to decline and that foreign short-term dollar assets are continuing to go up.

General LEMNITZER. With respect to the military assistance program, the net effect is favorable, as I have indicated.

Mr. PASSMAN. If our military aid program creates an inflow of gold to the United States, if we should increase the military assistance pro-

gram substantially, would that have the effect of helping to correct the present unfavorable situation?

General LEMNITZER. Our total program is a gold dollar earner, because the $700 million to $800 million that I have mentioned is received in dollars from the sale of spare parts and other American equipment.

LEVEL OF 1963 MILITARY ASSISTANCE PROGRAM

With respect to the estimate made by the President's Committee in 1959, Mr. Chairman, in which they indicated the need for an annual expenditure for military assistance of approximately $2 billion, I think their estimate was very accurate as of that time. I believe the program being submitted for fiscal year 1963 is a very austere program. I have been concerned about the minimum aspects of certain of the country programs.

The $1.5 billion requested in new obligational authority will be augmented, as you will hear when the details of the program are provided, by more than $200 million in estimated recoupments.

Mr. PASSMAN. Which represent excessive estimates in previous years.

General LEMNITZER. Yes. There were overestimates. General Palmer can explain this in very precise detail. What I am attempting to point out is that this program is a very tight—a very austere program. It is an austere program that barely achieves the objectives. This program is based on assumed or estimated recoupments, and these assumptions will have to prove correct in order to barely achieve the objectives. Further, the program assumes no worsening of the international situation in the years ahead. If additional crises, such as those in southeast Asia or Berlin today develop, there would be some question as to whether the present program would meet the objective.

AID TO NATIONS NOT MEETING COMMITMENTS

Mr. PASSMAN. Does it appear that it will be the policy of the administration to have a hard look before we give any more aid to some of the nations which, at least on the surface, appear not to be cooperating?

General LEMNITZER. I do not know the nations you have in mind.

Mr. PASSMAN. I think the Secretary of State made a statement just about to that effect.

General LEMNITZER. I do not know of a statement by Secretary Rusk using the words "not cooperating." I do not believe we are providing any nations who are not cooperating with us with military assistance.

Mr. PASSMAN. What was the meaning of Secretary Rusk's statement?

General LEMNITZER. Possibly you have in mind the NATO Nations who are behind schedule in meeting the force goals of NATO, where there are agreed objectives to meet a certain force level within a certain period.

Mr. PASSMAN. Was he possibly referring to Yugoslavia?

General LEMNITZER. There is nothing in the fiscal year 1963 Military Assistance Program for Yugoslavia.

Mr. PASSMAN. There is economic aid, and we have been training pilots and, according to news reports, some of them are winding up in Cuba, training Cubans.

General LEMNITZER. We have no such information.

Mr. PASSMAN. You have not read anything about this in the papers?

General LEMNITZER. There were press reports that the ships carrying some of the aircraft purchased as a result of an agreement reached in 1957 stopped in Cuba and possibly unloaded some aircraft. This is not in accordance with the facts.

Mr. PASSMAN. I still am concerned about a number of puzzling statements, and especially so with relation to the military aid program and our gold reserves.

MILITARY ASSISTANCE PROGRAM AND GOLD OUTFLOW

General LEMNITZER. I think we ought to get this very clear, Mr. Chairman, and firmly pin it down now. I made my statement with respect to the military assistance program and that is all that my statement intended to cover with respect to the balance of payments problem.

We all know that there is an overall outflow of gold but my reason for including in my statement comments on the favorable effect of military assistance on the overall problem was to assure the committee that military assistance in itself is not in anyway the cause of the outflow of U.S. gold.

Mr. RHODES. Do we have anywhere a listing or breakdown of the $800 million?

WEST GERMANY PROCUREMENTS

General LEMNITZER. Yes; that can be provided. As I pointed out in my statement, the major source is West Germany. They are buying substantial amounts of equipment for their rapidly expanding armed forces, particularly their land and air forces. They are buying U.S. equipment.

Mr. RHODES. These sales are for dollars?

General LEMNITZER. Yes, they are.

Mr. RHODES. All $800 million?

General LEMNITZER. Yes. It is approximately $800 million.

General PALMER. Mr. Chairman, might I put in a word? General Lemnitzer is rounding the figures off a little bit but page 17 of the presentation book shows the purchases referred to in fiscal year 1962 by countries, at $722.4 million.

DOLLAR AND GOLD RESERVES OF PARTICIPATING NATIONS

Mr. PASSMAN. Many of the recipients of military aid are doing two things. They are purchasing U.S. gold, and they are also building up their dollar credits. They must do that out of some source.

It has been explained to me that practically every nation, with the exception, perhaps, of the new African countries, earn substantial

dollar credits from their exports. No doubt those dollars, or credits, would be used to purchase something produced in America.

If we make them an allocation, whether it be for military or economic aid, they can take what we have given them to pay for what they get, and the aid releases the dollars they earn through normal channels, either to buy our gold or to build up dollar credits to be used at some subsequent date. I do not think there is any way we can erase the fact that they earn dollars, and, then, when we sell them our military equipment with dollars we have previously given or credited to them, this releases their earnings for them to do with as they see fit. I believe that is why many of the nations receiving economic and military aid are buying our gold and, at the same time, increasing their dollar balances. So, what we are trying to do is understand it.

Mr. RHODES. Mr. Chairman, will you yield again?

Mr. PASSMAN. Yes.

F–104 PROGRAM IN GERMANY

Mr. RHODES. As regards Germany does this include the F–104 program?

General LEMNITZER. Yes, sir; it does under the NATO consortium arrangement for the production in Europe of F–104's.

Mr. RHODES. It includes not only the spare parts but also the airframes and other parts purchased from Lockheed?

General PALMER. There is no grant aid to Germany in connection with the F–104.

General LEMNITZER. Germany is obtaining their F–104's as a result of a consortium arrangement to build F–104's in Europe, and we are purchasing aircraft under this arrangement. Germany and other European nations are included in this arrangement.

I think the largest part of the west Germans purchases in this country will be for tanks, personnel carriers, and other Army equipment.

Mr. RHODES. I want to discover whether or not the purchase of the F–104 and the component parts are included in the figure of $722 million.

General LEMNITZER. It is not.

Mr. PASSMAN. So this will be separate and apart.

Actually, this transaction is made directly with the company by the West German Government?

General LEMNITZER. Mr. Bundy can explain that.

Mr. RHODES. We can get into that later, General.

Mr. PASSMAN. General, I am going to conclude very shortly.

REDUCTION IN BUDGET FOR 1963

You are reducing the budget request this year substantially below the amount appropriated last year. I am not trying to prove anything, but trying to let the record show that where the House last year increased $300 million over the committee's recommendation, you have reduced your request for this year.

The original committee bill last year was for $1.3 billion, but the House increased that to $1.6 billion. This year the request is for $1.5 billion.

General LEMNITZER. There is in this program an assumed recoupment of about $205 million, and it is estimated that at the end of the fiscal year there will be about $25 million uncommitted.

Mr. PASSMAN. When we talk about recoupment we are talking about prior reservations.

It was an overestimate in previous years that brought about what amount?

General LEMNITZER. About $205 million.

General PALMER. I would rather discuss the details of that later.

Mr. PASSMAN. The general statement is correct, is it not, that it was from overestimate of need in the past, or overestimates of money to be used, or reservations that you canceled, or from obligations that you deobligated?

General PALMER. That is correct.

Mr. PASSMAN. That is what we want to know now. We shall get the details later.

PROPOSED CHANGES IN MILITARY ASSISTANCE PROGRAM

Mr. GARY. General, what changes are scheduled in the military program for 1963?

General LEMNITZER. To cite a few, there is a very substantial decrease in grant aid to nations of the European area that are now able, as a result of their economic recovery, to pay their own way and buy equipment, such as we have been talking about. The only countries of NATO to receive new grant aid for fiscal year 1963 are Denmark, Norway, Greece and Turkey. There will be a considerable percentage increase in the program for southeast Asia, especially with respect to Vietnam where we are engaged in a very complex and difficult operation, supporting the South Vietnamese Government in their efforts to rid themselves of the Communist Viet Cong who are attacking the Government right now. The Viet Cong activity is rising at a very rapid rate. In general, there has been a considerable decrease percentagewise in the overall program for the European area, and a rise in the Asiatic area. Those are the two principal changes.

Mr. GARY. Is there any substantial change in the nature of the equipment that we are sending them?

General LEMNITZER. No, there is no substantial change. For example, the great bulk of assistance to the Asiatic countries is in the form of force maintenance, with very modest programs for the modernization of forces. The general types of equipment in the program have not changed.

With regard to the air forces, the arrangement to produce the F–104 overseas is an important consideration. The F–104 is one of our latest fighters. There is an arrangement in Japan for the production of the F–104, and also in Europe for a number of European countries.

MODERN WEAPONS PRODUCTION PROGRAM

Mr. GARY. There was a great deal of talk a year or two ago about the modern waepons program. What is the situation now?

General LEMNITZER. I have been associated with this program ever since it was started. I was the first Director of the program in the Defense Department.

Mr. GARY. I was the first chairman of this subcommittee to handle it back under the Marshall plan.

General LEMNITZER. 1948, 1949, and 1950.

Mr. GARY. Yes, sir; I was the chairman.

General LEMNITZER. In those days we had a considerable amount of material on the shelf which was very useful and valuable in providing the hardware for the country programs. Now, the great bulk of the hardware for the program has to come from new production. The services do not have the excesses of the principal types of equipment required by the program and so it is a production program more than a distribution program.

Mr. GARY. We had a special item in the appropriation at one time for modern weapons to modernize the program, because we had given them a great deal of surplus property at the beginning of the program.

General LEMNITZER. That is correct.

Mr. GARY. Now it is all a part of the general program, I take it.

General PALMER. Force improvement; yes, sir.

STATUS OF NATO FORCES

Mr. GARY. What is the general condition of these countries, insofar as their military standing goes, about the same?

General LEMNITZER. Well, they vary. In the NATO area there has been a considerable buildup of forces, particularly since last summer when the Berlin crisis appeared. Secretary McNamara and I visited General Norstad's headquarters and discussed this problem with him. The Secretary has been talking to many of the NATO Defense Ministers in an effort to accelerate the efforts of our allies to meet their force goals. There has been a substantial improvement in the NATO force status since last July.

STATUS OF FORCES IN FAR EAST

Now, in those areas of the Far East, where there has been no active fighting, the forces are at substantially the same level with substantially the same equipment.

In South Vietnam we have the greatest increase as a result of the increased threat which faces that Government. Our effort to help them meet that threat has been increased by providing personnel of all services to assist them in training and to assist in their support. Our personnel there, as you know, are not directly involved in combat, though they are exposed to it. They are there to advise, guide, train, and provide material support.

STATUS OF NUCLEAR PROGRAMS

Mr. GARY. I noticed the other day one of the topics of discussion in Geneva was the question of the extension of atomic weapons and they wanted some agreement from us that we would not expand or extend the nuclear programs to other nations. What is the status of that program at the present time?

General LEMNITZER. No nuclear weapons are involved in this particular program. We have, as you know, provided the equipment that can utilize nuclear weapons.

POLICY ON USE OF NUCLEAR WEAPONS

Mr. GARY. We have not yet given the nations the privilege of using nuclear weapons?

General LEMNITZER. No, sir.

Under the Atomic Energy Act, this is not authorized. May I go off the record now.

(Off the record.)

Mr. GARY. There is no consideration of a change in policy in that respect?

General LEMNITZER. No, sir.

Mr. GARY. You say there are no nuclear weapons whatever in this program?

General LEMNITZER. Not in this program.

Mr. GARY. Are there any changes in policy with respect to nuclear weapons under consideration?

General LEMNITZER. Do you mean the U.S. policy on nuclear weapons?

Mr. GARY. Yes, sir.

General LEMNITZER. There are from time to time suggested changes of policy, but I know of no changes that are being considered at the present time.

EFFECT OF DISARMAMENT ON MILITARY ASSISTANCE

Mr. GARY. I suppose if they were successful in reaching some kind of disarmament agreement at Geneva, that would have its effect on this program.

General LEMNITZER. Ultimately, but not in the time period for which this program is designed. The proposal made by Secretary Rusk involves a 30-percent reduction over a 3-year period. It actually provides for a 10-percent reduction on a year-by-year basis. A 10-percent reduction will not affect the requirements of any of the Allies for whom we have equipment in this program.

The implementation of the program Secretary Rusk has advanced would take a number of years extending far beyond the time period involved in this program. I am certain there would be no change in the justification for the fiscal year 1963 military assistance program.

Mr. GARY. I do not want my question to indicate I am optimistic about agreement being reached there. Apparently, the Russians have said they will not accept any controls.

General LEMNITZER. Inspection is the key feature.

Mr. GARY. I would lose faith in the United States of America if they agreed to anything without that.

General LEMNITZER. Yes, sir.

Mr. GARY. I think that is one thing we must remain adamant on.

General LEMNITZER. It is the heart of our proposal.

Mr. GARY. I think there is no question about that.

STATUS OF WEST GERMANY'S FOREIGN AID PROGRAM

Mr. PASSMAN. A high-ranking West German national came into my office this week, and said he was on the way to the White House. Germany came into the aid program about 4 years ago by persuasion, I

think that was the statement—it will be given to me in a letter—and it upset their economy, and last year they had approximately a $2 billion payments deficit in the deutsche marks. I was told that West Germany will reduce foreign aid commitments by two-thirds for fiscal year 1963, providing only one-third of the amount of last year.

EFFECT OF WEST GERMANY'S REDUCED AID PROGRAM

Would such an action have any effect upon the military alliance, NATO?

General LEMNITZER. I do not know what you are referring to specifically. Do you mean that West Germany might reduce their military expenditures? If they were to reduce their military expenditures, it would have a tremendous adverse effect on NATO.

Mr. PASSMAN. The reference was to reducing their commitments to the foreign aid program as we think of it. If they do reduce their aid program on a world-wide basis, it would not have anything to do with their military in Europe, would it?

General LEMNITZER. No, it would not.

ATTITUDE OF NEUTRAL OR NONCOMMITTED NATIONS TOWARD UNITED STATES

Mr. NATCHER. I am very much interested in that portion of your statement in which you inform the committee—

> It is necessary that we fully appreciate the extent to which the friendly and noncommitted nations are looking to us for leadership in the struggle of the free world against the threat of communism.

As you well know, from time to time the neutral nations of the world meet and they criticize our country somewhat for some of our actions.

What change, if any, have you found, or discovered, since your last appearance before our committee, insofar as the neutral or noncommitted nations are concerned from the standpoint of being willing to stand up and be counted if necessary?

General LEMNITZER. I can speak more authoritatively on the friendly nations than on the neutral nations. I participate several times each year in NATO, CENTO, and SEATO meetings, and these three alliances include a great many of the nations friendly to us. I am also familiar with those countries with which we have bilateral agreements, such as Japan, Korea, the Republic of China, and others.

I see no lessening of the determination on the part of any of our allies in any of these alliances. You probably have in mind the meeting held in Belgrade about the time the Russians began their series of nuclear tests last fall. There was disappointment with their reaction to the breach of the moratorium by the Soviets in resuming extensive nuclear tests in the atmosphere.

I really cannot answer your question because I am not familiar enough with the political factors involved. I think it is more properly something for the Department of State to handle.

As to the allies assisted by this particular program, I do not see any lessening of their determination to stand up and be counted, as you put it, with us.

Mr. NATCHER. When you say friendly nations, in that category you include our allies?

General LEMNITZER. I certainly do.

Mr. NATCHER. When you say noncommitted nations, what category do you refer to by that term.

General LEMNITZER. I would say by noncommitted, those nations which are not committed to any alliance, or have no bilateral agreements for defense against aggression by Communist forces. I would include India, Burma, and other such countries in this category.

Mr. NATCHER. Further, you stated to the committee that the manner in which we exercise our leadership through our mutual security programs is being watched closely in all areas of the world.

More so today than a year ago, would you say?

General LEMNITZER. Yes, more today than a year ago, for two reasons.

TENSIONS OF BERLIN AND SOUTHEAST ASIA

There have been two very important intensifications of international tension in the world since we last met.

First, in the European area, there is Berlin; the Berlin problem is very intense today as a result of the harassments by the Russians in the air corridors. In the European area, the Berlin crisis has increased tensions.

In southeast Asia, the change since last year is very great. The stepped up Communist guerrilla activities have increased the threat to the security of the Republic of South Vietnam.

I have a chart here which shows the increase in the Communist guerrilla incidents in South Vietnam, and it shows a rapidly rising curve since 1959, and particularly during the last 12 months. So I would say in the two areas I have mentioned there has been considerable change, and the manner in which our leadership is brought to bear in meeting these threats is being watched closely in all parts of the world. This program is one important way to demonstrate our determination to meet our responsibilities.

Here is a curve showing the rise of incidents; ambushes, attacks on villages and similar guerrilla activities in South Vietnam. The scale is in increments of 500.

Mr. NATCHER. I want to thank you for your appearance before our committee at this time and for your statement.

General LEMNITZER. Thank you, sir.

Mr. PASSMAN. Mr. Ford?

EFFECT OF MILITARY AID PROGRAM ON U.S. DEFENSE BUDGET

Mr. FORD. General, has there ever been a study made showing what the additional dollar impact would be on our own military budget, or the additional impact on our U.S. manpower requirements if we had no military assistance program? There must have been some such study.

General LEMNITZER. We have considered this in the Joint Chiefs of Staff for this purpose of developing our force requirements which are related to the force goals we support in the various country programs. We do take a close look at the question, but we do not reduce it to a cost analysis, because to do so would only be proving the obvious.

In Korea, and in Western Europe, and in other areas of the world, to maintain a satisfactory posture would require the deployment of a substantially larger number of American forces of all services and obviously the costs would be much greater.

Mr. FORD. It would not necessarily require the replacement on a 1-to-1 basis?

General LEMNITZER. No, sir; it would not.

Mr. FORD. But it would require substantially increased U.S. military personnel?

General LEMNITZER. That is correct.

Mr. FORD. This statement is often made both as to dollars and as to men, but it always has to be predicated on just a general assumption.

I think it would be most helpful in justifying the basic need for this program if we could have something reasonably firm.

EQUIPMENT AND MANPOWER

General LEMNITZER. I can make it very firm right now. To get the equivalent U.S. military strength to that represented by the allied military strength developed by the Military Assistance Program, would require expenditures many times greater to obtain the same level of defense effort. I am certain of that.

Underlying this program from its inception has been the fundamental thought that each nation would contribute what it was in a position to best contribute, within the resources available to it.

Our European and Asiatic allies, for example, have manpower, and manpower is a very important part of this strength. The Asiatic allies do not have the industrial back-up, or the means to produce or provide the weapons. I consider these alliances to be a blending of what everyone can best contribute, which is manpower, with the assistance we can best provide, which is hardware and training. That blending is what has built up the strength in the Far East and the rest of the free world.

Mr. TABER. What percentage of the military equipment and supplies furnished our allies in the different quarters of the globe has been in use in those places?

General LEMNITZER. It will vary country by country, Mr. Tabor. In Korea, where we are supporting divisions, for example, we have provided practically all of the hardware for the forces.

Mr. TABER. Has there been much equipment supplied to Korea?

General LEMNITZER. Yes. There has been. Korea is one of our largest programs.

On the other hand, in NATO area, countries that have a substantial industrial capability for building their own weapons, such as the United Kingdom, France, Italy, Belgium, have produced by themselves the greater part of the equipment used by their forces. It will vary country by country.

Mr. TABER. Is that one of the things we have to get from General Palmer when he comes before us?

General LEMNITZER. I believe the Presentation book has statistics on this question.

COMPARISON OF 1962 AND 1963 CONTRIBUTION OF COUNTRIES RECEIVING ASSISTANCE

Mr. TABER. I would like to see what is presently being done in fiscal year 1962 in each of the different countries we are making contributions to, what percentage we are putting up, and how much would it run?

General LEMNITZER. All right, sir.

To clarify the question, would you want for fiscal year 1963 the amount of money they are putting into their defense effort compared with what we have programed?

Mr. TABER. I would like it for 1962 and 1963.

General LEMNITZER. All right, sir.

(The information referred to, was subsequently presented to the committee.)

Mr. RHODES. General Lemnitzer, I am interested in several of the statements in your presentation. It is a very able presentation, as always.

EFFORTS TO COMBAT COMMUNISM

On page 1 you state, "There is no question but that the Communists remain committed to their goal of world domination."

General LEMNITZER. Yes.

Mr. RHODES. I thoroughly agree with that statement.

Can we do more than we are doing to roll the Communist threat back?

In other words, we are apparently tacitly committed to the observation of a sort of zone of peace in which the Communists operate without any serious challenge from us. There is challenge between the two of us only in certain areas of the world.

It has always seemed to me, we should do more than we are doing to invade their zone of peace with certain activities.

One of their best known techniques, of course, is to invade our zone by proxy; to have other people do it for them. We have some very able proxies on our side, particularly in the Far East. I am thinking of the Chinese Nationalists and also the South Koreans.

With the apparent movement in the southeast Asia territory by the Red Chinese, I am wondering if it would not be well for us to at least consider the employment of certain proxy forces as a left jab at least to throw the Chinese Reds off balance so they would not be able to concentrate directly on their current objective in southeast Asia.

General LEMNITZER. Well, as far as rolling back the Iron Curtain, so to speak, in a geographic sense we are not. That would require the overt commitment of United States and allied military forces.

I consider that we are engaged as a partner in South Vietnam in rolling back the Communist effort, which is a very serious threat, to subvert the Republic of South Vietnam.

Mr. RHODES. What we are doing is trying to maintain the status quo. We cannot win anything with a policy like that. If we lose, we lose; if we win, we only maintain the status quo.

General LEMNITZER. The status quo right now is a very dangerous threat to the Republic of Vietnam. We do not want just to maintain such a status quo.

Mr. RHODES. We are holding a line around the world and hoping for something, I know not what.

What are we hoping for?

How do we expect this thing to all end?

General LEMNITZER. We hope we convince the Soviet Union that their objective of world domination, which they are pressing today in all forms—economic, subversive, etc.—all around the world, is not realistic and not attainable.

Mr. RHODES. Do you see any indication we are succeeding in that?

General LEMNITZER. I see no indication now at all.

Mr. RHODES. That is all.

Mr. PASSMAN. Thank you.

Gentlemen, we are very glad to have the Honorable Robert S. McNamara, Secretary of Defense, before the committee at this time.

Mr. Secretary, we shall be happy to hear from you.

STATEMENT OF SECRETARY OF DEFENSE

Secretary MCNAMARA. I am delighted to be back.

Thank you, Mr. Chairman.

I have a statement which perhaps I can read rather quickly to you. I believe it will serve as a foundation for our discussion of the program that is being proposed by the President to Congress.

Mr. Chairman and members of the committee, today we are presenting the first military assistance program prepared wholly by President Kennedy's administration and the first to be developed under the Foreign Assistance Act of 1961.

The administration's new obligational authority request of $1.5 billion for military assistance is 3 percent of the DOD budget excluding MAP. This ratio tends to obscure the vital significance of military assistance to the security of the United States.

The whole of our defense program, of which military assistance is a vital part, is geared to our global requirements over the long term. As we have seen in the past, the Communists are quick to take advantage of a breakdown of law and order in any part of the world. They are quick to identify themselves with any change in the status quo, and with any emerging threat to existing authority. One has only to contemplate the ferment which exists in many countries around the globe, including the Western Hemisphere, to appreciate the potential for new crises. Clearly, one of the major problems confronting this Nation, its allies, and other free world nations is how to help safeguard freedom during a period of rapid and often drastic change in many parts of the world.

Obviously, military power alone cannot solve all of these problems. Diplomacy, economic assistance, and ideological conviction all have their roles to play in the struggle to safeguard freedom. The principal purposes of our military programs, including military assistance, is to deter the Communists from resorting to the use of armed force in seeking to achieve their objectives. Even here, the line of demarcation is far from clear. As we have seen in recent months, the Communists have stepped up what Mr. Khrushchev calls wars of national liberation, but which in reality, are covert aggregation, guerrila warfare, and subversion. To meet this form of the Communist threat, new means must be devised.

Our military policy continues to be firmly based upon the principle of collective defense of the free world. Not only are we stronger united than alone; but any loss in the free world position is a loss to our national security. For the sake of our own safety we must be prepared to defend the outposts of freedom around the world. We must be ready to meet the Communist challenge with whatever means—military, economic, political and ideological—best serves the purpose.

We cannot and need not do this job alone. U.S. defense planning takes into account the great and growing economic and military strength of our allies. The defense of Western Europe is a NATO, not a unilateral, responsibility. Greece and Turkey, which remain free countries, in part due to our military assistance in the late 1940's, provide significant land and air forces on the periphery of the Soviet Union. The ready incountry capability to defend Korea against renewed Communist attack depends in large part upon strong, reliable South Korean forces. The protection of Japanese land and sea areas is bolstered by Japanese self-defense forces. A significant portion of the Chinese Communist military strength is tied down to the mainland area near Formosa by the presence of strong Republic of China forces. These capabilities of our allies, so essential to our own security are, in large part, the results of previous U.S. military assistance; they must be maintained by continuing programs.

FISCAL YEAR 1963 PROGRAM

We have taken advantage of 1 year in office to review the level of military assistance necessary to support U.S. military and foreign policy objectives. The result is a significant reduction in new funds requested for fiscal year 1963 despite the increasing military assistance requirement in southeast Asia. This year we are asking new obligational authority of $1.5 billion; last year the request was for $1.885 billion; and the preceding year's was for $2 billion. This reduction has been made possible by careful country-by-country study of the requirements for military assistance, by tighter controls, and by a further reduction in the programs for European countries.

During fiscal year 1962 we have made a special effort to make recoupments from the "undelivered and unexpended" balance of prior-year programs, and will continue this special effort into fiscal year 1963. We are estimating recoupments in fiscal year 1963 at $205 million (which may be too optimistic). Thus, with a request for only $1.5 billion in new obligational authority (plus the reappropriation of $25 million it is estimated will remain unobligated on June 30, 1962) we are able to plan a program of $1,730 million. (See annex A).

EUROPE

The proposed fiscal year 1963 program for Europe is $314 million, about $100 million less than in fiscal year 1962. In fiscal year 1960 the program for Europe was 38 percent of the total, in fiscal year 1961 it was 28 percent, in fiscal year 1962 it was 21 percent, and it is only 18 percent of the proposed fiscal year 1963 program. (See annex B.) Most of the nations of continental Europe have developed

economically to the point where they can carry their own defense burdens. By reducing its grant aid programs in Western Europe, the United States in no way indicates any loss of interest in the continued freedom of the Continent. The recent strengthening of U.S. forces in Europe indicates our determination that Communist force shall not be the arbiter of European developments.

The programs for Belgium, France, Germany, Italy, Luxembourg, The Netherlands, and the United Kingdom are composed solely of United States commitments and training programs—designed primarily to keep these countries abreast of U.S. military thinking, thereby promoting standardization of doctrine and compatibility of national forces, while at the same time enriching our own military schools by an influx of new ideas.

Cost-sharing programs account for 60 percent of the total European program. These cost-sharing arrangements include bilateral arrangements, such as ship construction in Norway and multilateral ones such as NATO infrastructure, NATO Military Headquarters, weapons production projects, and the Mutual Weapons Development program. The purpose of these programs is to help insure, at relatively little cost to the U.S., that the forces, which under NATO planning will fight alongside of our own, as well as our own forces, will have adequate bases, pipelines and other logistic support, modern weapons and adequate command systems. These NATO programs help to insure that NATO forces will be instantly effective in concert if the occasion for their use ever arises.

AFRICA

The proposed fiscal year 1963 program for Africa of $37.6 million is expected to produce returns to the United States far out of proportion to its cost. In this rapidly changing area of the world there are now 27 independent countries and more are anticipated. The strategy of U.S. aid for this area calls for support of economic and social betterment as the highest priority mission. Military assistance in this area is designed to contribute to those goals. The assistance to be provided is in the form of light arms, vehicles and training. The objectives of the program are to assist in the development of internal security forces capable of maintaining internal order so essential for political and economic growth. These programs represent our efforts to assist certain countries to maintain forces sufficient to discourage direct and covert aggression while contributing to the economic and social betterment of these nations.

For North Africa the program is primarily associated with the maintenance of U.S. bases and moderate needs of the new nations of this area.

NEAR EAST AND SOUTH ASIA

The program for fiscal year 1963 for the Near East and South Asia is about the same proportion of the total program as it has been in past years, and is only half a million more than the actual fiscal year 1962 program. Four countries, Greece, Iran, Pakistan and Turkey, account for 98 percent of the program in this area. The military assistance level for Greece and Turkey is designed to maintain exist-

ing forces and permit gradual selective improvement of their NATO forces. These two countries maintain Army divisions, destroyers and submarines and tactical squadrons. In Iran and Pakistan military assistance continues to be required to assist those nations in meeting the Communist threat.

FAR EAST

The military assistance program level for the Far East is responsive to the progressively increasing threat of Communist expansion in this area. The proposed Far East program is 48 percent of the total proposed fiscal year 1963 program. In the fiscal year 1962 program, it was 46 percent, in fiscal year 1961 it was 41 percent and in fiscal year 1960 it was 38 percent. We must continue major programs in military assistance to the Republic of China and Korea. If the Communists should renew their attempts to invade Korea or the Island which make up the Republic of China, the first line of defense must be these MAP-supported forces. In addition the Republic of China forces the Chinese Communists to deploy a significant portion of their forces on the mainland opposite Formosa. Japan's economic progress makes possible a progressive reduction in MAP, now largely confined to a minor portion of the total cost of various important items.

In Southeast Asia, the United States is making every effort to insure that the people of Vietnam do not want for equipment and training to match their determination to cope with Communist aggression. In South Vietnam, experienced U.S. training teams are helping bridge the gulf of inexperience.

LATIN AMERICA

The Latin American program for fiscal year 1963 totals $77 million for all purposes including training. The material program will not exceed the legislative ceiling of $57.5 million now imposed by the Foreign Assistance Act of 1961. U.S. aid as a whole emphasizes the economic development and social welfare envisaged by the Alliance for Progress. The military assistance program is designed to promote internal security, and to develop antisubmarine warfare capabilities in selected areas where they can be made really effective as a complement to our own efforts.

SALES

To the greatest extent possible, military sales are being utilized to replace grant aid. Eligible foreign countries may purchase on a government-to-government basis military materiel which is not normally or readily available on the commercial market.

Most military sales are made on cash terms. We expect direct government-to-government sales to total $722 million in fiscal year 1962, more than twice the fiscal year 1961 amount. Such sales of course create a balance of payments advantage to the United States. This total amount is more than double the amount of procurement offshore which will result from the fiscal year 1962 military assistance program.

TRAINING

Probably the greatest return on our military assistance investment comes from the training of selected officers and key specialists at our military schools and training centers in the United States and overseas. These students are handpicked by their own countries to become instructors when they return home. They are the coming leaders, the men that will have the know-how and impart it to their own forces. I need not dwell upon the value of having in positions of leadership men who have firsthand knowledge of how Americans do things and how they think. It is beyond price to us to make friends of such men.

MILITARY ASSISTANCE MANAGEMENT

General Williston B. Palmer, the Director of Military Assistance, who is with me today, will be available in subsequent sessions of this committee to discuss in more detail the management of the military assistance program. I wish to mention only two things in connection with management: (1) audits and (2) the planning and programing.

Last year I directed that increased attention be devoted to audit findings of the General Accounting Office and the internal audit agencies of the Department of Defense. The staff to handle audit reports of the military assistance program has been increased to insure better followup on recommendations in these audit reports. In September 1961, the internal audit agencies of the Department of Defense were requested to include in each MAAG and Unified Command audit report a brief summary of the recommendations contained in the most recent GAO report together with an evaluation of the extent and effectiveness of corrective action taken in response to the GAO recommendations. We are utilizing GAO findings to the maximum extent in developing our MAP audit programs, not only to avoid duplication of effort with DOD audits, but also to concentrate on areas of management weakness.

The planning and programing of military assistance is now on a more systematic and easily reviewable basis. In the regular Department of Defense budget we have attempted to identify the cost of various programs in functional packages to permit more meaningful review; this method is also being applied to military assistance planning and programing.

DEFENSE INTEREST IN ECONOMIC ASSISTANCE

In addition to the military assistance program itself, I would like to stress the importance of certain related programs not directly under my jurisdiction. As you are aware, in many countries where we have major military assistance programs, the country is not capable of providing adequate financial support to its military forces unless it continues to receive U.S. economic assistance. This assistance can be provided through supporting assistance or food-for-peace programs; it is vital to the total defense program, for without it the foreign country could not maintain a defense budget level sufficient to support its forces nor could it maintain the hardware which we consider essential to our collective security.

The justification of specific dollar appropriation requests for "defense support" will be made by Mr. Fowler Hamilton, Administrator of AID. The amounts to be allocated to the local defense budgets have been arrived at after careful consideration, both in the countries concerned and at the Washington level, of the validity of the defense budget needs of the key countries affected—notably Vietnam, Korea, and Turkey. For Vietnam the supporting assistance request is $———; for Korea, $———; for Turkey, $———. In each of these countries, military assistance presonnel in the MAAG have analyzed the local defense budgets in detail and are in a position to certify the validity of the needs stated.

In past years, the Congress has expressed its disapproval of the size of the Supporting Assistance account, and has imposed sharp cuts on that account. As a result, we in the executive branch have made the most stringent efforts over the past year to reduce supporting assistance wherever possible, and to insure that the amounts requested are in fact absolutely essential either for military budget support or for some valid political or economic purpose. I wish simply to state that of the total $481 million being requested for this year, roughly 50 percent represents essential military budget support needs in key countries. In addition, where the local currency is allocated to economic programs, the effect can be to free additional local resources for military purposes, so that there is a major indirect contributing effect also.

In sum, we believe the supporting assistance request has been cut to the bone this year, and I most strongly urge that the Congress not impose further cuts, which would have a serious effect on the necessary defense efforts of the countries concerned.

SUMMARY

In closing, let me emphasize that the threat to the security of the United States has by no means lessened during the past year. There is no prospect that Communist pressures will relax during the coming year. They are more likely to increase. The reduction in the military assistance program request results from the downward trend of aid to prosperous European nations and from better programing. In no way does it suggest that the threat to U.S. interests throughout the world has been reduced. The United States cannot let its defensive posture be weakened. The military assistance program is essential to the maintenance of that posture.

ANNEX A

Military assistance—fiscal year 1963 proposed program

[Millions of dollars]

I

Europe	$314
Africa	38
Near East and south Asia	423
Far East	831
Latin America	77
Nonregional	47
Total	1,730

II

Essentially fixed charges:	
Infrastructure	82
International military headquarters and agencies	13
Training	139
Supply operations	136
Administrative expenses	25
Total	395
Force maintenance:	
Spare parts	205
Attrition, training ammunition, repair and rehabilitation of equipment	260
Other consumables	102
Total	567
Force improvement:	
Aircraft	206
Ships	109
Tanks, vehicles, and weapons	76
Missiles	61
Electronics and communication	72
Special programs	59
Construction	69
All other	116
Total	768
Grand total	1,730

ANNEX B

Military assistance program comparison by region

[In percent]

Region	Fiscal year 1963 proposed program	Fiscal year 1962 program as of Jan. 4, 1962	Fiscal year 1961 program as of June 30, 1961	Fiscal year 1960 program
Europe	18	21	28	38
Africa	2	2	1	1
Near East and south Asia	24	22	23	16
Far East	48	46	41	38
Latin America	5	4	3	3
Nonregional	3	5	4	4
Total	100	100	100	100
NATO	33	36	41	45

Thank you very much, **Mr. Chairman.**

ABILITY OF EUROPEAN NATIONS TO ASSUME DEFENSE COSTS

Mr. PASSMAN. Thank you, Mr. Secretary.

On page 4, you indicate that most of the nations of Europe are economically developed to the point that they can carry their own defense burdens. Members of this subcommittee, on certain inspection trips to Europe, have found abundant evidence to fully agree with that statement. It is encouraging to note that you have reduced the amount for Western Europe by approximately $100 million.

We hope, and I am sure you hope, Mr. Secretary, that this trend continues to the point that at the earliest possible date the European nations may be able to assume the full amount of the cost of their military.

CEILING ON MILITARY MATERIEL ASSISTANCE TO LATIN AMERICA

On page 8, regarding Latin America, you say,

> The Latin American program for fiscal year 1963 totals $77 million for all purposes, including training. The materiel program will not exceed the legislative ceiling of $57.5 million now imposed by the Foreign Assistance Act of 1961.

Is this the only region where we supply military aid that we use this formula in establishing the levels? Would you not be able to accomplish the same objectives if you asked for $57.5 million under the military and for the difference between $57.5 and the $77 million under some other phase of the program?

Secretary MCNAMARA. No. I think not. The ceiling or the restriction relates to the assistance in the form of military materiel. The figures as presented in your books include all forms of military assistance, including nonmateriel assistance. We have simply broken it out here for your convenience to point out that the total of $77 million includes basically two parts, materiel and nonmateriel, the materiel part amounting to $57 million.

Mr. PASSMAN. Is this the only region where you follow this type of formula?

Secretary MCNAMARA. No, it is not.

Mr. PASSMAN. I thought you indicated that it was.

Secretary MCNAMARA. It is not.

(Discussion off the record.)

Secretary MCNAMARA. The program in each country is broken down between materiel and nonmateriel.

We would be happy to give you the figures for any portion of the world in which this is of interest to you.

Mr. PASSMAN. You do have a specific limitation as it would apply to Latin America?

Secretary MCNAMARA. Yes.

Mr. PASSMAN. A legislative limitation?

Secretary MCNAMARA. Yes, sir.

Mr. PASSMAN. Do you have that limitation in other parts of the world?

Secretary MCNAMARA. No. The legislation does not provide for that.

Mr. PASSMAN. That was my question. You are using a different formula here.

Secretary McNAMARA. I beg your pardon. We are not using a different formula here. The legislation provides a ceiling but that is not the formula on the basis of which the programs were devised. The programs were devised in relation to the requirements of the nations.

We simply state that the programs can be met within the limits of the legislative ceiling.

Mr. PASSMAN. Of $57.5 million?

Secretary McNAMARA. Of $57.5 million for materiel.

Mr. PASSMAN. Of the difference between $57.5 and $77 million, what part would represent maybe graders, trucks, tractors, and general roadbuilding machinery, and such?

Secretary McNAMARA. None, I believe. It is all training.

Mr. PASSMAN. Again, we have some misunderstanding. I think the books may indicate otherwise.

General PALMER. I think this will stand up under examination.

Mr. PASSMAN. It will make us feel a lot better if it does.

IMPROVED AUDITING SYSTEM IN DOD

Mr. Secretary, I think that your Department and that of General Palmer should have the commendation of this committee, if that means anything to you, for the tightening up of the auditing system you are using. We have suspected in the past, and not always have we been in disagreement, that you had hundreds of millions of dollars in available funds which had been placed under reservations that a careful audit might bring out. I see that you have, through your auditing processes, been able to deobligate, or I believe the appropriate word would be "dereserve"——

General PALMER. Recoup.

Mr. PASSMAN. "Recoup" could be misunderstood. We have already agreed you had deobligated. Recoup could mean a lot of other things.

Anyway, we think it is very good that you are tightening up the program by finding funds available elsewhere.

Secretary McNAMARA. I think Mr. Bundy, General Palmer and their assistants deserve credit for that. I am very hopeful that we can continue the process in the forthcoming year.

Mr. PASSMAN. You have presented a pointed and informative statement, Mr. Secretary. We thank you for it.

Mr. Gary?

Mr. GARY. Mr. Secretary, I want to congratulate you upon what appears to me to be a very excellent job that you are doing as the Secretary of Defense. I am delighted to see that this program is down a little this year.

PROGRAM FOR AFRICA

I wondered about one or two things which have come to my mind. What are the plans for Africa in this program?

Secretary McNAMARA. The total amount planned for expediture in relation to Africa is about $37 million and that is provided almost entirely for the maintenance of internal security or internal stability in the newly emerging nations of Africa.

Mr. GARY. There is danger that if we begin to build up arms in Africa they will get to fighting among themselves, is there not?

Secretary McNAMARA. I do not believe that would be the result of these programs. The programs we are providing are expected to cover, on the order of 15 nations in Africa with a total of $37 million. Of course, the potential for building up any substantial force within the limits of that expediture is not very great but I share your feeling implied by your question that we should not assist the African nations to develop military forces that could be used for external aggression.

EMPHASIS ON ECONOMIC AID

Mr. GARY. That has been the thought of this committee with reference to some of these countries where they are so close together and are constantly fighting amongst themselves. By giving them military assistance we simply assist in building up their fighting potential to fight each other.

I know several of the countries have had that situation, particularly in the Middle East from time to time. We more or less limited our contributions in that area to economic aid rather than to military aid for fear that military aid would be used in fighting between the countries themselves.

Secretary McNAMARA. Essentially the same policy is being followed with respect to Africa.

Mr. GARY. I am delighted to hear that.

Secretary McNAMARA. We wholly support that policy.

Mr. GARY. That would seem to be a reasonable policy.

Do you anticipate any change in policy in 1963?

EUROPEAN COUNTRIES TO FINANCE OWN DEFENSE EXPENDITURES

Secretary McNAMARA. When you say "any change of policy" you are thinking with respect to what, for example?

Mr. GARY. I mean generally with respect to this program.

Secretary McNAMARA. I should say that the 1963 program reflects a definite policy that nations which have the economic capacity to carry their own defense burden will do so. I have personally spoken to defense ministers of the major Western European nations. I told them that with the economic development which we are all happy to see in those countries we feel that they, in the instances I am talking about, now have the capacity to finance their own defense expenditures. I told them that they, therefore, should no longer anticipate the receipt of military assistance from this country, except with respect to certain past commitments that we, of course, will fulfill.

IMPROVED CONDITIONS IN KOREA

Mr. GARY. What is the situation now in Korea so far as the political situation is concerned?

Secretary McNAMARA. Much improved, it seems to me, over the recent past. General Pak's government has taken action to reduce corruption, eliminate graft, and otherwise stabilize the country. There appears to have been a substantial improvement over the conditions of the recent past.

Mr. GARY. They had some changes in administration. That did not affect the defense posture?

Secretary McNAMARA. No. General Lemnitzer can speak more authoritatively than I but I am sure he would say that the military forces are at least as effective today as they were before.

General LEMNITZER. I agree and I am very familiar with the present status of those important forces.

Mr. GARY. You refer to the Korean forces?

General LEMNITZER. That is right. They have ——— divisions. They have a small but very effective air force and a small but effective navy.

STATUS OF NATIONALIST CHINESE FORCES

Mr. GARY. What is the situation now with respect to the Nationalist Chinese Army?

General LEMNITZER. There has not been any substantial change since last year and approximately the same level of forces has been maintained. The program provides for force maintenance and a very modest degree of force modernization.

Mr. GARY. There was a suggestion at one time that the Army did not have sufficient population from which to recruit new personnel and therefore the Army was getting beyond the age limit for effective fighting. What is the situation with respect to that?

General LEMNITZER. To a certain degree that was true. The people who came over from the mainland are, of course, getting older, but there has been a considerable reduction of forces since they first established themselves on Taiwan. Now, through the induction of Taiwanese into the Chinese forces, they are maintaining a very effective force which is somewhat smaller than it used to be.

Secretary McNAMARA. I think you are referring to the ineffectives among the forces. My recollection is there were 40,000 a year ago and they have been phased out.

Mr. GARY. They came originally from China and did not bring their women with them. Therefore, there were very few young people from which to obtain sufficient recruits.

General LEMNITZER. There are a substantial number of Taiwanese in those forces now.

Mr. GARY. They are recruiting Taiwanese, are they not, in place of the Chinese soldiers?

General LEMNITZER. That is correct.

Mr. GARY. I assume the situation is pretty much the same so far as the pay of those solders.

General LEMNITZER. So far as I know it is.

Mr. GARY. It is very much cheaper, therefore, for us to equip Chinese soldiers than it is to send our own soldiers over there.

General LEMNITZER. Indeed it is. It is true in a good many other areas, too.

Mr. GARY. I know that is pretty much true all over. That in itself makes this a much cheaper program than if we were to undertake to substitute our own forces in those countries.

General LEMNITZER. That is correct.

Mr. GARY. Thank you.

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RELATIVE EFFECTIVENESS OF MILITARY FORCES

Mr. PASSMAN. Of course, you have to take into account, do you not, the difference between the efficiency of some of the soldiers in some parts of the world as compared to the efficiency of U.S. soldiers?

General LEMNITZER. Yes. A division of troops that we are talking about would not probably measure up to the effectiveness of an American division; but, nevertheless, the Republic of Korea division and I happened to have had command of them at one time—are outstanding divisions. It is generally true that relative effectiveness varies from country to country.

Pakistan divisions are good divisions, and so are the Turkish divisions. As I pointed out, one of the basic foundations of this program is that each country will provide what it best can. They have the manpower and, with a modest amount of assistance from us for hardware, produce allied forces of considerable strength and effectiveness.

MILITARY LEADERSHIP IN FAR EAST

Mr. GARY. I was in Korea during the war, and General Van Fleet, who was in charge of the Army, told me at that time that the Koreans were very excellent fighters.

General LEMNITZER. They are.

Mr. GARY. He said they were lacking in leadership because they had been held down by the Japanese during the Japanese occupation.

General LEMNITZER. They were very weak in leaders at that time.

Mr. GARY. They were then developing leaders who were gradually taking over as officers in the Korean forces and they were making very effective fighting units.

General LEMNITZER. That is true. The leadership which is there today was actually developed in combat.

Mr. PASSMAN. That could eventually come about maybe in Laos and Cambodia and Vietnam?

General LEMNITZER. Yes; but it takes time.

Mr. PASSMAN. But it could eventually be true there?

General LEMNITZER. Yes.

(Discussion off the record.)

TRAINING AND LOGISTICAL ASSISTANCE TO SOUTH VIETNAM

Mr. GARY. I heard you on the news last night or the night before last when you appeared on TV with reference to instructions to our troops in Vietnam. It was just a very short statement. Would you amplify that?

Secretary MCNAMARA. I think it may have come out of a press conference.

Mr. GARY. It did.

Secretary MCNAMARA. I was asked a question about what assistance we were giving the South Vietnamese and I stated in reply we had been requested by the South Vietnamese Government to provide training and logistical assistance to the nation in their efforts to counter the very savage attacks by the Viet Cong upon their nation. The assistance we have given has included assistance to train the Vietnamese Army, the Self-Defense Corps, and the Civil Guard. The Self-Defense Corps

and Civil Guard being forces of roughly ——— men each, which protect the villages throughout the nation.

In addition to the training facilities of those three ground forces, we have provided training to the Vietnamese Air Force and we have assisted the Vietnamese Navy. We have furnished additional equipment to the forces in the form of ammunition and miscellaneous forms of combat equipment. Beyond that we provide logistical assistance by way of an airlift, communication assistance, and assistance in the movement of South Vietnamese troops.

Mr. GARY. In other words, you are not furnishing fighter forces but you are training their own forces?

Secretary MCNAMARA. We are. However, as has been indicated in the press, our troops, although they are instructed not to fire unless fired upon, occasionally find themselves in circumstances such that they must fire to protect themselves.

Mr. GARY. That is part of the program that you are asking for here?

Secretary MCNAMARA. That is right, sir.

Mr. GARY. That is all, Mr. Chairman.

Mr. PASSMAN. Mr. Natcher?

COMMITMENTS IN THE EUROPEAN PROGRAM

Mr. NATCHER. When in your opinion, Mr. Secretary, will the European program be completely phased out?

Secretary MCNAMARA. The commitments for certain of these European nations extend rather far into the future. For example, we have a cost-sharing program with Norway for construction of naval vessels which will certainly extend into 1964 and 1965 and possibly 1967.

I think at the beginning of 1964 there is about ———, for example, on that particular program unfunded. That would be funded in 1964 and subsequent years as the ships are built. There are other programs of that type that extend into the future. The exact period at which they will be completed depends to some degree upon the rate at which the European nations contribute toward their completion. I cannot answer your question any more directly, but I will say that I have stated to the Ministers of West Germany, France, Italy, the Netherlands, Belgium, that we will make no new commitments to those nations for military assistance; that they must plan on financing their own new programs of the future.

Mr. NATCHER. Mr. Secretary, in your statement to the committee you point out that our military policy "continues to be firmly based upon the principle of collective defense of the free world."

COOPERATION OF FRIENDLY NATIONS

Are we today receiving the right kind of cooperation from the friendly nations of the world?

Secretary MCNAMARA. I believe we are. When I say that I do not wish to have you draw the conclusion that we are not trying to obtain more assistance from them but I believe that today the nations of the free world are cooperating with us and supplying in relation to their capabilities a reasonable contribution to our collective security.

Last summer we asked other members of NATO to increase their support of NATO, partially in relation to Berlin, but also in relation to the long-term requirements of NATO. The response has been, I think, very satisfactory to date. They have not done everything we asked. More remains to be done. We are asking that they do more but NATO has been strengthened by efforts other than our own since last July.

Mr. NATCHER. Would you say the situation is better at the present time than it was at the time you appeared before the committee a year ago?

Secretary MCNAMARA. I believe so; yes, sir.

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. PASSMAN. Mr. Alexander?

Mr. ALEXANDER. Mr. Secretary, I want to commend you. I think you are doing an excellent job.

CAPABILITIES AND CONTRIBUTIONS OF OTHER NATIONS

I have been interested particularly in having those countries that are capable to get into the act of military defense in a collective way along with us, even to a larger extent.

How is this particular type of thing coming along in Japan?

Secretary MCNAMARA. Japan is in a unique position. It is not lack of financial ability that stands in the way of increasing the military forces in Japan, but rather the political situation in that nation.

I think that it is moving toward increasing defense expenditures. We are moving toward reducing our own assistance to that nation.

In the other nations of the world, I think we are seeing many actions that are quite favorable to us. West Germany is the outstanding example. In our opinion, they had not been contributing in proportion to their economic capability. We have discussed that with them. They have very recently, within the past 3 to 4 months, modified their conscription laws, increased the manning of their ground forces, substantially increased their military budget and will purchase substantial amounts of materiel and services from the United States for the fiscal year 1962 and 1963.

I simply mention this because here is a nation with a huge economic capability which we have, I think, negotiated a very satisfactory increase from in relation to NATO and in relation to our own adverse balance of payments.

We are carrying on similar discussions and negotiations with other nations.

I met this morning with General Lavaud who is here at our request from France to discuss a somewhat similar situation.

FULFILLMENT OF NATO FORCE OBJECTIVES

Mr. ALEXANDER. How many NATO countries have not lived up to their commitments with reference to carrying out their load?

Secretary MCNAMARA. I think that the specific answer is none in the sense that the term "commitment" perhaps is not the proper term to apply. Rather as I understand it the NATO nations discuss objectives and agree as to the reasonableness of an objective, without any

formal commitment that they will achieve that objective by a specific time. In that sense several of the nations have not met the objectives.

We have not met the objectives, as a matter of fact, for our own forces, particularly for logistical support. But there has been a very substantial movement toward those objectives since last July. The number of ground divisions, just to illustrate the point, the number of combat-ready ground divisions or equivalent combat-ready ground divisions in Western Europe has risen by over 25 percent since last July, indicating a movement toward an objective. The objective has not been met as of today, however, and the nations failing to meet the objective are rather large in number on that particular objective. The meeting of objectives in terms of logistical support or tactical air operations or naval operations, naval equipment, falls in roughly the same relationship of actual to objectives as does the ground equipment and ground forces.

SITUATION IN LAOS

Mr. ALEXANDER. What military forces do we have in Laos now?

Secretary MCNAMARA. We have only an advisory group there at the present time, a few hundred people.

Mr. PASSMAN. Mr. Taber?

Mr. TABER. What are the prospects of anything working out in the Far East, in Laos and that area, and the Taiwan picture? What, if anything, can you see in the nature of an end to this situation?

Secretary MCNAMARA. Mr. Taber, as to Laos, I believe the course of action we are undertaking is a wise course of action under the circumstances.

SOUTH VIETNAM

As to South Vietnam, the nation is under attack today by about 25,000 Viet Cong, representatives of North Vietnam, many of whom have infiltrated from North Vietnam across the seacoast and across the Lao-South Vietnam border.

The Viet Cong in South Vietnam control a large percentage of the villages today and a large percentage of the territory of the country. The number of incidents or the number of attacks, if you will, of the Viet Cong upon the South Vietnamese and the resulting casualties among the South Vietnamese have increased rather substantially within the past year. The South Vietnamese opposition to these attacks has become very much stronger, much more effective within the past 3 months. The efforts of the Viet Cong, however, are continuing to increase. It is quite clear that North Vietnam proposes to continue those efforts. I believe that the South Vietnamese with our assistance will be able to counter them effectively. But, while I believe that it is still too early to state conclusively that that will be the result, on the whole, I am not pessimistic about the longrun position of the United States in southeast Asia. However, we face a long and difficult period of action there in order to insure that the entire southeast Asian peninsula is not lost to the Communists.

Mr. TABER. What I am trying to get at is this: Are we approaching the situation from the standpoint of cleaning it up or are we approaching it from the standpoint of developing maybe a neutral zone

and keeping the thing going all the time and with no prospect of its ever coming to an end?

Secretary McNamara. I would say definitely we are approaching it from the point of view of trying to clean it up and terminating subversion, covert aggression, and combat operations in that area.

It seems to us, and I believe we are correct in this feeling, that we are wise to carry on the operations against the Communists in that area by assisting native forces rather than by using U.S. forces for combat. ———. Therefore, we think the program we are carrying out is the most effective one and certainly it is directed toward termination of operations in the area as rapidly as possible.

Mr. Taber. I think that is all I have.

Mr. Passman. Mr. Ford?

COLLECTIVE DEFENSE

Mr. Ford. Mr. Secretary, at page 2 of your prepared text, the last paragraph, I would like to read for the record and then ask a question or two.

Our military policy continues to be firmly based upon the principle of collective defense of the free world. Not only are we stronger united than alone but any loss in the free world position is a loss to our national security. For the sake of our own safety we must be prepared to defend the outposts of freedom around the world. We must be ready to meet the Communist challenge with whatever means military, economic, political, or ideological that best serves the purpose.

Does that mean that any loss of territory by the free world is a loss to us from the point of view of national security?

Secretary McNamara. I would say, generally, yes. I suppose there are certain situations where loss of territory in small amounts, or nonstrategically located territories would have little adverse effect upon our national security but generally speaking that is what it means.

EFFECT OF LOSS OF LAOS

Mr. Ford. We think now the Soviet Union and Communist China as the hub of the opposition with the various satellites surrounding both as the nonfree world territories. On the other side of that line we have some neutrals and we have the free world including ourselves. Would the loss of Laos be construed to be a loss to our national security?

Secretary McNamara. Off the record.

(Discussion off record.)

Mr. Ford. A truly neutral Laos would help, if that is ever achieved. Would we be prepared to defend that country under that definition?

Secretary McNamara. We would, I am sure, wish to provide assistance were it requested of us under those circumstances.

ASSISTANCE TO OTHER COUNTRIES

Mr. Ford. What about a country like Burma? It is outside of the so-called Communist group of nations. Would we be prepared to defend Burma against aggression, either overt or covert by the Communists?

What about Thailand?

Secretary McNamara. The recent communique issued by Secretary Rusk and the Foreign Minister of Thailand during the latter's visit here a week or so ago indicated clearly we were prepared to give the Thai assistance if they requested it of us in their efforts to oppose Communist subversion and Communist aggression.

Mr. Gary. Would the gentleman yield?

Mr. Ford. Surely.

PSYCHOLOGICAL AND STRATEGIC EFFECTS OF TERRITORIAL LOSSES

Mr. Gary. I take it when you refer to weakening of our position you are referring to our strategic position rather than the psychological effect that the loss of the territory might have; is that correct?

Mr. Ford. I was just trying to be a little more definitive. I think the Secretary's statement is a good one, a very strong one, but I want to get a little better feel as to precisely what he means, whether it is psychological, territorial, or otherwise.

Mr. Gary. You are interested in whether or not the loss of territory would affect our defense strategically and not psychologically; is that correct?

Mr. Ford. My offhand impression would be "Yes."

Mr. Gary. Because any loss to the Communists would have some psychological effect I would think, would it not, Mr. Secretary?

Secretary McNamara. Yes. Although the size of the loss is related to the size of the psychological effect.

Mr. Ford. What about the loss, for example, of Quemoy and Matsu? Would the loss of those territories which are outside the periphery of the Communist world be matters that would involve our own safety?

(Discussion off the record.)

Mr. Ford. Did you understand the Secretary's statement, "These are outposts of freedom, the loss of which would be detrimental to our safety" to include that?

(Discussion off the record.)

Mr. Ford. I certainly would gather that the loss of South Vietnam would be a loss of an outpost of freedom.

Secretary McNamara. There is no question of it in my mind.

Mr. Ford?

RESPONSIBILITIES OF REGIONAL ALLIANCES

Mr. Ford. At page 3 of your statement, Mr. Secretary, you indicate that the defense of Western Europe is a NATO, not a unilateral, responsibility. Would you say the defense of the Middle East is a CENTO responsibility?

Secretary McNamara. Yes, I would.

Mr. Ford. Would you say that the defense of southeast Asia is a SEATO responsibility?

Secretary McNamara. When we use the word "responsibility," as it related particularly to the defense of Western Europe, being a NATO rather than unilateral responsibility we were emphasizing the multilateral, as opposed to the unilateral, character of the responsibility. In that sense the distinction applies to the Middle East and to the southeast Asia areas.

Mr. FORD. Have you gotten the same response in CENTO and in SEATO toward a buildup of forces that you have gotten in NATO?

Secretary MCNAMARA. We are not members of CENTO, of course.

Mr. FORD. We have advisers there who are not active participants but they are cooperating with them.

Secretary MCNAMARA. Exactly. We have liaison associations with CENTO.

In connection with SEATO, the members of SEATO have indicated their willingness to act to meet the common danger of Communist invasions of southeast Asia. The situation is somewhat different from the situation in NATO because the SEATO organization is made up of nations within the area as well as of nations without the area.

PROVISION FOR UNFORESEEN CONTINGENCIES

Mr. RHODES. Mr. Secretary, in your summary you say:

> In closing, let me emphasize that the threat to the security of the United States has by no means lessened during the past year, that there is no prospect of Communist pressures relaxing during the coming year. They are more likely to increase.

I gather from that that the MAP budget was made up with the possibility that there would be future crises and that some of the present crises at least would continue. Would that be a valid assumption?

Secretary MCNAMARA. Yes, but I don't wish my answer to imply that we have clearly foreseen all possible contingencies in 1963, though we have recognized that the pressures are likely to continue during 1963, at least at present levels.

Mr. RHODES. That is rather interesting. I belong to the Army Reserve group and we heard Assistant Secretary Hitch speak on the military budget and as I understand it the military budget assumes that there will be no crises, that the Berlin crises will end and that the budget is based merely on a normal military buildup.

Secretary MCNAMARA. Certainly not——

Mr. RHODES. Is it not true the budget is based on the idea that the Berlin crisis will not be still in effect?

Secretary MCNAMARA. No. The budget is based on the assumption that the Reserve and guard units called to active duty last fall can be deactivated at midnight, June 30.

Mr. RHODES. Do you think that is a valid assumption?

Secretary MCNAMARA. I think for budgeting purposes it is the only reasonable assumption and the assumption that will lead to the tightest financial control. But the budget very definitely is based on the assumption of continuing international crises.

It was for this reason we added $8 billion for fiscal year 1963 to the level originally proposed for fiscal year 1962. That $8 billion buys us a permanent increase, or I should turn it around and say an increase in permanent strength of the Military Establishment and including an increase of about 90,000 in the strength of the Army, this to provide 5 additional combat-ready divisions; an increase of about 5 tactical fighter wings, if I recall; a very substantial increase in naval forces as well, and all this because of this sentence I have included in my last paragraph:

> There is no prospect that Communist pressures will relax during the coming year.

THE 1962 MILITARY ASSISTANCE BUDGET

Mr. RHODES. You made the remark in your statement that this was the first military assistance program prepared wholly by President Kennedy's administration. Of course, that is a fact. However, it is also a fact that there were supplemental requests sent by the administration to the Congress for funds in this program after January of 1961?

Secretary MCNAMARA. I did not recall that there were supplemental requests. I think the program was presented only once but that it was considered and adjusted before its presentation over a period of several months before it was finally presented. In contrast to the regular military budget to which there were three separate supplements during fiscal year 1962.

Mr. RHODES. The clerk of the committee informs me the original budget was for $1.8 billion, from the previous administration; that subsequently there was a request to reduce that to $1.6 billion, and then a further supplemental request to bring it back up to $1,885 million.

Secretary MCNAMARA. Yes. I do not believe these were supplements, however. I believe these were discussions and adjustments of the budget before it was fully presented to the Congress.

Mr. RHODES. The point is there had been some activity by this administration.

Secretary MCNAMARA. There was considerable thought given to the fiscal year 1962 budget by this administration, I certainly agree.

Mr. RHODES. If you take the word "wholly" out of your statement it probably would not be correct, would it?

Secretary MCNAMARA. No. Certainly not.

EFFECT OF FOOD FOR PEACE ON MAP

Mr. RHODES. At page 11 of your statement you mention that part of the defense support program was through the food-for-peace program. Would you care to expand on that a little bit?

Secretary MCNAMARA. Yes. The food for peace in effect provides local currency which in turn permits the local nations to better support their defense establishments.

Mr. RHODES. Is this not actually one of the things we try to avoid in the economic assistance program? In other words having local currency issued for consumer goods is inflationary to the economy.

Secretary MCNAMARA. Certainly this is not inflationary, because we are adding to the supply of goods in the Nation and in that sense it is definitely not inflationary.

Mr. RHODES. Do you mean to indicate food is not a consumer goods? It is not capital goods, is it?

Secretary MCNAMARA. Whether it is a consumer goods or not, adding to the supply of goods in the Nation, even if offset by increases in local currency, certainly it is not inflationary.

Mr. RHODES. I could argue with you about that for several days but there is no reason to go on, because you have made a flat statement which is your opinion and I do not share your opinion.

Secretary MCNAMARA. I think the economists would agree that as long as the supply of goods and the money supply rise in proportion, one to the other, it is a noninflationary condition.

Mr. RHODES. I think that would be true if they were durable goods or income-producing goods, but I doubt very much that it would be true of food.

Secretary MCNAMARA. I would include food.

SITUATION IN LAOS

Mr. RHODES. Your economics escapes me. I think you have already stated the Viet Cong buildup does come partially from Laos; is that correct?

Secretary MCNAMARA. Yes.

Mr. RHODES. I think you have also stated that in order to produce a free, independent Laos it will take, I believe you said, a very difficult decision and hard negotiations?

Secretary MCNAMARA. Yes.

U.S. ASSISTANCE TO SEATO COUNTRIES

Mr. RHODES. Do you feel that the situation in southeast Asia is dangerous enough that the SEATO organization should at least consider some collective action?

Secretary MCNAMARA. I believe that the most effective assistance that can be given to southeast Asia today is assistance to help its governments and its peoples to act in their own self-interest by developing more effective military resistance, and more effective economic and political resistance to the infiltrating Communists.

Mr. RHODES. You apparently don't think there is much of a threat posed by these infiltrating Communists. Do you think the Communist Chinese are going to suddenly pick up their marbles and go home? In other words, your optimism doesn't seem justified.

Secretary MCNAMARA. I believe that the southeast Asian nations, if effectively organized, can improve their capability to resist communism.

Mr. RHODES. Who is effectively organizing them?

Secretary MCNAMARA. We are helping South Vietnam to effectively organize.

Mr. RHODES. That is right. That is one. Now, what about others? Is anyone organizing the others?

Secretary MCNAMARA. The Thais have a long history of military capability. We are continuing to help them improve this capability through military assistance.

ACTION AGAINST COMMUNIST AGGRESSION

Mr. RHODES. Are we not actually putting these southeast Asian nations at the risk of being defeated in detail by not exercising the proper leadership, which would cause them to realize the danger to all of them caused by the danger to one?

Secretary MCNAMARA. I do not believe so. I think these attacks of covert aggression are attacks that can best be met by the government and peoples of the nation under attack. They do require training assistance. They do require logistical assistance. The action that should be taken to oppose the covert form of attack is quite different, I think, from the action required to oppose an actual overt aggression.

Mr. RHODES. Do you call this overt aggression?

Secretary McNamara. No, I do not; not in the normal sense of the word.

Mr. Rhodes. What is the normal sense of the word?

Secretary McNamara. I think the normal sense of the word is an overt military invasion in strength. This is a question of semantics, but that is the way I would define the term, overt aggression. I think it is generally recognized that is covert aggression. I never heard the term overt aggression applied to the aggression in southeast Asia.

Mr. Rhodes. Is aggression not aggression, regardless of what adjective you use?

Secretary McNamara. Yes; but I would say it is properly described as covert aggression, and requires a different type of a activity than if it were overt aggression in force.

Mr. Rhodes. Do you think there is any possibility that by the use of so-called proxy forces in the Asiatic area, Chinese nationalists, or perhaps South Koreans, in harassing the North Vietnamese, or the Chinese Communists, we could actually help the military situation in South Vietnam?

(Discussion off the record.)

COMMUNIST REACTION TO ECONOMICALLY DEVELOPING NATIONS

Secretary McNamara. Certainly not. The Communists are reacting to the economic development of South Vietnam and to the development, if you will, of a showplace of the Western World there across the border from North Vietnam, which has not developed nearly as well economically or politically as South Vietnam.

Mr. Rhodes. In other words, you think if South Vietnam had been allowed to remain the small backward country it was, this type of aggression would not have occurred?

Secretary McNamara. I am inclined to think it would not have occurred.

Mr. Rhodes. On what do you base your thinking?

Secretary McNamara. The indications that the North Vietnamese were much concerned by the unfavorable comparison between economic development in South Vietnam and North Vietnam.

Mr. Rhodes. Do you think this was also true of the aggression in North Vietnam when the Communists first moved in there? Was that some kind of a showplace also?

Secretary McNamara. You asked me the question about the action and reaction of the current situations throughout the world.

Mr. Rhodes. You gave a reason for saying that they are reacting to our action, not vice versa. I was exploring your reasoning.

Secretary McNamara. I would stay with the reason I gave. I think another illustration of exactly the same point is West Berlin where the very favorable economic and political developments led, not to Communist action, but Communist reaction. I think the situation is very analogous to the one I indicated in South Vietnam.

Mr. Rhodes. To what were the Communists reacting when they went into North Vietnam?

Secretary McNamara. I did not indicate they were always reacting. I said in the case of South Vietnam the Communists were not acting, but reacting.

Mr. RHODES. What about North Korea and South Korea? Was it the same thing?

QUESTION OF POSITIVE OR DEFENSIVE NATURE OF U.S. DEFENSE POLICY

Secretary MCNAMARA. I would want to think back and reconsider the circumstances at the time in more detail than I have in my mind at the moment. I would like to say this for the record: I do not believe, and I do not think it is well for our Nation to believe, that we are following a policy of reacting and only reacting to Communist action. Quite the contrary.

I think the President's program for the Alliance for Progress in South America and Central America is a very positive program of action; certainly not a reaction.

Mr. RHODES. We have gone around the world. I did not ask you anything about that.

Secretary MCNAMARA. You have raised the general point. I do want to emphasize that, as a nation, we are not in a defensive position. We are not in a position of only reacting. The action this Nation took to restore and rebuild Western Europe and build it to the strength it has today was not a reaction but an action. The program the President has for South and Central America falls in the same category.

Mr. RHODES. Did the Kennedy administration do that?

Secretary MCNAMARA. No, I am speaking of the Nation and its program over the last decade, as well as its program of today. I think it places us at a psychological disadvantage in our own minds to think we are always on the defensive. I do not think we are.

Mr. RHODES. Then I must confess to being at a tremendous psychological disadvantage because I think we are on the defensive, and I think we have been for some months. It would certainly do my heart good if I could feel otherwise.

Secretary MCNAMARA. We have added $14 billion to our defense budget in the last 2 years, and I do not think it was to place ourselves on the defensive.

Mr. RHODES. Those dollars are fine if they are used. The Chinese Nationalist Army is sitting on Taiwan and no one is using it. It seems to me if we would disregard this idea of allowing the Communists to live in utter peace in their own bailiwick and realize they are out for world domination and it is up to us to do what we can to keep them from dominating the world, and do it by whatever actions are available to us, a lot of people would feel better about the situation.

Secretary MCNAMARA. I feel we have a very positive program of action.

Mr. ALEXANDER. It seems to me as we think of the problem we should not leave the impression that the Communists only act, or react, to our program of economic progress because I think they have an overall program of domination, and whether we act or not, I think they are going to press forward their program at every opportunity wherever they may be.

I was getting the impression by what was said the Communists were reacting to things we have done. I agree with you, certainly our program has not been one to counteract, because these economic programs have been positive and with purpose.

COMMUNIST PROGRAM FOR WORLD DOMINATION

I would hate for us to leave the impression the Communists are just reacting to what we are doing and that they do not have an overall program of world domination irrespective of what we do.

Secretary McNamara. There is no question in my mind but what Khrushchev meant just exactly what he said on January 6 of last year when he embraced "wars of national liberation," which were basically wars of covert aggression and wars of subversion.

This is what General Lemnitzer referred to as the drive for world domination. There is no question about it. I do think in the case of West Berlin, and in the case of South Vietnam, we had very positive programs of action which led to, in part, Communist reaction. The particular point I want to emphasize, and I think it is worth emphasis, is that the Western World does have a positive program. We are not on the defensive.

Mr. Rhodes. You can sit there and say that, and I might believe it, but the actions and the results obtained from the actions are going to speak much louder than our words. I suppose history will have to be the judge of that.

I hope you are right. I really do. You do not believe we are on the defensive, militarily, or any other way?

Secretary McNamara. I do not.

I believe we are facing the drive for world domination that has been mentioned here, there is no question about that. I believe we are facing it with a strong positive program of action throughout the world, of which this military assistance program we are recommending is one important part.

EFFECT OF ECONOMIC AID IN COMBATING COMMUNISM

Mr. Rhodes. How do you envision the end of this struggle for world domination? What is going to happen?

Secretary McNamara. This is the sheerest conjecture, I am no better prepared to envisage this than anyone else. I believe that 10, 20, or 30 years from now the Soviets will have failed in their drive for world domination.

The emerging nations of Africa, Latin America, and southeast Asia, by that time, will have attained the levels of economic and political stability on which can be founded their longrun freedom.

Mr. Rhodes. That is a perfect statement of what has been called the policy of containment, is it not?

Secretary McNamara. I would not call it containment, no.

Mr. Rhodes. Would it be a fair assumption to state that if the Communists react violently to the prosperity of these small nations around the world after we have helped them, we are putting them in mortal danger of their independence by giving them economic aid?

Secretary McNamara. Certainly not.

Mr. Rhodes. In other words, you do not think South Vietnam was put in danger by the fact it became a showplace of the free world?

Secretary McNamara. I certainly do not.

Mr. Rhodes. Did I misunderstand you?

Secretary McNAMARA. The danger is always a comparative danger. The danger would have been a far greater danger had they not received the economic aid.

Mr. RHODES. I think I am quoting you correctly, you say the reason the North Vietnamese moved into South Vietnam was to do away with a showplace of the free world.

Secretary McNAMARA. Had there not been economic aid, and had they not become stronger economically, they would have been driven to communism by internal revolution of their own people. Therefore, the danger was less after economic aid than it would have been without it.

Mr. RHODES. You do not think there would have been any covert aggression?

(The reply was off the record.)

Mr. RHODES. In a showplace of the free world?

(The reply was off the record.)

Mr. PASSMAN. I want to state at this point, Mr. Secretary, that our objectives are the same—to provide adequate funds to carry out our commitments. To that end, I shall lend my best efforts, and I know the other members of the committee will do so also.

LAPSED FUNDS

However, I should point out that, almost every year, large amounts have gone by the board because funds, which could not be obligated, lapsed.

Frequently, we have found substantial amounts that had been obligated and later deobligated, or reserved and then dereserved.

REDUCTION IN 1962 BUDGET AND VALIDITY OF 1963 REQUEST

Last year on the very day I was standing before the full Committee on Appropriations asking for support in the amount of the reductions the committee had recommended, about $900 million, a letter was pushed under the door, by, I think, my dear friend, then an Assistant Secretary of State and a former Member of Congress, Brooks Hays. I know you felt, at the time, that you and the Secretary of State were giving us the facts as you understood them.

I want to insert that letter in the record at this point.

(The letter referred to follows:)

THE SECRETARY OF STATE,
Washington, September 1, 1961.

Hon. CLARENCE CANNON,
Chairman, Committee on Appropriations,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: We understand that your committee is today considering the recommendations of the Subcommittee on Foreign Operations with respect to the appropriation of funds for foreign assistance for the fiscal year 1962. These recommendations, according to our information, involve reductions amounting to approximately $900 million from the amounts authorized, or anticipated to be authorized, by the Congress.

We urge your committee to review with the utmost care the proposed reductions and to reinstate in full the amounts involved. This Nation finds itself in an atmosphere of mounting crisis in which the forces of international communism stand poised to seize upon every opportunity to exploit any sign of weakness in the free world. Recent months have witnessed increased pressure by these forces in every part of the world. Berlin, Laos, Vietnam, and the recent an-

nouncement by the Soviet Union of intention to resume nuclear testing are stark examples of the avowed intention of the Sino-Soviet bloc to press every possible advantage. In these dangerous times, the determination of the United States as the leader of the free world must be strengthened, not weakened; it must be constant and purposeful, not vacillating and aimless. Your action is being watched by peoples everywhere.

We believe your review of the subcommittee's recommendations should take into account the following factors with respect to each item involved and which we deal with in the order in which they appear in the legislation.

1. *Development loans.*—In enacting the 5-year authorization for appropriation for development lending, the Congress emphasized that the amounts authorized represented a floor and not a ceiling. This tool is without question a most important step forward in our foreign aid concepts. The amount of $1.2 billion is a conservative estimate. Clearly anticipated requirements for India, Pakistan and Brazil range from $700 to $800 million. A second group of 10 key countries will require between $300 and $400 million and there are additional major claimant countries (covered by pending applications of more than $300 million) for which loans will probably be warranted in fiscal year 1962 were the funds available.

2. *Development grants.*—The $380 million authorization includes $259 million merely to continue essential activities already in process. The balance (excluding $5 million for an excess property revolving fund) represents anticipated requirements for new activities. Eligible programs of $193 million have already been partially screened as to soundness. Development grants will be our principal instrumentality for assistance in 1962 in Africa where the need to develop human resources is most urgent. If the reduction recommended by the subcommittee is permitted to stand, it may well be impossible to meet this urgent need.

3. *Surveys of private investment opportunities.*—This new technique involving $5 million should be given an opportunity to demonstrate its value not only for increasing the contribution of technical skills from industry but also for saving the taxpayers' dollar through increased private investment.

4. *Supporting assistance.*—The proposed additional cut in this category of assistance beyond the reduced authorization is most serious. Ten countries representing key nations around the perimeter of the Sino-Soviet bloc, together with nations in which the United States has important base rights, will alone require over $500 million. The amount originally requested for this category of assistance was based upon a searching analysis by the executive branch. It represented a reduction of over $200 million from amounts available for the same purpose last year and constituted a minimum figure for anticipated needs. Administration witnesses made clear that we may well have erred on the side of too great a reduction.

5. *Contingency fund.*—We view with equally deep concern the cut in this item, particularly in view of the extensive cut already made in the administration's request by the authorizing legislation. The coming months will be most difficult ones and it is likely that there will be several occasions where there will be a paramount need for having funds available on short notice. This need will unquestionably be accentuated because of the reductions in supporting assistance already made by the authorizing legislation.

6. *Military assistance.*—The $585 million cut, from the $1,885 million requested by the President, would in fact reduce by more than 50 percent the amount available for improving the forces of key threatened allies on the flanks of NATO and in southeast Asia, whose resources are inadequate. This is so because $1 billion must in any event be used to maintain existing forces and meet fixed charges. Thus, these cuts would mean, quite literally, that NATO and Far East countries could not achieve adequate military forces at the very time when both areas confront a crisis in confidence, and when NATO has agreed on the need for a firm posture to meet the Berlin situation. The cuts in this category in particular could all too easily be interpreted among our allies in the entire free world, and in the Kremlin and Peiping, to mean that U.S. will and resolve have weakened. Particularly in the face of Soviet behavior or recent days, the concrete and psychological results would be serious if not disastrous.

7. *Administrative expenses.*—Keyed to the transitional nature of the operations of the AID Agency during 1962, the $50 million authorized represents only an annualization of existing administrative costs. Reductions stemming from our anticipated critical scrutiny of these costs can be expected to be offset by expanded operational requirements, for example in Africa and Latin America.

Although action on the authorizing legislation for the Peace Corps has not yet been completed, we urge you to be prepared to appropriate the full $40 million requested. This amount will permit only 2,700 of the large numbers of qualified applicants to begin their service by June 30, 1962. To cut the requested amount would call into question the promise of this exciting new program which has evoked a most favorable response at home and abroad.

We are not aware of any other contemplated reductions nor are we informed of restrictive provisions which may have been recommended by the subcommittee. We urge you to exercise the utmost restraint in these respects and not to interpose unwise or unnecessary barriers to the achievement of our essential national objectives.

In summary, it is our belief that the cuts proposed by the subcommittee would greatly increase existing risks to the political and military position of the free world in the face of the Sino-Soviet threat, and thus clearly and directly to the vital national interests of the United States. The House and Senate have just worked out authorizations that represent in the aggregate an 11-percent reduction from administration requests. A workable program can still be mounted with these amounts. It cannot be done with the cuts proposed by the subcommittee.

We urge that the committee play its role in helping the United States to meet its responsibilities, unreservedly and convincingly, by recommending appropriations equal to the amounts authorized.

Sincerely yours,

DEAN RUSK, *Secretary of State.*
ROBERT S. MCNAMARA, *Secretary of Defense.*

Mr. PASSMAN. We were given an estimate of approximately $100 million of recoupments. As we suspected then, and mentioned, in prior years these amounts had substantially exceeded the estimates.

I refer to the last paragraph on page 2 of the letter of September 1, 1961, signed by the Secretary of State and Secretary of Defense:

Military assistance.—The $585 million cut, from the $1,885 million requested by the President, would in fact reduce by more than 50 percent the amount available for improving the forces of key threatened allies on the flanks of NATO and in southeast Asia, whose resources are inadequate. This is so because $1 billion must, in any event, be used to maintain existing forces and meet fixed charges. Thus, these cuts would mean, quite literally, that NATO and Far East countries could not achieve adequate military forces at the very time when both areas confront a crisis in confidence, and when NATO has agreed on the need for a firm posture to meet the Berlin situation. The cuts in this category in particular could all too easily be interpreted—among our allies in the entire free world, and in the Kremlin and Peiping—to mean that U.S. will and resolve have weakened.

What happened?

The committee recommended $1.3 billion, and by amendment on the floor this was increased to $1.6 billion. We find now that you propose to obligate $1.931 billion, and you uncovered, deobligated or dereserved money in the amount of $317.7 million to add to the $1.6 billion that the Congress appropriated.

Then, we follow through and you estimate that in addition to the $317 million you deobligated, or dereserved in fiscal year 1962, you anticipate that you will have an additional $204.6 million of deobligated, or dereserved, funds available for obligation in fiscal year 1963.

We find now that there was a half billion dollars available for obligation in subsequent years which we did not know anything about last year.

So, what assurance does the committee have, in this $1.931 billion, that you do not have a similar amount of "fat," which you will deobligate, or dereserve, in subsequent years for new obligations, or reservations?

This is not a new item with which we have to contend. It would appear that there is laxity somewhere. We are trying to get the answers.

Secretary McNamara. I would say, the best assurance I can give you is the record of fiscal responsibility. This committee charged me with irresponsibility last year in recommending a contingency, or a drawdown authority, of $300 million. Some charged me with presenting that as a means of avoiding a request for new obligational authority.

I think the record is perfectly clear. We have not drawn that down. We have not used it as a substitute for new obligational authority.

Second, we have for the first time, thoroughly scrutinized the spare parts obligations and squeezed out of them the recoupments which you have referred to.

Third, we had an authorization for $1,700 million for fiscal year 1963, and we have requested only $1.5 billion.

These three actions, plus the other actions we have taken, I submit, indicate a record of fiscal responsibility in the management of the Department which we propose to continue.

I think that is the best answer I can give to you. I would, however, go back to the figures you cited, and state that I fully believe that the last paragraph of that letter is as true today as it was then, that had the program been cut to $1.3 billion, we would have suffered substantially.

The amount of money which we have spent in fiscal year 1962, $1.931 billion, is very close to the amount of the program we presented to this committee last year, $1.885 billion. And had the appropriation remained at $1.3 billion, we would have had to take $300 million out of the program which has been followed.

I have examined the program many times, and wondered where we would have taken that $300 million without seriously weakening our military assistance program. I have yet to find any area where we could have taken $300 million without seriously adversely affecting our security. I believe the last paragraph is true today as it was written.

Mr. Passman. I do not believe the committee made such an assertion as you indicate in your statement.

My question simply resolves around the past record. We have in prior years found similar large unobligated balances. In 1 year the program lost $438 million, which the Department could not even find a place to reserve.

If you have found, from the time you appeared before the committee last year up to this time, $500 million of funds provided in prior years which were obligated, and you now deobligate, and can reobligate, what assurance do we have, other than a perfectly honest statement which you have made, and as many other witnesses have previously made through the years, that the amount requested is the minimum with which you can reasonably operate?

What assurance do we have that there is some new and valid reason to believe there will not be a repetition of "fat" in the program, in the nature of these large balances which you deobligate, and then use in subsequent years?

Secretary McNamara. I have had an opportunity, and have taken an opportunity, to intensely review the details of past obligations myself. I am not prepared to say there will not be further squeezing out

of obligations and reuse of those. But I will say the program under General Palmer and Mr. Bundy and myself received intensive review.

We are exercising what I consider to be a high level of fiscal responsibility.

Under these circumstances, I can consider it would be much to the disadvantage of this Nation and its military program were the amount to be cut below the $1.5 billion which we request.

This is not to say we will stop our actions to try to recover, or recoup, from the unexpended balances of the past funds which may be reused for the future, and if we do, we will reduce our new obligational authority request as we have done this year.

As Mr. Ford knows, in the presentation we have made to the Subcommittee on Appropriations relating to the other portions of the defense budget, we have literally recouped several hundred million dollars and allied it to a reduction in the new obligational authority we requested from the committee. We propose to do the same thing in this case.

This is the first time in recent MAP history that the recoupments have ever been displayed openly in this fashion in relation to a future program.

Mr. PASSMAN. Fund cuts have been rather substantial in prior years, evidently with no damage to the program, because money is coming back all the time.

I shall not go into the detail, but it would appear that, somewhere along the way, some of the officers or civilians, or some of the manufacturers, have been rather lax in suggesting the levels needed for the military; otherwise, there would not have been the huge sums that lapsed because you could not reserve them—a half-billion in one year which could not be reserved.

After the strong testimony by all the witnesses last year, including yourself and the Secretary of State, to find now that a half-billion dollars has been located which you can use, $300 million-plus for fiscal year 1962 with an additional $200 million to apply to fiscal year 1963, I believe you will agree that I asked a pertinent question.

U.S. BALANCE-OF-PAYMENTS DEFICIT

The balance-of-payments deficit, the continued depletion of our gold reserves, and our soaring public debt are, of course, reasons for deep concern.

I want to be perfectly fair about it. If I do not use diplomacy in getting my points over, it is not that I want to be discourteous. I wish you would have another look at the past record, because fine, outstanding witnesses have made the same statements, to the point, yet the same type of situation has regularly developed.

Secretary MCNAMARA. May I respond to your question in two ways?

First, I do not know of any action that can be taken by Defense to reduce the adverse balance of defense payments than is not being taken. We are acting to reduce it. It was running at $3 billion gross in fiscal year 1961, with an offset of about $375 million, for a net of about $2.7 billion.

I believe we will be able to reduce that for fiscal year 1963 to a level of about $2 billion, a very substantial reduction. This is the result of

a whole series of actions directed to reducing the adverse balance of payments associated with defense operations.

The military assistance program, itself, depending on how you calculate it, can result in a smaller or a larger favorable balance of payments. Offshore procurement, plus the other expenditures entering the balance of payments associated with it amount to approximately $300 million a year. Offsetting this are direct and credit military sales under the Foreign Assistance Act which are expected to amount to over $600 million for fiscal year 1963. In addition, sales by the U.S. private suppliers to foreign governments in excess of $400 million are anticipated.

So the actions associated with military assistance have a very favorable effect on the balance of trade.

On the specific points you raised, the necessity for eliminating any water in the reserved or obligated balances, I fully accept. I think the action that was taken last year indicates the attention we are paying to that, and to the efforts we are making to reduce the unexpended balances by whatever amounts that can be eliminated from them.

I think the fact we have openly and clearly shown the potential or estimated recoupments for fiscal year 1963, deducted it from the amount of the program, and asked, therefore, for new obligational authority of only the remaining difference—$1.5 billion in this case; $200 million less than the authorization level—indicates our intention to apply high fiscal responsibility to the management of this program. I pledge to you that we will do so.

Mr. PASSMAN. Thank you, Mr. Secretary. I do have a valid point, do I not?

Secretary MCNAMARA. I am quite happy to have you probe the matter as you will. We are delighted to have any assistance from the committee we can on this point.

Mr. PASSMAN. You found $500 million since your appearance last year and since your letter to the full committee. So, is there not sound reason to inquire concerning this tremendous amount of money which was deobligated?

Secretary MCNAMARA. I would be very happy to have you discuss the matter further.

Mr. PASSMAN. I think the record will show that this is an important matter. It is the responsibility of this committee to go into it.

DOLLAR CREDITS EARNED BY AID RECIPIENT NATIONS

It is my understanding that practically every nation receiving military aid, or any type of aid, with the exception of the new nations of Africa, earn substantial dollar credits from their exports. A good part of those dollars normally would be used to purchase something that is produced in the United States.

If we make dollar credit available to those nations, and they use these dollar credits to purchase military hardware or other American manufactured or raw materials, it releases to that country, or to those countries, their dollar earnings from their exports to spend in such manner as they may see fit.

DECREASE IN U.S. GOLD RESERVES

We find that many of the nations which receive our aid are using the dollars that they earn, no doubt from their exports, to buy our gold. Our net loss of gold last year was $820 million—not only to European nations, but into Latin America and other parts of the world.

Our gold holdings have gone down from $23,252,000,000 at the end of 1952 to $16,974,947,000 as of December 31, 1961, whereas gold holdings of the so-called free world countries have gone up, in the same period from $13 billion to $23,683 million. Over the same period of years, Mr. Secretary, foreign-held short-term dollar assets of free world countries went up from $10 billion to $22,558 million.

DOLLAR AND GOLD CREDITS IN LATIN AMERICA

Something was mentioned about the Alliance for Progress program in Latin America, so let us take a look at Argentina, which in 1960 had a substantial portion of dollar assets invested in American securities earning interest. They used dollars to buy $50 million in U.S. gold in 1960. In 1961 we find that, again, they had sufficient dollar credits to buy an additional $90 million of our gold.

We must necessarily take into account the balance-of-payments deficit, as well as these other factors, in considering this request for funds.

EFFECT OF MAP ON BALANCE OF PAYMENTS

Secretary McNamara. Mr. Chairman, I think it is quite appropriate to take account of the balance-of-payments deficit in relation to military assistance. MAP does not contribute adversely to the balance of payments. Quite to the contrary, it has a favorable balance-of-payments impact. Secondly, 50 percent of the funds in the military assistance program goes to nations running an adverse balance of payments. The two most favorable gold positions in the world today, I believe, are in West Germany and France.

This program provides practically nothing for either of those nations. In each of those cases those nations are or are being encouraged to increase their purchases in this country. As I mentioned earlier, West Germany has increased military purchases in the United States. France is here today, General Lavaud spent part of the morning with me on discussions of exactly the same subject.

RELUCTANCE OF WEST GERMANY TO CONTRIBUTE TO AID PROGRAM

Mr. Passman. Mr. Secretary, an influential German national came this week from the German Embassy to see me. He said that he was also going to the White House.

He indicated, and said he would commit it to writing, that it will be the position of his Government, which, as he described it, by persuasion, entered into a foreign aid program about 4 years ago—and it had so upset their economy that they had a $2 billion deutsche mark balance-of-payments deficit last year—to reduce their program by two-thirds this year.

GOLD HOLDINGS OF FREE WORLD COUNTRIES

At this point, I believe it would be appropriate for me to insert in the record a tabulation which I have compiled with relation to United States and free world gold holdings, foreign-held short-term dollar assets, the U.S. balance-of-payments position for the past 10 years, and the gross public debts of countries of the world.

(The information follows:)

Gold holdings (free world countries)

U.S. gold holdings on Dec. 31, 1952	$23,252,000,000
Net outflow of gold from United States, 1952 through 1961	−6,305,000,000
U.S. gold holdings on Dec. 31, 1961, reduced to	16,947,000,000
Gold holdings of other countries on Dec. 31, 1952	13,028,000,000
Net gold increase by other countries from 1952 through 1961	+10,655,000,000
Gold of other countries on Dec. 31, 1961, increased to	23,683,000,000

Foreign short-term dollar assets (free world)

Foreign dollar holdings on Dec. 31, 1952	$10,546,100,000
Increase in foreign dollar holdings from 1952 through 1961	+12,011,900,000
Foreign dollar holdings on Dec. 31, 1961, increased to	22,558,000,000

U.S. balance of payments position

1952 net deficit	−$1,100,000,000
1953 net deficit	−2,100,000,000
1954 net deficit	−1,500,000,000
1955 net deficit	−1,100,000,000
1956 net deficit	−1,000,000,000
1957 (only credit in 10 years)	+500,000,000
1958 net deficit	−3,400,000,000
1959 net deficit	−3,700,000,000
1960 net deficit	−3,800,000,000
1961 net deficit	−2,400,000,000
U.S. deficit from 1952 through 1961	−19,600,000,000

Gross public debts

U.S. public debt on Dec. 31, 1961	$296,168,761,214
Other free world countries (latest availabe figures)	195,883,000,000
U.S. debt exceeds debts of other free word countries by	100,285,761,214
U.S. debt exceeds all other countries of world by (approximately	23,710,500,000

Mr. PASSMAN. It is my viewpoint that the foregoing verified recapitulation indicates clearly that the outflow to foreign nations of our gold and dollars must be reduced drastically or our generosity could wreck our own economy.

Mr. Ford?

RECOUPMENT OF FUNDS

Mr. FORD. I think the chairman makes the point that when Congress cuts an appropriation bill, whether it is for the military or for this, that thereafter you should not have any recoupments and if you do have recoupments it is indicative that there has been mismanagement or poor estimates at the time the budget was submitted.

I think it is interesting to note on this point that, starting with fiscal year 1956, and I think running through fiscal year 1961 in the Defense appropriation bill, the Congress cut below President Eisenhower's budget submissions about $3 billion. During that same period of time, in the military, as I am sure you are familiar with, Mr. Secretary, there were recoupments generated either by cancelations or better prices obtained than were estimated at the time the budget figures were submitted.

Don't you feel, Mr. Secretary, that finding recoupments in itself is indicative of good management?

Secretary McNamara. As I mentioned earlier, I strongly believe that. From my point of view, instead of feeling ashamed or apologetic of the recoupments that Mr. Bundy and General Palmer and their staffs have isolated, located, and identified during the past year, I think they are to be congratulated. I feel particularly the Department is to be congratulated for estimating the amount of recoupments, not only the amounts in fiscal year 1962, but the prospective amounts of fiscal year 1963. We, therefore, have shown the effect that those recoupments have had upon our appropriation request for fiscal year 1963. We have actually reduced the requested new obligational authority to take into account still unidentified recoupments for that 1963 period.

I therefore fully support the point you are making.

Mr. Passman. Would you gentleman let me protect myself at this point as to the prior statement? I brought up the matter simply because we have this type of inquiry every year and we try very hard to find out the amount of funds that might be available from deobligations. For us to be told that $100 million would be about the maximum from this source, and then to find there is $500 million, this indicates, as I view it, either poor planning or an inaccurate presentation as to the firmness, or soundness, of the justifications.

I thank the gentleman.

Mr. Ford. I think it would be the grossest kind of mismanagement for anybody to keep obligations on a particular program—weapons system or anything else—just to maintain the sanctity of a contract or a program.

It is my feeling that it is not mismanagement where you find a changed circumstance to deobligate or to cancel a contract so that you are buying what you need, not what you thought you needed a year or two before.

Mr. Passman. I thoroughly agree with the gentleman's statement. If we should operate our entire Government on such a basis, our public debt would not be around $300 billion. I cannot help but believe that we should endeavor to operate the affairs of Government on a businesslike basis, and this throwing in 15, 20, or 25 percent extra on the budget is just not my way of operating. I will have to argue against such practices as long as I am on the committee. There is too much money to play with here. It seems that, to start with, the estimates were too high. Had the estimates not been too high you would not have had this kind of money to be deobligated, not only this year, but in prior years.

I think the gentleman does not intend to distort the meaning of my remarks.

Mr. FORD. As I said, we have had instances in the U.S. military of recoupments over the last 3 or 4 years, to my own knowledge, and they have been generated and used in subsequent fiscal years and used validly. I applaud the use of recoupments. I would certainly condemn anybody who maintained the sanctity of a program or a contract because it had been made at some previous date.

How far back, if you can give it now, Mr. Secretary, does this $205 million relate for recoupments which you are going to use in fiscal year 1963?

Secretary MCNAMARA. The $205 million, of course, has not been identified. I think this is the important point. We have carried on an intensive review of the unexpended balances as of the beginning of fiscal year 1962. The recoupments to date are $150 million—not $500 million—the identified recoupments. I believe this is the important point. I believe I am correct in that.

It is $150 million to date, but the work that has been done indicates that if we pursue that further we have a chance of achieving the recoupments that we have estimated for 1962 and the $205 million for 1961. As I stated in my prepared statement, the $205 million for 1963, because it has not been identified, may be an optimistic estimate. Frankly, I would rather be optimistic at this point, and understate the new obligational authority required rather than the reverse.

This has been the policy we have followed.

I cannot answer your question directly because we have not identified the elements of the $205 million.

Mr. PASSMAN. It is indicated in your books, though, that you will have a total of $522,300,000. You had $317 million applicable to fiscal year 1962. You anticipate $204,600,000 that you can use in fiscal year 1963. If you put the two together, I believe it will be around $522,300,000.

Secretary MCNAMARA. It will if we are successful in isolating that much of the unexpended balance, which is no longer required for its initial purpose and which, therefore, may be canceled.

I think I would wholeheartedly support Mr. Ford's conclusion, that this is what you should expect of us. We should constantly be reviewing the program and, moreover, not only should we be constantly reviewing it, but we should anticipate that such reviews will result in cancellations for the future. Therefore, we should reduce the new obligation authority by those probable reductions.

This is what we have done. It is dangerous in this sense in that if we are overly optimistic on the $205 million and we achieve cancellations of only $150 million, we are going to be short new obligation authority of $55 million. I think that is a reasonable approach that we have taken.

I think it is the kind of approach you have a right to expect of us. We will therefore carry it out.

Mr. FORD. Mr. Secretary, if it is not available now, I think it would be helpful for the committee if we could have an indication of the source of these recoupments.

Secretary MCNAMARA. Yes.

Mr. FORD. Not on a contract-by-contract basis, but something that is fairly concrete in this area.

Secretary MCNAMARA. Surely. I would be very happy to give you that.

I think we could do it first for fiscal year 1962; that is to say, the $317.7 million. It will be the end of the fiscal year before we are able to do it for you. There is only $150 million of the $317 million identified to date. The remainder is what we expect to achieve as we continue our review of these past actions. The $205 million, and an analysis of that I think, would have to wait until 1963 as we proceed through the year.

Mr. FORD. If you could submit the ones you can identify, it would be helpful to give us a feel of precisely what you are doing and what you are not doing.

Secretary MCNAMARA. I would be very happy to do so.

(The information requested follows:)

Military assistance program

[Millions of dollars]

	Total	Actual (as of Mar. 20)	Anticipated
Fiscal year 1962 recoupments:			
Cancellation of P2V-7 (Portugal)	11.6	11.6	----------
Cancellation of C-54 aircraft (Portugal)	2.1	2.1	----------
Cancellation of DAVY CROCKETT (Europe)	2.0	2.0	----------
Cancellation of TERRIER/TARTAR (Netherlands)	11.7	----------	11.7
Unrequisitioned prior-year programs (mainly consumables and spare parts)	164.2	72.6	91.6
Miscellaneous deletions, cancellations, price reductions, availability from excess, and program adjustments	126.1	63.0	63.1
Total	317.7	151.3	166.4
Fiscal year 1963 recoupments:			
Unrequisitioned prior-year programs (mainly consumables and spare parts)	95.0	----------	95.0
Miscellaneous deletions, cancellations, price reductions, availability from excess sources, and program adjustments	109.6	----------	109.6
Total	204.6	----------	204.6

FIRMNESS OF PROGRAMS OUTLINED IN 1963

Mr. FORD. In the past, at least in part, some of the justification has been predicated on illustrative programs. This is more true in the economic than in the military.

For fiscal year 1963 in the military we are talking about concrete programs, not illustrative programs?

Secretary MCNAMARA. We are talking about absolutely concrete programs, with certain, I would say, minor exceptions. We have, for example, in the detail, ——— for South Vietnam. At the time the book was printed, or at least developed for printing, that was the concrete program for South Vietnam. We recognize that there was a possibility that additional funds would be required. Therefore, we listed under Far East a special section in which we included areawide programs listed as special southeast Asia programs ———. That was not a program shown in detail. It was not a concrete program in the sense in which you use the term. Since the time this program was initially prepared several months ago, the requirement for southeast Asia has risen by between ——— for South Vietnam ———; therefore, a large part of that southeast Asia program, which had been, in a sense, a general reserve, is now known to be re-

quired for specific purposes. With that exception and one or two other exceptions, these are all concrete detailed programs.

Mr. FORD. In other words, if we approved every dollar that is requested here and you do generate the $205 million of recoupments, what we have seen or will see in the justification books will be hard programs.

Secretary MCNAMARA. They will be hard programs; yes. I hope that we might make a few adjustments downward in certain of these hard programs, in effect, running counter to the recommendations of our unified commanders, because I am certain that as the year goes by contingencies will develop that we have not anticipated. Before I draw on the $300 million drawdown authority to take care of those contingencies, I would like to take every possible action within the limits of these hard programs, squeezing them down a little further if necessary to try to cover these contingencies.

REPROGRAMING PROCEDURES

Mr. FORD. You are familiar, of course, with the reprograming procedures which we have in the Military Appropriations Subcommittee.

Secretary MCNAMARA. I am.

Mr. FORD. Would you see any disadvantage now that we have hard programs to a reprograming procedure in this area similar to one we have in the other?

Secretary MCNAMARA. I have thought some about that because the reprograming procedure is working very well from my point of view with respect to the other portions of our budget. I think it is quite a reasonable procedure to apply to the budget.

I have as yet not been able to figure out how such a program could be applied to the military assistance program. I have asked Mr. Hitch to give further thought to it. Neither of us have yet been able to develop the ground rules under which this would take place.

The situation changes so rapidly in these foreign countries—witness the fact that in South Vietnam alone we have a shift of almost 100 percent in a period of really 8 to 10 weeks—that we have not found the reprograming technique that could be applied successfully.

Mr. FORD. Except that if these shifts do take place it destroys the validity of the hard programs that you submit.

Secretary MCNAMARA. Let me illustrate the point of what I am thinking.

(Discussion off the record.)

Mr. FORD. The procedure would not necessarily have to be identical to the one used in the other subcommittee.

Secretary MCNAMARA. I realize that.

EFFECT OF CHANGING CONDITIONS

Mr. FORD. It seems to me now that we are concentrating on so-called hard programs that it would be beneficial to the chairman and to the committee as a whole to know when significant changes do take place; whether it would require prior committee action or prior approval by the chairman I do not know, but I have always been disturbed in the foreign aid program with this broad presentation, with-

out getting down to specifics. I gather from what you have just said it is likely to be the same in the forthcoming years where you have shifting international conditions that justify some modification in the execution from the congressional presentation or justification. It is my feeling that the Congress ought to know when those changes take place. I would suggest, Mr. Chairman, that some mutually agreed program be worked out so that you and the other members of the committee do know of significant shifts between the justification and the execution.

EXPLANATION OF TERMINOLOGY FOR HARD PROGRAM

Mr. PASSMAN. In that connection, if the gentleman will yield, with reference to this new terminology, "hard program," I do not see it in any of the statements or in any of the books or justifications.

Mr. FORD. Blame it on me, Mr. Chairman. I used the term.

Mr. PASSMAN. You applied a description, "hard program," but it is the same program to the same countries as in the past. If we say you are tightening up, having a closer look at these programs, would that fit the case, rather than a hard program?

Secretary MCNAMARA. No, sir. I share Mr. Ford's point of view.

Mr. PASSMAN. Where do we find a hard program? Is it not a matter of trying to give closer scrutiny and better management to the operations?

We are not going to let it appear, so far as I am concerned, that this is a new approach—a "hard program," so infallible that you cannot make any adjustments. There is nothing in the record to support such a claim. It is a question of words as far as I am concerned.

REDUCTIONS IN SUPPORTING ASSISTANCE

Mr. FORD. Mr. Secretary, at page 12 of your statement you say:

> As a result we in the executive branch have made the most stringent efforts over the past year to reduce supporting assistance wherever possible and to insure that the amounts requested are in fact absolutely essential, either for the military budget support, or for some valid political or economic purpose.

What do you mean by "some valid political purpose"? Could you give us some example?

Secretary MCNAMARA. These are matters I would believe could be applied to more authoritatively by the State Department, because it is under their administration that the supporting assistance is administered.

At times it becomes desirable in our national interests to supply supporting assistance, for example, to obtain continued use or access to certain military bases, and that would fall within the terms of that statement. But the specific instances, while I could recite certain of them too, they would be from memory. They do not fall under my administration and I believe therefore you could obtain more accurate information on them from the State Department.

SECTION 510

Mr. FORD. Is the administration requesting the renewal of section 510?

Secretary MCNAMARA. Yes, Mr. Ford, we are.

Mr. FORD. On what basis?

Secretary MCNAMARA. On the grounds that, again, the future is quite unclear. We have, as I have suggested, requested appropriation authority or new obligation authority for $1.5 billion, $200 million less than the authorizing authority and based upon recoveries of some $205 million in past years, this indicating the efforts we have made to hold down the new obligation authority to an absolute minimum.

Under these circumstances with an uncertain future it seems highly desirable to us to reinstitute section 510 and provide for the emergencies that we may face in the future.

Mr. FORD. You haven't used any section 510 authority so far in fiscal year 1962?

Secretary MCNAMARA. We have not.

Mr. FORD. Are you contemplating using any?

Secretary MCNAMARA. I hope it wouldn't be necessary to use it. I believe it will not be necessary to do so.

Mr. FORD. In the request by the executive for the renewal of extension 510 are you asking that on a 1-year, or a permanent basis?

Secretary MCNAMARA. One year. I believe it would be wise to retain it as a permanent feature of the legislation, but I am quite willing to see it renewed on a 1-year basis and each year returned to stand on the record of its use in the past year.

Mr. FORD. You know it is awfully hard to get something off the statute books once it is permanent. Since this does apply to an annual problem it would seem to me that it ought to be approved legislatively speaking, if it is approved, on a 1-year basis.

Secretary MCNAMARA. I am quite willing to see it done that way and we will endeavor to operate in such a way as to lead you to feel justified in renewing it each year.

Mr. FORD. Can this committee have your personal assurance that you have examined the $1.5 billion request for new obligational authority and the program of $1,705 million, including recoupments that we have before us?

Secretary MCNAMARA. You can and I think my associates would support that unanimously.

Mr. FORD. From this personal examination, you subscribe unequivocally to the request for $1.5 billion in military assistance for fiscal year 1963?

Secretary MCNAMARA. Yes, sir, without qualification.

Mr. FORD. That is all, Mr. Chairman.

Mr. PASSMAN. Mr. Secretary, has it not been true that your predecessors have carefully examined these programs and presented their best recommendations every year?

Secretary MCNAMARA. Mr. Chairman, I think they would have to speak for themselves.

Mr. PASSMAN. That does not imply an indication that they have been careless in this respect?

Secretary MCNAMARA. Certainly not.

Mr. PASSMAN. We are going to let the record speak for itself.

Thank you very much.

Secretary MCNAMARA. You are welcome.

FRIDAY, MARCH 23, 1962.

Mr. PASSMAN. The committee will come to order.

We continue this afternoon the hearings on the request for funds for the military assistance program. We are pleased to have with us again Gen. W. B. Palmer, Director of the military assistance program.

General, we invite you to proceed with your statement.

STATEMENT OF DIRECTOR OF MILITARY ASSISTANCE PROGRAM

General PALMER. Thank you, Mr. Chairman and gentlemen.

It is a pleasure to be with you again, to report upon the past year and the proposed fiscal year 1963 military assistance program.

Without taking up your time to repeat what has been said by earlier witnesses, I shall discuss the military assistance program in general terms, covering the first portion of the presentation book, which is indexed as "Summary Statement." Later witnesses will deal with the program on the regional and country basis.

The military asistance program presentation book before the committee is very similar to that used last year. With the committee's permission I shall place pages 3, 6, 7, and 10 in the record respectively as exhibits A, B, C, and D accompanying this statement.

(The exhibits follow:)

EXHIBIT A

Military assistance, annual program comparison by category

[In millions of dollars]

	Fiscal year 1963 proposed	Fiscal year 1962 actual (as of Jan. 4, 1962)	Fiscal year 1962 congressional	Fiscal year 1961 actual
I. By category, total	1,729.6	1,931.8	1,885.0	1,929.1
Essentially fixed charges	395.1	373.3	376.3	312.1
Infrastructure	82.0	76.1	76.1	62.0
International military headquarters and agencies	12.9	11.6	11.3	10.4
Training	139.2	125.5	122.5	92.0
Supply operations and nutritional surveys	136.0	135.7	141.4	123.0
Administrative expenses	25.0	24.5	25.0	24.7
Force maintenance	566.5	602.2	740.7	627.5
Spare parts	204.6	194.6	340.6	354.3
Attrition, training ammunition, and missiles, repair and rehabilitation of equipment	259.7	291.3	292.5	147.7
Other consumables	102.2	116.3	107.6	125.5
Force improvement	768.0	956.3	768.0	989.5
Aircraft	205.9	331.9	258.1	253.5
Ships	109.5	97.1	49.4	113.7
Tanks, vehicles, and weapons	76.1	93.8	67.7	106.6
Missiles	61.3	160.8	135.6	214.5
Electronics and communications	71.5	62.5	18.4	91.8
Special programs	58.8	54.9	94.4	
Construction	69.0	67.0	59.6	63.4
All other	115.9	88.3	84.8	146.0
II. By area, total	1,729.6	1,931.8	1,885.0	1,929.1
Europe	314.4	413.2	414.7	543.8
Africa	37.6	30.4	48.2	25.0
Near East and south Asia	422.9	422.4	453.5	448.4
Far East	830.7	897.9	870.3	782.2
Latin America	77.0	76.1	68.4	53.8
Nonregional	47.0	91.8	29.9	75.9

EXHIBIT B

Military assistance funding, fiscal years 1950–63

[In millions of dollars]

Fiscal year	Appropriation	Net of reimbursements and transfers	Net new obligational authority (cols. 2+3)	Prior year unobligated/unreserved balance continued available	Total available for obligation/reservation (cols. 4+5)	Obligations/reservations	Expenditures	Unexpended balance	Unobligated/reserved		
									Continued available annual account	In credit financing special account	Returned to Treasury
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1950	1,314.0	0.1	1,314.1	----------	1,314.1	1,101.0	51.7	1,262.4	213.2	----------	----------
1951	5,222.5	.9	5,223.4	213.2	5,436.5	4,676.9	934.2	5,551.6	759.7	----------	----------
1952	5,744.0	−476.4	5,267.6	759.7	6,027.2	5,591.2	2,385.9	8,433.2	436.1	----------	----------
1953	4,219.8	−121.7	4,098.1	436.1	4,534.2	2,512.1	3,953.1	8,462.0	1,905.9	----------	116.2
1954	3,230.0	−10.9	3,219.1	1,905.9	5,125.0	2,383.7	3,629.5	7,733.0	2,422.5	----------	318.7
1955	1,192.7	−242.6	950.1	2,422.5	3,372.6	3,163.2	2,297.2	6,210.3	33.9	----------	175.5
1956	1,022.2	2.1	1,024.3	33.9	1,058.2	848.7	2,620.1	4,600.6	195.5	----------	14.0
1957	2,017.5	4.5	2,022.0	195.5	2,217.5	1,664.5	2,356.3	4,252.1	538.8	----------	14.2
1958	1,340.0	−22.7	1,317.3	538.8	1,856.1	1,828.3	2,189.8	3,373.3	21.5	----------	6.3
1959	1,515.0	27.8	1,542.8	21.5	1,564.3	1,512.2	2,368.1	2,548.0	30.6	21.5	----------
1960	1,300.0	57.2	1,357.2	52.1	1,409.3	1,358.4	1,635.4	2,269.9	23.7	27.3	----------
1961	1,800.0	2.4	1,802.4	50.9	1,853.3	1,786.9	1,466.2	2,597.7	14.2	43.8	8.3
1962 (estimated)	1,600.0	42.6	1,642.6	58.1	1,700.7	1,671.2	1,400.0	2,840.3	25.0	4.5	----------
Cumulative, 1950–62	31,517.8	−736.7	30,781.0	----------	30,127.8	30,098.3	27,287.5	2,840.3	25.0	4.5	653.2
Deduct: Amount used for economic assistance programs	839.0	68.6	907.7	----------	906.0	906.0	906.0	----------	----------	----------	1.7
Balance: Military assistance programs	30,678.7	−805.4	29,873.4	----------	29,221.9	29,192.4	26,381.6	2,840.3	25.0	4.5	651.5
1963 (proposed)	1,500.0	+24.0	1,524.0	29.5	1,553.5	1,525.0	1,424.0	2,940.3	25.0	3.5	----------

NOTE.—Amounts are rounded and may not add to totals.

Exhibit C

Reconciliation grant aid programs to military assistance funds (programs and funds)

[In millions]

	Annual programs				Estimated deliveries/expenditures from fiscal year 1950-62 programs		
(a)	Proposed, fiscal year 1963 (b)	Cumulative, fiscal year 1950-62 (c)	Fiscal year 1962 (as of Jan. 4, 1962) (d)	Fiscal year 1961 (e)	Fiscal year 1962 (f)	Cumulative through June 1962 (g)	July 1962 and after (h)
Grant aid program	$1,729.6	$29,207.1	$1,931.8	$1,929.1	$1,474.2	$26,255.9	$2,951.2
Anticipated recoupments during fiscal year 1963	−204.6						
Fiscal year 1950-62 undelivered programs to be canceled		−253.0					−253.0
Estimated recoupments during fiscal year 1962			−317.7				
Recoupments during fiscal year 1961				−120.6			
Estimated value of deliveries for which expenditures not processed by July 1, 1962						−47.4	47.4
Estimated value of fiscal year 1962 deliveries for which expenditures not processed during the year					−96.3		
Programs financed from President's contingency fund for which Defense does not have fiscal accountability		−15.0			−2.9	−15.0	
Grant aid military assistance funds	1,525.0	28,939.1	1,614.2	1,808.5	1,375.0	26,193.5	2,745.6
Military assistance funds (including reimbursements) used for credit assistance:							
(a) Under 1st sentence sec. 103c MSA 1954 (as amended)		84.5		.1	4.1	84.5	
(b) Under sec. 508 FAA fiscal year 1961 (as amended)	28.5	198.3	86.4	44.8	20.9	103.7	94.7
Military assistance funds	1,553.5	29,221.9	1,700.7	1,853.3	1,400.0	26,381.6	2,840.3

EXHIBIT D

Military assistance program (grant aid summary)

[In thousands]

Categories	Annual programs				Estimated deliveries/expenditures from fiscal year 1950-62 programs		
	Proposed, fiscal year 1963	Cumulative, fiscal year 1950-62	Fiscal year 1962 (as of Jan. 4, 1962)	Fiscal year 1961	Fiscal year 1962	Cumulative through June 1962	July 1962 and after
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Total	$1,729,645	$29,207,059	$1,931,783	$1,929,092	$1,474,196	$26,255,864	$2,951,195
Aircraft	302,999	5,801,233	414,724	433,670	217,267	5,185,517	615,716
Ships	121,830	1,749,928	108,224	131,138	85,936	1,527,328	222,600
Tanks, vehicles and weapons	165,377	6,625,150	206,427	219,605	117,999	6,317,797	307,353
Ammunition	118,888	3,912,854	80,877	85,807	53,436	3,796,802	116,052
Missile systems	100,720	1,320,534	194,408	227,745	168,782	891,613	428,921
Electronics and communications	99,794	1,807,795	100,461	138,520	62,709	1,594,405	213,390
Other equipment and supplies	273,660	2,644,532	281,647	213,451	299,227	2,152,472	492,060
Construction	69,028	405,515	66,969	63,438	59,854	328,844	76,671
Repair and rehabilitation of equipment	44,011	477,826	63,254	51,266	55,339	395,683	82,143
Supply operations	135,646	1,630,112	135,359	122,568	128,521	1,601,689	28,423
Training	139,205	862,313	125,410	92,016	98,309	773,964	88,349
Other services	158,487	1,969,267	154,023	149,868	126,817	1,689,750	279,517
Administrative expenses	25,000	282,345	24,500	24,674	25,150	276,908	5,437
Infrastructure	82,000	903,775	76,146	62,000	30,000	722,123	181,652
International military headquarters and agencies	12,900	71,104	11,561	10,430	10,835	64,726	6,378
Mutual weapons development program (MDWP)	10,000	288,015	10,000	30,739	19,440	230,607	57,408
Weapons production projects	11,100	122,463	5,800	14,993	22,900	106,649	15,814
Nutrition surveys	408	1,703	337	350	300	1,615	88
U.N. support in Korea	1,777	52,133	1,777	4,747	1,777	52,133	----------
Materiel contractor technical teams	14,952	29,457	23,602	1,579	15,879	16,810	12,647
Office of Inspector General	350	706	300	356	250	656	50
Other special projects and services	----------	217,566	----------	----------	286	217,523	43

Exhibit A gives a general comparison of the fiscal year 1963 program with those for fiscal year 1962 and fiscal year 1961. Exhibit B depicts the fiscal picture through the years, while page 7, exhibit C, is helpful in connecting this fiscal summary to the grant aid program.

Pages 8 and 9 of the presentation book present the military assistance program, and all of this large book which follows is in amplification of those two pages. For each line on pages 8 and 9 there is a backup section further on in the book.

RECOUPMENTS

In order to make a clear presentation it will be necessary to go back to last August 17, when I was before this committee. On that occasion the chairman pointed out that we were not accounting for recoupments in presenting the program, that we had reprogramed through recoupments a large amount of money for which we had offered no accounting (P. 1246–1248, fiscal year 1962 hearings). The criticism led us to give careful study to this question, and we

decided to present a program for fiscal year 1963 which would include not only new obligational authority and the small unobligated balance but also estimated recoupments.

Looking closely at the subject of recoupments soon led us to a decision to revalidate the content of the "undelivered" portion of past programs, particularly spare parts and other consumables, which, there was reason to believe, had been overprogramed in the past, as I shall discuss a little later.

By this review we are accomplishing a large "one-time squeeze-out" of dormant funds. The "normal" recoupments through price changes, cancellations and slippages are expected to be roughly $100 million a year. We have estimated, as appears on page 7 (exhibit C) that in fiscal year 1962 and fiscal year 1963 we can recoup not merely this $200 million but in addition pick up some $320 million more by the "one-time squeeze-out"; making total recoupments in the 2-year period of approximately $520 million. This estimate was deliberately made optimistic—that is, too big rather than too small—which reduces the request for new obligational authority. I do not anticipate that this "squeeze-out" will produce much above the normal recoupments in fiscal year 1964.

THE FISCAL YEAR 1962 PROGRAM

As a result of these analyses, we are currently working with a fiscal year 1962 grant aid program of $1,931.8 million, the resources for which are as follows:

	Millions
Fiscal year 1962 appropriation	$1,600.0
Reappropriated carryover from fiscal year 1961	14.2
Estimated recoupments in fiscal year 1962	317.7
Total	1,931.8

THE PROPOSED FISCAL YEAR 1963 PROGRAM

For fiscal year 1963 the President has requested $1,500 million of new obligational authority, which is $385 million less than was requested last year, and $100 million less than was appropriated last year.

The fiscal year 1963 military assistance program we propose totals $1,729.6 million, composed as follows:

	Millions
Fiscal year 1963 appropriation request	$1,500.0
Estimated unobligated carryover from fiscal year 1962	25.0
Estimated recoupments during fiscal year 1963	204.6
Total	1,729.6

It is requested that the unobligated/unreserved balance from fiscal year 1962 be continued available in fiscal year 1963. The unobligated unreserved balance consists of whatever remains in the various direct citation accounts when the books are closed at the end of the fiscal year. It is never possible to anticipate exactly how much money actually will be spent for training spaces, for shipping costs, and for other costs in which allocation must be made to the three Departments and further suballocation made by them; as a result, something remains unobligated in each of these accounts. The exact amount is not known until all the books have been closed and balanced.

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It is estimated that $25 million will remain unobligated in this way at the end of fiscal year 1962; in recent years this unobligated balance has been of approximately that size each year:

	Millions
Fiscal year 1958	$27.8
Fiscal year 1959	30.6
Fiscal year 1960	23.7
Fiscal year 1961	22.5

It is estimated that expenditures in fiscal year 1963 will be $1,424 million, and the unexpended balance on June 30, 1963, will be $2,940.3 million, as shown on page 6 (Exhibit B).

PROGRAM INFORMATION

As shown in exhibit F, 58 countries are programed for some amount of grant aid in fiscal year 1963; there were 57 in 1962 and 56 in fiscal year 1961.

I should interject here, Mr. Chairman, that fiscal year 1962 programs are still pending and have not actually been established for some 6 countries.

Mr. PASSMAN. Programs for fiscal year 1962?

General PALMER. This fiscal year; yes, sir.

The fiscal year 1963 program for 8 countries is limited to a small amount for training (plus in 4 cases, some shipping costs for deliveries against prior year programs).

Since last year's presentation to the committee, fiscal year 1962 programs were added for Cameroun and Mali, and small programs for the Dominican Republic and for several other new African countries may yet develop in the present fiscal year fiscal year 1962. This is in conformity with forecasts made in last year's hearings (pp. 1221 and 1292, fiscal year 1962 hearings).

The total of equipment and supplies in the proposed program is $1,183 million. It is estimated by the services that 22 percent of the dollar value will be in equipment and supplies coming out of stock, and 78 percent will come from new production.

In addition, it is estimated that excess defense articles as defined in section 644(g), Foreign Assistance Act of 1961, with an original acquisition value of $48.18 million, will be furnished for the cost of rehabilitation. (Presentation book, pp. 31–33.) The estimated cost of rehabilitation is $12 million or 25 percent of acquisition value. The variation in rehabilitation costs is wide; it is generally 1 percent for ammunition items; for weapons it averages 20 percent; for aircraft it averages 27 percent. These percentages are refinements of those I gave the committee last year.

PERCENTAGE OF MATERIEL STILL SERVICEABLE

Last year I gave the committee an estimate of what percentage of the total materiel distributed by the military assistance program was still in serviceable condition for use on June 30, 1960, remarking that it would be expensive and difficult to determine this with real accuracy (pp. 1202 and 1210, fiscal year 1962 hearings). Recently I requested a new estimate as of 1 year later (June 30, 1961) from the MAAG's of the same 37 countries. These were reviewed by the unified com-

manders, and the result is summarized in exhibit G. As of June 30, 1961, $20.8 billion worth of supplies and equipment had been delivered to these 37 countries, and the estimates indicate that 64.2 percent remained in serviceable condition in the country inventories on that date.

SALES

Pages 15–18 of the presentation book depict the extent to which countries have been purchasing U.S. military equipment by direct purchases from the military departments under section 507 and by sales with MAP credit assistance under section 508 of the Foreign Assistance Act of 1961 and the previous MSA legislation.

In the category of direct sales under section 507, cumulative orders fiscal years 1950–62 total over $3.1 billion, of which $1.9 billion worth will have been delivered by June 30, 1962. At the time this book was prepared, we estimated that in fiscal year 1963 direct sales will approximate $600 million. At the present moment it appears the direct sales may be considerably more than that. Advance estimates of direct sales are highly speculative.

In the category of purchases with credit assistance under section 508, the cumulative total fiscal years 1950–62 was $279 million, of which $190 million worth will have been delivered by June 30, 1962. In fiscal year 1963 we estimate there will be $28.5 million available in the credit financing special account. At this date, applications for credit assistance in fiscal year 1963 total $25 million, which would leave $3.5 million available in the special account "for the purpose of furnishing military assistance on cash or credit terms."

Of the 57 countries which received some amount of grant aid in fiscal year 1962, 49 obtained part of their needs by cash purchases from the U.S. Army, Navy, and Air Force under section 507. Four of that 49 also made purchases using credit assistance under section 508.

The committee has already heard testimony that military assistance sales to foreign countries by the U.S. Army, Navy, and Air Force under the provisions of section 507, Foreign Assistance Act of 1961 will produce a flow of dollars into the United States which will exceed by several hundred million the outflow of dollars caused by military assistance spending abroad.

MANAGEMENT OF THE PROGRAM

MAP ORDERS AND RESERVATIONS

The MAP reservation account as a method of controlling the military assistance appropriations was established by the initiative of this committee and authorized by section 108 of the Mutual Security Appropriations Act of 1956. It has safeguarded the integrity of MAP funds in that the military departments are reimbursed only upon documentary proof of delivery of the goods or services ordered. In approving MAP programs and issuing MAP orders, major items are specifically identified, while secondary items (i.e. spare parts, consumables, etc.) are stated in general terms as program categories and in total dollar amounts, without item identification or unit cost.

The lapse of time between the issuance of MAP orders, with accompanying reservation of funds, and the date of delivery with resultant expenditure of the reserved funds, depends upon the availability of items, procurement leadtime, the capacity and schedules of rebuild facilities, priority requirements to equip U.S. forces, and to some extent upon delays in completion of the documentation.

Delivery of secondary items depends upon receipt of MAAG requisitions, upon availability of items and upon the relative priority of all orders to be filled.

SPARE PARTS SUPPLY

Of all military assistance problems, the toughest has been to persuade and assist recipient countries to develop competence in the management of spare parts supply in their military establishments. Good spare parts management includes accumulation of useful consumption data, good computation of requirements, proper requisitioning actions, efficient control of inventory, and an effective method of distribution. It is only in the past few years that mechanization has made modern life completely dependent on spare parts, and nobody knows all the answers to spare parts management. Secretary McNamara has said that the same defects that afflict our recipient countries can also be found in the best managed corporations in America.

In the military assistance program we have aimed our efforts at slow but steady improvement, which over the last few years have included the spare parts cutoff policy, the establishment of financial and "high-dollar-value item" requisition controls, the establishment of regional inventory control points and storage and distribution depots (USALDJ and NMSSA), MAAG and unified command programs to improve country logistics systems, and the general improvement resulting from major decentralization of program supervision to the unified commands.

The annual program is drawn up initially over 2 years before the spare parts actually come to be utilized; and if the utilization has been improving during that 2 years, it will turn out that the program drawn up 2 years earlier was excessive. The improving utilization is shown by the downward trend in actual deliveries of spare parts to countries. The following table of actual deliveries includes deliveries from excess stocks:

Fiscal year:	*Million*
1959	$429
1960	278
1961	181

Further solid evidence appears on page 3 (exhibit A). In last year's presentation we showed $340.6 million as programed for spare parts in fiscal year 1962; actually we have applied only $194.6 million for that purpose, and only $204.6 is programed for fiscal year 1963.

MILITARY ASSISTANCE PROGRAM

CARRY-OVER, NEW FUNDS & EXPENDITURES BY FISCAL YEARS

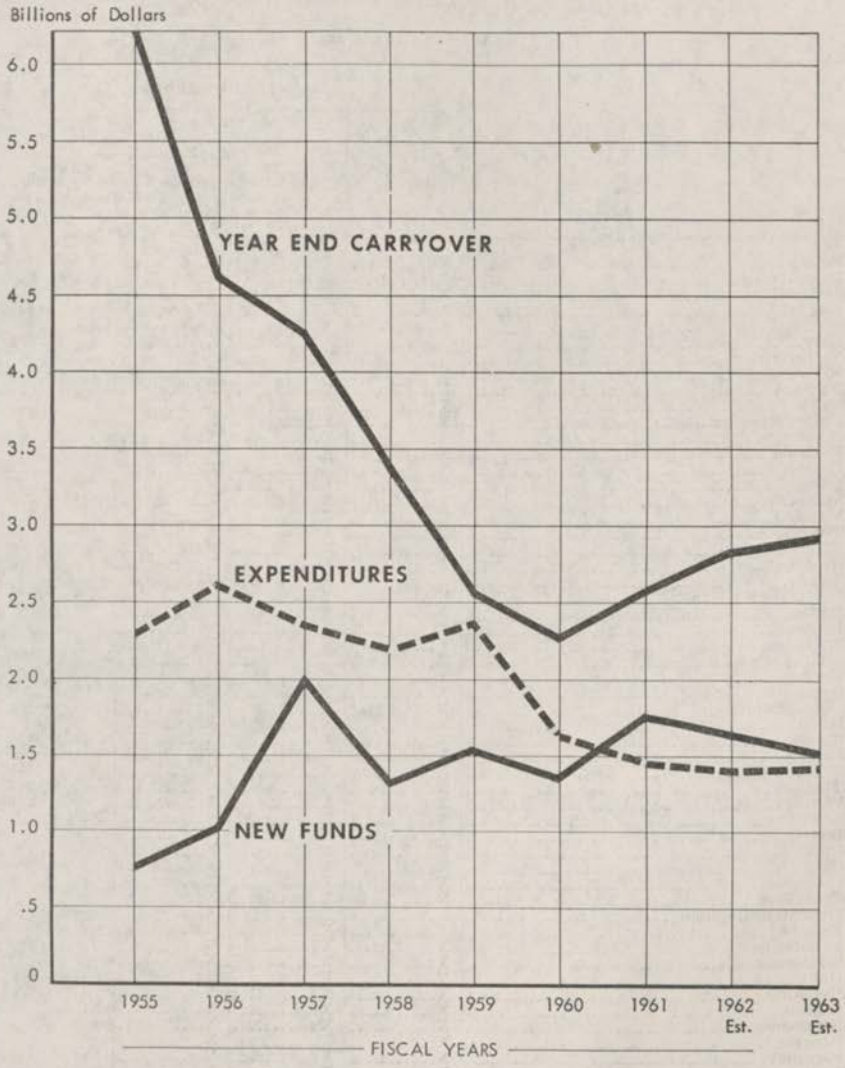

Exhibit "E"

CONCLUSION

In conclusion, I feel that, although nothing is perfect, our system of program preparation and review has made considerable progress this year in developing the best utilization of the resources made available for military assistance.

(Exhibits E, F, and G follow:)

EXHIBIT F

Grant aid countries

Country	Program indicated by X			
	Fiscal year 1961 (56)	Fiscal year 1962 (57)	Fiscal year 1963	
			Proposed program for (58)	Training only (8)
Belgium	X	X	X	
Luxembourg	X	X	X	X
Denmark	X	X	X	
France	X	X	X	
Germany	X	X	X	X
Italy	X	X	X	
Netherlands	X	X	X	
Norway	X	X	X	
Portugal	X	X	X	
Spain	X	X	X	
United Kingdom	X	X	X	
Cameroun		X	X	
Ethiopia		X	X	
Liberia	X	X	X	
Libya	X	X	X	
Mali	X	X	X	
Morocco	X	X	X	
Tunisia	X	X	X	
Afghanistan	X	X	X	X
Greece	X	X	X	
Iran	X	X	X	
Iraq	X	X	X	X
Jordan	X	X	X	
Lebanon	X	X	X	
Pakistan	X	X	X	
Saudi Arabia	X	X	X	
Turkey	X	X	X	
Cambodia	X	X	X	
China, Republic of	X	X	X	
Japan	X	X	X	
Korea	X	X	X	
Laos	X	X	X	
Philippines	X	X	X	
Thailand	X	X	X	
Vietnam	X	X	X	
Argentina	X	X	X	X.
Bolivia	X	X	X	
Brazil	X	X	X	
Chile	X	X	X	
Colombia	X	X	X	
Costa Rica	X	X	X	
Dominican Republic			X	
Ecuador	X	X	X	
El Salvador	X	X	X	
Guatemala	X	X	X	
Haiti	X	X	X	
Honduras	X	X	X	
Mexico	X	X	X	X.
Nicaragua	X	X	X	
Panama	X	X	X	
Paraguay	X	X	X	
Peru	X	X	X	
Uruguay	X	X	X	
Venezuela	X	X	X	
Country A	X	X	X	X.
Country B	X	X	X	
Country C	X	X	X	
Country D	X	X	X	X.

EXHIBIT G

Military assistance equipment and supplies, in serviceable condition, in 37 countries as of June 30, 1961

[Dollars in thousands]

(a)	Total equipment and supplies delivered (b)	Still in country inventory (c)	Percent of b (d)	Still in serviceable condition (e)	Percent of b (f)
Total	$20,826,401	$13,982,959	67.1	$13,378,936	64.2
Europe	11,654,441	7,840,147	67.3	7,605,347	65.3
Near East and Africa	3,278,293	2,283,620	69.7	2,203,078	67.2
Far East	5,565,865	3,595,953	64.6	3,327,167	59.8
Latin America	327,802	263,239	80.3	243,344	74.2

COMMENDATION OF GENERAL PALMER

Mr. PASSMAN. Thank you very much, General Palmer.

I should like to say that I have enjoyed working with you during the time that you have had the responsibility of dealing with this program.

I like very much your concluding statement:

*** * * I feel that, although nothing is perfect, our system of program preparation and review has made considerable progress this year in developing the best utilization of the resources made available for military assistance.**

The committee feels better in knowing that a person such as yourself is heading this program.

We look forward to a pleasant relationship with you, General, a person who has served his country long and well, and had earned retirement. Certainly it was patriotism which brought you back to active duty, and I think the record should show that financial gain is not a factor as far as you are concerned, while you are engaged in what is probably the hardest work you have ever undertaken. We appreciate it, General. It makes me think just that much more of the services to know that when the chips are down we can look to those who have worked long and hard and well to come back in and battle for their country.

General PALMER. Thank you, sir.

Mr. PASSMAN. How many years have you been back on active duty?

General PALMER. This is my third appearance before this committee, sir.

Mr. PASSMAN. Your justifications will follow the same general pattern as in prior years?

General PALMER. Yes, sir.

Mr. PASSMAN. Statements which might be made about a "hard program" will not necessarily indicate a change of procedure in the manner this program is handled?

General PALMER. I do not think, Mr. Chairman, that expression has been used on this side of the table.

Mr. PASSMAN. Thank you, General. You are forthright. We had one other witness in particular who was forthright in dealing with the economic aid. He put it on the record, and now he has been retired from that position. I speak of Secretary Woodward, a man with an outstanding record of service.

Now, if we may have one understanding before we kick off: You have recoupments, dereservations, deobligations, pickups, sales, and so forth; but, when you finally sift it all down, the major portion of the recoupments are from funds which you deobligate or dereserve; is that correct, sir?

General PALMER. That is correct.

Mr. PASSMAN. Thank you.

RESERVATION OF FUNDS FOR OBLIGATION

General Palmer, through the military assistance program, under the Foreign Assistance Act, you have the right to make reservations in place of obligations because of the manner in which the hardware is procured; is that correct?

General PALMER. Yes, sir, I think we agree; yes, sir. That is to say the money is actually put in escrow until the services have made the delivery. Then they recover the money.

Mr. PASSMAN. We have referred to these as "reservations." I think this is the only appropriation from which a department or agency has the right to reserve, this being so in this program simply because your Department looks to our Defense Establishment to place the orders for you.

General PALMER. That is correct.

Mr. PASSMAN. Short of having a firm program, and establishing the cost, I see no inherent harm in reserving the funds to be obligated at some subsequent date, when it has been firmed up as to the actual cost of the equipment to be delivered.

General PALMER. That is right, sir. At the time of delivery they then recover their money which has been reserved for them.

Mr. PASSMAN. There has been some confusion, however, because of having to reserve a large sum of money and then later having to break it out and bring it into obligations for various programs and countries. However, I concur that the policy is all right, so long as it is not in the nature of what we would think of as a bloc reservation. This type of program has to be illustrative to some extent, does it not?

General PALMER. In the area of secondary items or consumables they are bound to be dealt with in bulk. In any portion or any part of the whole exercise from appropriation to consumption, you cannot break spare parts down into so many spark plugs and so many fan belts and so many tires and so on. There has to be flexibility in this.

Mr. PASSMAN. We understand that fact.

General PALMER. That is the area in which we have this year endeavored to clean up what had been some excessive programing in the past, which I attribute to the fact, Mr. Chairman, that the utilization in the field had been improving during the 2 years from the time the program was first projected until the time we actually come to get the requisitions from the field for these parts. Their utilization had improved in the interval to the extent they did not requisition for as much as they had been programed for. The object has been to recapture this dormant money and put it to use.

Mr. PASSMAN. Because of the diversity of this complex worldwide program, it has to be illustrative to some extent; does it not?

General PALMER. I think that is true, Mr. Chairman. I do not think it is so much the worldwide extent; although it is true, too, that you are dealing with this large number of countries. You are also working 2 years into the future, more or less.

NATIONS RECEIVING MILITARY ASSISTANCE

Mr. PASSMAN. How many countries are receiving aid through the program of military assistance?

General PALMER. Fifty-seven countries received some amount of grant aid in fiscal year 1962.

Mr. PASSMAN. New nations are regularly coming into being, so for fiscal 1963, how many will be getting some type of military aid?

General PALMER. Well, as I said in my statement, 58 country programs up to this minute are proposed for fiscal year 1963 and there were 57 in fiscal year 1962. However, there are at this moment small programs under consideration for the Dominican Republic and for seven of the new countries in Africa for fiscal year 1962, the present fiscal year. Presumably if all those programs should develop in fiscal year 1962 it would raise this total then to 65 in fiscal year 1962 receiving some amount.

Now, these programs are small, but it may be expected that if some of these countries get military assistance in fiscal year 1962 they presumably will get some more in fiscal year 1963.

Mr. PASSMAN. That would be 65 countries receiving military aid?

General PALMER. That is correct.

ASSISTANCE TO NEW NATIONS IN 1963

Mr. PASSMAN. What is the figure for fiscal year 1963?

General PALMER. As I say any who would develop programs in fiscal year 1962 would doubtless get some continuation, if only a small amount of training, in fiscal year 1963.

Mr. PASSMAN. For how many of the new nations is military aid not being planned in fiscal 1963?

General PALMER. I do not know that I could answer the negative of that, Mr. Chairman. We have extended military assistance to Mali and the Camerouns this year, and we are considering at the present moment programs for seven additional of these new tropical African countries.

Mr. PASSMAN. Should the others meet the qualifications that the military or the executive might establish, they, too, would be eligible; would they not?

General PALMER. I think the answer is "yes," Mr. Chairman. However, I should amplify that by saying that the U.S. Government is not at all anxious to get into military assistance programs on behalf of these new African countries. And in cases where their relations are happy with the mother country from which they have separated, they get their military equipment from that country. In others I think the major reason for asking a small amount of military assistance from the United States has been to present the political picture that they are no longer completely dependent on the former imperial power.

TOTAL MILITARY ASSISTANCE PROGRAMS FOR FISCAL YEAR 1962

Mr. PASSMAN. The new appropriation for military assistance in fiscal 1962 was $1.6 billion. Then, of course, you had $14.2 million in unobligated carryover funds from the previous year, plus the recoupments. What is the total of the proposed 1962 program?

General PALMER. We have, following our discussions with this committee last year, inserted the recoupments into the program.

Mr. PASSMAN. Are the recoupments what we earlier agreed were dereservations or do you have a mixture?

General PALMER. By recoupments I am speaking strictly of funds which are available for reprograming for grand aid, which the sales reimbursements are not available for.

Mr. PASSMAN. For grant military aid?

General PALMER. Grant military aid; yes, sir.

The program we are reporting as the fiscal year 1962 program, as of January 4, 1962, when this book was made up, is $1,931.8 million.

USE OF RECEIPTS FROM SALE OF MILITARY EQUIPMENT

Mr. PASSMAN. Do you have certain recoveries from the sale of military equipment that comes back into the general total?

General PALMER. No, sir. The direct sales by the Army, Navy and Air Force are not connected with the military assistance appropriation in any way. The credit assistance furnished under section 508 of the Foreign Assistance Act and the predecessor act does not come back into availability for grant aid but "solely for the purpose of furnishing further military assistance on cash or credit terms."

Mr. PASSMAN. Is the money reused in the program?

General PALMER. It is used only for further credit assistance.

Mr. PASSMAN. You use it in the military aid program?

General PALMER. It is accounted for as a separate account.

Mr. PASSMAN. I know it is a separate account, but each year the legislation gives you the right to take these funds which you have recouped and put them back in the program. It may be in some special program but it goes back into the aid program, does it not?

This year it is a substantial amount. I am not talking about dereservations.

General PALMER. You are speaking of reimbursement of credit assistance.

Mr. PASSMAN. That is correct. Those funds can be returned to the program?

General PALMER. For further credit assistance.

Mr. PASSMAN. That is what I thought.

FUNDS AVAILABLE FROM RECOUPMENTS

In addition to the $1.6 billion the Congress appropriated last year, you expect to utilize a total of $317 million of funds which you acquired from dereservations, or deobligations, or recoupments?

General PALMER. That is correct.

Mr. PASSMAN. If I recall correctly, when we were holding the hearings last year it was stated that the best estimate as to the amount that would be available from dereservation, deobligations and recoupments would be $100 million.

General PALMER. That is correct, Mr. Chairman. I would like to recall that discussion to you because you caught us flatfooted when you brought that up and a horseback estimate was made by one of my colleagues that it would be $100 million. It was at this point and from this conversation that I went home and started to think, first, about this question of why we weren't counting these recoupments in the program, as you had pointed out to us we were not doing; and second, whether we had any good idea what amount we were talking about. This was something that I had never thought about. You will remember I apologized to the committee last year for not having attended to it in view of the fact that you had brought this up the year before. I had a blind spot on it.

We went back into this thing after those hearings last year and if anything is wrong in this procedure that we have adopted, I am the villain. There is nobody else. It was my decision to put the recoupments into the program as resources which were available for programing. It was my decision to go back and squeeze out the dormant funds that were to be found in the undelivered balance. It was my decision to estimate the recoupments as large as we did in order to put pressure on my associates to do a good squeeze, and it is for that reason that I do not believe there will be a great deal left to squeeze out when we come to fiscal year 1964, other than the ordinary normal flow of reprograming which is $100 million or $125 million or in that range.

Mr. PASSMAN. The squeezing process is still on, then? You will continue squeezing?

General PALMER. We have optimistically estimated we can squeeze out another $204.6 million worth of dormant funds during fiscal year 1963.

Mr. PASSMAN. You are requesting $1.5 billion of new appropriations for fiscal year 1963?

General PALMER. That is correct, sir.

Mr. PASSMAN. You estimate you will pick up an additional $204.6 million from the dereservation-deobligation, squeezeout, recoupment program?

General PALMER. That is correct.

FORCE OBJECTIVES

Mr. PASSMAN. Throughout the justifications I notice two columns under the caption "Forces" one of which is forces in being, and the other column is under 1966 and is forces objectives.

Who determines what the 1966 force objectives for a particular country will be?

General PALMER. This will be classified. I will have to leave it off the record.

(Discussion off the record.)

Mr. PASSMAN. Upon what basis do they arrive at their recommendations?

General PALMER. They are defined at the present time as follows:

Force objectives are defined as those major combat units of the armed forces of countries allied to the United States, or which may become allied, which—

(*a*) Are considered desirable and reasonably attainable for the midrange period in support of U.S. strategic concepts.

(*b*) Should be in existence by, in this instance, July 1, 1966.

In other words, these are not necessarily forces which are going to be raised by virtue of military assitance; they are the forces that the United States would like to see in these countries for our own strategic reasons.

FORCES DATA

Mr. PASSMAN. Why should there be such a significant change in the forces data, not only in the objective column but also in the forces-in-being column?

General PALMER. The changes in forces in being are actual changes. The changes in the objectives column are to changes made by the people who draw up those objectives each year.

Mr. PASSMAN. You do have substantial funds in the budget request for the neutrals in the Far East. If we discuss it as an area is that information classified?

General PALMER. I think we could let that go into the record and delete from the record what we have to. We could talk freely in this executive session if we can clean up the record later.

Mr. PASSMAN. Sometimes such procedure leaves us without the information needed.

General PALMER. The ammunition.

ASSISTANCE TO NEUTRAL NATIONS

Mr. PASSMAN. Not really ammunition to approve or disapprove anything. But we do know that you have substantial funds budgeted for neutrals, countries for which we might have to decide next week, "Well, under the existing conditions we cannot make this available."

I am talking now about the Far East.

General PALMER. I know exactly who you are talking about.

Mr. PASSMAN. There are more than two.

General PALMER. Two of those countries are completely classified.

Mr. PASSMAN. I will not mention them.

I shall make an observation off the record, so you will understand the disadvantage that the committee works under in trying to explain these expenditures.

(Discussion off the record.)

Mr. PASSMAN. There are substantial funds in this military assistance program for many nations in the Far East. Some of them are so-called neutralist nations.

In the event that you should find it unnecessary to spend the money that is in the budget request for the neutral nations in the Far East, that amount could be excess next year—that is, if you did not use it?

General PALMER. I think that is correct, yes, sir, but we also have unpredictable war costs in that area simultaneously.

(Discussion off the record.)

ESTIMATED UNEXPENDED BALANCES

Mr. PASSMAN. General, the estimated unexpended balance as of June 30, 1963, is $2,940,300,000?

General PALMER. Yes, sir.

Mr. PASSMAN. That is, of course, quite a long way off, and it could be up or down?

General PALMER. Yes, sir.

Mr. PASSMAN. What is your estimate as to the unexpended balance as of June 30, 1962?

General PALMER. $2,840,300,000.

Mr. PASSMAN. The 1963 unexpended estimate would exceed that of 1962 by approximately $100 million?

General PALMER. Yes, sir.

Mr. PASSMAN. Would you state the comparable figures for fiscal year 1960 and 1961?

General PALMER. The unexpended balance for——

Mr. PASSMAN. Let us get it for fiscal 1960 and 1961.

General PALMER. The unexpended balance on June 30, 1960, was $2,269,900,000 and on June 30, 1961, it was $2,597,700,000.

Mr. PASSMAN. The unexpended balance is increasing?

General PALMER. That is correct, sir.

SERVICEABLE EQUIPMENT AND SUPPLIES

Mr. PASSMAN. Some of us thought that maybe it would decrease, because in our discussions with MAAG chiefs around the world their reports have been rather encouraging. They had such a high percentage of equipment that was furnished in prior years on hand, in good state of repair, ready for use on short notice, if it should be needed.

In your statement, at page 6, you indicate 64.2 percent of the materiel as being serviceable.

As of June 30, 1961, $20,800 million worth of supplies and equipment had been delivered to 37 countries. The estimate indicates that 64.2 percent remained in serviceable condition in inventories on that date. Off the record.

(Discussion off the record.)

Mr. PASSMAN. I am referring to a certain country, and you know which one it is, where we went into this matter, and they said that 93.8 percent of the MAP materiel was on hand and serviceable. Maybe you would like to have a check made on this.

General PALMER. I certainly would because their report to me was 75 percent still on hand and still in serviceable condition as of June 30, 1961.

Mr. PASSMAN. We have here classified data from another country, which I shall give to you later. We spent considerable time and insisted on pinning it down. They said that 85 percent of the materiel was on hand and usable. They are dealing with $1½ billion worth of shipments.

There is another country which will continue to receive very substantial military aid.

We had the three branches of the service represented, and after we had concluded the hearings we came up with these figures: The Army, 90 percent of all shipments available for ready use; the Navy, 80 percent; and Air Force, 80 percent, for a rough average of 83 percent.

I think that bringing out this type of information will enable us to work more closely together. There is quite a spread between 93

percent and an average of 85 percent and an average of 64 percent. I can make these records available to you.

General PALMER. May I comment, Mr. Chairman?

Mr. PASSMAN. Please do.

General PALMER. As to the first of those last 2 countries you mentioned, my figures show, and this was reported to me directly by the MAAG Chief, that 83.6 percent was still in the country inventory and 80.2 percent was still in serviceable condition as of June 30, 1961.

The discrepancy from your figures is not very great, except that they do not seem to have taken into consideration in reporting to you the further qualification that I have put upon them, that I wanted to know how much of the stuff could be used in war and was not just more or less reduced to useless condition.

In the second country——

Mr. PASSMAN. This country told us 93.8 percent.

General PALMER. That is the first one, sir. I refer to the last two.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

General PALMER. The third country you mentioned, again there is not much discrepancy. They reported to me that 82.3 percent was still in the inventory and 80.5 percent was still serviceable.

Mr. PASSMAN. That is certainly close enough.

General PALMER. That is much the highest percentage of any of the countries in that area.

Mr. PASSMAN. Along the way, if you can, please help us reconcile the difference between an overall average of 64.2 percent, according to your records, and the high percentage that we found in every country where we held hearings and asked questions.

General PALMER. I would be delighted to put these figures at the disposal of the committee in detail.

Mr. PASSMAN. They are classified, are they not?

General PALMER. They are classified so I cannot put them in the record.

Mr. PASSMAN. I want to say—off the record.

(Discussion off the record.)

Mr. PASSMAN. The committee, as you know, has consistently expressed interest in the availability and condition of all equipment furnished to the recipient nations.

I think I speak for every member of the committee when we say that you have made a lot of progress. You have done an excellent job in this field in having your MAAG chiefs evaluate their equipment and report to you. It is heartening to know that the figures for the larger recipients are so close to the figures given to our subcommittee when we were there holding hearings or asking questions about this program.

General PALMER. I would ask permission, with respect to the one country on which we seem to have a large discrepancy, to look into that and submit a comment for the record.

Mr. PASSMAN. Thank you, General.

(The information was supplied to the committee.)

EQUIPMENT OBSOLESCENCE

Mr. PASSMAN. Short of a shooting war, except for obsolescence and minimal depreciation, might there not come a time when this program could maybe start down the other way, dollarwise? You are making available certain hardware, and you have been shipping out against the program for many years; and, if it is in a good state of repair, should there not come a time, except for more modern equipment, that the annual costs might start declining?

General PALMER. I do not believe I can go along entirely with that, Mr. Chairman. The Army, as you know, figures a 10 percent depreciation of its inventory per year. The rate of depreciation that we derive from these figures is about 6½ percent a year, which compares very favorably with our own forces, but does indicate a necessity for complete turnover about every 13 years.

There will always be a certain amount of replacement, of attrition, et cetera. This all comes in what we describe as force maintenance on page 3 of the presentation books.

Mr. PASSMAN. If you continue increasing the force maintenance, certainly the request will remain at a very high level; but, if you should level off the force maintenance, or force objectives, is it not obvious that the annual request would come down?

General PALMER. You would still have this problem of depreciation of the inventory.

Mr. PASSMAN. Six and a half percent annually?

General PALMER. Yes.

Mr. PASSMAN. Even so, if the force goal should be leveled off, then using either the 6½ or the 10 percent for depreciation, or attrition, there would be a point where the request could be lowered, would there not?

General PALMER. This is quite possible, Mr. Chairman.

Mr. PASSMAN. I think of this as something like a sponge.

General PALMER. It is quite possible. I suppose the Appropriations Committee thinks of all military expenditures as more or less a sponge; that is to say, they never are satisfied. There is always modernization, new things, et cetera.

Mr. PASSMAN. The sponge story is simply this: It will hold only a certain amount of water. Beyond that when you pour on water it runs off.

General PALMER. That is right, sir.

Mr. PASSMAN. I should think if you keep shipping out millions of dollars every year against these force goals, short of a shooting war and keeping your military forces modern, there would come a time that you would no longer need such substantial appropriations. You do not replace tanks every year, do you?

General PALMER. No, sir, but they do get replaced eventually.

Mr. PASSMAN. If the force goals are continuously increased, then, of course, you have to keep the money at a high level.

General PALMER. Actually, Mr. Chairman, I believe that this particular request for new obligational authority is the lowest one the executive branch has ever submitted in military assistance history.

RECOUPMENT OF FUNDS

Mr. PASSMAN. It does not mean they do not obligate. We have had an understanding, and I doubt if there is another person who works any harder than you do to help the committee understand this program. Nevertheless, you have so much money, or have had in the past, available from deobligations and dereservations that it does not require a comparable appropriation to give you the same program. I do not think it would be fair for me not to follow up and say that you are giving it the squeezeout, and the time is coming when you will not have the large sums available from these sources.

General PALMER. That is quite correct.

Mr. PASSMAN. I do not know how much the squeezeout will total, but when you squeeze out $517,000 from last year until this time, you probably will not have a figure nearly so high for fiscal 1964 and 1965.

General PALMER. I am quite sure we will not.

LEADTIME ON EQUIPMENT

Mr. PASSMAN. What is the average leadtime on military hardware?

General PALMER. I think the average leadtime is probably 22 months in the military assistance program, which involves more administrative leadtime in arriving at agreements within the U.S. Government and intergovernmental agreements on country programs than you have within the military system of the United States.

Mr. PASSMAN. Bringing it back to the hardware part, what would be the administrative leadtime?

General PALMER. The Army procurement leadtime is 16 months, Mr. Chairman. The Air Force I think is more than that. That is a fair guide. In the MAP I think there is at least another 6 months of administrative leadtime.

Two years ago I promised that I would try to bring it down to 15 months, but I did not succeed.

Mr. PASSMAN. That was the goal?

General PALMER. I did not succeed.

Mr. PASSMAN. Now you are thinking in terms of 22 months for procurement leadtime?

General PALMER. That is about right, sir.

Mr. PASSMAN. About 6 months of the 22 represents the paperwork and agreements between nations?

General PALMER. That is correct, sir.

NUTRITIONAL SURVEYS PROGRAM

Mr. PASSMAN. What is the program entitled "Nutritional Surveys"?

General PALMER. May I read this statement about it?

Mr. PASSMAN. Yes.

General PALMER. The Interdepartmental Committee on Nutrition for National Defense was established by a memorandum of agreement on April 25, 1955, by the Departments of State, Defense, Agriculture, Health, Education, and Welfare, and the International Cooperation Administration. The Committee was later joined by the Atomic Energy Commission.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

General PALMER. The nutrition program, directed by the Interdepartmental Committee on Nutrition for National Defense, was initiated in 1956 as part of the military assistance program by memorandum of agreement dated August 15, 1955, between OASD(ISA) and OASD (H. & M.). The purpose of the program is to supply assistance in nutrition problems of technical, military, and economic importance in foreign countries. The program represents a cooperative, scientific, training, and people-to-people effort and has contributed to our mutual security by the following means:

(1) Alerted the armed forces of these countries to the need for a field ration; that is, a ration they could package and take with them;

(2) Advised the countries on means of improving the health of the armed forces;

(3) Increased the efficiency and mobility of their forces by improved utilization of their food resources;

(4) Increased the technical proficiency of country medical personnel;

(5) Further U.S. friendship through medical, scientific, and technical channels.

Since January 1956, nutrition surveys have been conducted in Spain, Iran, Jordan, Lebanon, Pakistan, Turkey, Ethiopia, Libya, Burma, the Republic of China, Korea, the Philippines, Thailand, Vietnam, Bolivia, Chile, Colombia, Ecuador, Peru, and Uruguay. Authorizations from 1956 through fiscal year 1962 totaled $1,777,500.

Mr. PASSMAN. That is the total cost?

General PALMER. The total cost prior to fiscal year 1963.

Proposed projects for fiscal year 1963 are estimated at $408,000.

Would you like the details of those?

Mr. PASSMAN. You may supply the details.

General PALMER. I will furnish the committee the details of that figure.

(The information referred to was supplied to the committee.)

Mr. PASSMAN. Why is a nutritional survey a fixed charge?

General PALMER. It is a fixed charge because the military assistance program has no control over it.

Mr. PASSMAN. Do you work with other agencies of our Government and other governments, the Health Departments, et cetera?

General PALMER. Yes, sir; the participants are the Departments of State, Defense, Agriculture, Health, Education, and Welfare, AID, and Atomic Energy Commission.

Mr. PASSMAN. The total is fixed by those agencies, and you contribute the funds. That is established as a fixed charge?

General PALMER. That is right. It is regarded basically as a defense project and therefore charged against the MAP program.

Mr. PASSMAN. We are dealing with an estimate. The assessment, if it should be higher, is chargeable to you and you have no alternative but to pay it?

General PALMER. That is right, sir.

Mr. PASSMAN. I was out in the Republic of China a few years ago. We went north of Taipei and many of the Chinese soldiers there had

their gardens, or little rice patches. They were not any larger than this room but it was quite a help to them in providing their rations.

I do not know whether you would find such a situation in very many places. It is unusual to find a soldier who has maybe 15 minutes a day to go out and cultivate his sugar, potatoes, sugarcane, but it is quite an adjunct to his livelihood.

TRAINING PROGRAMS

You also classify training as a fixed charge?

General PALMER. Yes, sir.

Mr. PASSMAN. Why is training a fixed charge?

General PALMER. I should say that is an arbitrary assignment. We could put it in probably some other place. It is in as a fixed charge because it depends on the rest of the program. Once the material program is set, you have to provide the training in order that the people may use the material we have given them.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. How many individuals will receive training in fiscal year 1963?

General PALMER. I shall have to insert that for the record.

(The information requested follows:)

Number of foreign nationals to be trained in formal courses, fiscal year 1963

	U.S. schools in CONUS	U.S. overseas schools	Total
Grand total	17,527	8,252	25,779
Europe	2,518	535	3,053
Army	1,448	460	1,908
Navy	441	18	459
Air Force	629	57	686
NESA	4,686	428	5,114
Army	1,784	352	2,136
Navy	1,967	36	2,003
Air Force	935	40	975
Africa	485	77	562
Army	232	68	300
Navy	35		35
Air Force	218	9	227
Far East	6,794	4,750	11,544
Army	2,638	3,175	5,813
Navy	2,340	515	2,855
Air Force	1,816	1,060	2,876
Latin America	3,044	2,462	5,506
Army	951	2,001	2,952
Navy	1,368		1,368
Air Force	725	461	1,186

COST OF TRAINING PROGRAMS

Mr. PASSMAN. How many individuals have received training since the inception of the program?

General PALMER. As of June 30, 1960, 207,000 people had completed courses of training, either in U.S. establishments in the United States or U.S. establishments overseas, and 5,000 were in training on that date. There is also a lot of training given on the ground by mobile teams, on which we do not keep statistics as to individuals trained.

Mr. PASSMAN. General, could you insert in the record the total cost of the training program and break it down as to per capita cost?

General PALMER. Yes, sir; I will have to compute the per capita cost.

(The information requested follows:)

Per capita cost of military assistance training as programed for fiscal year 1963

Total programed cost of formal training courses	$79,957,000
Total programed number of individuals to be trained	25,779
Per capita cost	$3,102

Summary of all training costs

	Thousands
Formal training (see above)	$79,957
Mobile training teams	7,214
Contract civilian technical trainers	15,914
MAAG training support costs	25,008
Regional:	
Europe	379
Near East and South Asia	1,491
Africa	2,976
Far East	418
Latin America	408
Nonregional	5,440
Total	139,205

TRAINING FOR ETHIOPIANS

Mr. PASSMAN. Page 21 indicates that Ethiopia had ——— individuals in training status as of June 30, 1961. What type of training did they undergo?

General PALMER. Can we furnish that for the record, Mr. Chairman?

Mr. PASSMAN. Yes. And also state the number of Ethiopians in training at this time.

General PALMER. That is, the ——— that were in training on June 30, 1961, and the cost of that program?

Mr. PASSMAN. Inform us as to the type of training given and how many are in training at the present time.

General PALMER. Yes.

(The information requested was supplied to the committee.)

TRAINING PROGRAMS FOR TURKEY AND BRAZIL

Mr. PASSMAN. A large number from Turkey and Brazil are also in the training program?

General PALMER. That is correct, sir.

Mr. PASSMAN. Off the record.
(Discussion off the record.)

ORIENTATION PROGRAM

Mr. PASSMAN. How much do you have budgeted for orientation tours for foreign officers, the VIP's?

General PALMER. Off the record.

(Discussion off the record).

General PALMER. We will have to insert that, Mr. Chairman.

(The information requested follows:)

Included in the fiscal year 1963 military assistance program is $1,131,315 for orientation tours for foreign officers in the grade of general or admiral and for foreign officers who hold positions equivalent to those normally manned by generals or flag officers in the U.S. services. A breakout by region follows:

Region	Distinguished visitors in fiscal year 1963	Estimated cost, fiscal year 1963
Europe	65	$93,795
Africa	12	38,294
Near East	76	227,361
Far East	128	338,349
Latin America	184	433,516
Total	465	1,131,315

Mr. PASSMAN. Just what type of training do these VIP's receive?

General PALMER. The VIP's are brought to this country and depending on their branch interest, they see some of the major Air Force or Army installations. In the case of the Army, for example, they are taken to West Point, to the Armor School at Fort Knox, to the Infantry School at Fort Benning, and to the Artillery Schools at Fort Sill and Fort Bliss and they get some orientation here in Washington, as a rule a 10-day or 2-week tour around the country.

This is for foreign chiefs of staff and very senior people.

TRAVEL PROVISIONS FOR FOREIGN VISITORS

Mr. PASSMAN. Is it customary that when maybe the chief of staff or the commanding general of the army of one of these countries makes a trip to the United States, usually he is met at the port of entry? If he is from the Far East, for example, he is met in California and a streamlined jet brings him east?

General PALMER. They are not met with a streamlined jet. They are met where they enter the United States, of course.

Mr. PASSMAN. They get VIP treatment when they reach our shores?

General PALMER. They get very good treatment.

Mr. PASSMAN. They do not travel commercially?

General PALMER. Not in the United States, as a rule.

Mr. PASSMAN. Would you not save a lot of money by using commercial planes to bring them in, rather than sending military planes to pick them up?

General PALMER. It would certainly be cheaper, Mr. Chairman. I would have to leave it for those who make those decisions whether it would be considered VIP treatment.

Mr. PASSMAN. When was the policy established that you had to extend this courtesy of sending a plane—and it could be a jet—all the way, maybe, from Washington to the Pacific Coast to fly some military man, or some other foreign dignitary, to Washington? It is a very expensive policy.

General PALMER. The policy was established before my time, Mr. Chairman, and the individual decisions are made at a high level of Government.

Mr. PASSMAN. We will probably be discussing millions of dollars when we finally put into the record the amount of money that is spent for the orientation program for the VIP's.

General PALMER. I may say the cost of the military aircraft is not charged to the military assistance program.

Mr. PASSMAN. It costs taxpayers' money just the same.

AIRCRAFT FOR FORCE MAINTENANCE OR IMPROVEMENT

General, would you inform the committee as to the number and types of planes to be provided for each country, and indicate whether they are for force maintenance or force improvement and also whether it is on a cost-sharing basis or grant aid?

General PALMER. Very well, sir.

(The information requested was supplied to the committee.)

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Has a firm decision been made as to what strike aircraft will be provided to our allies on a grant basis?

General PALMER. No, sir. I think you are referring to what we show in the book as "FX."

Mr. PASSMAN. That is right.

General PALMER. That is still being evaluated. I may say the evaluation includes one Navy-type aircraft.

Mr. PASSMAN. That could come right in with this?

General PALMER. Yes.

OFFICE OF OFFSHORE PROCUREMENT

Mr. PASSMAN. Would you give us a breakdown of the $923,000 budgeted for office expense under the offshore procurement program?

General PALMER. Yes, sir. We will furnish that.

Mr. PASSMAN. We would like to have a breakdown. It is in the book as a total.

General PALMER. I can furnish the breakdown right here, Mr. Chairman, for the record.

Mr. PASSMAN. All right, sir.

(The information follows:)

Offshore procurement office expenses by country or activity

	Estimate
Office, Deputy Chief of Staff, Logistics, Department of the Army	$15,000
Air Force Logistics Command	1,400
Headquarters, U.S. European Command	3,400
France	101,442
Germany	142,730
Japan	32,590
Netherlands	145,760
Spain-Portugal	118,578
United Kingdom	165,849
State support (Reimbursement to Department of State for administrative support furnished OSP Offices)	196,300
Total	923,049

EXCESS STOCKS

Mr. PASSMAN. Page 31 indicates that you propose to utilize approximately $48.8 million in excess stocks in 1963. What excess stocks do you propose to supply to ———.

General PALMER. ———.

Mr. PASSMAN. As far as ——— is concerned, or as far as the charge against the military assistance program is concerned, that is an outright gift, with the exception of the rehabilitation cost?

General PALMER. That is correct, sir, which will run about 27 percent.

Mr. PASSMAN. Twenty-seven percent of the original acquisition cost?

General PALMER. That is correct, sir.

Mr. PASSMAN. For fiscal 1962 the record indicates that Italy received $65,950,000 in excess stocks. Do you care to comment on those transactions, and state whether or not they attempted to cancel out all or part of this after they had received the allocation?

General PALMER. I am not aware that they have done so, Mr. Chairman. This was the status as of January 4 of this year.

Mr. PASSMAN. Let us go off the record briefly.

(Discussion off the record.)

MAAG HOUSING IN KOREA

Mr. PASSMAN. You have a $649,000 item for housing in Korea for the MAAG?

General PALMER. This is for the operation and maintenance cost of 440 MAAG housing family units in Korea, including maintenance and repair of real estate, provision of utilities, security guards, and requirements beyond the normal repair of utilities which are essential for the health and welfare of the dependent housing community.

Mr. PASSMAN. We have provided a lot of housing in Korea during the past 10 years, at a fantastic cost. But, as you have made this request, will you give us a little more detail? The former President of Korea used a lot of this material as he wanted to. If you had it there for the military, and he decided he wanted a civilian housing project he would use it. It might possibly be that something of that nature is involved in this item.

General PALMER. This is about $1,500 per unit for operation and maintenance, including the utilities and so on, of houses which are already there. This is for keeping them in repair and for utilities and for security guards to protect the compounds.

Mr. PASSMAN. This is not a new housing project?

General PALMER. No, sir; the construction has all been programed in the past.

Mr. PASSMAN. What is the age of the housing project?

General PALMER. None of them are over 5 years old, and some of them are still in the process of being finished this year.

Mr. PASSMAN. What type military personnel utilizes the units?

General PALMER. MAAG personnel.

Mr. PASSMAN. Is it officers or enlisted men, or both?

General PALMER. Some of both I believe, sir.

Mr. PASSMAN. Does that figure not bring the cost up to about $125 per month?

General PALMER. That is right; yes, sir.

Mr. PASSMAN. What beyond normal repair and utilities would make that cost so high? You can rent a unit at less cost than that, can you not?

General PALMER. Not in Korea I believe, sir.

Mr. PASSMAN. Perhaps not.

Mr. TABER. What kind of construction is this, is it wood construction?

General PALMER. Some is wood and some is concrete block.

Mr. PASSMAN. It is built to last 10 years, is it not?

General PALMER. It is classified "semipermanent." This money of course includes the external utilities. It includes the operating and maintenance costs for the water treatment plant, the sewage treatment plant, the hospital, the school, the electric substation, bakery, commissary, and so forth.

Mr. PASSMAN. That information is not given in your justification. The sum of $125 a month just for maintenance on a small housing unit appears to be excessive, but I do not know. Would you break it down as to the various items?

General PALMER. I think we can provide that; yes, sir.

Mr. PASSMAN. Does this include servants, other than the personnel required for general maintenance of the buildings?

General PALMER. It does not include servants. It includes security guards and maintenance personnel.

Mr. PASSMAN. I wonder if maintenance personnel would include maid service?

General PALMER. I am sure it does not.

Mr. PASSMAN. Would you find out for us?

General PALMER. Yes, sir.

(The information requested follows:)

MAAG housing in Korea

Fiscal year 1963 requirement	Total annual cost	Monthly cost per unit
Electricity	$227,216	$43.03
Water	13,119	2.49
Heat	78,138	14.79
Maintenance and repair	219,785	41.62
Security	34,376	6.52
Replacement of furniture and fixtures	65,314	12.37
Accessorial costs of furniture and fixtures	11,430	2.16
Grand total	649,378	122.98

The cost of electricity is based on the rate of 3 cents per kilowatt-hour charged by the Korea Electric Co. Maintenance and repair costs include dwelling maintenance, heating plant maintenance, maintenance of community facilities such as schools and hospital, sewage treatment, road repair and drainage, etc. Replacement of household furnishings and fixtures is computed at 8.5 percent of acquisition costs.

Security costs include salaries for 43 guards (20 at Seoul, 8 at Taegu and 15 at Chinhae). No personal servants or maid service are paid by MAP funds.

MISSILE PROGRAM

Mr. PASSMAN. Page 23 indicates a missile program of $100,720,000 in fiscal year 1963 and a total cost of $1,320,534,000 through fiscal year 1962. How many fully operational missiles has the MAAG program provided?

General PALMER. I do not believe I have that information with me. I will have to furnish that for the record.

(The information requested was furnished to the committee.)

Mr. PASSMAN. What is the item of ——— for ——— for the MAP-owned property?

General PALMER. I think we find that on the very last page of the whole book. It is ——— equipment which will be furnished initially by the military assistance program and when production is completed and delivery is made in fiscal year 1965, Japan will reimburse the United States for this. That is why it is carried as MAP-owned property in the meantime.

MILITARY SALES TO CERTAIN COUNTRIES

Mr. PASSMAN. Last year you submitted a total on the status of the military sales program. I think it was on page 1273 of the hearings, and it indicated that Saudi Arabia and Mexico were in delinquent status in the amounts of $16.8 million and $3.1 million, respectively. What is the status of these two accounts at this time?

General PALMER. Saudi Arabia at this time, as of December 31, 1961, Saudi Arabia owed us $13,595,000 which was overdue. Mexico owed us $2,310,000 which was overdue. Paraguay owed us $314,000 which was overdue.

Mr. PASSMAN. Both Saudi Arabia and Mexico made some payment since last year?

General PALMER. I do not have that detail here, Mr. Chairman.

Mr. PASSMAN. Between June 30 and December 31 it would appear that each account has been reduced slightly, so there must have been some payment or adjustment.

BELGIUM EXPORT OF MILITARY ARMS TO CUBA

If this next question, General, is in the political field we shall, of course, endeavor to take it up with the appropriate officials. There was an item in the paper which indicated that Belgium and Luxembourg exported $3,454,000 worth of military arms to Cuba. Would you care to comment on that matter?

General PALMER. I can answer it factually, I think, off the record.

(Discussion off the record.)

CIVILIAN SPECIALISTS IN LOGISTIC PROGRAM

Mr. PASSMAN. General Palmer, would you comment briefly concerning your policy or system as to the use of civilian specialists in the logistic support function of the MAAG program?

General PALMER. We have a system of arranging for teams of technicians from the materiel manufacturers to assist the countries in assembling equipment and learning how to use it. I can give you the dollar value of this program which appears as a line item on page 10.

Mr. PASSMAN. Are we dealing specifically with the civilian specialists in the logistics program?

General PALMER. These are all civilians.

Mr. PASSMAN. But, are they not contract employees?

General PALMER. They are contract employees; yes, sir.

Mr. PASSMAN. There are specialists in the military field all along the way. Why was it necessary for the MAAGs to hire civilian specialists?

General PALMER. Well, these are people who have worked right in the factories where these things are made and know better than anybody else exactly how to take care of them and in fact they are out with our own forces similarly teaching them about new weapons and new equipment.

Mr. PASSMAN. But the specialists would go out only for a period to indoctrinate the military personnel?

General PALMER. That is correct.

Mr. PASSMAN. Then they would return to the factory?

General PALMER. That is correct.

Mr. PASSMAN. It would be only on subsequent shipments that they would again go out to another country? They are not out on a permanent basis?

General PALMER. No, sir. They are drawn from U.S. industry to train the initial instructor cadres and they provide courses of instruction on maintenance and operations for specific items of equipment. When that has been done then their contract is over.

COST OF CIVILIAN SPECIALISTS

Mr. PASSMAN. Would there be any reason for this part of the program to be on the increase as long as the overall military program is leveling off?

General PALMER. I would say probably yes, Mr. Chairman, because we are getting into more complicated equipment all the time. When you are dealing with the F–104G aircraft and these guided missiles we are putting into the program now, it is a great deal different than the early days of the jeep, the rifle, and the 105-millimeter howitzer and things of that sort which any American in uniform could have given instruction on.

Mr. PASSMAN. Could you give us the cost for this part of the program for the past 3 years?

General PALMER. The proposed program for fiscal year 1963 is $14,952,000. The program in fiscal year 1962 was $23,602,000. In fiscal year 1961 it was $1,579,000.

Mr. PASSMAN. There is a tremendous increase over 1961.

General PALMER. I think it is associated as I say with advanced aircraft and missiles which are going from the factory to the foreign country.

Mr. PASSMAN. You have had that type of aircraft and missiles going out over the past 4 or 5 years?

General PALMER. Why the big jump between fiscal year 1961 and fiscal year 1962, I am not sure. I think the answer is as I have said, there are new types of advanced equipment. As my colleague points out, with the F–86 aircraft our military people were using them themselves a good many years before they were given to the countries, so there were people right in the MAAG's who understood them, but as you come to the more advanced types coming in now, and the missiles and a great many other types of radar equipment and that sort of thing, the story is different.

Mr. PASSMAN. You are still dealing with the same type of aircraft that you dealt with 2 or 3 years ago.

General PALMER. I do not think it is aircraft any more than it is missiles; but it is true of the whole range of these ultramodern equipments.

Mr. PASSMAN. Would you get us a little more detail on that item?

General PALMER. I will be glad to.

Mr. PASSMAN. This cost has gone up 1,000 percent since 1961.

General PALMER. I will be glad to give it to you, Mr. Chairman.

(The information supplied follows:)

Prior to fiscal year 1961, materiel contractor technical teams were budgeted on a worldwide basis as part of packing, crating, handling, and transportation (P.C.H. & T.). During fiscal year 1961, it was decided that these requirements did not belong in P.C.H. & T. and should (1) be separately identified and (2) budgeted by country. Fiscal year 1961 was the transition year in the change. The program as shown for that year contains only a minor portion of total requirements for this activity, the remainder being carried as a part of P.C.H. & T. The fiscal year 1962 and fiscal year 1963 programs reflect the complete implementation of the revised method.

Mr. PASSMAN. Mr. Rooney?

Mr. ROONEY. I do not have any questions, Mr. Chairman.

Mr. PASSMAN. Mr. Taber?

Mr. TABER. I do not have any questions at the moment.

Mr. PASSMAN. Have any of the other members of the committee questions before we recess for the day?

It would appear that, along the way, under your able leadership, General Palmer, we have been able to get the program to the point that we can begin to see what is in the pipeline. I think we were equally surprised at the results of your squeezeout practices during the year—that you were able to find more than $500 million in deobligated and dereserved funds which you could apply to fiscal year 1962 and fiscal year 1963, after having presented what appeared to be the tightest program that you could get by with last year. We want you to know that we sincerely appreciate your efforts and your courage.

General PALMER. Thank you, sir.

Mr. PASSMAN. We shall recess until 2 o'clock Monday afternoon.

MONDAY, MARCH 26, 1962.

MILITARY ASSISTANCE, EUROPEAN AREA

WITNESSES

COL. SAMUEL K. EATON, U.S. ARMY, DIRECTOR, EUROPEAN REGION, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (ISA)
GEN. W. B. PALMER, DIRECTOR OF MILITARY ASSISTANCE
WILLIAM R. TYLER, DEPUTY ASSISTANT SECRETARY OF STATE FOR EUROPEAN AFFAIRS
COL. AUBREY P. NATHAN, U.S. ARMY, SPECIAL ASSISTANT, OFFICE OF THE DIRECTOR OF MILITARY ASSISTANCE, OASD (ISA)
LT. COL. ROBERT SIMPSON, U.S. AIR FORCE, OFFICE OF THE DIRECTOR OF MILITARY ASSISTANCE
JOHN MULLEN, MAP ASSISTANT TO COLONEL EATON
COL. WILLIAM A. CURTIN, OFFICE OF THE ASSISTANT TO THE SECRETARY OF DEFENSE, LEGISLATIVE AFFAIRS
A. W. ROBINSON, JR., OFFICE OF THE DEFENSE DIRECTOR OF RESEARCH AND ENGINEERING
WALTER SMITH, OFFICE OF EUROPEAN REGIONAL AFFAIRS, DEPARTMENT OF STATE
TOM FARER, MAP PRESENTATION COORDINATOR, PROGRAM REVIEW AND PRESENTATION STAFF, AID
ROBERT ALLEN, OFFICE OF EUROPEAN REGIONAL AFFAIRS, DEPARTMENT OF STATE

Mr. PASSMAN. The committee will come to order.

We shall continue consideration of the budget request for the military assistance program.

Colonel, we shall be pleased to hear your general statement.

GENERAL STATEMENT

Colonel EATON. Mr. Chairman and members of the committee, in the European region the cumulative program to June 30, 1962, will total $15.6 billion, of which it is expected $14.6 billion will have been expended by that date, and nearly $1 billion will still be in the pipeline.

The proposed fiscal year 1963 military assistance program for the European region is $314.4 million, which is $98.8 million less than the fiscal year 1962 program of $413.2 million. We propose fiscal year 1963 grant aid programs for 12 countries. This is the same number

of countries that were in the program for fiscal year 1962. At this point I would like to propose insertion in the record as exhibit A the unclassified portion of page 39 of the presentation book, which shows the values of the programs for the countries of the European region.

As referred to above, European region includes Spain and Yugoslavia. For comparative purposes, I would also like to discuss the overall program for NATO, which excludes these countries but includes Greece and Turkey, of the Near East. I should point out that the figures for "Europe" and for "NATO" are not additive; they show the total programs for two different grouping of countries.

For NATO, the cumulative program to June 30, 1962, will total $17.6 billion, of which it is expected that $16.2 billion will have been expended by that date, and nearly $1.4 billion will still be in the pipeline.

The fiscal year 1963 military assistance programs which apply to NATO total $569.2 million, which is $120.4 million less than the fiscal year 1962 programs of $689.6 million. We propose fiscal year 1963 programs for 12 NATO countries, the same number as in fiscal year 1962. As exhibit B, I would like to insert in the record the unclassified portion of page 35 of the presentation book, which shows the values of the programs for the NATO countries.

The proposed fiscal year 1963 program for the European region of $314.4 million will provide—

$123.5 million for essentially fixed charges such as training, supply operations, and payments toward multilaterally funded NATO projects;

$56 million for force maintenance to provide spare parts, attrition replacements, training missiles, and ammunition for forces currently in being; and

$134.9 million for force improvements.

I am providing, both for Europe and for NATO, a comparison of this functional application in fiscal year 1963 with that of fiscal year 1962, as exhibit C, which is attached to my statement.

The strategic importance of Europe to the United States, and the part that NATO plays in the defense of freedom, may be summarized by the following two statements made by President Kennedy:

> The defense of Europe and the assurances that can be given to the people of Europe, and the defense of North America, are indivisible—

and

> Our NATO alliance is still as it was when it was founded: the world's greatest bulwark of freedom.

And, as Secretary McNamara stated to this committee 10 days ago, on March 16:

> The purpose of these programs is to help insure, at relatively little cost to the United States, that the forces which under NATO planning will fight alongside of our own, as well as our own forces, will have adequate bases, pipelines and other logistics support, modern weapons, and adequate command systems.

The extent of our military assistance programs for individual European countries has been reduced appreciably in recent years, and this reduction is even more pronounced in the programs proposed for fiscal year 1963. Both the country and regional materiel programs take into full account the increased financial capabilities of individual countries to meet their own requirements, and the measures they are taking to this end.

In the application of this increasingly selective approach:

As in recent years, new grant materiel programs continue to be excluded for Germany, Luxembourg, France, and the United Kingdom. This policy has been extended this year to include Belgium, Italy, and the Netherlands, in view of the improved economic situations in these countries. All fiscal year 1963 programs for these seven countries are limited to the fulfillment of existing commitments and to training; in the case of Germany and Luxembourg, the programs are limited to training only.

The only new materiel programs proposed for fiscal year 1963 in the NATO countries of Europe are for Denmark, Norway, and Portugal.

The proposed program for Denmark ———. This program, which is limited to meeting only the highest priority NATO requirements, is contingent upon a cost-sharing package to be negotiated with the Danish Government.

For Norway the proposed program includes components and spares for completion of ——— units ——— previously programed but only partially funded, and the U.S. portion of a cost-sharing ship construction program which continues from prior years.

In the case of Portugal the material program will be tailored to meet Portugal's NATO obligations.

In addition to the NATO countries, my region includes the countries of Spain and Yugoslavia.

No grant military assistance program is proposed for Yugoslavia in fiscal year 1963; and none has been programed since the termination of grant aid in fiscal year 1958. Yugoslavia remains eligible to purchase military equipment, supplies, and services under the mutual security military sales program. At present, we are approving the sale of spare parts and items required to support equipment previously acquired.

In the case of Spain, the proposed program is based upon an estimate of Spanish ability to utilize such further assistance for defense purposes of interest to the United States.

In addition to the foregoing country programs, NATO and the European area will benefit further from MAP funded area programs and multilateral activities totaling $124.7 million. The major item under this heading is "Infrastructure" ($82 million). As you know, the NATO infrastructure program, which is financed by NATO, collectively, in accordance with an agreed cost-sharing formula, constructs certain specified facilities necessary for the operation of NATO forces. These agreed facilities are provided for our own U.S. forces, as well as for NATO forces of other countries. Another item in this category, includes the U.S. share of financial support for NATO Military Headquarters and agencies ($12.8 million).

An additional $10 million represents agreed U.S. contributions to projects under the mutual weapons development program, which is designated to induce increased allied efforts and expenditures toward the rapid development of promising new weapons.

The remaining $19.9 million for the area programs covers materiel supplies and services, as shown on pages 87 through 89 of the presentation book, which benefit NATO as a whole, but are not directly chargeable to specific countries.

You will recall that in recent years the weapons production program, which in Europe supports jointly financed NATO production

of key NATO requirements such as the HAWK and SIDEWINDER missiles and the F–104G aircraft, was treated separately from country programs. In our fiscal year 1963 proposal, the amount that each country receives from the U.S. input to the weapons production program is included in the individual country programs. These fiscal year country totals are listed in a comparison with the amounts requested and those actually programed in fiscal year 1962, which I am providing as exhibit D to my statement. The increases in the actual fiscal year 1962 programs shown for several countries above the fiscal year 1962 request are due primarily to the inclusion of the amounts covered by the weapons production program.

Although our proposed programing for Europe and NATO continue to be substantial for fiscal year 1963, the amounts requested represent a significant reduction from the amounts requested for fiscal year 1962. The $569.2 million requested for NATO in fiscal year 1963 is the equivalent of about 3.7 percent of the total defense expenditures of $15.3 billion by all the European NATO countries during 1961, including Greece and Turkey. For your further reference, I propose to insert in the record pages 36, 37 and 38 of the presentation book, as exhibit E, which will relate the annual military assistance deliveries and the NATO country defense expenditures during the years from 1950 through 1961.

Thank you, Mr. Chairman.

This concludes my statement but if I may, I would like to summarize for you very briefly what I think are the highlights of this program that I have presented here.

EXHIBIT A.—*Europe*

[All dollar values in thousands]

	Annual programs				Estimated deliveries/expenditures from fiscal year 1950–62 programs		
(a)	Proposed fiscal year 1963 (b)	Cumulative fiscal years 1950–62 (c)	Fiscal year 1962 as of Jan. 4, 1962 (d)	Fiscal year 1961 (e)	Fiscal year 1962 (f)	Cumulative through June 1962 (g)	July 1962 and after (h)
Europe	$314,406	$15,553,516	$413,172	$543,841	$383,428	$14,568,567	$984,949
Belgium		1,243,789	13,165	33,917	17,888	1,181,407	62,382
Denmark		605,318	39,211	38,676	20,281	522,466	82,852
France		4,157,096	4,735	6,081	38,016	4,140,745	16,351
Germany		901,171	393	1,489	1,167	899,702	1,469
Italy		2,273,864	74,763	118,909	98,392	2,106,248	167,616
Luxembourg		8,237	33	47	23	8,224	13
Netherlands		1,229,305	32,127	53,677	16,685	1,138,641	90,664
Norway		791,083	62,113	54,124	38,903	690,970	100,113
Portugal		328,768	7,721	28,510	6,465	287,163	41,605
Spain		490,759	34,649	31,717	32,077	421,054	69,705
United Kingdom		1,045,031	24,269	14,686	25,491	1,020,427	24,604
Yugoslavia		693,856				693,856	
Infrastructure	82,000	903,775	76,146	62,000	30,000	722,123	181,652
Mutual weapons development program (MWDP)	10,000	288,015	10,000	30,739	19,440	230,607	57,408
Europe areas							
Credit assistance		97,723	51,200	4,870	17,472	47,314	50,409
Belgium		4,364			21	4,342	22
France		80,006	50,000		12,818	35,464	44,542
Netherlands		2,200			1,954	2,200	
NMSSA		9,953		4,870	1,479	4,108	5,845
Excess stocks	957	690,821	70,180	5,736	20,961	621,553	69,268

EXHIBIT B.—*Military assistance program—NATO*

[All dollar values in thousands]

	Annual programs				Estimated deliveries/expenditures from fiscal year 1950–62 programs		
	Proposed fiscal year 1963	Cumulative fiscal years 1950–62	Fiscal year 1962 as of Jan. 4, 1962	Fiscal year 1961	Fiscal year 1962	Cumulative through June 1962	July 1962 and after
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Total NATO	$569,165	$17,557,329	$689,633	$800,390	$572,844	$16,180,477	$1,376,852
Belgium		1,243,789	13,165	33,917	17,888	1,181,407	62,382
Denmark		605,318	39,211	38,676	20,281	522,466	82,852
France		4,157,096	4,735	6,081	38,016	4,140,745	16,351
Germany		901,171	393	1,489	1,167	899,702	1,469
Greece		1,190,065	115,672	109,396	60,387	995,333	194,732
Italy		2,273,864	74,763	118,909	98,392	2,106,248	167,616
Luxembourg		8,237	33	47	23	8,224	13
Netherlands		1,229,305	32,127	53,677	16,685	1,138,641	90,664
Norway		791,083	62,113	54,124	38,903	690,970	100,113
Portugal		328,768	7,721	28,510	6,465	287,163	41,605
Turkey		2,095,019	195,764	180,270	162,223	1,827,791	267,228
United Kingdom		1,045,031	24,269	14,686	25,491	1,020,427	24,604
Europe area programs:							
Infrastructure	82,000	903,775	76,146	62,000	30,000	722,123	181,652
Mutual weapons development program (MWDP)	10,000	288,015	10,000	30,739	19,440	230,607	57,408
Credit assistance		96,523	50,000	4,870	16,272	46,114	50,409
Belgium		4,364			21	4,342	22
France		80,006	50,000		12,818	35,464	44,542
Netherlands		2,200			1,954	2,200	
NMSSA		9,953		4,870	1,479	4,108	5,845
Excess stocks		814,074	76,328	5,832	30,560	746,865	67,209

EXHIBIT C.—*Europe and NATO—Comparison, fiscal year 1962, and proposed fiscal year 1963—Military assistance program*

[Millions of dollars]

Category	Proposed, fiscal year 1963		Actual, fiscal year 1962	
	Europe	NATO	Europe	NATO
Total	$314.4	$569.2	$413.2	$689.6
Essentially fixed charges	123.5	162.4	133.5	165.5
Infrastructure	82.0	82.0	76.1	76.1
International headquarters and agencies	12.8	12.8	11.6	11.6
Supply operations (P.C.H. & T.) and nutritional surveys	16.0	37.2	30.5	48.8
Training	12.7	30.4	15.3	29.0
Force maintenance	56.0	156.8	67.5	166.8
Spare parts	24.6	61.7	34.4	59.4
Attrition, training ammunition and rehabilitation of materiel	31.0	71.6	32.2	80.4
Other consumables	.4	23.6	.9	27.0
Force improvement	134.9	249.9	212.2	357.3
Aircraft	50.4	94.8	107.0	152.5
Ships	9.6	22.6	23.1	44.4
Tanks, vehicles and weapons	4.6	4.7	20.4	39.1
Missiles	12.6	43.5	36.5	65.1
Electronics and communications	4.6	24.5	5.3	19.0
Construction		.6	.4	2.3
Special programs	21.0	15.0		
All other	32.1	44.2	19.5	34.9

EXHIBIT E

NATO-U.S. military assistance program deliveries, defense expenditures, and defense expenditures as percent of GNP, by calendar year

[Millions of dollars]

Country	Total, calendar years 1950-61			Calendar year 1961			Calendar year 1960			Calendar year 1959		
	Military assistance program deliveries [1]	Defense expenditures		Military assistance program deliveries [1]	Defense expenditures		Military assistance program deliveries [1]	Defense expenditures		Military assistance program deliveries [1]	Defense expenditures	
		Amount [2]	Percent of GNP		Amount [2]	Percent of GNP		Amount [2]	Percent of GNP		Amount [2]	Percent of GNP
Belgium-Luxembourg	$1,185	$4,283	3.4	$10	$395	3.0	$13	$388	3.1	$22	$382	3.2
Denmark	512	1,508	2.8	36	170	2.6	22	161	2.7	45	143	2.6
France	4,149	33,819	7.1	38	4,000	6.4	33	3,835	6.6	147	3,630	6.9
Germany [3]	899	24,899	4.3	2	3,150	4.1	58	3,029	4.3	86	2,772	4.4
Greece	960	1,484	5.5	56	165	4.7	69	162	5.1	70	154	5.1
Italy	2,056	10,998	3.9	112	1,200	3.5	140	1,136	3.6	112	1,067	3.6
Netherlands	1,132	5,058	4.9	28	525	4.3	53	477	4.1	26	416	3.9
Norway	661	1,571	3.7	27	155	3.3	10	148	3.3	51	155	3.7
Portugal	284	1,037	4.6	5	200	8.0	4	105	4.5	12	98	4.5
Turkey	1,739	1,763	4.9	121	285	5.2	85	268	5.0	124	241	4.9
United Kingdom	1,002	53,327	8.0	13	5,050	6.8	26	4,848	6.8	199	4,679	7.0
NATO area program	1,325			159			238			143		
Total, NATO	15,904	139,747	5.8	607	15,295	5.2	751	14,557	5.3	1,037	13,737	5.4
Canada		19,603	5.7		1,700	4.6		1,654	4.6		1,642	4.7
United States		504,924	10.3		51,093	9.8		46,545	9.2		46,614	9.7

Country	Calendar year 1958			Calendar year 1957			Calendar year 1956		
	Military assistance program deliveries [1]	Defense expenditures		Military assistance program deliveries [1]	Defense expenditures		Military assistance program deliveries [1]	Defense expenditures	
		Amount [2]	Percent of GNP		Amount [2]	Percent of GNP		Amount [2]	Percent of GNP
Belgium-Luxembourg	$59	$375	3.3	$32	$376	3.3	$96	$349	3.2
Denmark	24	143	2.9	20	146	3.1	47	136	3.0
France	130	3,355	6.9	159	3,159	7.4	400	2,975	7.8
Germany [3]	78	1,713	3.0	380	2,240	4.1	295	1,803	3.6
Greece	139	149	5.1	79	149	5.3	81	135	5.2
Italy	72	1,035	3.8	144	977	3.8	257	934	3.9
Netherlands	41	457	4.6	84	510	5.2	152	512	5.7
Norway	47	143	3.6	38	147	3.7	69	135	3.6
Portugal	24	86	4.2	25	83	4.1	20	80	4.2
Turkey	251	163	4.2	208	141	4.2	171	129	4.8
United Kingdom	43	4,684	7.3	97	4,707	7.7	75	4,788	8.2
NATO area program	137	----	----	127	----	----	83	----	----
Total, NATO	1,045	12,303	5.2	1,393	12,635	5.7	1,746	11,976	5.8
Canada	----	1,740	5.3	----	1,829	5.7	----	1,888	6.1
United States	----	45,503	10.2	----	44,548	10.1	----	41,773	10.0

Country	Calendar year 1955			Calendar year 1954			Calendar year 1953		
	Military assistance program deliveries [1]	Defense expenditures		Military assistance program deliveries [1]	Defense expenditures		Military assistance program deliveries [1]	Defense expenditures	
		Amount [2]	Percent of GNP		Amount [2]	Percent of GNP		Amount [2]	Percent of GNP
Belgium-Luxembourg	$132	$353	3.5	$181	$410	4.3	$285	$406	4.5
Denmark	54	133	3.2	72	128	3.2	82	129	3.4
France	412	2,232	6.5	557	2,371	7.4	945	2,808	9.2
Germany [3]	----	1,846	4.1	----	1,759	4.4	----	1,792	4.8
Greece	75	123	5.5	59	114	5.8	131	92	5.5
Italy	159	881	4.0	304	869	4.3	400	769	4.1
Netherlands	140	469	5.6	207	437	5.9	195	367	5.5
Norway	75	133	3.9	57	160	5.1	140	149	5.1
Portugal	57	77	4.3	38	73	4.4	73	69	4.3
Turkey	165	120	5.1	220	104	5.5	174	92	4.9
United Kingdom	93	4,491	8.4	133	4,658	9.3	231	4,916	10.4
NATO area program	91	----	----	85	----	----	147	----	----
Total, NATO	1,453	10,858	5.8	1,913	11,083	6.4	2,803	11,589	7.2
Canada	----	1,819	6.7	----	1,771	7.1	----	1,970	7.8
United States	----	40,518	10.2	----	42,900	11.8	----	49,621	13.6

See footnotes at end of table, p. 426d.

NATO-U.S. military assistance program deliveries, defense expenditures, and defense expenditures as percent of GNP, by calendar year—Continued

[In millions of dollars]

Country	Calendar year 1952			Calendar year 1951			Calendar year 1950		
	Military assistance program deliveries [1]	Defense expenditures		Military assistance program deliveries [1]	Defense expenditures		Military assistance program deliveries [1]	Defense expenditures	
		Amount [2]	Percent of GNP		Amount [2]	Percent of GNP		Amount [2]	Percent of GNP
Belgium-Luxembourg	$254	$408	4.6	$75	$273	3.1	$26	$168	2.2
Denmark	65	98	2.8	35	69	2.1	10	52	1.7
France	810	2,538	8.7	354	1,784	7.2	164	1,132	5.6
Germany [3]	----------	2,138	6.2	----------	1,557	5.2	----------	1,100	4.5
Greece	83	88	7.0	94	87	7.3	24	66	6.9
Italy	256	833	4.8	82	732	4.5	18	565	4.0
Netherlands	136	346	5.5	54	293	4.9	16	249	4.8
Norway	81	116	4.0	45	80	3.1	21	50	2.4
Portugal	23	59	3.8	3	54	3.6	----------	53	3.8
Turkey	145	81	5.1	54	72	5.3	21	67	5.8
United Kingdom	58	4,656	10.5	23	3,352	8.2	11	2,498	6.7
NATO area program	115	----------	----------	----------	----------	----------	----------	----------	----------
Total, NATO	2,026	11,361	7.5	819	8,353	6.1	311	6,000	5.1
Canada	----------	1,875	7.8	----------	1,220	5.8	----------	495	2.8
United States	----------	47,852	13.8	----------	33,398	10.2	----------	14,559	5.1

[1] U.S. military assistance furnished to countries includes deliveries of equipment and supplies, expenditures for repair and rehabilitation of excess stocks, training, packing, crating, handling and transportation, nutrition surveys, construction and credit assistance under sec. 103(c) MSA.

[2] Based on NATO definition of defense expenditures. For the United States it includes expenditures for military functions of the Department of Defense, the military assistance program, the Atomic Energy Commission, Coast Guard, National Aeronautics and Space Administration, veterans' insurance and indemnities, and residual expenditures by AID predecessor agencies for the direct forces support program.

[3] German defense expenditures data through 1954 are AID estimates. Germany's expenditures through 1955 were largely occupation/support costs. Military assistance expenditures represent physical deliveries to the Federal Republic of Germany.

NOTE.—Precise comparisons of levels of defense expenditures between European countries and the United States are not possible. Conversions of national currency data into dollars have generally been made on the basis of official foreign exchange rates, and the purchasing power of dollar equivalents is appreciably higher in most European countries than that of the dollar in the United States. Intra-European comparisons of the converted dollar figures are subject to similar limitations. A uniform exchange rate has been applied for all years in order to preserve the trend of the national currency data and eliminate distorting fluctuations in the dollar figures caused by devaluation. The columns on defense expenditures as a percent of GNP have been computed at current market prices.

Mr. PASSMAN. Do you have a prepared summary?
Colonel EATON. I have a few points I would like to make.
Mr. PASSMAN. Let us defer that comment briefly.

MILITARY AID FOR NEW NATIONS

It is my understanding, General Palmer, that if the plans materialize to bring into the program the new and emerging nations of Africa or elsewhere, then there would be 65 nations receiving some type of military aid.
General PALMER. That is correct.

EXCESS SPARE PARTS SUPPLIED ITALY

Mr. PASSMAN. Did I previously imply either incorrectly or correctly that, maybe without any justifications, that there had been another allocation to Italy?
General PALMER. You inquired and we said we would furnish information on that.
Mr. PASSMAN. Am I correct in stating that, without any prior justifications during the year, it was decided there was a need for $65 million worth of excess stocks to go to Italy?
General PALMER. Excess stocks, $65,950,000.
Mr. PASSMAN. That is a new figure as it would apply to fiscal 1962?
General PALMER. It applies to fiscal 1962, but it was not shown in the presentation made last year.
Mr. PASSMAN. Could it be that they found excess stocks on the shelf and wanted to get rid of them, so as to bring about what would be, in effect, an additional appropriation, or was there some justification for it?
General PALMER. There was justification for it, Mr. Chairman, but I think we agreed we would discuss that when I came up on the nonregional part. I have not prepared that paper yet, and I do not have it with me today.
Mr. PASSMAN. The matter can be gone into later.
General PALMER. Off the record, please.
(Discussion off the record.)
Mr. PASSMAN. Let us wait. Perhaps there will be 12 or 15 similar cases. Maybe it would be better to discuss this later.

MILITARY ASSISTANCE PROGRAM FOR EUROPEAN AREA, 1962–63

We shall discuss this afternoon the budget request for Europe.
In fiscal 1962, you had a program of $413,172,000 and the estimate for fiscal 1963 is $314,406,000.

ABILITY OF EUROPEAN NATIONS TO MEET OWN REQUIREMENTS

I believe the Secretary said in his statement—and maybe General Palmer, too—that the European nations are now able to pick up their own checks, that we were continuing the military program for Europe because of commitments which have already been made.

Is that an accurate understanding of the Secretary's statement?

General PALMER. Not 100 percent, sir.

There are certain Euopean countries that are able to pick up their own checks; there are some which are not able to, and we have the NATO infrastructure and international headquarters and things of that sort.

Mr. PASSMAN. Those items are a minor part of the total, are they not?

General PALMER. Yes, sir.

Mr. PASSMAN. I believe the Secretary did indicate that Europe can pay its own expenses now, but we had made commitments so we are having to carry out those commitments. I wonder if I am paraphrasing Secretary McNamara correctly?

Mr. RHODES. That is the way I remember it.

UNEXPENDED BALANCES FOR EUROPEAN AREA

Mr. PASSMAN. What is the anticipated unexpended balance for this area as of June 30, 1962?

Colonel EATON. For the Europeon region, the unexpended portion is nearly $1 billion.

Mr. PASSMAN. Why is the pipeline so high?

Colonel EATON. Sir, the pipeline runs up to 22 months when you take into consideration the time of placing orders, the time of delivery of equipment, and the preliminary negotiations that are required. I think the U.S. Army has a leadtime of about 16 months, and when you add to that the international negotiations that are involved, the figure is about 22 months.

RECOUPMENTS AVAILABLE FOR OBLIGATION

Mr. PASSMAN. Under the able leadership of General Palmer, several squeezeouts have been made, which were referred to as recoupments, but which actually were deobligations, or dereservations.

Out of the billion dollars, do you anticipate there will be a substantial part of that sum later deobligated; that is, made available for new obligations, similar to the squeezeouts that have been made?

Colonel EATON. I have no information within my region, sir, that would give me any basis to estimate the amount from that total that would be——

Mr. PASSMAN. Do you know the amount of the squeezeouts, recoupments, deobligations, or dereservations for the European region?

Colonel EATON. I do not have the figures for my area, sir.

Mr. PASSMAN. Would it not be important for you, Colonel, to know how much it is, because there was a squeezeout, recoup, or payback of half a billion dollars out of the last fiscal year? Would it not be valuable to you to know how much you are able to save?

How could we find out how much of this squeezeout, or dereservation, came out of Europe?

General PALMER. I think we could give that to you.

(The requested information follows:)

The amount of recoupments estimated to become available from the European region during fiscal year 1963 is $59 million.

REDUCTION IN MATERIEL ASSISTANCE

Colonel EATON. Mr. Chairman, may I add to my statement by saying that we are paying continued attention to the reduction of our programs in Europe. This is evidenced in fiscal year 1963 by the fact that the program request is about $100 million less than in fiscal year 1962. Three additional countries have been added to our policy of no new materiel assistance: Belgium, Italy, and the Netherlands.

FLOW OF MATERIALS TO EUROPE

Mr. PASSMAN. You have a higher pipeline backlog for Europe than you have had in previous years?

Colonel EATON. Without looking at the book, I would say we probably do have.

Mr. PASSMAN. Colonel, even though you have a decrease as far as actual expenditures are concerned, it could actually amount to an increase on account of the almost billion-dollar backlog in the pipeline?

Colonel EATON. I am not sure I follow your question exactly.

Mr. PASSMAN. You have $1 billion reserve, obligated, to fill orders for the NATO nations in Europe. If this is higher than in previous years, it could well be that if you stepped up deliveries, the actual cost of deliveries would be greater than the request for fiscal year 1963 funds?

Colonel EATON. Sir, these requests were presented and justified and the funds were committed in previous years. Now, on a year-to-year basis, I do not have that breakdown, but this is the realization of prior programs.

Mr. PASSMAN. In prior year presentations, it has turned out later that it was a question of discussion, rather than jusifications. You made statements for the amounts, but you included substantial overestimates, as is evidenced by the tremendous amount of money that General Palmer has been able to dereserve, or recoup.

DECREASE IN PIPELINE FOR EUROPEAN AREA

General PALMER. Mr. Chairman, the pipeline for Europe is estimated for June 30, 1962, as shown on page 39 of the presentation book; it is approximately $32 million less than it was for June 30, 1961.

It has gone down slightly in the current fiscal year.

Mr. PASSMAN. The colonel, I believe, is going to do some research and tell us how much of the amount of funds that have been deobligated, or dereserved, or squeezed out, or recouped, for Europe is included in the total of half a billion dollars.

General PALMER. Might we put that into the record later?

Mr. PASSMAN. I think the colonel may appreciate my suggestion that he should know the amount.

Colonel EATON. Sir, I will know, whether I am in on the research or not.

General PALMER. Off the record.

(Discussion off the record.)

U.S. OBLIGATION IN EUROPEAN AREA

Colonel EATON. I had a second point, sir, that we do and must continue to honor previous obligations and previous commitments. We must also continue our share of those multilaterally funded programs which are to the benefit of the collective defense efforts.

It is in our interest to continue training programs. We bring these people to see our way of life and they buy our equipment and our philosophy.

Mr. PASSMAN. Can you cite any section of law making it mandatory to do what you suggest?

Colonel EATON. No, sir; I cannot.

When I used the words "We must" I intended that to convey, and I would hope you would accept it, it is an obligation upon us to present a request for funds to carry out what we consider to be an agreement with the country, implied or intended.

Mr. PASSMAN. These implied matters sometime get us into a lot of trouble.

Is that the conclusion of your statement?

Colonel EATON. One further point: We have a requirement for Norway and Denmark, and we have a requirement in Portugal and Spain.

Mr. PASSMAN. We are going to talk a little bit about shipbuilding in some of those nations later on, too.

Mr. Secretary, we are happy to have you before the committee, and we hope you will proceed to fill us in on some of the political and general aspects of the program for Europe?

Mr. TYLER. Thank you, Mr. Chairman.

Mr. Chairman, I do not have a prepared statement but if I may I would like to make a few comments on the general situation in Europe.

I appeared before your committee less than 8 months ago and I would say that in the time that has elapsed since August of last year there has been no lessening of Soviet pressure on Europe in general, and on Berlin in particular.

BERLIN CRISIS

The threat of unilateral action by the Soviet Union on Berlin by the signing of a separate peace treaty is still with us and the situation is still today much as it was in the summer of last year.

There have been intensive consultations with the North Atlantic Council. We have had intensive discussions with the Russians; first of all, between Secretary of State Dean Rusk and Foreign Minister Gromyko and then the President talked with Foreign Minister Gromyko.

Then Ambassador Thompson in Moscow held conversations again with Foreign Minister Gromyko and now there are, as you know, current talks on Berlin which have not, so far, made any headway or given us any hoped for encouragement.

In addition to the continued Soviet pressure on Europe, there has been unilateral action by the Soviet Government in resuming nuclear testing in violation of the moratorium which existed until then and in his March 2 address to the Nation, the President said that this Soviet action pointed up more than ever the need for combined defense efforts and the fact that such efforts should be stronger than the mere sum of the parts.

DEFENSE EXPENDITURES OF NATO ALLIES

Mr. Chairman, we do believe that the ability to deter Soviet aggression requires more than U.S. military power alone, and we believe that our national security has obtained considerable dividends from the investment we have made in strengthening, where appropriate, the military programs of our allies.

I recall, Mr. Chairman, the interest of this committee in what our NATO allies are doing. In other words, are they doing all that they can? Are they doing all that they could do, given the increase in their economic strength and wealth?

The answer to that, in my belief, is that they could do more. We admit that they could do more, but considering the economic and political limitations which obtain in certain of our allies' governments, the overall record is quite a good one. The total European NATO country defense expenditures last year were over $15 billion, which is an increase of about 25 percent over 1958, and every single NATO country has this year made an increase in its defense expenditures over last year.

The Netherlands plans a significant increase in the course of this year; Norway has announced an increase of 7.6 percent; Italy plans to accelerate its previously announced 4-percent annual increase; the Belgians have gone up by 4.6 percent in 1962 over 1961, and the French have gone up 3 percent.

The German defense expenditures have doubled between 1958 and 1961 and, more recently, the Germans have decided to extend their conscription period from 12 to 18 months.

In 1953, the United States was paying one-quarter of the total defense expenditures of our NATO allies, and in 1961 less than 4 percent.

Now, the question I think I may anticipate is, What have we done and what are we doing to urge our allies to make a greater contribution to the common defense?

I would say that in those countries where we are still giving grant aid, as in Norway and in Denmark, assistance is extended only after careful examination to determine how the aid can elicit a greater or more effective effort by the country itself.

The cost sharing shipbuilding programs with Denmark and Norway have specified that the share paid by those countries will be over and above their regular defense expenditures and this has proved to be the case.

We are currently negotiating with these countries on new programs which will be dependent upon their agreement to match our assistance with funds additional to those which have been currently budgeted. In the Berlin military buildup which has been in progress

since last August, we have strongly supported General Norstad's recommendations both in the North Atlantic Council and bilaterally. We have urged our allies to increase their efforts to contribute to the necessary buildup in order to persuade Khrushchev that his threats would be met by more than a declaration of firmness of intention.

The results of these efforts, Mr. Chairman, while they are certainly not all that we would hope for, have been encouraging as the percentage increases, which I have just quoted, indicate.

INCREASE IN MILITARY PERSONNEL IN EUROPE

If you would so desire, we can furnish classified Berlin buildup figures on troops.

Another way in which we urge a greater effort——

Mr. TABER. Why could you not tell us that now?

Mr. TYLER. I believe that that information is classified, Mr. Chairman, but we would be prepared to supply it.

That is, the information on Berlin buildup figures on troops by our allies.

Mr. TABER. I would suggest you give us that information now, and if there is anything that is classified, you can take it out of your testimony when it comes to you.

Mr. TYLER. I have here the personnel strength increases among the NATO countries, not counting the United States. I would like to say that this is classified.

Colonel EATON. Perhaps not that alone, but taken altogether, the information you have there is classified.

Mr. CONTE. Give it to us off the record then.

Mr. TABER. He says it is classified and he does not want it printed.

Mr. CONTE. Give it to us off the record.

Mr. TABER. He can do that if he wants to. Let him put it in the record and then if he wants to take it out, let him do it.

Mr. PASSMAN. Mr. Secretary, if that meets with your approval, suppose you answer Mr. Taber's question.

Mr. TYLER. I would like to say that there has been an increase of ——— troops in the personnel strength of the NATO countries, other than the United States, since last summer. The breakdown is heaviest in ———, an increase of ———. The figure in France is ———, Greece, an increase of ———.

In each of these countries, there have been some other measures than mere personnel increases, such as extension of conscription, strengthening of their existing troops with our equipment, and in training, which does represent a substantial increase compared with their strength of 8 months ago.

Mr. TABER. How many did you ask them to supply?

Mr. TYLER. I do not have with me, Mr. Congressman, the specific goals which were set, but I could supply those for the record.

Mr. TABER. It would not do any good to us if we do not know that.

Mr. CONTE. Mr. Chairman?

Mr. PASSMAN. Yes.

Mr. CONTE. Sir, you were giving us the NATO increase.

What was the U.S. increase in this area of the world?

Mr. TYLER. May I turn to my military colleagues for that information? I do not have it.

Mr. CONTE. During this period of time?

Colonel EATON. Approximately ——— U.S. personnel.

Mr. TABER. Additional?

Colonel EATON. This was added to what he gave you, and added to our own forces in Europe since approximately September 1.

Mr. CONTE. In other words, the United States during this period of time increased its personnel by ——— and all of our NATO allies together increased it by ———.

Colonel EATON. Yes, sir.

Mr. TABER. I wonder if I could ask a question here, Mr. Chairman?

Mr. PASSMAN. Of course, you may.

RUSSIAN FORCES IN EASTERN EUROPE

Mr. TABER. How many men did the Russians have in front of Berlin a year ago and how many do they have now?

Colonel EATON. I could not give you an answer as to the specific layout in front of Berlin, sir. I do know, in response, you might say, to our buildup in Europe, the Russians have other forces now, and where they were added, I do not know.

Mr. TABER. ——— air force?

Colonel EATON. No, sir; the Russians added ———.

(Additional information was supplied to the committee.)

Mr. RHODES. All Russians or some satellites?

Colonel EATON. My understanding is that they are Russians.

Mr. RHODES. Do you know anything about the satellite buildup if there was one?

Colonel EATON. I do not have any figures, Mr. Rhodes. I could get some for you.

Mr. TABER. What satellites?

Colonel EATON. There were some actions taken in the satellites.

(The information was supplied to the committee.)

SUMMARY OF EUROPEAN SITUATION

Mr. TYLER. Mr. Chairman, I have concluded my remarks and if I may I would like to summarize the development of the situation in Europe since August of last year when I appeared before your committee.

I said that we have no reason to find any grounds for encouragement in the Soviet attitude, that the threat is still exerted by the Soviet Union in Europe. We are very conscious of the fact that a greater effort is needed by the alliance as a whole in particular by our NATO allies.

I said that although we were conscious that more needs to be done, there had been some encouraging increases in the contribution by our NATO allies and that we are continuing to do all that we can to impress on them the necessity of doing more than they have been doing.

That concludes the few remarks I wish to make.

Mr. PASSMAN. Thank you, Mr. Secretary.

PERCENTAGE OF GROSS NATIONAL PRODUCT SPENT FOR DEFENSE

We notice in checking the percentages of their GNP which the NATO nations are devoting to defense expenditures that the total percentage of the GNP for defense purposes was 5.4 in 1959, that it dropped to 5.3 percent in 1960, and it continued to drop, to 5.2 percent of the GNP, in calendar year 1961.

Could it be that this condition would be because of the continued contribution made by the United States to the members of the NATO Alliance?

Mr. TYLER. Mr. Chairman, I do not have that information but I would be glad to look into it.

Mr. PASSMAN. It is on page 36 of the justifications, book No. 131. Thank you very much, Mr. Secretary.

General PALMER. May I make one comment, Mr. Chairman?

Mr. PASSMAN. Yes, General.

General PALMER. The European expenditures or NATO country expenditures increased each year during that period you have cited.

Mr. PASSMAN. I am talking about the percentage of the GNP devoted to defense. In this country they always talk about what a small percentage of our GNP we are contributing yet our percentage of GNP for defense expenditures may be going up whereas theirs is coming down. They may be going up in dollars but they have a thriving economy, and so far as the percentage of the GNP is concerned, it is declining.

General PALMER. That is correct.

Mr. PASSMAN. Thank you, General.

JUSTIFICATION FOR INCREASED PROGRAMS

Colonel, what occasioned the necessity for the increase above the 1962 budget presentation for Belgium?

Your budget for fiscal 1962 called for $4,717,000 and you have more than tripled it, up to $13,165,000.

Italy, 1962 budget, indicated $38,307,000, and that jumped up to $74,763,000.

In the Netherlands, it was $19,841,000, and has been increased to $32,127,000.

Europe is a part of the world where we would have expected to have it go the other way, rather than the way it did go.

Would you give us some explanation as to the increase in the expenditures over the amounts justified last year?

Colonel EATON. Yes, sir.

In the case of Belgium and the Netherlands, the great apparent increase is caused by a transfer of the F–104 program, from a regional program to the country. I mentioned in my opening statement that a different way of accounting for that item has been this year, so that takes care of the great bulk, aside from small readjustments in both Belgium and the Netherlands.

In the case of Italy though, there is an additional factor. In addition to the transfer of the F–104 program from a regional fund to a country program, there was also an agreement reached last summer between Mr. McNamara and Defense Minister Andreotti involving two items.

Neither of those two items did appear in the presentation for fiscal year 1962 last year; but one had appeared in the program for a previous year so this was nothing new.

The other item was new and it reflected directly Italy's desire to participate in the Berlin build-up.

COST OF REHABILITATION OF EQUIPMENT

Mr. PASSMAN. Is this the rehabilitation cost on this type of equipment? And, is this equipment excess to our needs?

Colonel EATON. Normally, sir, when an item is given as grant materiel assistance, it is rehabilitated and transported to the country as part of the program.

Mr. PASSMAN. No part of the acquisition cost is charged? It is the rehabilitation, packing, crating and transportation?

General PALMER. That is correct, for excess items; yes, sir.

Mr. PASSMAN. What percentage would the rehabilitation be of the original acquisition cost?

General PALMER. I think that I can give you that; about 20 percent.

Mr. PASSMAN. Which means, in reality, that the recipient nations of this aid program in Europe not only are getting the figures heretofore mentioned in the way of new military equipment, but the program is getting a sizable amount of equipment for which it pays only 10 or 20 percent of the original acquisition cost. In reality, they are getting it for 10 or 20 percent on the dollar, are they not?

That is for the selected countries, of course.

Colonel EATON. In answer to your question, there is no charge against the country when there are excess stocks allocated to the program.

Mr. PASSMAN. You are charging it against the appropriation only?

Colonel EATON. This has already been charged previously to the services.

Mr. PASSMAN. But you are providing equipment that is serviceable?

Colonel EATON. It is serviceable, but it would not provide the same type of service as new equipment, sir. It has already been replaced by newer equipment in our own——

Mr. PASSMAN. But it serves the purpose of the country for which it is intended?

Colonel EATON. We would be much better off for that country to use that equipment than we would be in——

Mr. PASSMAN. I do not want to confuse the record, but both of us are familiar with the fact that they have stuff on the shelves they have to clean off and this serves a purpose, and the same purpose as far as the recipient nation is concerned, as new equipment. You are giving it to them and they are accepting it?

Colonel EATON. Yes, sir. They would have none——

ACQUISITION COST OF REHABILITATED EQUIPMENT

Mr. PASSMAN. Then, if we should go back and add up the acquisition cost of the equipment being shipped out, maybe for 20 percent, it would be a fantastic figure?

Colonel EATON. Yes, sir; in relation to that cost.

Mr. PASSMAN. Would you ever really find out what the military assistance program is costing unless we put in the record the acquisition cost of the excess equipment which we have rehabilitated and are sending over?

Could you put that information in the record?

General PALMER. Off the record, Mr. Chairman.

(Discussion off the record.)

General PALMER. You asked for that the other day, Mr. Chairman, and it will be appended to the record.

Mr. PASSMAN. Colonel Eaton, I believe you did agree that it would be a fantastic figure if we should put the acquisition cost in and include that in the total of military aid?

Colonel EATON. The figure would certainly be large.

Mr. PASSMAN. Let us deal in totals for the globe. This extra item has been $2,307,792,000. In previous years witnesses have testified that most of this equipment would suffice just about as well for the recipient nations as if it had been bought right out of the factory.

The figure as applied to Europe is about $691 million.

PROPORTION OF GNP SPENT FOR DEFENSE

For the NATO justifications, you indicate a request of $569,165,000 for fiscal 1963, and page 36 indicates that only three of the NATO countries have increased the percentage of their GNP for defense expenditures. The total for NATO dropped from 5.3 of GNP to 5.2 percent, as we discussed earlier.

Would you like to comment on this situation as it applies to Europe, Colonel?

Colonel EATON. I would like to repeat what Mr. Tyler said earlier, that between calendar 1960 and calendar 1961 each NATO nation increased its defense expenditures in real value. As I recall, you started with the 1959 and there were——

Mr. PASSMAN. I am referrirng to the percentage of the gross national product of the nations going into their defense expenditures. It is decreasing, is it not?

Colonel EATON. The total dollars did increase.

Mr. PASSMAN. Let me say again that dollarwise it may be up, but as far as the percentage of the GNP is concerned, it is declining; is that right?

Colonel EATON. That is right; one-tenth of 1 percent.

Mr. PASSMAN. What is the comparable percentage for the United States?

Colonel EATON. You cited the 3 years?

Mr. PASSMAN. That is right.

Colonel EATON. The United States decreased between 1959 and 1960 from 9.7 to 9.2 percent.

Mr. PASSMAN. It jumped back up to 9.8 percent of the GNP in 1961, whereas the nations of Western Europe showed a decrease.

Colonel EATON. That is correct, sir.

Mr. PASSMAN. (Off the record.)

(Discussion off the record.)

Mr. PASSMAN. With respect to this particular country, this is one time we can actually say we are trying to buy friendship, if they have a budget surplus and we are giving them aid so as to keep them looking in our direction.

Colonel EATON. (Reply and subsequent discussion off the record.)

Mr. PASSMAN. (Off the record.)

(Classified tabulations pertaining to the above discussion were supplied to the committee.)

Mr. TABER. What does SAM Battalion mean?

General PALMER. Surface-to-air missile.

Mr. TABER. (Question and reply off the record.)

Mr. PASSMAN. That is true.

Representing the taxpayer, we have to look at this figure at the top of the book showing that we have given to them ——million in the past.

General PALMER. That is correct.

Mr. PASSMAN. That is a great deal of money.

MILITARY AID PROGRAM FOR BELGIUM

Could you give us some data on the agreement with Belgium relating to their nuclear delivery capability?

Colonel EATON. I am not sure exactly what you are getting at with your question.

Mr. PASSMAN. On page 43 of the justifications, you say Belgium is presently maintaining Army divisions on the line in Germany, and squadrons of combat aircraft.

(Discussion off the record.)

ATOMIC WEAPONS

Mr. PASSMAN. We want your comment as to what the atomic delivery capability will be in the future, according to the present buildup.

Colonel EATON. As you know, NATO force requirements are established by NATO military authorities. Those requirements are broken down by country as to what types and kind of nuclear participation each country should make.

Since we own the great majority of the nuclear weapons available to the alliance, we have to satisfy ourselves as to the condition under which we release the necessary information.

There are certain security agreements that have to be undertaken before that can be done. Technical training is required to enable them to carry these nuclear weapons.

Mr. PASSMAN. Could you project that cost into the future?

Colonel EATON. This is not a question of cost, sir, in itself.

There is no direct cost in attaining a nuclear delivery capability. Technical training is required, which is funded as a training item.

Mr. PASSMAN. How do we find out the cost?

This is not something imaginary. We are dealing with something that costs money.

Colonel EATON. Do you want to know the cost of atomic weapons?

Mr. PASSMAN. The cost of the program we are discussing, as outlined in the book. After all, we are thinking about future costs.

In the past all of the commitments in Europe were based on a cost projection. You come in for a slice of it. We are interested in the cost of this particular unit for ———.

General PALMER. May we have about 3 minutes to discuss this?

(Discussion off the record.)

General PALMER. This statement did not refer to any expense to the military assistance program. It related to adding to other capabilities, which their aircraft already have, the additional ability to carry atomic weapons.

Mr. PASSMAN. That is not going to cost us anything?

General PALMER. Some minor amount for training, but no major amount.

MISSILE REQUIREMENT UNDER FORCE OBJECTIVES

Mr. PASSMAN. What type of missile systems are you proposing for that country?

Colonel EATON. You mean overall, all services?

Mr. PASSMAN. Yes.

Colonel EATON. There is a force objectives requirement for ———.

(Discussion off the record.)

Mr. PASSMAN. The book would confuse a person checking it.

If you go down to the second part, under items and the detailed information, you do not list anything.

Colonel EATON. If I may add, the cost ——— is an incremental cost for this year to the whole program. The figure which is shown involves no major end items.

Mr. PASSMAN. We are just trying to find out how much this will amount to. There is no detail here.

Colonel EATON. We do not have all the end items listed. It would be terribly long.

MILITARY TRAINING PROGRAM FOR LUXEMBOURG

Mr. PASSMAN. What type of training will you provide for Luxembourg?

Colonel EATON. The proposed program for Luxembourg has ——— spaces receiving training in the United States.

Mr. PASSMAN. Their own personnel?

Colonel EATON. Military personnel, the program calls for them to convert to another type of unit. The conversion has been held up somewhat by their legislative program.

Mr. PASSMAN. Why do you have to train them in the United States?

Colonel EATON. Sir, they have no training capability of their own.

Mr. PASSMAN. Are they not a part of NATO?

Colonel EATON. Yes, sir.

Mr. PASSMAN. Would it not cost less if you trained them over there?

Mr. MULLEN. The course is already set up.

Mr. PASSMAN. If it is necessary to bring these few over here, why not all the military personnel of all the members of the NATO alliance?

Colonel EATON. I do hope we get some of the people from all the nations over here. I think it does us good.

Mr. PASSMAN. I think you get a lot of people from a lot of nations over here. The type of training you are going to give them is not obtainable in Europe?

Colonel EATON. I do not think so.

Mr. PASSMAN. There is no such training program in Europe?

Colonel EATON. Yes, but there are no formal schools to my knowledge that would take the place of the kind we have.

Mr. PASSMAN. You are a military man and I am not. But, if we should pursue this, we would probably find that you could give them just as good training over there for possibly 20 percent of the cost of the program that is contemplated.

I do not think there is a nation in Western Europe that does not have the training facilities you mentioned

AID TO YUGOSLAVIA

I have heard about a half dozen times in the past week—"No military assistance for Yugoslavia." However, let me quote: "Yugoslavia remains eligible to purchase military equipment under the military assistance program. At present we are approving the sale of spare parts and items to support equipment previously acquired by Yugoslavia."

In fiscal year 1961 we gave Yugoslavia $150 million. It was one of the largest contributions that this country has made to Yugoslavia, and included a wide range of types of aid. What difference does it make whether you give them military equipment, or not, if you turn around and give them dollars through another category with which to buy equipment?

They are buying certain military equipment and spare parts now; are they not?

Mr. TYLER. May I address myself to this point?

Mr. PASSMAN. As long as we get the story behind it. You do not quarrel with the $150 million that I mentioned. Are you familiar with it?

Mr. TYLER. I am familiar with it in general. I would like to draw your attention to the statement by Mr. Rusk before the Select Committee of the House on Export Controls of February 5, 1962. I do not wish to take up your time, Mr. Chairman, but I believe the rationale and the reasoning and the justification for what aid has been given to Yugoslavia is fully set forth here. I would not wish to add anything to it. It is the most comprehensive statement that I can point to.

Mr. PASSMAN. Are you giving any military assistance to Yugoslavia?

The answer normally would be "No," according to this statement. But, to the next question—are we giving practically all the other types of aid to Yugoslavia, the answer is "Yes."

What would keep Yugoslavia from taking American dollars and paying for the military materiel? If we cut them off altogether, that is one thing, but we are not doing that. We have poured a lot of aid into Yugoslavia, $150 million for fiscal 1961 in one package.

You state that we are not giving Yugoslavia any military assistance, but indirectly we certainly are doing so. They are no doubt paying for it with dollars which we are giving them.

Mr. RHODES. Under what account do we pay for the training of the Yugoslav pilots we have been reading so much about?

General PALMER. They pay for it.

Mr. RHODES. In dollars?
General PALMER. Yes, sir.

SALE OF AIRPLANES TO YUGOSLAVIA

Mr. CONTE. How about the airplanes we are reading about that they bought on discount from us?
General PALMER. They bought them. They were old airplanes and they paid the reduced price as prescribed in section 644(m) of the Foreign Assistance Act.
Mr. CONTE. Could we for the record find out what the planes cost new, how old they were and what they were sold for?
General PALMER. We could give that for the record.
(The information requested follows:)

The acquisition costs to the United States of aircraft purchased by Yugoslavia, under the provisions of a mutual security sales agreement between the United States and Yugoslavia, were as follows: F–86E, $82,744 each (this was the U.S. portion of a cost-sharing arrangement with Canada and under which the additional costs to Canada resulted in an overall acquisition cost of $238,333 each); TV–2, $133,000 each; and F–86D, $343,849 each. The F–86E first entered service in 1951; the T–33 (from which the TV–2 was derived) in 1948; and the F–86D in 1954; thus the aircraft had been in use for 8, 12, and 7 years, respectively, when purchased by Yugoslavia. The prices paid by Yugoslavia for these aircraft were as follows: F–86E, $3,309 each (excess MAP materiel, where is, as is); TV–2, $13,300 each (excess Navy materiel) plus $4,000 each for preparation for shipment; F–86D, $10,000 each (excess AF materiel, where is, as is). These sales prices were based on fair value for this excess materiel in accordance with the provisions of the Mutual Security Act of 1954, as amended.[1]

Mr. CONTE. That could be another form of foreign aid by giving them these planes at a very cheap price.

TRAINING YUGOSLAVS IN THE UNITED STATES

Mr. ALEXANDER. How many people does Yugoslavia have in the United States in training?
General PALMER. At the present moment?
Mr. ALEXANDER. Yes.
General PALMER. I think there is one at the Command and General Staff School at Fort Leavenworth.
Mr. ALEXANDER. How many were here last year at this time?
General PALMER. At the time this question was raised, and I believe that was last year, Mr. Alexander, there were four officers receiving specialized flying training, and one officer and three airmen receiving aircraft maintenance training, all at Perrin Air Force Base in Texas.
Mr. ALEXANDER. How many in 1960?
General PALMER. I do not have the details.
Mr. ALEXANDER. Could you get that for the record?
General PALMER. Yes.
(The information requested follows:)

During the fiscal year 1960, one officer from Yugoslavia attended the Army Command and General Staff College, Fort Leavenworth, Kans. This was the only trainee from Yugoslavia trained in the United States during fiscal year 1960.

[1] Source of Aircraft age data: "USAF Aircraft Characteristics Book."

TOTAL U.S. ASSISTANCE TO YUGOSLAVIA

Mr. PASSMAN. Get the information for all the aid we have given to Yugoslavia, because it may be they received $1 billion worth of equipment for $100 million. The rehabilitation cost, I believe, is about 20 percent. We need the information.

General PALMER. Twenty-seven percent for aircraft.

Mr. PASSMAN. You have other types of equipment that has gone in also.

We have given to Yugoslavia approximately $2.5 billion.

Mr. TABER. Over what period of time and what does that cover?

Mr. PASSMAN. We have covered the waterfront. We do not get into the special fund and the type of equipment that Mr. Conte is referring to. That would be in addition. It is a fantastic sum.

We have switched this over to another type of grant. They pay for it in dollars. So, it is just the same as though you gave them military equipment.

YUGOSLAVIAN PILOT TRAINING CONTRACT

Mr. RHODES. You did not bring these pilots over here under the military sales program. Under what negotiations did the pilots come?

Colonel EATON. The United States signed a contract with the Yugoslavs to make the sale under the mutual security sales program.

As a part of that program, we agreed to train a total of 12 individuals in the peculiarities of that airplane at their expense.

Mr. RHODES. Are there any other elements in this contract that are unusual? To me that is unusual.

Is there anything else about this contract other than the sale of the aircraft and the training of the pilots?

Colonel EATON. I do not know of any.

Mr. RHODES. Is the contract classified?

General PALMER. No, sir.

Mr. RHODES. May it be inserted in the record at this point?

General PALMER. Yes.

(Information supplied follows:)

MILITARY ASSISTANCE POLICY TOWARD YUGOSLAVIA

Following Yugoslavia's break with the Soviet bloc in June 1948, the U.S. Government determined to encourage this first major split in the Soviet system. Strong support of the policy was enunciated by Secretary Rusk in testimony before a House Select Committee on Export Control on Feburay 5, 1962.

A bilateral Mutual Defense Assistance Agreement with Yugoslavia was signed in November 1951. This agreement was terminated at Yugoslav request in December 1957, and final grant aid deliveries against earlier programs were made in January 1959. A total of $693.9 million in U.S. materiel and training assistance was furnished as grant aid, together with excess stocks having an acquisition value of $27.6 million.

Concurrent with the termination of the Mutual Defense Assistance Agreement, the United States and Yugoslavia entered into a Mutual Security Military Sales Agreement, under the provision of the Mutual Security Act of 1954, as amended. Under this agreement, Yugoslavia may under certain conditions purchase U.S. military materiel, training, and services. Sales totaling approximately $9 million have taken place under this agreeement.

Under a Mutual Security Military Sales Agreement, 70 Navy TV–2s (a two-place, single engine jet trainer) and 130 F–86Ds (air defense models of the

Sabre swept wing fighter, which first flew in May 1948) have been sold to Yugoslavia. The trainers are obsolescent and are being phased out of the U.S. Armed Forces inventory and the fighters are also clearly obsolescent and were being phased out of the Regular Air Force by August 1957. The sales price of $17,300 each on the trainers and $10,000 each on the fighters represents a negotiated fair value taking into account the general condition and age of the aircraft. If not disposed of in this fashion they would otherwise have been converted to scrap at considerably less return to the Government.

Each of the sales of aircraft to Yugoslavia was made after determination by the Departments of State and Defense that such actions were in the best interest of the United States. The sale of 50 TV–2 aircraft was approved in early 1960 and that of an additional 20 TV–2s in early 1961. The F–86D sale was approved in mid-January 1961 by the two Departments.

Coincident to the purchase of the F–86Ds, Yugoslavia contracted for the training of a total of 12 Yugoslavs in the operation and maintenance of the aircraft. Of this total, 4 officers received specialized flying training, and 1 officer and 3 airmen received aircraft maintenance training at Perrin Air Force Base, Tex. The remaining 4 airmen are to receive training as weapons controller technicians, the specific arrangements for which have not yet been completed. For this training the United States is charging Yugoslavia $35,440.

Current U.S. policy is to sell Yugoslavia spare parts and supplies in quantities sufficient to support equipment of U.S. origin now possessed in Yugoslavia.

MAAG PROGRAM IN YUGOSLAVIA

Mr. ALEXANDER. Do we have any military personnel in Yugoslavia that are training their personnel?

General PALMER. We have none.

Mr. ALEXANDER. We have had in the past?

General PALMER. We had a regular MAAG there until, in the spring of 1958, they requested us to terminate the military assistance advisory group and the grant aid program. Concurrently, we made a sales agreement with them.

Mr. PASSMAN. Grant aid only as it would apply to military?

General PALMER. Yes, sir.

I am only discussing the military program. That is the only program I know anything about. It is the only thing Colonel Eaton knows anything about.

Mr. CONTE. Can we elaborate on the plane acquisition again?

COSTS OF MILITARY EQUIPMENT TO YUGOSLAVIA

We would like for the record, if we can get it, all military equipment we have sold Yugoslavia for the past 5 years, the acquisition cost of that equipment, any maintenance cost the United States has put into that equipment, and the purchase price cost to Yugoslavia, year by year.

(The information supplied follows:)

The acquisition cost to the United States of all military equipment, supplies, and services sold to Yugoslavia through December 31, 1961, under provisions of a Mutual Security Sales Agreement entered into between the United States and Yugoslavia in 1959 was approximately $70.9 million (there were no significant sales prior to 1959 because Yugoslavia's military needs were being met through grant aid). There was no cost to the United States for rehabilitation of equipment furnished. For this materiel and associated service, Yugoslavia paid the United States $9.4 million. Terms of payment were cash—120 days from delivery.

ACQUISITION COSTS OF EXCESS EQUIPMENT

Mr. PASSMAN. This type of program applies to all nations throughout the world where we have military assistance programs—that is, where we have excess equipment we give it to them at no cost other than the rehabilitation cost?

General PALMER. I think that is correct.

Mr. PASSMAN. I know it is going to be quite a task, but if we could get this information it would be valuable to all of us. Go back to each of the nations we have given this type of aid, the military equipment free of any cost other than the rehabilitation and transportation costs, and give us the total acquisition cost for all the equipment for all the recipient nations.

General PALMER. Very well, sir.

(The information requested was supplied to the committee:)

CHARGES TO SELECTED NATIONS FOR REHABILITATION COSTS

Mr. PASSMAN. For some of the nations, I believe it has been stated, we are charging only 10 percent of the rehabilitation cost, where it cost us maybe 27 percent, such as the aircraft. We would like to know the names of the nations for which we have made such an exception.

General PALMER. Very well, sir.

(The information supplied follows:)

No excess equipment has been provided under the grant aid military assistance program for less than the incurred rehabilitation cost.

DANISH SHIPBUILDING PROGRAM

Mr. PASSMAN. What is cost to the United States of the ship construction program for Denmark?

Colonel EATON. The total U.S. cost is $27.7 million.

Mr. PASSMAN. Can you tell us where in the justification we can find the type of ships?

Colonel EATON. There are no funds in the 1963 program. The shipbuilding program has already been funded through 1962.

Mr. PASSMAN. What is the total amount?

Colonel EATON. $27.7 million is the U.S. share.

Mr. PASSMAN. When did the program start?

Colonel EATON. The program started being funded in fiscal year 1958.

Mr. PASSMAN. You funded through fiscal year 1962?

Colonel EATON. That is correct.

Mr. PASSMAN. That is a total of 5 years?

Colonel EATON. Yes.

Mr. PASSMAN. How much money has been expended on the program to date?

Colonel EATON. I do not have those figures.

Mr. PASSMAN. Where could we get those figures?

Colonel EATON. I can get them and submit them for the record.

(The information requested was supplied to the committee.)

Mr. PASSMAN. Would it not be well for you to know the facts about this type of program and how much we have expended?

Colonel EATON. The program has started.

Mr. PASSMAN. You do not know how much we have expended on it. Can you give us a rough idea? Can you give us the completion dates on these vessels?

Colonel EATON. Yes, sir; I can give you by vessel when the keel was laid.

Mr. PASSMAN. Give us a total.

Colonel EATON. They vary by years.

Mr. PASSMAN. We would just as soon have a rough estimate. We are putting up $27.7 million, and this is an overall program.

Colonel EATON. That is right.

Mr. PASSMAN. And you started funding in 1958, and you funded through 1962, which is 5 years, so what we would want to know is the amount of disbursements already made against the program.

After you give us that, then project the future expenditures and the anticipated completion date.

(Off the record.)

(Additional information was submitted to the committee.)

General PALMER. From this side of the table, we cheerfully agree that the Appropriations Committee is entitled to question every penny that we are responsible for, either for the past or what we are asking for in the future.

Mr. PASSMAN. There has been a lot of detail that has not been filed in the past, and we want to try to find out this year. There are too many obligations that have been dormant for years.

AIRCRAFT PROCUREMENT AGREEMENT WITH DENMARK

Has the cost-sharing agreement for aircraft been completed as yet?

Colonel EATON. No, sir. There are funds in the 1963 program which will complete the U.S. contribution.

Mr. PASSMAN. What will be the cost when completed?

Colonel EATON. The total cost?

Mr. PASSMAN. Yes.

Colonel EATON. The total cost I do not have broken down separately by the aircraft.

Mr. PASSMAN. You may insert the figure in the record.

(The information requested was supplied to the committee.)

Mr. PASSMAN. Can you tell us when you started obligating for this project?

Colonel EATON. Fiscal year 1962.

Mr. MULLEN. The cost of the aircraft is approximately $32 million, and the discussions that are being undertaken with the Danes are that they would undertake to provide a comparable value of army and navy equipment for modernization.

Mr. PASSMAN. Then it is not a cost-sharing project as it would apply to the planes.

Mr. MULLEN. Only when you add the other $32 million for Army and Navy.

Mr. PASSMAN. As far as putting up funds?

Mr. MULLEN. We put up all the money for the aircraft.

Mr. PASSMAN. They are not putting up anything toward the cost for the aircraft?

Mr. MULLEN. They are not.

Mr. PASSMAN. But you are letting them possibly put up money they would spend on an army or navy. You say we will accept that as their matching basis?

Mr. MULLEN. Not in that context.

Mr. PASSMAN. You can put it in any context you want to; it is either "Yes" or "No," they are not putting up any dollars.

You refer to this as a cost-sharing agreement, but they are not putting up any dollars, as such, as part of the cost of the aircraft; but, rather, they are improving their army, or putting in some tanks, or something, and you say that this will be accepted as their part of the cost-sharing program. Is that about the way it is?

Mr. MULLEN. That is correct. Their share must be above their normal budget.

Mr. MONTOYA. Was it not the original understanding that there would be a cost-sharing basis, and it stands to reason there should have been some kind of an agreement entered into when this joint venture was started? Is there such a written agreement?

Mr. MULLEN. Not as yet, sir. This is an arrangement that is currently under discussion with the country involved.

Mr. MONTOYA. I understood you to say that you are now discussing the postagreement when it should have been entered into in the beginning. It was the original understanding it would be a cost-sharing basis; is that correct? But now the agreement is under discussion when we are about to complete the project?

Mr. PASSMAN. Would it not have been more accurate if you had just said, "We are requesting funds to pay for and deliver aircraft to Denmark and we believe Denmark will then make certain expenditures to improve their army and navy"?

The record shows that it is a cost-sharing project when it is not.

Colonel EATON. I believe we are increasing the overall defense capability.

Mr. PASSMAN. I am not arguing that point. If we did not go into this question, the record would certainly show that we have a cost-sharing aircraft project going on in Denmark when, in reality, we do not.

Colonel EATON. Not on the aircraft under discussion.

Mr. PASSMAN. But your records so indicate, do they not? You are setting forth here that it is going to be accomplished on one basis, and then you turn around and say that it is not so, it will be on some other.

General PALMER. I think we may have been inept in the use of language here.

Mr. PASSMAN. By design or by oversight?

General PALMER. I suppose it is more or less habit in our use of the phrase "cost sharing." This has always been referred to as a cost-sharing program. I must admit until this discussion now, I have never thought of the point you have made that actually in this case the cost of the aircraft is not actually being shared by the recipient.

Mr. PASSMAN. Thank you, general.

General PALMER. I think it is purely an ineptness in the choice of language.

Mr. PASSMAN. A person reading the language would say, here is a cost-sharing project over in Denmark. In reality, we are footing the entire bill, and somewhere along the way they have agreed to have a better army and navy.

DELIVERY OF AIRCRAFT TO DENMARK

Mr. ALEXANDER. We are going to have a sum to be negotiated for equipment to be purchased. That is a part of this overall agreement. Why did we not have a definite agreement at the beginning rather than to work out an arrangement after it is all over, after we have furnished all we are supposed to?

General PALMER. I think there is a misunderstanding. None of these aircraft have yet been furnished to Denmark. This is a very long lead time item. The aircraft, if not eventually given to Denmark because of any failure to conclude this agreement, would be needed some place else in any event, so we have had no hesitation in programing the production of the aircraft.

Mr. ALEXANDER. The agreement is over this year. It is from 1958 to 1962.

General PALMER. There has been no delivery of the aircraft.

Mr. PASSMAN. You have allocated funds, but actually there have been no deliveries?

General PALMER. That is correct.

Mr. PASSMAN. You have an obligation to carry it out, and according to present plans they have been delivered as the justifications indicate.

Mr. TABER. When did you agree to deliver them?

General PALMER. We have not made the agreement yet.

Mr. PASSMAN. Why do we have to rush in and obligate this money when you do not even have a contract?

It looks as if we are doing too many things too fast in this country. It looks as if we are trying to get ahead of ourselves. You have allocated funds to this program, and you do not even have an agreement, or contract, with Denmark. You say that if you do not use it there you will use it some place else. Suppose this condition were true in all these countries?

"COST SHARING" AGREEMENTS WITH OTHER COUNTRIES

Mr. TABER. How many countries are there where the same procedure has been followed?

I want to know how many of these countries there are to which this type of programing applies?

Mr. PASSMAN. In how many of the NATO countries do you find yourself in the same type of predicament?

Mr. Taber asked a very pertinent question. We are dealing with 12 nations, so tell us whether or not you have the same state of confusion in the other countries that you have in Denmark.

Colonel EATON. I think this applies to Denmark and Norway if I understand what you mean by confusion.

Mr. PASSMAN. The project implementation.

Colonel EATON. I think that applies to Denmark and Norway both. This is a fiscal year 1963 program. The words in the justification show a cost-sharing arrangement whereby the Danes are to spend a sum to be negotiated for specified equipment to be purchased in the United States.

Mr. PASSMAN. Put in the record other nations that may be in the same category.

Colonel EATON. To the best of my knowledge it is Denmark and Norway.

Mr. PASSMAN. Off the record.

(Off the record.)

MISSILE PROGRAM FOR DENMARK

Mr. PASSMAN. What missile systems are you proposing for Denmark?

Colonel EATON. This is for the pro rata share of the fiscal year 1963 funding of a ——— battalion from weapons production programs.

Mr. PASSMAN. If we had not asked that question, we could not have obtained the information from your justifications?

Colonel EATON. No, sir.

Mr. PASSMAN. Our imagination is not that strong. We will work it out the best we can.

PIPELINE FOR FUNDS TO FRANCE

Now, the ——— request for France. Is the figure correct?

Colonel EATON. Yes.

Mr. PASSMAN. What are the total funds presently being carried in an obligational status for equipment for France? We are going to have $1 billion obligated but unexpended in the pipeline for the European nations.

General PALMER. We can find out very easily.

Colonel EATON. I can tell you what is in the pipeline.

Mr. PASSMAN. That is in the question.

Colonel EATON. That is in column 7 on this same page, $16,351,000 in the pipeline.

General PALMER. Off the record.

(Off the record.)

Mr. PASSMAN. You have in the pipeline funds in the amount of $16,351,000 to the credit of France?

General PALMER. As of June 30, 1962.

Mr. PASSMAN. Estimated as of the end of this fiscal year?

General PALMER. That is correct.

Mr. PASSMAN. You are requesting ——— additional funds for France?

Colonel EATON. Yes.

DIVERSION OF EQUIPMENT FROM FRANCE TO ALGERIA

Mr. PASSMAN. As the Algerian situation appears to be improved, would you maybe expect some squeezeout, or deobligations, or recoupments, or dereservations, from this $16,351,000?

Colonel EATON. I would not think so.

Mr. PASSMAN. Has France not been diverting a lot of their military equipment and forces to Algeria?

General PALMER. I do not believe they have diverted any military equipment which we have given them since 1957 or 1958 to Algeria.

Mr. PASSMAN. I believe the record will indicate they have diverted substantial equipment to Algeria.

If it is true that they have so diverted, regardless of what year, and perhaps they are still diverting equipment to the Algerian situation, and if peace should come about in Algeria, that would release many of the French military, as well as expenditures, and it might be expected that a substantial part of the $16,351,000 would not be required?

General PALMER. I would not expect to recoup a penny of it.

Mr. PASSMAN. If there should be a new outbreak in Algeria, would you expect to increase the $16,351,000?

General PALMER. I would not expect to increase it by one penny, either.

Mr. Chairman, the military assistance program has made no contribution whatever.

Mr. PASSMAN. Not directly.

General PALMER. Directly or indirectly with any military assistance that has been furnished since 1958.

Mr. PASSMAN. It does not make a lot of difference when. They have in the past diverted military equipment from the assistance program to the Algerian situation.

General PALMER. Equipment furnished by the military assistance program has been used in the Algerian situation, but it has been the old World War II stuff we gave the French in the early days of the program.

POSSIBILITY OF REDUCING AID TO FRANCE

Mr. PASSMAN. That is what I was trying to find out, if they had diverted any of it. We are all happy that it looks as if the large-scale fighting is going to be brought to an end. If so, we were hoping that maybe France might come along and say, "We believe we are able to pick up this part of the check; therefore, we are not expecting you to spend this $16,351,000."

General PALMER. I had not considered that the French might say they would, due to their easier financial situation, because of the termination of the fighting in Algeria, buy certain of this programed equipment from us rather than have us give it as grant aid.

Mr. PASSMAN. Or, even if they should manufacture it themselves, it would be some easing of the load on us, would it not?

We would prefer them to buy it, but as long as we did not have to give it to them, we could save the cost of it.

General PALMER. There is a possibility there.

Mr. PASSMAN. Let us hope that it materializes.

General PALMER. My point is, it would not come in my personally operated squeezeout.

Mr. PASSMAN. You have given a little encouragement.

GENDARMERIE IN FRANCE

Mr. TABER. I wonder what you mean by active military strength, including internal security forces as of November 1, 1961. What is that internal security force?

Colonel EATON. Basically, the national gendarmerie in France.

Mr. MULLEN. The gendarmerie is in a category between military and police. They are military when you see them organized in the field, but they have a police function also.

Mr. TABER. They are not strictly military?

Colonel EATON. No, sir.

Mr. TABER. This includes the entire French contribution in manpower?

Colonel EATON. Yes.

Mr. PASSMAN. Contribution?

Colonel EATON. The total French forces.

Mr. PASSMAN. Do they make the contribution to their own country.

Colonel EATON. This is their whole establishment, including their external commitments.

CONTRIBUTION OF FRANCE TO NATO FORCES

Mr. PASSMAN. Do we find somewhere that France can make only a relatively small contribution in NATO as long as the Algerian war continues? Is that the general understanding?

Colonel EATON. No, sir.

Mr. PASSMAN. Why do you put it in the record?

On page 53 of your justifications it is specifically so stated.

Mr. TYLER. May I comment for a minute on that?

Mr. PASSMAN. Please do.

Mr. TYLER. I would like to go off the record on this because this involves a personnel policy.

(Off the record.)

TRAINING PROGRAM FOR GERMANY

Mr. PASSMAN. Do you have anything in your budget for Germany this year?

Colonel EATON. A small item for training.

Mr. PASSMAN. Why do we have to give Germany money for training, as prosperous as they are?

Colonel EATON. We do not have to give them anything, but I think it is to our advantage.

Mr. PASSMAN. You have funds budgeted for Germany.

Mr. RHODES. That is a small amount, but I think it is ridiculous.

CURRENCY CONTRIBUTIONS BY GERMANY

General PALMER. About one-half of that is to purchase from the U.S. Treasury currency contributed by the German Government toward the support of our U.S. training personnel and the MAAG. This is under provisions of law. There is a full explanation of that on page 282 of this book. Germany gives the U.S. Treasury this amount against the expenses of our training mission. We have to get

money from Congress to buy that currency from the Treasury. It is an out of one pocket and into the other transaction.

Mr. PASSMAN. Why did you not have a direct shortcut? We are being asked to appropriate for training.

General PALMER. This is under a provision of law.

Mr. PASSMAN. All of this is under provision of law.

General PALMER. I mean asking for the appropriation to buy the currency.

Mr. PASSMAN. Do we come out minus or plus when it is all over?

General PALMER. We come out plus the amount Germany gave to the Treasury.

Mr. PASSMAN. We are giving them———and getting back———.

General PALMER. No, sir. One-half is contributed by the Germans. They give it to the U.S. Treasury. We are obliged to come to Congress and get the money to buy that currency from the Treasury. The U.S. money we use to buy it then goes back into the miscellaneous receipts of the Treasury.

Mr. PASSMAN. How about the———?

TRAINING GERMANS IN UNITED STATES

General PALMER. That is for training spaces which we offered to the Germans because we wanted them to come here and get our indoctrination.

Twenty-seven orientation visits; 22 professional and command school staff level spaces; and 22 spaces at the professional or technical level.

Mr. PASSMAN. Do we find anywhere in the German budget where they pay Americans to get their training? Do you know of any nation putting money in its budget for Americans going over to be trained there?

Colonel EATON. No, sir.

Mr. PASSMAN. You are asking for American dollars to bring Germans over here to train them in the military?

General PALMER. That is correct.

Colonel EATON. May I add one point there?

Mr. PASSMAN. Yes, sir.

GERMAN EXPENDITURES FOR TRAINING IN THE UNITED STATES

Colonel EATON. During this fiscal year, 1962, Germany is spending in the United States $10,266,000 on training.

Mr. PASSMAN. I thought they were spending three times that amount.

Colonel EATON. $10 million in the United States.

Mr. PASSMAN. I am talking about the United States, too.

Colonel EATON. The ——— is to interest those——

Mr. PASSMAN. Let us send them a billion dollars, if this works that way. It has not worked that way so far, or we would not have a public debt exceeding the public debts of all the other countries of the world.

How much money do you have budgeted as the first-year cost of multiyear programs for the European area?

Colonel EATON. I will have to supply that for the record.

(The information was subsequently supplied to the committee.)

Mr. PASSMAN. Would we not reach the conclusion that the program might be phasing out and that maybe this year's slice would conclude a lot of them?

Colonel EATON. No, sir. For example——

Mr. PASSMAN. You are starting new programs to the point that the budget request this year would be the first request for a multiyear program?

Colonel EATON. For a multiyear or multilateral?

Mr. PASSMAN. Multiyear, some of these programs run 5, 6, or 10 years.

Colonel EATON. I will have to supply that for the record.

(The information was supplied to the committee.)

Mr. PASSMAN. Do you know of any program you are starting anywhere in Europe, Colonel, for which you are requesting funds that would take the program, or project, beyond fiscal 1963?

Colonel EATON. In the missile field?

Mr. PASSMAN. In any field, for that matter?

Colonel EATON. You asked if there are any new programs started this year and I do not think there are.

Mr. PASSMAN. We have already established that in most of these programs, this is the last slice you are asking to complete the agreements. They have been running since 1958, and I think it has been established previously for the record that 1962 would be the last year, and that fiscal 1963 would be the last year on some.

Colonel EATON. For example, if I might cite a few of what we consider; the battalion for Denmark which is not completely funded. The residual funding for the battalion.

Mr. TABER. What kind of a battalion?

Colonel EATON. A missile battalion, sir, which is still in production. It is not out of production.

Mr. PASSMAN. You allocated funds for all that as far back as 1958, did you not?

General PALMER. 1959.

Mr. PASSMAN. That was the first year. This is fiscal 1963. Can you project that program to conclusion?

Colonel EATON. That particular battalion is scheduled for delivery.

Mr. PASSMAN. Can you give us a spread of other programs, so we shall understand about when you would expect to bring them to conclusion?

Colonel EATON. Across the board, I would say that the best information I have available is that we have commitments totaling some $176 million in 1964 and beyond that the multilateral programs of which we spoke or the ones which are commitments now.

PIPELINE FUNDS TO GERMANY

Mr. PASSMAN. Colonel, we were discussing Germany and Italy a while ago. Do you have any unexpended obligated funds for Germany in prior year programs that you expect to disburse in the future?

Colonel EATON. Yes, sir.

Mr. PASSMAN. What is the amount?

Colonel EATON. After July 1962, there will be $1,469,000 in the pipeline.

General PALMER. The unexpended and undelivered balance of the German program as of June 30, 1962, will be $1,469,000.

Mr. PASSMAN. Why is it increasing?

General PALMER. I am not sure.

Mr. PASSMAN. Are you continuing the same program, training, and you have $1,469,000 unexpended for Germany, and yet you are doubling the amount of the request for fiscal 1963?

General PALMER. Aside from training, a part of it is for rehabilitation equipment.

Mr. PASSMAN. Is it equipment we gave to Germany, U.S. equipment?

General PALMER. Yes, sir.

Mr. PASSMAN. You have $1,469,000 to the credit of Germany and last year you had only $639,000, so this is more than double. For what purpose are you going to spend the money?

If we take the program you came in with last year of $639,000 and add to it the allocation this year, you get $1,126,000, but we find in the book that the figure is $1,469,000.

Colonel EATON. Sir, may I ask again for your questions concerning the proposed program for last year?

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. For what purpose are you going to use the money?

Colonel EATON. I will supply that for the record.

Mr. PASSMAN. That is in your area, is it not?

Colonel EATON. Yes, sir.

Mr. PASSMAN. You could not tell us now?

Colonel EATON. No, sir.

(The information supplied follows:)

The increases shown in column (h), page 59, MAP, fiscal year 1963 estimates, reflect redistribution of costs from programs earlier carried as worldwide. These programs have been broken down by country to reflect more accurately the proper apportionment of the totals. In the case of Germany, the increase in training ($221,000) is the only true increase. All other entries will be deleted following the adjustment of programs to final performance and will represent a part of the recoupments which are anticipated.

OBLIGATIONS AND EXPENDITURES FOR ITALY

Mr. PASSMAN. For Italy, you are requesting ———. We thought this might be a typographical error on account of the great improvement in the economy of Italy.

What is the total unexpended, but obligated, amount for Italy to be delivered in subsequent years?

Colonel EATON. From June 30, 1962, that figure is $167,616,000.

Mr. PASSMAN. This would push it over ——— on hand to the credit of Italy for expenditure in subsequent years or for deobligation, whichever you decide it could be?

Colonel EATON. Yes, sir.

Mr. PASSMAN. Thank you.

REPAIR AND REHABILITATION COSTS FOR MISSILE EQUIPMENT

Why do you need ——— for repair and rehabilitation of equipment for Italy?

Where is the detail on this item?

Colonel EATON. It does not appear in your book, sir.

Mr. PASSMAN. How can we recommend that the Congress approve this amount if you have no details? You just want the money?

Colonel EATON. I can tell you what it is, sir.

Mr. PASSMAN. The committee would like to know.

Colonel EATON. We have a large and continuing commitment for JUPITER missiles, IRBM missiles. This item has to do with the storage and depot maintenance of JUPITER missile equipment in the United States.

Mr. PASSMAN. It says here, repair and rehabilitation of equipment.

Colonel EATON. Yes, sir.

Mr. PASSMAN. You already are repairing and rehabilitating missile equipment?

Colonel EATON. Yes; this is depot maintenance.

Mr. PASSMAN. In Italy or in the United States?

Colonel EATON. In the United States.

Mr. PASSMAN. You shipped it from the United States to Italy and back over to the United States?

Colonel EATON. That is possible, sir.

Mr. PASSMAN. Did you? We are trying to make it definite, Colonel.

Colonel EATON. To the best of knowledge, all depot maintenance must come from the United States because we have the shops and equipment here.

Mr. PASSMAN. Is that a pie-in-the-sky figure, or can you tell us the number of missiles, when they will be shipped back, and how you arrived at this cost?

Colonel EATON. I cannot give you that today, sir.

Mr. PASSMAN. Thank you.

TECHNICAL ASSISTANCE ON JUPITER PROGRAM

You have an item here for "Other services." What is involved?

Colonel EATON. That involves $——— for technical assistance on the JUPITER program at the missile site.

Mr. PASSMAN. Where is the detail?

Colonel EATON. I am reading it to you, sir. It does not appear in the book.

Mr. PASSMAN. Why is it not in the book?

How can we discuss it if so much of it is not in the book?

Could you put it in the book?

Colonel EATON. I would like to defer that question to General Palmer.

Mr. PASSMAN. All right.

For what purpose is the other $———?

Colonel EATON. No; I can tell you what the $——— is for, but I cannot tell you why this detail is not printed in the book.

Mr. PASSMAN. Are you changing your mind about what you are going to use it for?

Colonel EATON. No, sir.

Mr. PASSMAN. For what is it to be used?

ENGINEERING AND TECHNICAL IMPROVEMENT OF JUPITER

Colonel EATON. The other $——— is for in-service engineering on the JUPITER design, missile engineering and development of technical improvement of the components of the system.

Mr. PASSMAN. You are changing the title before you develop the weapon? It is a U.S. weapon, is it not?

Mr. TABER. Off the record.

(Discussion off the record.)

Mr. PASSMAN. There is no detail on this figure, and we just either have to get into it or recommend the funds on faith.

What about the other $———?

Colonel EATON. In-service engineering also on the JUPITER.

Mr. PASSMAN. Why do you not put the two together? According to your answer you are doing the same thing; repairs?

Colonel EATON. No, sir.

Mr. PASSMAN. Why have them in two separate items?

Colonel EATON. One has to do with the technical assistance provided in Italy by the technical people who go there from the manufacturer.

Mr. PASSMAN. After they do that, you go back and carry out their recommendations and ship them back over after they are repaired? It seems that the engineering would be the most important thing over here where you actually do the repairing?

Colonel EATON. I think it goes hand in hand, sir. The JUPITER has just about, if not already, come off the production line. Each missile from the first one to the last permits of some improvement in technical design and safety features and the like. You cannot do it all in the factory and some of which you can do benefits the missiles on the pads in Italy. It is a combination of the two.

Mr. PASSMAN. How long have you been using the particular type of missile for which you are requesting this $——— and $———?

Colonel EATON. I cannot give you the answer to that, sir.

Mr. PASSMAN. Are they operational in Italy?

Colonel EATON. Yes, sir.

Mr. PASSMAN. Could you tell us how many were shipped over, when, and when you shipped them back for repairs?

Colonel EATON. I would have to give you that for the record.

Mr. PASSMAN. There is no detail?

Colonel EATON. I will give you the answers on what has been shipped over and what returned for repair and rehabilitation.

(Additional information was subsequently supplied to the committee.)

MILITARY PROGRAM FOR THE NETHERLANDS

Mr. PASSMAN. We were discussing one European country to which you are allocating substantial amounts of funds, on hand, for projects for which there is no agreement.

We find that in the Netherlands, our total military program has been $1,229 million, and they have to their credit out of prior year appropriations, or will have, $90 million. You are asking for an additional $———.

Why are you asking for additional funds with such a large balance to their credit, and especially since they are presently operating their Government with a substantial surplus?

Colonel EATON. Sir, these are the new funds we are requesting for prior commitments, primarily the F–104–G program we mentioned earlier.

Mr. PASSMAN. Are we discussing the F–104 program for Norway?

Colonel EATON. No; Denmark and Norway are in another category.

Mr. PASSMAN. Denmark, where actually there are no matching funds, as such, but in other branches of their service, you have not even entered into an agreement. We heard earlier that we are making these commitments, and that we have to go through with them, notwithstanding the fact they were able to pick up their own checks.

Do you have a firm agreement with the Netherlands?

AIRCRAFT PROGRAM IN THE NETHERLANDS

Colonel EATON. Yes, sir. There is a firm agreement with the Netherlands that we provide them with ——— of these aircraft and they purchase ——— themselves.

Mr. PASSMAN. This is an outright contribution by the United States, but in turn they purchase a certain number of them from us? Is that European production or assembled overseas?

Colonel EATON. This is European production.

They are assembled in Europe.

Mr. PASSMAN. The aircraft they are purchasing from us?

Colonel EATON. They are not purchasing them from us. There is a consortium arrangement.

Mr. PASSMAN. Through this consortium, we are sending component parts but they are assembling them in Europe.

Colonel EATON. They are purchasing a lot of component parts from U.S. production, some $800 million worth.

Mr. PASSMAN. They are purchasing these aircraft assembled in Europe?

Colonel EATON. That is right.

Mr. PASSMAN. Not in the United States?

Colonel EATON. No, sir. The U.S. produced components are assembled in Europe.

MILITARY STRENGTH IN THE NETHERLANDS

Mr. PASSMAN. Is the Netherlands increasing its military forces or is it reducing them?

Colonel EATON. Do you mean from last year to this year?

Mr. PASSMAN. Last year to this year, yes.

Colonel EATON. I think there was an actual decrease of 900 people during the year, but in terms of effectiveness the manning level of the Netherlands M-Day divisions was raised to over ——— percent in connection with the Berlin buildup.

AID TO NORWAY

Mr. PASSMAN. But they have a net reduction of 900 men?

Norway is scheduled to receive ——— in fiscal 1963. What amount do you have on hand to the credit of Norway to be disbursed subsequent to June 30, 1962?

Colonel EATON. $100,113,000.

Mr. PASSMAN. Would it not be expected that we will find some squeeze-out there later, if things continue to improve?

Colonel EATON. I cannot answer that question.

Mr. PASSMAN. You have to wait and see?

Colonel EATON. Yes, sir.

SHIPBUILDING PROGRAM IN NORWAY

Mr. PASSMAN. Is not Norway the country where we had a proposed shipbuilding program, and in the hearings which we held in Denmark, it was indicated that Norway could not determine at that time whether it should put up its matching funds or whether the funds would be needed for its welfare program?

Has the Norwegian Government ever decided to put up its part of the money, or did it go, or is it going, into the country's welfare program?

Colonel EATON. Subject to correction, sir, Norway took the necessary funds from its welfare program to initiate this construction. Subsequently, they intended to transfer these funds for expenditure into their defense funds, but they were taken from the welfare program in order to start the ship program.

Mr. PASSMAN. I will say for the record that we held hearings on this matter while in Denmark, and they said that they would have to determine whether it would be wise to go through with this shipbuilding program or whether it would be to their advantage to put this money into the welfare program.

It would seem that they decided to put the money into the welfare program, and now you say they are going to take it out of the welfare program. What is the status of the shipbuilding program at this time?

Colonel EATON. Prior to 1962, the Norwegian defense share was not listed as a defense expenditure.

Mr. PASSMAN. I am talking about the shipbuilding program only, now.

Colonel EATON. I am speaking only of this item.

Mr. PASSMAN. What do you have budgeted for the shipbuilding program?

Colonel EATON. To the credit of Norway?

Mr. PASSMAN. Yes.

Colonel EATON. Starting with fiscal 1960 and winding up in fiscal year 1965, the U.S. share is anticipated to be $58.7 million.

Mr. PASSMAN. What amount has been disbursed from this fund so far?

Colonel EATON. Again, I will have to supply that for the record.

CONTRIBUTIONS TO NORWEGIAN SHIPBUILDING PROGRAM

Mr. PASSMAN. What contribution did Norway make to the fund, and what have their disbursements been?

Colonel EATON. This is an undertaking whereby Norway would provide 50 percent of the funds, or $58.7 million.

Let us turn it the other way around: We have a 50–50 basis at the beginning but in case of price increases, Norway would have to assume the additional costs.

Mr. PASSMAN. The United States may or may not have disbursed any funds against the program as of this time?

Colonel EATON. I would certainly say they have, sir, but I cannot give the exact information on disbursements.

Mr. PASSMAN. Would you want it to stay in the record that as much as $100 million in prior year funds remain to the credit of Norway? Let us go back to what you had last year.

It looks as if it is going up and that you are crediting them with the money but not spending it. It has jumped up to $100 million this year, and we do not know whether disbursement of funds is going on or whether you are building up tremendous obligations, which General Palmer later might squeeze out again.

We would like to know the answers to some of these questions about how much money they have actually paid on this, whether you are obligating funds which might later be deobligated, or whether disbursements are being made. The record is not giving us that information.

Will you try to find out for us if the funds are disbursed?

Colonel EATON. Yes, sir.

Mr. PASSMAN. What new cost sharing programs are you considering for Norway at this time?

If you do not have that information, you may insert it in the record.

Colonel EATON. All right.

(The requested information was submitted to the committee.)

REHABILITATION OF EXCESS STOCK FOR NORWAY

Mr. PASSMAN. Why do you need $——— for repair and rehabilitation of equipment for Norway?

Colonel EATON. They are to be furnished surplus stocks. They have to be repaired and rehabilitated.

Mr. PASSMAN. This is to rehabilitate aircraft we are going to give them out of excess stocks?

Colonel EATON. This is to rehabilitate components for aircraft.

Mr. PASSMAN. Will that come out of excess stocks without charge to the program other than rehabilitation cost?

Colonel EATON. That is correct.

Mr. PASSMAN. Could you state for the record what the average normal acquisition cost would be?

Colonel EATON. Yes, sir.

(The requested information was submitted to the committee.)

Mr. PASSMAN. The Congress allowed ——— in excess stocks, or at least the programed part, and now you are asking for the same amount for the repair and rehabilitation of equipment.

FUNDING OF EXCESS STOCKS PROGRAM

Colonel EATON. I think you mean fiscal year 1963, sir.

Mr. PASSMAN. You are asking for the same amount of money to repair and rehabilitate as the original acquisition cost.

General PALMER. Not necessarily, Mr. Chairman.

Mr. PASSMAN. The book so states. You have two figures, sale and repair, rehabilitation of equipment ——— value of acquisition cost, ———.

General PALMER. We had $15,360,000 worth of excess stocks being delivered in fiscal year 1962, for which there will be some rehabilitation cost.

Mr. PASSMAN. Money for that purpose was made available last year in the amount of $419,000. In prior years we have been providing all the money that you asked for, to the extent of $12,733,000 for the repair and rehabilitation of equipment.

Now we move into fiscal year 1963. You are asking for the same amount of money to repair and rehabilitate as you are asking for the excess stock acquisition cost.

The cost has gone up.

General PALMER. I think we are going to furnish for the record what the ——— apparent rehabilitation is going to be disbursed to repair.

Mr. PASSMAN. Am I correct, in looking at the gray margin for fiscal year 1963, that the money requested for repair and rehabilitation equals the acquisition cost of the equipment that we are going to rehabilitate?

General PALMER. No, sir; not the latter part.

Mr. PASSMAN. Do you see this record?

General PALMER. I am looking right at it.

Mr. PASSMAN. I am trying to understand, General; you have two figures. One is for excess equipment, ——— acquisition cost. Right above that you ask for ——— for repair and rehabilitation cost.

General PALMER. That is correct.

Mr. PASSMAN. We have appropriated money for prior years. It would have to apply to fiscal year 1963, would it not?

General PALMER. No, sir. It would apply presumably to the excess stocks that are going to be delivered in fiscal year 1962.

Mr. PASSMAN. What are you going to do with the money received in prior years? You have a substantial amount on hand. In prior years your percentages have been altogether different. In prior years you have asked for from 15 to 27 percent. This year you are asking for 100 percent. Have you found that the repair and rehabilitation costs have gone up?

General PALMER. No, sir.

Mr. PASSMAN. How much do you have on hand in relation to the repair and rehabilitation costs for this country?

General PALMER. This is what we would like to straighten up and put in the record.

Mr. PASSMAN. All right, General. Please put it in the record.

(The information requested follows:)

As of July 1962, there will be no unexpended funds for repair and rehabilitation of equipment in the Norwegian military assistance program for fiscal year 1950 through fiscal year 1962.

Mr. PASSMAN. I think we are in accord that we are having to skip a great deal of detail.

General PALMER. There is a great deal of detail in the book and a great deal more which the book suggests.

Mr. PASSMAN. There is a great deal of detail that is not in the book, too.

BUDGET REQUEST FOR PORTUGAL

Mr. PASSMAN. For Portugal the request is $———?

Colonel EATON. Yes, sir.

Mr. PASSMAN. What amount do you have unexpended to the credit of Portugal?

Colonel EATON. $41,605,000, sir.

Mr. PASSMAN. How much money do you have budgeted, obligated or reserved for the aircraft for Portugal of the amount provided last year?

Colonel EATON. There is no money budgeted for those aircraft, sir.

Mr. PASSMAN. Did you obligate funds, then deobligate them?

Colonel EATON. We did not deobligate the funds.

Mr. PASSMAN. We allowed the money. What did you do with it?

General PALMER. That is part of the recoupment.

Mr. PASSMAN. What is the difference between recoupment and deobligation?

General PALMER. The same thing.

Mr. PASSMAN. Portugal decided they did not want the planes, so you threw that in the squeezeout?

General PALMER. That is correct.

FUNDS FOR WEAPONS PROGRAM

Mr. PASSMAN. Did you supply the weapons which were requested last year?

Colonel EATON. They are ——— that will be provided after June 30, 1962, sir. They have not been provided yet.

Mr. PASSMAN. Did you request funds for them last year?

Mr. MULLEN. A second equal total was listed in the key material item table from last year, but no funds were requested as they were to be provided from the weapons production program.

Colonel EATON. The funds for those shown on page 75 of the fiscal year 1963 presentation book, requested in fiscal year 1961, the total requirement is ———.

Mr. PASSMAN. What was the cost?

Mr. TABER. The estimate in here shows ———.

Mr. PASSMAN. I am trying to arrive at the amount of funds you obligated for the ——— requested last year.

Colonel EATON. I do not have it on here, sir. I will have to check. The cost of ——— is ———.

Mr. PASSMAN. You did not procure any of them last year, and you will not deliver any of them until 1963?

Colonel EATON. We will not deliver them before fiscal year 1963. That is correct, sir, and they will be the ——— programed in fiscal year 1961.

Mr. PASSMAN. You do not know the amount of money you have carried in an obligation status for them?

Colonel EATON. The cost of ——— is ———.

Mr. PASSMAN. Are you requesting any additional money for fiscal year 1963?

Colonel EATON. For this item?

Mr. PASSMAN. Yes, sir.

Colonel EATON. No, sir; we are not.

Mr. PASSMAN. Actually, then, you asked for funds 3 years in advance of the time you would need it for this purpose?

Colonel EATON. Two years in advance of delivery of the items in this case.

Mr. PASSMAN. Two years.

Colonel EATON. Yes, sir.

WEAPONS DELIVERY TIME

Mr. RHODES. Could we have an answer as to why it takes so long to deliver?

Colonel EATON. The average is 16 months, the paperwork is 6, I believe.

Mr. RHODES. This is an off-the-shelf item. They make these things every day.

Mr. PASSMAN. I would like to know, really, why you asked for the money when there was no indication you would use it.

Mr. RHODES. Let's ask this: When are you going to deliver the ——— to Portugal?

Colonel EATON. I can only say, sir, during the year after the 30th of June, 1962. I do not know a more specific schedule.

Mr. RHODES. Maybe we had better "squeeze" this item out, too.

EXCESS STOCK FOR PORTUGAL

Mr. ALEXANDER. Mr. Chairman, while we are still on Portugal, I notice that excess stock is ——— which is much higher than those other countries. Why is the need so great?

Colonel EATON. It is not that the need itself is so great, but that we are able to furnish their requirements to a greater extent, from existing stocks that we have in excess.

I can give you a sample of what is involved if you like. I know there are ——— on there.

Portugal is $———. That includes ———.

This is equipment that was available and could be utilized profitably in the Portuguese program.

FUNDS FOR PROGRAM FLEXIBILITY

Mr. PASSMAN. I think the record should show the amount of money that you budget to provide a degree of flexibility in a military program. What sum do you have for Europe, Colonel?

Colonel EATON. I have no funds in Europe to provide a degree of flexibility, sir.

Mr. PASSMAN. Not as it would apply under that caption? But, there has been so much squeezeout in this program. Some years the Congress, in its wisdom, has reduced funds for this program by a billion dollars and blood would flow, only to find the following year that we could have taken out another half-billion.

I just wonder if you do put money in for flexibility and then find later that you have put too much in. I believe the Colonel over there has an answer to that question.

Colonel SIMPSON. No, sir.

Mr. PASSMAN. General Palmer?

General PALMER. We do not put money in for flexibility.

Mr. PASSMAN. If it gets in it gets in.

General PALMER. The squeezeout is in large part as shown in the insert data I furnished for the record of last Friday—consumables, particularly spare parts, and we have greatly cut down the money program for that this year.

Mr. PASSMAN. Your justification says—

the program contains a degree of flexibility in order to provide for some of the additional requirements that are expected to develop.

I was going by the record, which says you put money in for flexibility.

General PALMER. I beg your pardon, Mr. Chairman. My face is red. There is in the sense that it provides flexibility.

Mr. PASSMAN. It is spelled "flexibility" here.

General PALMER. If we have overestimated the amount we will have to give there may be some left over to be used elsewhere.

Mr. PASSMAN. Now we have it both ways. Do you have any money in for flexibility? If so, how much?

General PALMER. I see the point.

Mr. PASSMAN. Do you pass, Colonel, or do you want to answer it?

Colonel EATON. I pass, sir.

Mr. MULLEN. (Discussion off the record.)

Mr. PASSMAN. Let us not go into the others now. That is only one country.

I know there is a reason for it. I was merely trying to establish the fact that you do have funds for flexibility.

MILITARY ASSISTANCE FOR SPAIN

Mr. TABER. In your Spanish program you have ——— in here. You were talking a minute ago about ———.

General PALMER. (Off the record.)

Mr. PASSMAN. I think we have already agreed it takes a long time to get even the simple items accomplished.

What amount do you request for Spain for fiscal year 1963 for military assistance?

Colonel EATON. ———.

Mr. PASSMAN. What do you have to the credit of Spain at this time to be disbursed in subsequent years?

Colonel EATON. As of June 30, 1962, $69,705,000.

General PALMER. In some of the countries you have been looking at, we have greatly reduced the grant aid programs. There remains undelivered residue from prior and larger programs.

Mr. PASSMAN. In some of these countries you make obligations when you do not even have a firm agreement with them. We mentioned at least one of them earlier.

General PALMER. That is correct. In the question of Spain though, the program is running fairly level.

Mr. ALEXANDER. Will the chairman yield?

Mr. PASSMAN. Yes; I shall be happy to yield.

TRAINING PROGRAM FOR SPAIN

Mr. ALEXANDER. In regard to Spain, I notice there is a certain amount——— is that right? $——— for training?

Colonel EATON. Yes, sir.

Mr. ALEXANDER. How many men are we training in Spain?

Colonel EATON. That involves a total of——— people, sir.

Mr. ALEXANDER. Are they trained in Spain or in this country?

Colonel EATON. The training is broken down. Within the United States there is a program of——— people. There is also an oversea program of individual spaces and there are also technical representatives sent from the United States. This involves their personnel that we train both here and there, and the technical personnel that we send from here to Spain.

Mr. ALEXANDER. What kind of training do you give those people in the United States?

Colonel EATON. For example, sir, the Army has——— people undergoing training in our basic arms—infantry, artillery, armor and, at our staff school; the Navy has people at our staff school and has additional courses in communications, electronics, and maintenance technicians. The Air Force has——— flying pilot or navigator training spaces. They also have command and staff, logistics, and administrative training as well as professional and specialists connected with aircraft training.

MILITARY PROGRAMING OF EXCESS STOCKS

Mr. PASSMAN. Colonel, you have——— tanks programed out of fiscal year 1962. Are those tanks procured new or are they out of our excess stocks?

Colonel EATON. Subject to correction, these tanks are not from excess stocks, but are M–47 tanks which are being rehabilitated.

Mr. PASSMAN. What is the cost?

Colonel EATON. I cannot give you that figure offhand, sir.

Mr. PASSMAN. I believe there are——— medium tanks.

Colonel EATON. I cannot give you that figure off hand, sir.

Mr. PASSMAN. How many did you request last year?

Mr. MULLEN. In 1962 none were requested.

Mr. PASSMAN. But you programed——— did you not?

Mr. MULLEN. At that time, an equal number of light tanks were called for.

Mr. PASSMAN. You did not request funds for any, but you later programed ———. Would that be an indication that this military assistance program is a good way to rid the military of overpurchases, or something? All along we find that you are obligating funds for items that you did not request funds for last year.

CHANGE IN EQUIPMENT PROGRAMING

Colonel EATON. We programed less modern M–24 tanks originally. We requested funds for an equal number of light tanks, sir, M–24's. That item was deleted and the M–47's were substituted.

Mr. PASSMAN. You did not ask for mediums, did you?

Colonel EATON. No, sir.

Mr. PASSMAN. Did you allocate funds for ——— medium tanks?

Colonel EATON. The program was changed from light to medium.

Mr. PASSMAN. You did not request funds for ——— medium tanks, but you did allocate funds for ——— medium tanks because you had ——— medium tanks excess.

General PALMER. I think there is a misunderstanding, sir. This is what frequently happens. I am not prepared to speak to this particular item right now.

Mr. PASSMAN. We are talking about last year.

General PALMER. Last year we put in ——— tanks. As to whether they are light or medium, it does not make a great deal of difference, but it frequently happens that by the time we come to deliver the tank, which is the time at which the price is determined by law, they have changed to excess. In other words, they cost the military assistance program less money. I think that is probably what happened in this case.

Mr. PASSMAN. You order sausage, but the grocery store is out of it, so they give you bacon, and it serves the same purpose.

General PALMER. Yes, sir.

COST OF EXCESS EQUIPMENT

Mr. PASSMAN. It is a mighty good way to get rid of millions of dollars' worth of excess equipment.

General PALMER. The total amount of excess we used last year was $121 million worth. The excess stocks of the Department of Defense, I think, were $15 billion.

Mr. RHODES. Are these cost figures or evaluations?

General PALMER. Acquisition cost.

Mr. RHODES. Original cost.

General PALMER. Yes, sir.

Mr. RHODES. You have $100 million worth of excess equipment which had an original cost of——

General PALMER. $121 million.

Mr. RHODES. Before you leave I have a question to ask.

What are you going to do with ———? You do not have any plans for any more as far as I can see. What can you do with such a small number? Is this like those nine F–86's that we got for Haile Selassie?

Colonel EATON. I do not think so. These are dual aircraft and they are trainers.

Mr. RHODES. An ——— is a trainer?

Colonel EATON. An ——— dual serves as a trainer. It is a two-seater plane. It can be used as a combat aircraft plane but the normal one cannot be used as a trainer because there is only one seat. This is configured so it can be used as a trainer for any kind of high-performance jet aircraft.

Mr. RHODES. Can't you get cheaper jet aircraft to serve as a trainer?

Colonel EATON. Yes, sir.

Now we anticipate that there is a requirement which will be submitted in the future.

Mr. RHODES. But you see you are not playing square with us because if you are programing for the future we ought to know it.

Colonel EATON. (Discussion off the record.)

Mr. PASSMAN. You are requesting funds for it.

Mr. RHODES. You are asking for ———. If future plans are the justification for the aircraft then this is something we ought to know.

Mr. PASSMAN. If the gentleman will yield, and following his thinking, earlier we asked the question, "Are you starting any new programs in which you will ask for just this year's slice?" I thought you gave us a negative reply. This is a new program.

Mr. RHODES. It is.

Mr. PASSMAN. We are confused again.

Mr. RHODES. I would suggest that you find some way to differentiate between training aircraft and those for which you have future plans, in your justifications.

Colonel EATON. Yes, sir.

Mr. PASSMAN. Would you also include the one which would cost less and serve the same purpose?

Mr. RHODES. We have already established that. He said they could use another type training plane cheaper.

Colonel EATON. I would say this aircraft has a dual mission. It could be used as a trainer and as a combat aircraft. Surely you can get a cheaper one—if you are looking only for a jet trainer, but not for high-performance training.

Mr. RHODES. Of course, I think the colonel here in the blue uniform would have to bear me out, that as far as the tactical use of an airplane is concerned, this number would be just about as useless as anything you could imagine.

Colonel SIMPSON. Alone they would be.

(Discussion off the record.)

Mr. PASSMAN. If the gentleman will yield, why did you not fill in a while ago when you said there was not a new program?

Now we have to go back and do the lesson over.

Mr. RHODES. Will you start training pilots with these ———?

Colonel SIMPSON. Yes, sir.

Mr. RHODES. General, we really ought to know more about this, if you are going to put ——— in this program.

Mr. TABER. Hadn't they better check up on it overnight and try to come back here with a story in the morning that will go together?

(Additional information was subsequently supplied to the committee.)

General PALMER. This is correct.

Mr. PASSMAN. I asked a specific question, whether you had any multiyear programs where you would ask for the first slice for fiscal year 1963, and you said none of which you were aware.

Mr. RHODES. Maybe you had better ask the question to determine if there are any more, Mr. Chairman.

Mr. PASSMAN. I think we had better let the record speak for itself. If you want to elaborate on it tomorrow, well and good. It will take until Christmas if we run them all down like this.

You can see how much we are having to skip over. You just do not have the time to get into this program. That is why we were trying to indicate for the record that so many times details are left out.

FISCAL YEAR 1963 BUDGET REQUEST FOR UNITED KINGDOM

Do you have anything in here for the United Kingdom for fiscal year 1963?

Colonel EATON. Yes, sir.

Mr. PASSMAN. How much?

Colonel EATON. ——— sir.

FUNDS FOR REPAIR AND REHABILITATION OF MISSILE EQUIPMENT

Mr. PASSMAN. You have also for the United Kingdom of that, ——— for repair and rehabilitation of equipment.

Colonel EATON. Yes, sir.

Mr. PASSMAN. What kind of equipment?

Colonel EATON. This has all to do with the THOR missiles.

Mr. PASSMAN. It is shipped back to this country for this repair?

Colonel EATON. Yes, sir; depot maintenance in the United States for components of the THOR system.

Mr. PASSMAN. I will ask the same question I did earlier today: Could we not save money by repairing and rehabilitating the equipment in the countries to which we originally send it?

Colonel EATON. For this particular missile, it is my understanding there are shop facilities in the United States which would have to be duplicated over there.

Mr. PASSMAN. Would it be cheaper to duplicate them?

Colonel EATON. No, sir.

Mr. PASSMAN. Have you checked into it?

Colonel EATON. I have asked.

Mr. PASSMAN. Whom did you ask?

I am talking about the factory, the official that you asked, and whether or not he had the authority to make that statement.

Colonel EATON. No, sir.

Mr. PASSMAN. This is a lot of money. You could build a pretty big plant for that amount. I wonder if you would pin down that information for us.

Colonel EATON. Yes, sir.

Mr. RHODES. Let's find out how many there are.

Mr. PASSMAN. This one item is ———.

Mr. RHODES. How many missiles are involved?

Colonel EATON. In this particular item I could not tell you.

There are ——— operational missiles in the United Kingdom. This item applies to such maintenance as must be done on all the ——— plus the residual stores here in the United States.

Mr. PASSMAN. Could you tell us the amount of freight, the weight per missile, and the amount of transportation?

Colonel EATON. I could not.

Mr. PASSMAN. Can you get that information?

Colonel EATON. Yes.

(The information requested was supplied to the committee.)

EXPENDITURES FOR THOR REHABILITATION

Mr. PASSMAN. How much have you spent to date on this item for the United Kingdom?

Colonel EATON. On the THOR system, sir?

Mr. PASSMAN. Yes.

Colonel EATON. $———.

Mr. PASSMAN. On repair and rehabilitation?

Colonel EATON. This is for the entire program.

Mr. PASSMAN. I am talking about for repair and rehabilitation in prior years.

Colonel EATON. I do not have it broken out.

This item of repair and rehabilitation includes other items.

Mr. PASSMAN. What other items?

Colonel EATON. I could not tell you that accurately.

Mr. PASSMAN. You say this is for repair of the THOR missile. You show $———.

Colonel EATON. This is a cumulative amount for all materiel repair and rehabilitation from 1950 through 1962 which we have provided to the United Kingdom.

Mr. PASSMAN. I asked the total amount for repair and rehabilitation in this program.

Colonel EATON. I misunderstood your question.

Mr. PASSMAN. $———.

Colonel EATON. I would say this includes more items.

Mr. PASSMAN. Why is it classified since it is a repair charge?

General PALMER. The current programs are always classified until Congress approves the money.

Mr. PASSMAN. Prior years are carried as classified.

Colonel EATON. I think it is a breakout of detail rather than the totals. The totals are unclassified under each country.

Mr. PASSMAN. I am not talking about totals under each country. I am talking about repair and rehabilitation of equipment in prior years, $———. Why should that information be classified?

General PALMER. The whole body of detail on each country program is kept classified.

Mr. PASSMAN. Why you take repair costs of several years ago on some missile and classify it, I do not know.

Mr. RHODES. Are we going to find out how much of that $——— is for repair and rehabilitation on the THOR?

Colonel EATON. I will give you a breakdown.

(The information requested was supplied to the committee.)

STATUS OF THOR MISSILE

Mr. RHODES. Do you know whether you have any program in prospect for substituting some other missile for the THOR?

Colonel EATON. No, sir. This is wrapped up with future planning? We have a contract that carries this program through 1964. There are other general programs under consideration. None for specific replacement of the THOR.

Mr. PASSMAN. For 1961, you have ——— missiles; you requested funds for 1962 for ———. That makes ———.

In your book here you show ———. I do not know what kind of adding machines you use.

Colonel EATON. That is the total number.

Mr. PASSMAN. The total would be ——— if you carry out the program you justify to the committee.

Colonel EATON. There are ——— missiles under 1963.

Mr. PASSMAN. I am looking at 1961. You had ———.

Colonel EATON. Yes, sir.

Mr. PASSMAN. You asked for ——— more in 1962.

Colonel EATON. Right.

Mr. PASSMAN. That would add up to ———.

Colonel EATON. No, sir.

If you will look at your cumulative total on last year's book, you will see in column C, ———, and we ask for ——— in fiscal year 1961.

Mr. PASSMAN. Check and see if I am not right.

Colonel EATON. Yes; that makes a total of ———.

Mr. PASSMAN. Where do you get ———? We are looking on page 8–3 of last year. You had ——— and you are asking for ———. Will that not give you a total of ———?

Colonel EATON. If you will look in column B and D, you will see ——— in each column. ——— plus the ——— makes ———.

Mr. PASSMAN. The cumulative through 1961 would include the ——— that you asked for in 1961?

Colonel EATON. That is correct.

Mr. PASSMAN. So if you take ——— that is ———. Where do you get ———?

That is not unusual. That is the way it is all the way through the record.

What amount will you have to the account of the United Kingdom as of June 30, 1962?

Colonel EATON. $24,604,000.

(Additional information was subsequently supplied to the committee.)

FISCAL YEAR 1963 BUDGET REQUEST FOR NATO HEADQUARTERS

Mr. PASSMAN. For NATO Headquarters you are requesting $12,789,000 for fiscal year 1963?

Colonel EATON. Yes, sir.

Mr. PASSMAN. What are the individual items that have increased in this program over last year?

Colonel EATON. There is no increase in the number of headquarters.

Mr. PASSMAN. You are asking for $12,789,000 in fiscal year 1963. What amount did you have for fiscal year 1962?

Colonel EATON. $11,450,000.

Mr. PASSMAN. You do have an increase?

Colonel EATON. There is an increase in dollars, but no increase in operating headquarters.

Mr. PASSMAN. The amount of how much?

Colonel EATON. Roughly $1,500,000.

Mr. PASSMAN. That is 8 or 9 percent.

Do you have a justification? You already said you had the same program. What has gone up?

Colonel EATON. There are several items.

Mr. PASSMAN. That is what I asked you, and you said none.

INCREASED COSTS FOR COMMUNICATIONS EQUIPMENT

Colonel EATON. I meant there were no new headquarters. There is an increased cost in several items with the existing headquarters.

Mr. PASSMAN. What items?

Colonel EATON. A rise in communication funding requirements, equipment, permanent, and reserve leasing of long lines is one item. Telephone lines.

Mr. PASSMAN. You mean it is up 8 or 9 percent over fiscal year 1962?

Colonel EATON. There have been——

Mr. PASSMAN. How much does leasing the lines cost?

Colonel EATON. I cannot give you the breakdown.

Mr. PASSMAN. Take another one.

Colonel EATON. Increased operational requirements of the forward scatter system.

Mr. PASSMAN. What does that cost?

Colonel EATON. I cannot give you a dollar figure on that increase.

Mr. PASSMAN. One more item.

EXPANSION OF CENTRAL ARMY GROUP HEADQUARTERS

Colonel EATON. Expansion of the central Army group headquarters after its reconstitution in October 1960?

Mr. PASSMAN. What does that mean?

Colonel EATON. That means it was reorganized.

Mr. PASSMAN. And that costs more money?

Colonel EATON. It was originally——

Mr. PASSMAN. We are talking about headquarters now.

Colonel EATON. I cannot give you the details.

Mr. PASSMAN. Thank you very much, Colonel.

What is the contribution to other countries for the weapons production project?

Colonel EATON. That varies.

REQUEST FOR NATO INFRASTRUCTURE

Mr. PASSMAN. For infrastructure the request is for $82 million?

Colonel EATON. Yes.

Mr. PASSMAN. That is an increase of $6 million above 1962?

Colonel EATON. Yes.

Mr. PASSMAN. Why?

Colonel EATON. Because of increased projects that have been approved by the NATO Council for funding.

Mr. PASSMAN. What do you have on hand unexpended as a credit to this account?

Colonel EATON. $181,652,000.

Mr. PASSMAN. Give us the years in which you allocated the components of the $181,652,000.

Colonel EATON. I can give you by year the total breakdown.

Mr. PASSMAN. We want this on the unexpended total because some of this stuff is getting so old it has gray whiskers.

General PALMER. On this international headquarters and infrastructure, those are our share of NATO charges. The United States receives its share of the bill. I do not think we would ever get into the exact detail on what the problems are inside of NATO.

Mr. PASSMAN. I am wondering if this thing is so excessive that we might offend some of the nations who should be contributing if we went into it to find out what they are billing us for.

General PALMER. These things are all reviewed by American representatives in the staff of the American representative on the NATO council.

Mr. PASSMAN. But I think we ought to find out.

General PALMER. I am sure we can get all the information. It may take some time.

Mr. PASSMAN. We will not know how much to take out of the bill unless we can get the information prior to the marking up, so get it for us if you can.

What did you have in 1961 for this purpose?

Colonel EATON. $62 million.

Mr. PASSMAN. I think you will agree that this does not quite look right, to up it by $20 million in round figures.

AIR DEFENSE AND GROUND ENVIRONMENT PROGRAMS

Page 91 indicates that the air defense ground environment project is to cost ——— with the United States paying 33.1 percent of the total.

Colonel EATON. This is a project that was, in part, underway for many years. Part of the items shown under signals and radio navigation aids and radar warning, but are now integral parts of the NATO aid defense and ground environment complex has now been incorporated in the item "Air defense, ground environment," which all fits into the NATO-wide, air defense ground environment program.

Mr. PASSMAN. Do you not have some of the items mentioned on page 91 included in a separate request?

Colonel EATON. If you will note, in some of these instances the NATO total figures for last year are less than are shown this year.

Mr. PASSMAN. That is not the idea.

You spoke of a consolidation of all the items.

Colonel EATON. Some part. The portions that cover items which are now integrated into the NATO air defense and ground environment system.

Mr. PASSMAN. We go over in the justifications, and some of the very same items that you mention here that would be included in the ——— you have a request for single item money.

Colonel EATON. To be specific, $51.9 million of this NATO air defense and ground environment item that you see here has already been previously funded by NATO in the past and was carried by NATO under a different breakdown.

Mr. PASSMAN. Are you going to consolidate that in one item, or are you going to have it scattered where none of us can understand it?

Colonel EATON. It is now—to the extent that a signal item, for example, is an integral part of the NATO air defense and ground environment system, it will be included in a single line item and total for that system, instead of the more general category of "signals."

Mr. PASSMAN. The prior amounts are likewise carried?

Colonel EATON. Perhaps a radar set installation in one field which was included in the total for signals is now properly considered on the overall European NATO air defense and ground environment plan.

Mr. PASSMAN. So, in the future we would get a single request?

Colonel EATON. Under the air defense and ground environment, you will.

Mr. PASSMAN. You would include items under this caption that heretofore you have carried as individual items in your justification?

Colonel EATON. A portion.

Mr. PASSMAN. Why?

Colonel EATON. (Statement off the record.) There is now a NATO air defense plan.

Mr. PASSMAN. Do all the items you mention show an increase, except signals?

Colonel EATON. I would have to check.

Mr. PASSMAN. Please do.

Colonel EATON. Airfields shows a decrease.

Mr. PASSMAN. Is airfields part of this new air defense ground environment project?

Colonel EATON. Some part of it.

Mr. PASSMAN. What part? How much?

Colonel EATON. From among the items that have decreased, $51 million has been withdrawn and put into——

Mr. PASSMAN. Withdrawn from where?

Colonel EATON. For example, signals; it has been reduced, even though all categories listed would tend to increase from additional infrastructure signal projects being approved by NATO during the past year.

Mr. PASSMAN. In all the others you have had an increase over fiscal 1962?

Colonel EATON. I have not finished checking.

Mr. PASSMAN. Take your time. We want to verify this. The answer is either "Yes" or "No."

You have one you did not mention that is a part of the air defense ground environment so it will be a little something on the plus side.

It is to be regretted that time will not permit us to go into all of these matters.

WAR HEADQUARTERS

Why is the war headquarters project being increased by $110 million?

Last year, you requested $43,366,000. This year, you are requesting $153,943,000, or an increase of $110 million.

Colonel EATON. That was not a military assistance request. This is the total NATO program which increased by the amount you show.

Mr. PASSMAN. Why is the war headquarters project being increased by $110 million?

Colonel EATON. I can only say the construction and planning has moved along to the point where NATO approval of projects has been agreed by all members.

Mr. PASSMAN. What kind of construction and planning?

Colonel EATON. I cannot give you the detail.

Mr. PASSMAN. How can we go before the Congress with a straight face when you have a $110 million increase in this one item over fiscal year 1962, and you say only that it is because of increased construction. Constructing what?

Colonel EATON. War headquarters. For the necessary capability to survive attack on such command locations.

Mr. PASSMAN. Why?

Colonel EATON. These are NATO programs.

Mr. PASSMAN. But we have to have some information on this.

According to your book here, the total NATO infrastructure is $82 million for fiscal 1963.

Colonel EATON. That is the U.S. share, sir, of the NATO total of $265 million being funded by NATO in 1963.

Mr. PASSMAN. You have to have some justification for this. Where do we get the justifications?

Colonel EATON. I will have to supply for the record why the war headquarters has increased by that amount.

(The following was subsequently submitted for the record:)

It should be clarified that the amounts cited for NATO war headquarters in both the fiscal year 1962 ($43,366,000) and fiscal year 1963 ($153,943,000) are not U.S. military assistance requests. These figures represent the total NATO project approvals of multilateral funding for war headquarters through 1962 and 1963 respectively.

By the time of the fiscal year 1963 presentation, more accurate NATO cost estimates indicated that the $43,366,000 for the total approved program through fiscal year 1962 had increased to $68,833,000. The additional $85,110,000 (bringing the total to $153,943,000) indicated by the fiscal year 1963 presentation represented further costs for hardened construction, dispersion, and mobile headquarters in order to satisfy new criteria and policy which had been under study but not previously approved.

During 1963, all NATO countries will fund only $24,382,000 of the total $153,943,00 for NATO war headquarters, of which the U.S. share will be $8,007,000. This $8,007,000 is the actual amount of MAP funds included in our overall request of $82 million for NATO infrastructure for fiscal year 1963.

Mr. PASSMAN. These international agencies will break this country if we do not pin them down.

MUTUAL WEAPONS DEVELOPMENT PLAN

The mutual weapons development programs estimate is for $10 million for fiscal year 1963?

Mr. ROBINSON. Yes.

Mr. PASSMAN. What efforts, if any, have been exerted to reduce our percentage contribution to this program?

Mr. ROBINSON. Several things have been done.

One is that while we had only bilateral programs, we have been trying to get new programs to be at least trilateral, or more.

Also, as you may notice in the program we are showing for the coming year, we are talking mostly about multilaterals for complete NATO-wide support. Simultaneously, we are increasing the cooperation in R and D areas where no U.S. funds are involved such as exchange of data without any dollar contribution.

We are also working outside of the military assistance program trying to get some coordination between programs so we can eventually be saving ourselves some money without having to make direct contributions.

Mr. PASSMAN. So far, you have been able to accomplish that?

Mr. ROBINSON. We have certain agreements. We have a program where we are working now with the United Kingdom, and Germany on an aircraft.

EFFORTS TO REDUCE EXPENSES

Mr. PASSMAN. Is there anything firmed up that will be in effect in fiscal year 1963?

What success have you had in reducing our percentage of the total contribution? Have we had any success in reducing it as it would apply to fiscal year 1963?

Mr. ROBINSON. We have had success.

Mr. PASSMAN. In what countries?

Mr. ROBINSON. In the negative sense of not starting programs on a bilateral basis.

As for the tangible success you would like, the complete signed agreements, I would not make any promises on the time because they are sort of rough to do. We hope to have some of those during the fiscal year. We cannot tell you.

Mr. PASSMAN. That is in the making. There is nothing that would change it for fiscal year 1963 that you can see at this time?

Mr. ROBINSON. No.

Mr. PASSMAN. If so, you would not need $10 million?

Mr. ROBINSON. That is right.

Mr. PASSMAN. If you should succeed in expediting the agreements, you would not need $10 million?

Mr. ROBINSON. With one slight difference.

Mr. PASSMAN. What is the slight difference?

Mr. ROBINSON. If some of the multilateral NATO-wide items should be very successful, in other words, negotiated very fast and all that, some of those programs might start up faster than we anticipate.

These we are now assuming would come through military assistance program funds as support of NATO.

Mr. PASSMAN. Who will be able to tell us how much we should reduce this item in the event you expedite these contracts? Do we get that information from you or General Palmer?

Mr. ROBINSON. As of now, you can get this through General Palmer. We originate the data.

Mr. PASSMAN. Could you predict about how much we could reduce the $10 million, if we succeed in getting these contracts consummated prior to the passage of this bill?

Mr. ROBINSON. I think we have anticipated some reduction in cutting down to the round figure of $10 million.

Mr. PASSMAN. What would happen if you did not?

Mr. ROBINSON. If we did not, if we had not shown some anticipation, we would be closer to a $20 million figure.

Mr. PASSMAN. You anticipate that some of these contracts will be put into effect? You say you reduced your request on account of that probability. How much less have you requested for 1963 as compared to 1962?

Mr. ROBINSON. That is not what I said. The fiscal year 1962 and 1963 requests are the same.

Mr. PASSMAN. You did not know that when you made your statement, did you, Mr. Secretary? You did not know that you had reduced the anticipated needs because of the encouragement you received? Did you have that same kind of encouragement when you made your request for fiscal year 1962?

Mr. ROBINSON. Could I repeat that? I am talking about two different things.

Mr. PASSMAN. I know that you are, but I am not, and that is why I want to pin it down.

You are asking for the same amount of money in fiscal year 1963 as in 1962. You request this amount in fiscal 1963 because of the encouragement you have received. Did you have that same kind of encouragement when you requested $10 million in 1962?

Mr. ROBINSON. In 1962 we did not have the encouragement of the NATO-wide projects going because this was the 20-project exercise which has just started.

Mr. PASSMAN. Am I correct when I say that you are asking for the same amount of money for fiscal year 1963 with this great encouragement that you had in 1962 without such encouragement?

Mr. ROBINSON. We are asking for the same amount of money because what we expect to cut down in the bilaterals would be made up by the multilateral projects.

Mr. PASSMAN. This is the same amount you had in fiscal year 1962 without the encouragement?

Mr. ROBINSON. Yes, sir.

Mr. PASSMAN. Thank you.

Mr. Rhodes?

DEVELOPMENT OF TURBOJET ENGINES IN EUROPE

Mr. RHODES. Can you tell me why we should engage in the development of turbojet engines in Europe?

Mr. ROBINSON. In some particular developments, they have come up with extremely good ideas. We should support these as long as we receive all of the rights so that we can make use of the results.

Mr. RHODES. You have these engines.

What is there about these that justify American taxpayers to spend money? I thought we had pretty good ones in the United States?

Mr. ROBINSON. I think you are talking about some of the past programs rather than the present.

Mr. RHODES. I am looking at page 93 of the justifications and it is classified, so I assume this is a present program.

Mr. ROBINSON. Right. These were engines which were developed some years back, and the U.S. contribution was also some years back. I could not tell you exactly what are the special technical features and how much we have used them. Those programs have primarily helped build up the French and the United Kingdom's capability.

At present we would not put in unless we can see a very definite advantage by having the rights in the United States for new developments.

Mr. RHODES. These are projects which are now in production?

Mr. ROBINSON. Which are now in production and which are kinds of projects we would probably not support this year or next year if they were strictly for equipment similar to what we have.

If they have something very new, we could give some support so as to obtain the rights to build them ourselves if they really prove out.

AIR DEFENSE SYSTEM IN EUROPE

Mr. RHODES. Colonel, does this air defense ground environment item include things like SAGE?

Colonel EATON. That is the best way to describe it, sir.

We got into a nationwide air defense system here in the United States and SAGE was part of it. We learned a great deal from our experience.

F–104 PRODUCTION SCHEDULE

Mr. RHODES. How are the costs running on the production of the F–104 in the various countries? Are they about what you had anticipated?

Colonel EATON. We have no specific information on that, sir. This is a consortium.

Mr. RHODES. I realize that, but we put a certain amount of money into it.

How are they doing as far as production is concerned? Are they up to schedule and are they putting the airplanes out?

Colonel EATON. They lagged for a while but there has been an improvement, but whether they are exactly on schedule, I do not know at this moment. I know the aircraft are coming off the production line.

Mr. RHODES. I understand that we pay only $1,400,000 and no more for an aircraft?

Colonel EATON. Yes, sir.

Mr. RHODES. Are we getting production for this amount of money or is it costing the nations in the consortium a lot more money than they had anticipated in order to build the aircraft?

Colonel EATON. I think this is really the same as your earlier question.

Mr. RHODES. No; it is not the same as my earlier question. The question is, are we getting the airplanes for the amount of money we thought we were going to get them for, or do we pay money which must be augmented by the money of the other nations to get production?

Colonel EATON. We are getting the aircraft for $1.4 million.

Mr. RHODES. You do not know how many we are getting because you do not know if we are on schedule or not?

Colonel EATON. No, sir; I cannot give you that information as to the deliveries at this time.

Mr. RHODES. Suppose you get it, Colonel because it is something I think we ought to know.

I want to know how the F–104 program is doing and whether the aircraft is being produced according to plan. Is it costing more?

Colonel EATON. Yes, sir.

(The requested information follows:)

F–104 aircraft production in Europe is shared by four producing groups. Production is slightly behind schedule in the south group in Germany as a result of reliability and availability of electronic equipment and the inclement weather. The west group in Belgium is behind schedule partly because of a 2-month labor stoppage. Recovery programs for both the south and west groups have been established. The north group in the Netherlands and Germany and the Italian group are essentially on schedule.

The cost to the United States for the 100 aircraft to be received from the F–104G consortium is fixed at $1.4 million per aircraft. However, cost per aircraft from consortium production, which are not tied to a fixed price, is not yet available.

POSSIBLE REQUIREMENTS FOR AID TO ALGERIA

Mr. RHODES. Mr. Secretary, what is the probability of any increase in expenditure for the MAP program following the settlement in Algeria?

Mr. TYLER. As I said, we cannot tell at this moment what will happen to the French divisions which will be coming back from Algeria.

Mr. RHODES. I did not have the French divisions in mind. I had the Algerians in mind. In other words, are we likely to enter into some sort of mutual assistance arrangement with the new Algerian Government, or do you know?

Mr. TYLER. That is a possibility, Mr. Congressman, but it will probably be a good many months before Algeria becomes an independent country.

I believe that under the terms of the agreement with France, there is an extensive military aid program provided for under that agreement from France to Algeria. We do not know at this stage how much, if any, military assistance will be asked of us by the Algerians.

Mr. RHODES. We do not have any present plans then to give any kind of aid to Algeria?

Mr. TYLER. We have no plans, Mr. Congressman.

Mr. RHODES. I think that is all, Mr. Chairman.

Mr. PASSMAN. There is no law that forces us to run out immediately and arm a new nation just brought into being, is there?

Mr. RHODES. I want to make sure that is undersood.

Mr. PASSMAN. Is it our policy? I do not know of any, but would we get in trouble if we played hard to get for a while with some of these new nations? It looks to me as if we are entirely too easy in such matters.

Mr. RHODES. I was pleased with the Secretary's answer.

Mr. PASSMAN. He is very fair.

Mr. RHODES. I think he intends to do just what you said. I appreciate it and applaud it. I think it is a good idea.

Mr. PASSMAN. It would take days and days to go through all of the nations, so we have just pinnned down a few pertinent matters along the way. We want to be fair to you, fair to ourselves, and fair to the American people, many of whom seriously wonder why we give military aid to 65 nations.

Thank you very much, gentlemen. Tomorrow we shall take up the military aid program in the Far East.

General PALMER. Thank you, Mr. Chairman.

TUESDAY, MARCH 27, 1962.

MILITARY ASSISTANCE, FAR EAST AREA

WITNESSES

REAR ADM. L. C. HEINZ, U.S. NAVY, DIRECTOR, FAR EAST REGION, OASD (ISA)
GEN. W. B. PALMER, DIRECTOR OF MILITARY ASSISTANCE
COL. AUBREY P. NATHAN, SPECIAL ASSISTANT, OFFICE OF THE DIRECTOR OF MILITARY ASSISTANCE, OASD (ISA)
CHARLES WAYNE, MAP ASSISTANT TO ADMIRAL HEINZ
LT. COL. ROBERT SIMPSON, U.S. AIR FORCE, OFFICE OF THE DIRECTOR OF MILITARY ASSISTANCE
COL. WILLIAM A. CURTIN, OFFICE OF THE ASSISTANT TO THE SECRETARY OF DEFENSE, LEGISLATIVE AFFAIRS
HENRY J. SANDRI, BUREAU OF FAR EASTERN AFFAIRS, DEPARTMENT OF STATE
WILLIAM ELLIS, DIRECTOR, OFFICE OF DEVELOPMENT PLANNING, BUREAU FOR FAR EAST, AID
TOM FARER, MAP PRESENTATION COORDINATOR, PRCS, AID

INFORMATION ON OBLIGATIONS AND UNEXPENDED BALANCES

Mr. PASSMAN. The committee will come to order.

We shall continue today consideration of the budget request for the military assistance program, dealing specifically with the request for the Far East.

It might be well to state at this point the information we are going to want in all regions: One, the unexpended funds to the credit of each region—Europe, Middle East, Far East, Africa, Latin America; the unexpended funds credited to each nation in the region; the years in which the obligations were made.

(The information was subsequently supplied to the committee.)

We are asking for that information because on the economic side of the program, and it may be a similar situation here, we find that funds were obligated as long as 7 years ago for projects are still being carried on the books, no doubt, in many cases, for projects which will never be brought into being. I believe that both sides of the table would be better off if we could finally get this in the record, the part that is not classified, by country, by region, then total, when it was obligated, and the amount of unexpended balance. The amount is quite large.

(The information was supplied to the committee.)

General PALMER. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Admiral Heinz, we are pleased to have you before the committee again.

If you have a statement to make, we shall welcome it at this time.

STATEMENT OF ADMIRAL HEINZ

Admiral HEINZ. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, it is a privilege to appear before you for the purpose of discussing the military assistance program in the Far East region.

The cumulative Far East program for 1950 to June 30, 1962, totals $7,803,621,000, of which it is expected $6,602,450,000 will have been delivered by that date and $1,201,171,000 will still be in the pipeline.

The proposed fiscal year 1963 military assistance program for the Far East region is $830,714,000, which is $67,130,000 less than the actual fiscal year 1962 program of $897,833,000. We propose fiscal year 1963 grant aid programs, for 10 countries, the same number as in fiscal year 1962. Exhibit A is an unclassified version of the regional summary on page 151 of the presentation book.

The proposed fiscal year 1963 program for the Far East region will provide $139.7 million for essentially fixed charges such as training and supply operations; $345.4 million for force maintenance to provide spare parts equipment; attrition replacement, ammunition, repair and rehabilitation of equipment, and other consumables for forces currently in being; and $345.6 million for force improvement.

The fiscal year 1963 program includes the following major items of equipment to improve the military posture of the recipient nations: jet fighters; 47 T–37 jet trainers; 23 C–47 transports; 6 H–34 helicopters; 498 tanks; 15,466 vehicles; 24 HAWK missiles; 4 destroyers and 9 coastal minesweepers. Exhibit B is a comparison of fiscal year 1962 with proposed fiscal year 1963 MAP by major categories.

STRATEGIC SIGNIFICANCE TO THE UNITED STATES

The Far East area is of increasing strategic importance to the United States. Through our military alliances there, our forward defense area is placed 5,000 miles from the west coast of the United States. The Far East contains the world's fourth largest industrial complex—Japan; it is rich in natural resources—rubber, tin, and oil; it has a large food production potential; it lies across lines of communication to the Indian Ocean area; and it contains 300,000,000 people allied with or friendly to the West.

Since 1950, the Republics of Korea and China, with substantial U.S. assistance, have been successful in repelling the Communist attacks of open aggression. Also, Communist attempts to subvert the Far Eastern Governments of Malaya and the Philippines have been repulsed.

Today, Vietnam and Laos are being subjected actively to what Mr. Khrushchev calls war of national liberation. We know this as a war of infiltration, terrorism, subversion, and insurgency. It stems from Communist inspired, led, and supported guerrilla operations. It is, in fact, war of covert military aggression.

The Communist objective is to extend their colonial empire and to gain for their own use the economic and human resources of this rich and important area. The loss of any of these countries to the free world community would have substantial and far-reaching effects on the security of the United States.

The main burden of local defense against covert aggression, subversion, and guerrilla warfare must rest upon local populations and forces. But we must be prepared to make a substantial contribution toward this defense. The active and growing threat in several countries in the Far East will not permit us to reduce our vital assistance to these countries now and probably not in the near future. More and more in the Far East, our military assistance program is being tailored to meet the force of active Communist inspired and led insurgency and subversion rather than the latent threat of open Communist aggression.

I will now give a brief dicussion of the individual country programs.

JAPAN

The proposed fiscal year 1963 program for Japan is less than the actual fiscal year 1962. Of this amount, $—— million for force improvement is programed on a cost-sharing basis with Japan with that country budgeting from three to four times the same amount toward the new equipment.

As the Japanese forces have grown, they have assumed the former duties of U.S. forces in Japan. They have become less dependent on the United States for materiel.

We are convinced that we are helping to produce a greater local defense effort by continuing to provide military assistance of a highly selective kind. Our program now consists almost exclusively of offers to pay a part of the cost of new force improvement projects. By expanding 25 to 35 percent of the initial cost of such a project, the Japanese not only pay the bulk of the initial cost but also to assume the entire burden of continued maintenance. Not only are all our expenditures made in the United States for equipment which the Japanese cannot yet produce, but the Japanese also spend part of their share in the United States.

In fiscal year 1963 we propose to concentrate on assistance to Japan's program. Japan is willing to undertake the construction of new naval vessels. We are planning to place aboard ordnance, fire control, and electronics gear that is not available in Japan.

The military assistance program contributes to Japan's readiness. Finally, it encourages Japan to budget for an increasing share of the cost of modernizing and improving its forces.

KOREA

The proposed fiscal year 1963 program for Korea is ——— million, approximately the same as fiscal year 1962. Force improvement items total ——— million, about the same as fiscal year 1962, devoted to air defense, and other equipment replacement and additions.

We, along with the Republic of Korea, must still maintain sizable military forces to face a determined and treacherous enemy, along a 155-mile front, who is equipped with modern jets.

The military assistance program continues to be the sole source of armament and equipment for the ROK forces. The ROK provides a well-trained and combat-tested army, an excellent marine corps division, a small but efficient navy of combat ships, and an air force of ——— squadrons of jet fighters.

The ROK military government has made great strides in reducing the diversion and pilferage of military supplies and equipment. Illegal diversion is now about 4 percent of what it was a year ago. Loss of supplies during transportation is about 10 percent of its previous rate. Improved management control, greater economies, and stricter discipline are being instituted in the ROK military forces. This is not to say that all the deficiencies in logistics are being corrected. There is still much to be done and more time will be needed. However, vigorous action has been started and we expect it to continue.

Steps to improve the air defense capability of the ROK forces were initiated in the fiscal year 1961 military assistance program and are being continued in the fiscal year 1963 program.

We are examining closely the levels of assistance needed in the future. However, there is no question but that military assistance must be continued if the Republic of Korea is to maintain its freedom.

REPUBLIC OF CHINA

The proposed fiscal year 1963 program for China is ——— less than fiscal year 1962. Force improvement items total ——— million for air defense, electronics and communications equipment, and ———.

The security of the GRC is vital to U.S. security. Their territory astride the Chinese Communist sea lanes is strategically important.

In Taiwan this year we are supporting with military assistance funds a military establishment of ——— men. This is a considerable reduction from the high of ———. However, the effectiveness of the GRC forces has not been impaired by this reduction.

Without the military assistance program the GRC would not have been able to withstand two major assaults against the offshore islands which were described by the Communist Chinese as part of an attack against Taiwan. Great courage was manifested by the Chinese in the defense of their country against these Communist assaults. Any weakening in the resolve of the GRC to defend itself would be reflected throughout the Far East. This we cannot afford to let happen.

PHILIPPINES

The program proposed for the Philippines totals $——— less than fiscal year 1962. Force improvement will total ——— or about twice that in fiscal year 1962. The largest portion of this will go for elec-

tronics and communications equipment to improve the early warning and long lines communications systems, as well as improvement of tactical communications. The program will improve air logistic and liaison capabilities of the air force and the constabulary.

The Philippines with its key U.S. naval and air bases is extremely vital to the strategic posture of the United States. Clark Air Force Base and Subic Bay are cornerstones of any U.S. staging or military operations to the west or southwest. The geographical position of the Philippines places them across many key air and sea lanes.

Our military assistance program is designed to encourage improvements in the Philippine Armed Forces and to provide those resources which are required to supplement the Philippines' own defense effort. Our primary objectives in this field are to create a Philippine security establishment which is capable of safeguarding the people of that country against insurgent and bandit elements and of contributing to both the defense of the Philippines and the collective defense of the Western Pacific area.

VIETNAM

The fiscal year 1962 military assistance program for Vietnam of $———. We realize that the internal security situation in Vietnam is fluid. To combat and defeat the Communist controlled and supported war of covert aggression will undoubtedly require additional military assistance resources.

Vietnam is a cornerstone of a free and independent southeast Asia.

It is in Vietnam that the free world is being put to the test. Here the Communists intend to show that free world assistance to an anti-Communist government in an underdeveloped, recently colonial country cannot prevail against their tested blueprint.

During 1961, with the GVN in the midst of its most critical phase thus far, the Communist threat gained further momentum. While maintaining the initiative against Government forces, the Communists increased their armed guerrilla forces ———. Casualties on both sides averaged ——— per month during 1961 and incidents of violence rose to between ——— and ——— per week.

In the present phase of increasing Communist attack, there is obvious danger of Communist success before the Vietnamese have sufficiently strengthened their security forces through the additional materiel and training that the United States is now providing.

Short of sending U.S. combat troops, we have taken steps to assist the Vietnamese with U.S. personnel and materiel to perform tasks that they will not be able to perform themselves during the present critical period.

The struggle in Vietnam will be hard and long. Of this we have no misconception.

We are doing all within our power to assist the Government to win its war. However, sufficient time has not passed since the start of our increased effort for me to give you an exact evaluation of how this effort is affecting the military situation.

CAMBODIA

The proposed program for Cambodia is ———. Of this, force improvement totals $——— million.

Cambodia, flanking Vietnam, Thailand, and Laos, occupies an important position close to Communist-held territory.

Cambodia, so far, has refused all offers of bloc military aid. So far, Communist subversion has remained latent in Cambodia. It is our objective to keep it so.

THAILAND

Military assistance to Thailand is proposed in the amount of $——— million. However, Communist pressures may make it necessary to increase this amount before the end of the program year.

Force improvement items in fiscal year 1963 ——— include communications and electronics equipment to expand A.C. & W. installations and to improve tactical communications, and ———.

Allied with the United States through SEATO, Thailand occupies important land areas vital to the defense of southeast Asia. Were war to occur there, Thailand would be a major key to success.

It was stated last year that with Communist advances in Laos and increased activity by the Communist insurgents in Vietnam, the threat to Thailand had become increasingly more serious. These words are as true now as they were then, but the threat is even more intense.

Thailand, with U.S. assistance, has standardized, improved, and reorganized its forces and increased personnel strength of its units. A training program has been conducted to teach the latest tactics and techniques of warfare. Currently, the greatest stress is being laid on learning and developing the techniques of anti-guerilla warfare. With the immediacy of the Communist threat, the continuation of U.S. support to Thailand is necessary if the Thais are to cope with the threat.

LAOS

The proposed fiscal year 1963 program for Laos is $———.

The U.S. policy is to reach a settlement in Laos through political negotations. If our present objective of securing a peaceful, neutral, and independent Laos is successful, our military assistance program in Laos will probably be drastically reduced, if not totally discontinued. The pro-Communist side has achieved an ominous potential as a result of the introduction of some ——— North Vietnamese military advisers and another ——— North Vietnamese military forces. Materiel introduced includes amphibious tanks, armored personnel carriers and large guns.

The uncertainties of the international situation surrounding Laos make it difficult to propose a firm program for fiscal year 1963. Our tentative program is designed to produce further improvement in the capability of the Lao forces.

This program includes the costs of operating the U.S. Logistics Depot at Tokorozawa, Japan. Total costs are offset by $——— million drawdown of existing depot stocks so that the net total of the program is $——— million.

CONCLUSION

In concluding, I desire to stress to you that in the Far East we find ourselves in close confrontation with Communist power. Here our allies are engaged in a war of subversion. We cannot afford to lose

this area to Communist control. U.S. interests are at stake, as well as the interests of the countries themselves. We believe our military assistance program serves these interests.

UNITED STATES AND SOVIET BLOC ASSISTANCE

Mr. PASSMAN. Thank you very much, Admiral.

I notice that country A is in the picture, as well as country B. You say in your statement, "This MAP program is one reflection of the strategic importance of country A. Should that country fall under Chinese Communist control. . ." The Chinese Communist control is not worse than Russian Communist control, is it?

Is not one about as bad as the other?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. Is it not true the Russians are supplying ——— aid to country B

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. How does that stack up, that we are trying to keep them from Communist control and yet the Communists, themselves, are furnishing aid?

Admiral HEINZ. (Reply off the record.)

Mr. PASSMAN. Are they not tied in with us through the military program?

Admiral HEINZ. They are tied in to us through our military assistance program. We have many of their people coming here for training.

Mr. PASSMAN. Are they not also tied in to Soviet Russia's ——— in that they are accepting Russian aid?

Admiral HEINZ. Yes, they are.

General PALMER. This is a battlefield of the cold war. That is exactly what it is.

Mr. PASSMAN. Is it not a fact that a few years ago Country A was in our aid program, but asked to be taken out? We went for 3 or 4 years when they accepted no aid at all from the United States. We did not go back in until 1958.

Mr. CRAWFORD. That is correct.

SOVIET-BUILT HOTEL

Mr. PASSMAN. During that time the Russians were really having a picnic there.

The Russians built a hotel in the capital. The ICA had this project classified. The committee never did see the hotel; we were detoured around it, and found out about it when we got back to the States. None of the people were committed. They are still out loose.

Mr. CONTE. What was in the hotel, Mr. Chairman?

Mr. PASSMAN. I do not know. Being classified, I learned about it when I got back. I knew we took a lot of side streets around there. It was off limits to members of the committee, I suppose.

POLITICAL ELEMENTS IN SOUTH VIETNAM

Is it not true that all of the trouble in Vietnam is not being generated by the Communists?

Admiral HEINZ. There are elements in the country who are politically against the regime as there are in any country.

Many of these people have programs which would overthrow the regime. If you ask them what would you then do, they have no positive program of action. They are political opponents, rather than anti-Vietnamese.

Mr. PASSMAN. Is it true that somewhere in Vietnam one of the President's brothers has kind of a private army of his own, a couple of thousand men that he can stir around the community with?

Admiral HEINZ. I do not know of that, sir. The President has three brothers.

(The following was subsequently submitted for the record:)

The President's brother, Ngo Dinh Nhu, is taking a leading role in his government's civic action program for the welfare and protection of the villages. In this connection, he is interested in the training of the Vietnamese Government's paramilitary forces. He has no private army.

Mr. PASSMAN. Can you be positive that he is not down in the country from Saigon with his own political guard and troop force of a couple of thousand men?

Admiral HEINZ. No, sir, that is not true. I will say there are elements of this still in Vietnam.

Mr. PASSMAN. Attached to the brother of the President?

Admiral HEINZ. (Reply off the record.)

WEALTH OF NHU FAMILY

Mr. PASSMAN. I think the record may indicate that I made a statement of fact. Let us trace it down.

When I was out there, I was favorably impressed with the President, but in talking to some of the people they said that the President and most members of his family were riding bicycles 10 years ago. Now they are millionaires.

Admiral HEINZ. One of the President's brothers married a very rich woman, Madam Nhu; another brother is an archbishop, to my knowledge not a millionaire. Another brother is in the north. I could not prove or disprove the statement of their wealth.

Diem is known to be anticorrupt. He is not corrupt. No corruption has ever attached to him.

Mr. PASSMAN. If he was riding a bicycle 10 years ago and is a millionaire now, he is a pretty good businessman, if those reports are true. Could you give us a little information as to the wealth of these people?

Admiral HEINZ. I cannot give you information on the wealth of each of the members of the Diem family.

Mr. PASSMAN. Do you know whether or not they were poor 10 or 15 years ago?

Admiral HEINZ. I do not know.

Mr. Sandri, do you have any additional information on that?

Mr. SANDRI. No, sir. One thing I could say, President Diem leads a very austere life. I doubt very much, Mr. Passman, that he is a millionaire.

Mr. PASSMAN. You do not know?

Mr. SANDRI. I will find out, sir.

Mr. PASSMAN. You have no information as to the wealth of the family?

Mr. SANDRI. No, sir; except that President Diem leads a very austere life.

(The following was subsequently submitted for the record:)

We have looked into reports of corruption in Vietnam carefully and repeatedly. We can find no proof of personal gain on the part of President Diem or his family. I believe President Diem's official standard of living is appropriate to a chief of state. His private life remains austere. There is no proof that he has increased his modest means while he has been in office.

Admiral HEINZ. I do know that Madam Nhu is wealthy. Her father is the present Ambassador here.

Mr. PASSMAN. Austere—what do you mean by that?

It appeared to me that he was getting along all right.

FAR EAST PROGRAM FROM 1950 TO 1960

In this program, Admiral, you mention, in the second paragraph, that the cumulative Far East program from 1950 to June 1960 totals $7,803,621,000. That would include the Korean war period, too, would it not?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. It would also include the trouble we had relative to the Republic of China, the offshore islands?

Admiral HEINZ. Yes, sir.

That includes the Indochina war, also.

Mr. PASSMAN. Those were three rather expensive hot conflicts in which we were involved during this period, 1950 to fiscal 1961?

Admiral HEINZ. Yes, sir.

AVERAGE ANNUAL EXPENDITURES OF FAR EAST MILITARY ASSISTANCE PROGRAM

Mr. PASSMAN. Including those hot spots, and a major war in Korea, for the entire 13-year program, our actual annual expenditures averaged only $507,880,000. We have been told that of the equipment that we ship out, in some countries 80 or 83 percent is available and ready for use in case it is necessary.

What would be the average in your area?

Admiral HEINZ. Of equipment available?

Mr. PASSMAN. Of all the equipment we have provided, what percentage of it would be ready for use if necessary?

Admiral HEINZ. We have provided $5,565,865,000 worth of equipment and supplies. Of this, $3,595,953,000 is still in the country inventory. This is 64.6 percent still in the country. Of this amount, $3,327,167,000 is still in serviceable condition, and this is 59.8 percent of the materiel there.

General PALMER. 59.8 percent of the total materiel delivered.

Mr. PASSMAN. We have gone through three shooting wars in the Far East. One was a major war. Of the billions we have given for materiel, 59.8 percent is on hand available for use, and our average annual expenditures have been only $507,880,000. Why would you need $830 million this year?

FINANCING OF KOREAN WAR

Admiral HEINZ. First, I would explain that, although this period covers three major, or three large conflicts, the Korean war was not financed by MAP. The MAP to Korea started in 1954 or 1955. The Korean war was financed through Army appropriations. Much of the Indochina war, another major conflict, was charged to the French program. Therefore, this is not a true indication of the total U.S. costs of those three conflicts. Therefore, we could not say that this average would finance a war. It would not, sir.

Mr. PASSMAN. We would not say it would finance a war. I was merely arriving at the average annual expenditure in your region, Admiral, and over a 13-year period it has been $507,880,000.

At this time you have, without any additional appropriation, a credit to your area of $1,201,171,000.

Admiral HEINZ. Yes, sir.

EFFECT OF COLD WAR ON MAP IN ASIA

Mr. PASSMAN. This would give you over 2 years' average financing, if you did not get any appropriation this year at all. Of course, you know you will get additional funds—but if we break down the average for the 13 years, then you do have almost 2½ years of funds on hand, according to that average.

Admiral HEINZ. That would be according to that average, Mr. Chairman. However, this area is now becoming very hot, in our so-called cold war and in 1962 we had to increase the program considerably.

Mr. PASSMAN. Why?

Admiral HEINZ. Because of the increased conflicts in southeast Asia and we expect that we will have to have large expenditures for southeast Asia again this year.

Since the end of the Korean war we have had large expenditures to maintain our posture in Korea. This position is still existent.

We have also been maintaining our posture in Taiwan. This condition is existent, where we have large Communist forces opposing the forces of the Republic of China.

Mr. PASSMAN. Has that not been the case for years?

Admiral HEINZ. It has been, sir.

AVERAGE ANNUAL EXPENDITURES

Mr. PASSMAN. I was there 6 or 7 years ago, 5 years ago, 4 years ago, and 2 years ago. You have been able to maintain those forces out of this average annual expenditure, have you not?

Admiral HEINZ. This is true. It is an average of 12 years, but I would not say this is the figure that you would find in each of those years.

Mr. PASSMAN. You have had some years higher. You have had some years lower.

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. But, by simple arithmetic if you take the total and divide by 13, you come up with $507 million.

Admiral HEINZ. This is not one of the lower years. We are in a higher period, with the intensified Communist pressures in southeast Asia.

PILFERAGE OF MAP MATERIALS IN KOREA

Mr. PASSMAN. On page 5 of your statement, you indicate the ROK military government has made great strides in reducing diversion, pilferage of military supplies and equipment. Illegal diversion is now about 5 percent of what it was a year ago. What was it a year ago?

Admiral HEINZ. These figures come from General Meloy, who has worked them out in connection with the Republic of Korea.

Mr. PASSMAN. Can you give us the totals?

Admiral HEINZ. An example of this is that during the first 6 months of 1961, Government property which was lost or stolen averaged monthly $142,000.

Mr. PASSMAN. What is that per year?

Admiral HEINZ. This would be at the rate of $1.4 million a year.

Mr. PASSMAN. $1,400,000 a year was being stolen.

Admiral HEINZ. Lost or stolen.

Mr. PASSMAN. You have 4 percent at one place, then for losses applied during transportation, about 10 percent of its previous rate.

Would that be included in this, or would it be another item?

Admiral HEINZ. Yes, sir, it would. The net loss, however, was $471,000.

Mr. PASSMAN. They stole $1.4 million but you recovered——

Admiral HEINZ. We recovered about $239,106. This was during the first 5 months. During the second 5 months this changed to a loss figure of $240,907, a recovery of $142,633, or a net loss of $98,274, which is about one-quarter.

You asked me for the figures which were the basis of my statement.

Military supplies illegally diverted in January 1961 were $4 million. I am sorry. It is in thousands, $40,000. This has gone down to $1,700 in September of 1961.

In the loss of military supplies during transportation, stuff taken off trucks and things of that nature, diverted, during December of 1960, it was $20,000; during September of 1961 it was $1,900. These are the charts showing this change, sir.

Mr. PASSMAN. We have been told that in some instances there had been so much military equipment stolen, the military was buying the equipment off the shelves of the Korean establishments. Have you heard that story?

Admiral HEINZ. I heard that story. I think it had a basis of fact, sir.

Mr. PASSMAN. Was that situation brought about by the fact that we had given the Koreans so much more equipment than they needed and they could not control it, or were some of the Koreans taking advantage of the situation and stealing the program blind?

Admiral HEINZ. It was more nearly the latter situation, sir. This is what has been changed.

Mr. PASSMAN. We are now converting them?

EFFORTS TO ELIMINATE CORRUPTION IN KOREA

Admiral HEINZ. The new government is converting them. The new government started out by saying, "We are against corruption in every phase of the Government." They put in stricter laws on diversion of military equipment, much more stringent punishments and for a theft of about $700 you could be executed. They executed three people right quick.

Mr. PASSMAN. It appears to be inexcusable that we would pour so much military equipment into a country such as that.

They steal it, put it on the shelves in the retail stores, and the military would buy their own equipment back off the shelves.

Admiral HEINZ. Another instance of this is the Government has examined all jeeps in the country, commercial jeeps and any which they could not prove legal ownership through normal commercial channels were confiscated by the Government. They confiscated over a thousand jeeps.

Mr. PASSMAN. Was this done by our personnel?

Admiral HEINZ. By the Korean Government, sir.

Mr. PASSMAN. I am glad they are improving.

CLASSIFICATION OF MILITARY PROGRAMS

Admiral, the request for country A is $——— in grant military aid. Why is the fact that we are giving military assistance to this country classified?

Admiral HEINZ. (Off the record.)

(Discussion off the record.)

Admiral HEINZ. For reasons, their authorities asked and we have agreed that the true nature of the program not be revealed publicly. Apart from political and diplomatic repercussions to be expected our violation of this understanding with them regarding classification of the program would, without doubt, jeopardize negotiations in progress for extension of the program on the same terms.

(Off the record.)

Mr. PASSMAN. I do not know whether we are fooling ourselves, trying to fool the Congress, or fooling the American people. In all probability the enemy gets this information before the ink dries.

(Classified information off the record.)

Mr. PASSMAN. Then we move right up to country B, where you give them four or five times the amount, and they do accept military aid. It is a package that is hard to understand.

(Off the record.)

Admiral HEINZ. It is about———.

Mr. PASSMAN. That is in local currency.

Admiral HEINZ. In local currency.

General PALMER. (Off the record.)

Mr. PASSMAN. That is calling a lemon an orange, is it not?

(Off the record.)

General PALMER. (Off the record.)

Mr. PASSMAN. Would that make us out liars if we came right down to define it, and we were on a witness stand doing this under oath?

General PALMER. I think technically not, Mr. Chairman, since there is——

(Discussion off the record.)

General PALMER. That is correct. This is a cold war.

Mr. PASSMAN. (Off the record.)

This is a neutral country, too, is it not?

General PALMER. This is a neutral. This is about the best we would hope, I imagine, that they would continue to be neutral and retain independence, but not come under Communist domination. That is the most hope we have for them. Would you agree with that, Mr. Sandri?

Mr. SANDRI. Yes, sir.

SOVIET BLOC ECONOMIC AID

Mr. PASSMAN. Are they getting aid from Russia?

Mr. SANDRI. Yes; from the Communist bloc.

Mr. PASSMAN. How much economic aid?

Admiral HEINZ. The last figure I saw they had ——— economic credits from the bloc, from Communist China.

Mr. PASSMAN. How about aid from Russia?

Mr. SANDRI. No, sir; at the moment just Red China.

Mr. PASSMAN. We were told 2 or 3 years ago about Russian aid. We pinned it down. (Off the record.) Are you familiar with that deal?

I wonder if this is just another one of those deals.

Mr. SANDRI. The Communist——

Mr. PASSMAN. Let us answer my question. You are familiar with this little love feast they had? (Off the record.)

Mr. SANDRI. I have heard of that.

Mr. PASSMAN. Are you familiar with it?

Mr. SANDRI. No, sir.

Mr. PASSMAN. Are you familiar with it?

Mr. ELLIS. I have heard of it.

Mr. PASSMAN. Do you know the details of it?

Mr. ELLIS. No, sir.

LOCAL CURRENCY PAYMENTS FROM BURMA

Mr. RHODES. Before you leave the matter of currency. Is the currency we get for military sales to Burma tied to some agreement as to how it can be spent?

Admiral HEINZ. The Burmese program is worked out specifically and in detail in an agreement between the authorities and Burma. A ceiling is placed on this. This program is then approved, coming through CINCPAC to Washington and is approved here.

Mr. RHODES. I am talking about the Burmese currency which we get in payment. What can we do with it?

Mr. SANDRI. I can answer that, sir. The payment by the Burmese was made to the Treasurer of the United States. It was deposited as

local currency in the United States. We do not have any agreement with the Burmese on how it will be spent.

It is a straight payment.

Mr. RHODES. Has any of it been used for payment of anything that you know of?

Mr. SANDRI. No, sir. That was made as a deposit to the United States for payment.

Mr. RHODES. Has the United States been able to use it for anything or it is just sitting there?

Mr. SANDRI. I imagine it is put in the Treasury with the other currencies we have. I am not aware of its use for anything.

Mr. RHODES. Are you aware as to quality of Burmese currency? Is it convertible? Can it be used for anything outside of Burma?

Mr. ELLIS. It is not convertible currency, Mr. Rhodes. I will check on the relative value. There has been a moderate rate of price inflation in Burma, about 5 percent per year, so the currency is deteriorating somewhat over time.

Mr. RHODES. Do you know what we have done with the currency which has been received by us?

Have we used any of it at all?

Mr. ELLIS. I do not know the facts on it.

Mr. RHODES. Could you get the history of the Burmese transactions and trace the Burmese payments, to find out whether they are still in the Treasury or whether they have been used for any other purpose?

Mr. SANDRI. Yes; we will furnish a statement on that, sir.

(The information requested follows:)

U.S. USE OF BURMESE LOCAL CURRENCY

Receipts of local currency from military equipment sales to the Burmese Government go to the Treasury where they are accounted for under the category "miscellaneous receipts." These funds are then available to meet Burmese currency requirements of various U.S. agencies.

Receipts thus far have amounted to 9,520,000 kyats ($2 million). Of this amount 470,000 kyats ($100,000) have been sold to the U.S. Army for Burmese currency expenditures. The current Treasury balance is 9,049,200 kyats ($1,927,412.14).

Mr. PASSMAN. (Discussion off the record.)

Mr. ALEXANDER. Would you yield, Mr. Chairman?

Mr. PASSMAN. When I get this point in the record I will be glad to yield.

If you will go to the budget for the fiscal year ending June 30, 1963, and turn to page 354 and look under ——— you will find that this is one country where we have an excess of local currencies, so chances are this is not of any more value than last Saturday's newspaper.

I yield to the gentleman.

Mr. ALEXANDER. (Discussion off the record.)

Mr. PASSMAN. Do you not think we are entitled to an answer, and do you not think the American people, Admiral, are entitled to an answer?

(Discussion off the record.)

Admiral HEINZ. Yes, sir.

Now, is this current——

Mr. PASSMAN. You say "Yes, sir," but you do not think we should have some explanation as to why?

The Congress has just about given up all of its prerogatives, but we have a few of them left and, until we give the remainder of them up, I think we have a right to know how these deals are entered into and why.

Admiral HEINZ. Yes, sir. I was going to explain this current one. (Reply off the record.)

Admiral HEINZ. The Ambassador has been asked to give the best estimate possible——

Mr. PASSMAN. From whom did he get his instructions to enter into such a deal?

Admiral HEINZ. The Ambassador is responsible for the overall condition of negotiations.

FOREIGN SALES AGREEMENT

Mr. PASSMAN. I would never have thought we would have gotten into a deal such as this.

(Discussion off the record.)

Mr. PASSMAN. I just want to be sure that we are not on a cold trail—about this new deal. (Off the record.)

General PALMER. This is a worldwide policy, Mr. Chairman——

Mr. PASSMAN. (Off the record.)

General PALMER. May I read an extract from the military assistance regulations?

Mr. PASSMAN. (Discussion off the record.)

Mr. PASSMAN. You may give them an aircraft for a sacrifice then?

Mr. SANDRI. Not exactly.

Mr. PASSMAN. Kind of like that, though?

Mr. SANDRI. (Reply off the record.)

Mr. PASSMAN. Well, now, of course, you gentlemen do not work this out. This comes from a higher echelon, does it not?

Admiral HEINZ. Yes, sir; the instruction given by the State Department to the Ambassador. (Balance of reply off the record.)

Mr. PASSMAN. I mean this information comes down from the higher authority to you gentlemen. You do not actually work this out yourselves.

Mr. TABER. Do you have the document?

Admiral HEINZ. No, sir.

Mr. SANDRI. No, sir.

Mr. PASSMAN. We do not want to be ugly about this, but we need two things: a copy of the document and then, without being facetious, to find out where and how these people learn to do such things in this manner.

(Information was submitted to the committee.)

General PALMER. May I say a word here?

Mr. PASSMAN. Surely.

General PALMER. (Off the record.)

Mr. PASSMAN. General, certainly the committee understands that. (Off the record.)

Mr. PASSMAN. That is right. Good news stays home, bad news travels.

(Discussion off the record.)

Mr. CONTE. (Statement classified.)

In some of these countries I have visited, especially in Africa where we have the same deal going, the members of the Cabinet I spoke to felt they were buying this for X amount of dollars and they owed nothing to the United States. I do not mind their telling another country, but when they have this feeling against us, this is not cricket.

Admiral HEINZ. (Off the record.)

Mr. PASSMAN. (Off the record.)

I believe there ought to be something in our report or the bill itself to the effect that no recipient, whether neutral or not, should be given equipment without knowing its value. (Off the record.)

PUBLIC LAW 480 CONTRACTS

Mr. CONTE. May I pursue this one step further?

Do we have any Public Law 480 contracts with this country A?

Mr. ELLIS. We have had in the past, Mr. Conte.

Mr. CONTE. Are they using that to support their military budget?

Mr. ELLIS. No.

Mr. CONTE. This is so in Korea and South Vietnam?

Admiral HEINZ. Yes.

CLASSIFICATION OF CURRENT COUNTRY DATA

I would state, Mr. Passman, that we have unclassified the annual programs for the countries and the comulative programs in the past. The current programs are what are classified.

Mr. PASSMAN. That we know, and we are going to change the names of the countries because we are only fooling ourselves. It just does not make sense. I do not think it is right and I think one of these days the American people will put their foot down.

If we are going to help people, let them stand up and be counted. (Off the record.)

Mr. CONTE. Mr. Chairman, I have one more question on country A. (Question and reply are off the record, due to classification.)

PUBLIC LAW 480 PROCEEDS UTILIZED FOR ECONOMIC AID ONLY

Mr. CONTE. Under the same justification, we have title I, Public Law 480, ——— million for 1962.

Mr. ELLIS. That is right, sir.

In specific answer to your previous question, none of the currency from that program out of previous years has gone into the military, at least from fiscal year 1961 to date. It has gone only into the economic program. They could not use this currency to make this payment.

Mr. PASSMAN. We have requested this information earlier on countries X–Y–Z.

Let us see a copy of the document.

(The document referred to was supplied to the committee.)

Mr. PASSMAN. (Off the record.)

CAMBODIA

PROPOSED FISCAL YEAR 1963 PROGRAM

Mr. PASSMAN. You have a program for Cambodia for fiscal year 1962 in the amount of ———.

Admiral HEINZ. For fiscal year 1963 ———.

Mr. PASSMAN. You are going to give us the information listing the unexpended funds by country, so there is really no use to go into a lot of that detail.

CONSTRUCTION PROGRAM

We would ask, though, what construction you are proposing in Cambodia for ———.

Admiral HEINZ. The construction for Cambodia is ——— for air bases, ——— for a naval base, and ——— for A. & E. services, which are engineering services.

SOVIET BLOC AID

Mr. PASSMAN. Is Cambodia receiving any type of military aid from the Sino-Soviet bloc?

Admiral HEINZ. To my knowledge they have received no military aid from the Sino-Soviet bloc in Cambodia. They have received some economic aid.

Mr. PASSMAN. In the way of loans?

Admiral HEINZ. As is usual, this might be credits or loans.

Mr. PASSMAN. I appreciate your fairness. It is credits.

Actually, it is not a gift, and I think that this year we will pin the fact down to where you could not loosen it with a crowbar, that the Russians are not giving away anything. They are entering into some hard-boiled loans, up to 12 years, and this is also true of the Chinese, except that they have shorter term loans.

Admiral HEINZ. These "credits" are a very amorphous group of things. In some cases they are very hard-boiled credits and you have to pay back next year. In other cases they may give no-interest credits and in other cases it may turn out to be a 5-percent or 2-percent credit.

Mr. PASSMAN. But they also barter, and Russia gets in and when they start paying it back they make them cut the price.

Admiral HEINZ. They cut the price in many cases and much of this credit turns out to be grant aid from the Communist bloc.

Mr. PASSMAN. Can you document that, "it turns out to be grant aid"?

Admiral HEINZ. No——

Mr. PASSMAN. Why would you want to make that statement, because it is indicated that there is very little grant aid? The majority of which, whether it is Chinese or Russian, is loans, some of it short term, some longer term. When they start paying these loans back, in perhaps agricultural or manufactured goods, then they negotiate a price which the Russians or the Chinese are going to pay; is that correct?

Admiral HEINZ. It is usually negotiated.

Mr. ELLIS. Cambodia has accepted approximately $65 million economic aid from the Sino-Soviet bloc. Nearly all of it has been on a grant basis. The Cambodians have been reluctant to accept loans from either bloc.

Mr. PASSMAN. Please pin down how much of it is grant aid. Where do you get your figures?

Mr. ELLIS. All but one credit from Czechoslovakia.

Mr. PASSMAN. When was the grant aid given?

Mr. ELLIS. Do you want a full listing of the $65 million?

Mr. PASSMAN. We surely do. Also, the source of your authority for making the blanket statement that it is grant aid? I do not believe the Secretary of State would make such a statement.

Mr. ELLIS. I cannot to the letter give the sum. I can give you some examples.

In 1956, they received $22 million for a textile plant, a plywood factory, a paper factory, and a cement plant.

Mr. PASSMAN. How do you know they did not enter mto some kind of barter agreement, such as they did with Burma?

Mr. ELLIS. I have no way of knowing that, sir, but I have no reason to think that they did.

Mr. PASSMAN. Then we will close that case, and ask the Secretary of State if he has changed his mind about it.

MILITARY EQUIPMENT PROGRAMED

How many carbines and rifles have been programed for Cambodia's forces?

Admiral HEINZ. We have programed over the years a total of ——— .30-caliber carbines, and ———.

Mr. PASSMAN. Do you not have also the .30-caliber rifles?

Admiral HEINZ. We have ——— .30-caliber rifles.

Mr. PASSMAN. They have ——— men under arms. That gives some of them two rifles, does it not? Would that not indicate there is a lot of surplus equipment which we are disposing of, just to get it off the shelf?

Admiral HEINZ. There is also a loss of this equipment over a period of years. If you recall, sir, they have about 58.4 percent overall in the Far East of usable equipment——

ASSIGNMENT OF INDIVIDUAL WEAPONS

Mr. PASSMAN. Actually, have you not provided more rifles than there are men to use them, if you had assigned one per man?

Admiral HEINZ. That is correct. However——

Mr. PASSMAN. If you take out of the ——— the number usually employed in messhalls and offices, and so forth, how many men would be available for combat?

Admiral HEINZ. Actually, of that number of ——— it would be hard to say how many of those——

Mr. PASSMAN. Would you use 50 percent of them?

Admiral HEINZ. No, sir. Of these forces, I would say all but about perhaps 5 percent would be issued an individual weapon.

Mr. PASSMAN. Admiral, how about our country? We have a million men in the military services. How many of them are employed possibly as chefs in your messes and in offices, and so on?

Admiral HEINZ. In our own service, in the Navy, very few people have individual weapons.

Mr. PASSMAN. These people are in the Army.

Admiral HEINZ. In the Marine Corps and in the Army almost all have individual weapons.

Mr. PASSMAN. Do you mean in the United States?

Admiral HEINZ. Excepting the clerks, the clerical people.

Mr. PASSMAN. These people would not be fighting a war back in their hometowns. Is it not true only about 60 percent would be equipped for combat at any one time?

Admiral HEINZ. I do not know. I would have to ask the Army. I will ask General Palmer.

General PALMER. Mr. Chairman, in the U.S. Army practically all of these overhead people such as cooks and clerks are equipped with individual weapons.

Mr. PASSMAN. Those back in the Pentagon?

General PALMER. They are required to shoot with them regularly, qualify and be ready to use the weapons.

Mr. PASSMAN. Really, is it not true that only about 62 to 63 percent of our troops could ever be in combat? The others are employed in offices and doing other types of work?

General PALMER. That is correct, but their organization still would have the weapons.

Mr. PASSMAN. They will not average over one rifle per man, will they?

General PALMER. They would not average over one a man.

Mr. PASSMAN. We are giving the Cambodians more than ———.

Admiral HEINZ. If we supply the serviceable equipment which is 59.8 percent, then they probably would have only ——— serviceable weapons for their ——— force and would need some more.

Mr. PASSMAN. You are not going to take one of these .30 caliber carbines or rifles, and ——— in ——— target practice wear that weapon out to the point that it is not usable. You cannot apply the same pattern to this as you would to some other item.

Admiral HEINZ. I would guess that the percentage is probably greater in the case of a rifle.

Mr. PASSMAN. I will not say that they are carrying a rifle on each shoulder. They might go that far, but I really would not think so.

FISCAL YEAR 1963 PROPOSED PROGRAM FOR REPUBLIC OF CHINA

You are requesting $——— for the Republic of China for fiscal year 1963.

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. That is classified information, is it not?

Admiral HEINZ. Yes, sir; all the requests for fiscal year 1963 are classified.

Mr. PASSMAN. You have a carryover credit of unexpended funds of $282,784,000 for Taiwan?

Admiral HEINZ. Yes, sir.

EFFECT OF DEOBLIGATED FUNDS

Mr. PASSMAN. You do have a reduction in military assistance for certain of these countries. We can reconcile that with the fact that the use of deobligated funds last year pushed the amount in excess of what the Congress appropriated. You received about $1.6 million but actually programed about $1.9 billion.

If you programed 1 year out of deobligated funds in excess of the funds the Congress made available, is it not only natural that you would have a lower program the following year?

General PALMER. No, sir; this program contains deobligated funds also.

Mr. PASSMAN. Not to the extent of the deobligated funds last year. You had $317 million last year. You are asking for about $205 million this year.

General PALMER. Yes, sir.

Mr. PASSMAN. The total program will be something like $200 million less, will it not, General?

We are dealing with $1.5 billion plus $205 million, which is about $1.7 billion; and last year actually, with your deobligated funds, you went up to about $1.9 billion. So, with an amount that far in excess of what the Congress allowed last year, should you not have a smaller program this year?

General PALMER. No, sir; that is entirely a question of how much——

Mr. PASSMAN. But you do have a smaller program?

General PALMER. That is correct, sir. We have requested this year $385 million less new obligational authority than was requested last year.

Mr. PASSMAN. I was trying to establish for the record that actually you obligated about $300 million more last year in funds than the Congress provided, and the $300 million came out of deobligated funds.

General PALMER. This is correct.

PROGRAM FOR THAILAND

Mr. PASSMAN. Do you have a program for Thailand for fiscal year 1963?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. Is the amount of funds classified?

Admiral HEINZ. The amount is classified.

Mr. PASSMAN. What amount do you have to the credit of Thailand in carryover funds?

Admiral HEINZ. $75,097,000.

Mr. PASSMAN. Has it reached the point that we are providing some of these countries with more military aid than they are providing out of their own economy?

Admiral HEINZ. Yes, sir; that is true.

Mr. PASSMAN. Do Cambodia and Thailand still get along just about in the manner that they have in the past 3 or 4 years?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. There has been no improvement in the relationship there?

Admiral HEINZ. It goes up and down. There has been progress since this case that has been in the World Court, the case of the temple. It has reached one more step where the Court is about to make a decision, but at the present time the relationships are still strained and they are off at the present time.

Mr. PASSMAN. There are two nations out in the Far East who broke off diplomatic relations several years ago, and we are supplying both of them military equipment. If they got mad enough they might take that equipment and fight each other?

Admiral HEINZ. It is possible.

PROGRAM IN COUNTRY X

Mr. PASSMAN. You have our lips sewed up on the amount to go to the so-called neutrals. You ask $——— for country X. You have an amount totaling $——— to that country's credit?

Admiral HEINZ. Yes, sir.

(Classified discussion, off the record.)

Mr. CONTE. (Discussion off the record.)

Admiral HEINZ. As to our assistance to one country, our assistance to country X, our desire to keep them both friendly to the West or allied to the West, and to keep country X from getting into the lap of the Communists, this has been a continuing problem with us, and a very difficult problem. (Off the record.)

Country X is very important strategically to the United States. To have this country open to the Communists as a part of the Communist bloc would be a great loss to the free world. This is the thing that we hope above all things in regard to this country; we have not been able to prevent Communist penetration there. We still hope to keep the political influence of country X as a neutral rather than as a Communist bloc member.

The program of deliveries to country X are controlled by the State Department, and they are under review right now in the State Department.

PUBLIC LAW 480 CONTRACTS WITH COUNTRY X

Mr. CONTE. Have we given any Public Law 480 commodities to country X?

Mr. ELLIS. Yes, sir. We planned an agreement this year of $———.

Mr. CONTE. This local currency generated as a result of Public Law 480 is being used for what?

Mr. ELLIS. It is being used to support economic programs.

Mr. CONTE. None of this is for military assistance?

Mr. ELLIS. Not this year nor planned for next year.

Mr. CONTE. One other question, Admiral, that perhaps should be directed to the State Department.

(Discussion off the record.)

ASSISTANCE TO COUNTRIES WITH CHANGING GOVERNMENTS

Mr. PASSMAN. I wonder if, in a moment of calmness, we would not sooner or later—and I hope sooner— reevaluate this world situation. For example, we are helping nation X today and they overthrow

their government, so we start supporting the government that overthrew a friendly government. Then they come along and kill a president who is friendly to us, and there is a new president, and then we turn around and start helping this new president. So, we have had just about as many leaders, including presidents, murdered and governments overthrown in this period, during which we have given away more than a hundred billion dollars, as in any other period of history.

It looks as if these people take our money and do what they want to, anyhow.

This situation looks very bad. It would appear that what we had hoped for is becoming dimmer all the time.

Now, here we are helping neutrals and even getting a little bit along in helping some of the people in behind the Iron Curtain.

I know we are trying to do the right thing, but I am just wondering if our wealth will be depleted before our objectives are reached. The progress is exceedingly slow, by any honest evaluation of our accomplishments.

Mr. CONTE. The thing that bothers me, Mr. Chairman, is that our foreign policy is against colonialism, we have been screaming this all over Africa, and to me this is the worst form of colonialism by the Indonesians trying to take over New Guinea. I am afraid we are going to support it.

Mr. PASSMAN. That appears to be the case.

Mr. ALEXANDER. We just had an election down in one of the countries in South America which supposedly is a democratic election. Now we are turning around and supporting just the opposite of the things we have been saying we believe in.

Mr. PASSMAN. Perhaps there is something the State Department would like to discuss.

TEXTILE MILLS

We had legislation a few years ago that made it possible for American industry, if they should decide to open up textile mills in country X, to receive guaranteed loans.

Did any of our American textile people ever open textile mills out there? It was a hot potato a few years ago.

Mr. SANDRI. I am not aware of any, sir.

Mr. PASSMAN. How about ———?

You relocated some of the people from another country in country X, and we financed a textile mill.

Mr. ELLIS. I would prefer to verify it.

Mr. PASSMAN. If you will, please do.

(The information requested, follows:)

TEXTILE MILLS

AID is not aware of any situation where the U.S. Government was involved in relocating people from ——— to country X and financing a textile mill for them. However, a Development Loan Fund agreement was signed in January 1959, which authorized ——— to ——— government to assist in the resettlement of emigrants from ———. This loan was primarily to meet housing requirements and in no way involved a textile mill.

The investment guarantee program of this agency has had no agreement with ——— which would permit the United States to guarantee American loans for this purpose. To AID's knowledge, no U.S. firm has started a textile venture in ———.

Mr. PASSMAN. I am sure you recall the discussion of a few years ago.

Mr. ALEXANDER. I surely do.

MAP FURNISHED TEXTILES

Mr. PASSMAN. At page 107 of the justifications for country X, one of the items listed is textiles.

What kind of textiles are we supplying to country X for the Army? We are talking about the military part of it now.

Admiral HEINZ. This would be under other military equipment. We give them personal equipment, clothing, textiles, and raw materials in the amount of $——— in the program. This would be uniforms.

Mr. PASSMAN. Raw materials would not be uniforms.

Admiral HEINZ. In this case it would be the finished material and not raw material.

Mr. PASSMAN. What would the raw materials be?

Admiral HEINZ. The raw materials would be other than textiles. I do not have the breakdown of the raw materials.

Mr. PASSMAN. What is the total?

Admiral HEINZ. The total in the program for clothing, textiles, and raw materials is $———.

Mr. PASSMAN. How much of that would be for uniforms and clothing?

Admiral HEINZ. Very close to the entire amount.

Mr. PASSMAN. If you do not have a breakdown, how would you know that to be so, Admiral?

Admiral HEINZ. I do not have a detailed breakdown, but generally our program in the clothing, textiles, and raw material has been primarily uniforms.

Mr. PASSMAN. The committee would like to know what kind of raw materials.

Mr. TABER. Is it steel, iron, lead, or zinc?

Mr. PASSMAN. If it is uniforms, you should have said uniforms, rather than textiles.

Admiral HEINZ. This category is used throughout the military assistance program: Clothing, textiles, and raw materials.

Mr. PASSMAN. That may be true, but we want to know what kind of raw materials.

Admiral HEINZ. We will supply this for the record.

Mr. PASSMAN. Would you try to get some information concerning this, and let us talk about it later today, tomorrow, or next week?

(The information was supplied to the committee.)

CONSTRUCTION EXPENSES

What construction will cost $———?

Admiral HEINZ. (Off the record.)

Mr. PASSMAN. Is that construction being done by an American engineering or contracting firm, or firms?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. Who sold them on the idea that they need it—the State Department, the Defense Department, or maybe an American businessman?

Admiral HEINZ. This is a need their armed forces have long felt. (Classified reply.)

Mr. PASSMAN. (Off the record.)

Admiral HEINZ. (Off the record.)

MILITARY EQUIPMENT FOR ECONOMIC DEVELOPMENT

Mr. PASSMAN. What is the dollar value to be furnished country X for community and economic development purposes?

Admiral HEINZ. The military assistance program does not provide specific equipment for economic development purposes. However, we attempt to give priority to equipment that can be used in this. An example of this is the equipment for an engineering battalion. This equipment can be used in communities' development projects.

Mr. PASSMAN. I am reading right out of the book, "primarily community and economic development."

CIVIL USE OF MILITARY ENGINEER EQUIPMENT

Admiral HEINZ. Yes, sir. This equipment is not programed to do this specific job. It is programed as military equipment, which an engineering battalion requires. This equipment will substantially assist those services to carry out their civic action responsibilities. The civic action is primarily community and economic development responsibilities.

In other words, an engineering battalion is very capable of carrying out community and economic development projects. They would do this with equipment which is part of their T.O. & E. of the engineering battalion.

General PALMER. Open up roads, for example, Mr. Chairman.

Mr. PASSMAN. Build schoolhouses, if necessary?

Admiral HEINZ. If necessary, yes.

Mr. PASSMAN. That is tied right into the military assistance program?

Admiral HEINZ. No, sir; it is not.

Mr. PASSMAN. It comes under the military assistance request.

Admiral HEINZ. We are not programing—in other words, we are programing material for the outfitting of an engineering battalion, say.

Mr. PASSMAN. But everything is relative. You could build a church out there and tie it into the military program if it permits some backstop service.

We are discussing the military assistance program, and out of the military assistance program you can construct these things we just mentioned?

Admiral HEINZ. They could use their equipment for this if the Army decided to do this.

Mr. PASSMAN. That is right. Build a schoolhouse or anything else they wanted to, if the Army decided to do it.

Mr. ALEXANDER. Mr. Chairman, would you yield right there?

Mr. PASSMAN. Surely.

EFFECT OF MULTIPLE SOURCES OF AID

Mr. ALEXANDER. Admiral, I know in your statement here, in general their Army, Navy, and Air Force has suffered somewhat from indigestion. Too much and too many types of equipment have been received from various sources. An insufficient number of trained personnel have been available to utilize or maintain the equipment properly and the supply logistics system itself has been inadequate. However, potentially effective measures have been taken by the ——— military to remedy this situation.

Have we been contributing to this?

Admiral HEINZ. No, sir. This is due to the great amount of other assistance given to them. I can give you a very good example of that:

(The example is classified.)

Admiral HEINZ. Our program is more on the basic equipment which they can use. We are not getting into this fancy stuff. In other words, when you get a program of, I believe it is around ——— worth of military assistance which comes pouring in as it does without any selectivity, just pouring it in, this is where they have gotten their indigestion.

Also, in the past they have purchased equipment from perhaps 10 or 12 different countries of the world. They have accumulated this stuff. Much of it is junk and they have, as a result, a very big logistics problem. (Off the record.)

We cannot solve the problem because they are getting some of their equipment too fast.

Mr. PASSMAN. If you should go back and read the record of a few years ago, some of the officials of Government before this committee, including representatives of the State Department, said we would never be placed in the position of providing aid to any country, any type of aid, simply because there was a threat that Russia would do likewise. In each and every instance, they said, the aid would be based upon the need. Now, in just about every paper you pick up, you read, "If we do not do it, the Russians will."

SCHOOL CONSTRUCTION UNDER MAP

In another nation in the Far East we see that 12,000 schoolhouses were built under the military assistance program. That is somewhat farfetched. It is on page 190, General.

A network of feeder roads is being built, and more than 12,000 schoolhouses have been erected.

We shall recess until 2 p.m.

AFTERNOON SESSION

JAPAN

Mr. PASSMAN. The committee will come to order.

For Japan you are requesting ——— for fiscal year 1963, and the unexpended balance credited to Japan is $190,393,000.

Admiral HEINZ. That is correct, sir.

Mr. PASSMAN. Earlier we requested information as to the years in which you made these obligations in the carryover funds. I suppose that information will be available, will it not?

Admiral HEINZ. Yes, sir. You have requested the information for each country.

KOREA

UNEXPENDED BALANCES

Mr. PASSMAN. For Korea, you are requesting ———. You have unexpended to the credit of Korea $413,865,000; is that correct?

Admiral HEINZ. That is correct, sir.

Mr. TABER. How much is unobligated?

General PALMER. This is all obligated; this $413,865,000, is all obligated or reserved.

Mr. TABER. Or reserved. I do not care about reserved funds. I was asking for obligated funds.

Admiral HEINZ. That amount was all obligated, to my knowledge, for specific items.

Mr. PASSMAN. We were told earlier, I believe by Secretary McNamara, that there would be $25 million unobligated. That would cover the entire program.

General PALMER. At the end of the fiscal year. That was an estimate.

ESTIMATED DEOBLIGATIONS IN FAR EAST AREA

Mr. PASSMAN. That is an estimate. With reasonably good breaks in the future, it may be that out of the total amount obligated or reserved a substantial part could be dereserved and deobligated, if past performance means anything. Would that apply also to Korea? You know you dereserved, or deobligated, squeezed out, or recouped, about $521 million during fiscal year 1962, with another $206 million projected into fiscal year 1963. It is too early to determine whether or not a small percentage or a large percentage of this could in subsequent years be dereserved or deobligated?

Admiral HEINZ. Yes, sir; it is.

Mr. PASSMAN. Would you try to ascertain the amount that was squeezed out in your region of this $521 million recoupment that General Palmer made during fiscal year 1962, with part of it carrying over into fiscal year 1963?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. Thank you.

CONSTRUCTION PROGRAM FOR KOREA

You have a construction program in Korea of ———. What is included, Admiral?

Admiral HEINZ. (Off the record.)

Mr. PASSMAN. Would you say that maybe you are asking the committee to buy this on faith, so far as your justifications are concerned, because the information just enumerated is not anywhere in the presentation?

Admiral HEINZ. In that the details of the program are always provided at your request, sir——

Mr. PASSMAN. Is it not a fact that if the committee does not request that detail it is very seldom, if ever, volunteered?

Admiral HEINZ. We are happy to volunteer whatever you wish.

Mr. PASSMAN. You cannot read our mind. Here you are asking for ———, and in your justification books you have one sentence: "This program includes the construction of urgently needed support facilities."

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. That is all, and without asking for additional detail, if we left it up to the justification, this one sentence would have been all that we would have had in support of this very large expenditure.

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. We like faith but we will not go that far with you.

U.N. FORCES SUPPORT FOR FISCAL YEAR 1963

What funds are requested for support of the U.N. forces in Korea?

Admiral HEINZ. ——— is the fiscal year 1963 requirement.

Mr. PASSMAN. How much was supplied through 1962?

Admiral HEINZ. $1.8 million was ——— the 1962 requirement, sir.

VEHICLE PROGRAM FOR FISCAL YEAR 1963

Mr. PASSMAN. How many trucks are you proposing to supply for 1963?

Admiral HEINZ. The vehicles for Korea for the fiscal year 1963 program are ———.

Mr. PASSMAN. Give it to us as a total, if you have it.

Admiral HEINZ. I have the total. It is ———.

Mr. PASSMAN. We have given about $——— out of prior-year appropriations.

General PALMER. That is approximately correct; yes, sir.

Admiral HEINZ. The program through 1962 is $———.

Mr. PASSMAN. Cumulative through 1962. That would be about $———, would it not?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. Where are you procuring these trucks?

Admiral HEINZ. In Japan, sir.

Mr. PASSMAN. All of them?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. Why?

Admiral HEINZ. The reason for that is the comparative price data.

PROCUREMENT OF VEHICLES FROM JAPAN VERSUS THE UNITED STATES

Mr. PASSMAN. You are procuring these trucks in Japan, and they are of Japanese make, for the reason that the price is cheaper?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. Would you give us for the record the comparable price for any of these trucks which could be bought in America?

Admiral HEINZ. On the one-quarter-ton jeep, from Japan the total is $1,542; for an M–38A1 United States, $3,268. The three-quarter-ton weapons carrier, from Japan, $2,389; the M–37 from the United States would cost $5,141; the 2½-ton cargo truck without winch in Japan is $4,169; the M–35 from the United States would cost $8,093; the 2½-ton dump truck from Japan is $4,920; the corresponding M–47 from the United States is $9,900.

These prices include concurrent spares and also the transportation.

Mr. PASSMAN. What would be the differential, percentagewise?

Admiral HEINZ. The differential percentagewise is approximately 50 percent, or less than 50 percent, generally.

Mr. PASSMAN. Could it be they are able to provide these trucks 50 percent cheaper than you could procure them in America simply because of the generosity of America, that we are subsidizing not only Korea but the nation that is building the trucks, and to be able to have the money to continue the generosity we must squeeze out $137 million in taxes?

Admiral HEINZ. I believe the main difference is the labor cost, sir, and there is also a difference in transportation. On a quarter-ton jeep for instance, you save approximately $150 in transportation as well as $1,300 in the vehicle base price.

Mr. PASSMAN. What is the Japanese labor cost on a one-quarter-ton truck? Do you have that information?

Admiral HEINZ. I do not have that breakdown.

Mr. PASSMAN. This is quite a disheartening situation, that we have reached the point where some of these nations can furnish the equivalent of our trucks for 50 percent of our cost.

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. In all probability a good part of the steel and component parts of this truck are bought in America. They have to pay the transportation all the way to Japan before the trucks are manufactured and assembled?

Admiral HEINZ. I do not know where the Japanese get the majority of their ore or scrap. I believe they are getting their scrap worldwide.

Mr. PASSMAN. A good part of it would come from America.

Admiral HEINZ. Normally they have gotten a good deal of scrap. I read an item in the paper a while ago that the scrap prices were down because the Japanese were not buying scrap.

Mr. PASSMAN. You can buy steel from Japan delivered dockside at New Orleans for $66.33 a ton less than you can buy it out of Pittsburgh.

BALANCE-OF-PAYMENTS PROBLEM

Mr. ELLIS. If I may comment on Japanese trade with the United States, in calendar year 1961, they ran a deficit of $685 million with the United States. Japan, as you know, is our second largest customer and in their total balance-of-payments picture, their situation with the United States is acutely unfavorable. This has largely accounted for the sharp balance-of-payments problem in Japan.

Mr. PASSMAN. You had better consider that worldwide, because if you go back for a period of 10 years, we have had a very substantial balance-of-payments deficit for each and every one of those years, with the exception of 1 year in which we had a half-billion-dollar favorable balance of payments, and our net balance-of-payments deficit for the past 10 years amounts to $19,600 million. The first quarter of this year indicates that it will be even worse. We have to think about this thing worldwide, inasmuch as our generosity is worldwide.

PHILIPPINES

For the Philippines you are asking for $——— for fiscal 1963. You have an unexpended balance to the credit of the Philippines in the amount of $27,837,000 from prior years.

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. Give us the same type of information for the Philippines as we asked for the other countries.

Admiral HEINZ. We will.

(The information was supplied to the committee.)

MILITARY ASSISTANCE TO PHILIPPINE CIVIC ACTION PROJECTS

Mr. PASSMAN. This is a country for which we would like to have a little detail. The fiscal year 1963 military program also will assist the Filipino Armed Forces in carrying out their civic action responsibilities. The AFP engages in several activities such as community or rural development, agricultural, construction, et cetera; a network of feeder roads already is being built and more than 12,000 schoolhouses have been erected.

The Philippine Government is being encouraged to maintain adequate engineering equipment and well-trained, completely staffed engineering units whose peacetime training activities would be related principally to civil action.

We are not complaining about the need for schools, but does this not represent a substantial amount of the military allocation?

Admiral HEINZ. No, sir.

Mr. PASSMAN. What is the cost of the 12,000 schoolhouses?

Admiral HEINZ. The 12,000 schoolhouses is something that the Philippines have built. The military assistance program has not contributed to the schoolhouses.

Mr. PASSMAN. How can you discount what is in this paragraph? "More than 12,000 schoolhouses have been erected."

Admiral HEINZ. But not at the expense of the military assistance program.

Mr. PASSMAN. What is it doing in the military category?

Admiral HEINZ. We are speaking of the civic action program.

Mr. PASSMAN. Is that out of the military appropriation?

Admiral HEINZ. A civic action program is the program of indigenous forces to assist the development of their country and to attempt to identify the armed forces as being for the protection of the citizens of the country.

It involves the use of the labor of the armed forces, the use of their skills, and in many cases the use of their equipment to do civic action projects. It does not involve the use of MAP material consumables expended for this program as such.

Mr. PASSMAN. Then, in reality, there is no way to pin down the actual cost out of the military for the accomplishment of this program? You are using military personnel, being paid for out of the military appropriation, to do this civilian type of work?

Admiral HEINZ. Paying out of the Philippine military appropriation?

In the Philippines as I said before, the Philippine Government has requested that we give priority to the construction equipment, the equipment that we program so that they may use that.

Mr. PASSMAN. It is being used for this purpose?

Admiral HEINZ. The equipment is, yes.

Mr. PASSMAN. If it wears out, then, of course, you have to replace it from military appropriations.

Admiral HEINZ. Actually the civic action concept as we apply it in the Far East encompasses a variety of activities by the local military forces—health, sanitation, in some cases basic education, irrigation, public information, and related techniques.

Mr. PASSMAN. But if it wears out building these civilian projects you must have a new military appropriation to replace the equipment?

Admiral HEINZ. That is a fair statement, sir.

Mr. PASSMAN. That does not make it any less complicated, does it, as far as arriving at the actual cost?

Admiral HEINZ. No, sir. We feel that if the Army is helping in the development of this country in this regard it is very much in the country's interest and in our interest.

Mr. PASSMAN. It would only follow that they would requisition additional equipment, because they recognize it will be worn out quicker than if they use it only for military construction. Without the civilian construction part of it, naturally they would request less equipment and the military cost would be less.

Admiral HEINZ. Well, also the training is important. In other words, this gives in many cases construction troops are actually involved in something useful rather than just make-work projects.

Mr. PASSMAN. You do not build many schoolhouses if you are shooting out there?

Admiral HEINZ. No, sir.

General PALMER. May I point out, sir, that this activity is encouraged by the Congress and written into section 505 of the law.

(Discussion off the record.)

Mr. PASSMAN. You do not know whether there will be any more recoveries, or deobligations, out of the Philippines until you have had more experience?

Admiral HEINZ. That is correct, sir.

Mr. PASSMAN. Your justifications this year are being presented on the same basis as they have been presented in prior years?

Admiral HEINZ. In the Philippines.

Mr. PASSMAN. For that matter, the entire group of them? You follow the same general type of justifications?

Admiral HEINZ. The same general type. We feel we have a more intense need for insurance in Vietnam this year than we had last year.

FLEXIBILITY FEATURES OF FISCAL YEAR 1963 PROGRAM

Mr. PASSMAN. We discussed yesterday a subject that indicated a substantial amount in the appropriation for "flexibility." I think maybe the record backed us up on that.

What amount do you have in your program over there for the flexibility feature, overall?

Admiral HEINZ. We have a special southeast Asia program for $———.

Mr. PASSMAN. That comes in the flexibility part of it?

Admiral HEINZ. This has been placed in here as I mentioned in the statement for generally unforeseeable but unprogramed items. We feel this will be needed for Vietnam.

Mr. PASSMAN. It may, or may not, be used?

Admiral HEINZ. It probably will be. I cannot say now. I cannot give you definite information now.

Mr. PASSMAN. But it may not be used?

Admiral HEINZ. It may not be.

Mr. PASSMAN. That is your "flexibility" amount for the total area, $———.

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. It could be, or could not be, that you will use it?

Admiral HEINZ. Since the book has gone to print we have gotten additional figures from Vietnam which indicates a large part of it will be required due to the changing nature of the situation.

Mr. PASSMAN. When you put that ——— flexibility item in there were things serious in Vietnam, or have they grown more serious since then?

Admiral HEINZ. I think the situation has not changed too much in the past 2 or 3 months insofar as the seriousness is concerned. (Off the record.) We find this buildup of the Vietnamese forces as well as the Viet Cong forces.

Mr. PASSMAN. What sum do you have for Vietnam this year?

Admiral HEINZ. For Vietnam the program that is specific is ———.

Mr. PASSMAN. With $142 million carryover?

Admiral HEINZ. With $——— in the special southeast Asia program, most of which will be required for Vietnam.

Mr. PASSMAN. This flexibility item of $———, or if we might put a different label on it, "pie in the sky" figure, may also be used in Vietnam?

Admiral HEINZ. Yes, sir.

General PALMER. I think you are probably going to say the same thing I was, that the 1962 program finances an active war going on with fighting and we have only programed in detail for Vietnam $———. That is why the extra money is needed there.

Mr. PASSMAN. But you have no plan for the extra money. It is put in in case you need it, and you may need it.

General PALMER. With a hot war going on you certainly will need it. Nobody wants to say months ahead of time exactly what supplies he will need in a hot war.

Mr. PASSMAN. You do not know whether you will need $——— or $——— or $———.

General PALMER. We know it will be closer to $——— than $———.

Mr. PASSMAN. You have some more excuse for flexibility in there than in some of the areas we discussed yesterday.

General PALMER. What we discussed yesterday had to do with base right negotiations that are coming up.

Mr. PASSMAN. You still had the flexibility, and the justifications indicated the flexibility.

General PALMER. This is correct.

We have not yet engaged in negotiations.

Mr. PASSMAN. You try to get there before you travel the distance. You put the money in and reserve it even before you have the negotiations. That is trying to pick cotton before you plant the seed.

Mr. FORD. I have a question in reference to the Philippines which I would like to ask at this time.

PROGRAMING OF MILITARY EXCESS STOCKS

Under the heading "Items,"——

Admiral HEINZ. Yes, sir.

Mr. FORD. Are these new purchases or are these from our own forces?

Admiral HEINZ. These are surplus equipment and the cost to the program is the rehabilitation cost, plus whatever transportation cost is involved.

You will notice that we have ——— aircraft programed under excess stocks.

Mr. FORD. ——— for the Philippines. Perhaps at this point in the record it might be well to indicate how many ——— you are using for worldwide programs.

Mr. COMER. There are ———.

Mr. FORD. They are all declared surplus by the Department of Defense?

What price are you paying?

Admiral HEINZ. We are paying no price for them, sir. They are excess to the military department needs and the cost to the military assistance is that of rehabilitation.

REHABILITATION COSTS

Mr. FORD. What are you estimating for rehabilitation per aircraft?

Admiral HEINZ. Approximately $———.

Mr. TABER. For each one?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. If the gentleman will yield?

Mr. FORD. Yes, sir.

Mr. PASSMAN. In that same connection yesterday, I believe we established that, across the board, the average rehabilitation cost was around 27 percent for aircraft. What percentage would the $——— be of the original acquisition cost?

Admiral HEINZ. The acquisition cost for a ——— is approximately $———.

Mr. FORD. These are being configured in what way?

Admiral HEINZ. These would not be configured to any new mission for the Philippines. They would remain as ——— aircraft.

Mr. FORD. This is a pretty substantial overhaul or rehabilitation, is it not?

Admiral HEINZ. I cannot justify the cost for a ———. This cost was given in the listing of deliveries. This is a figure I was looking at this morning coming over here to the hearing.

Mr. FORD. You are not changing the configuration. You are simply rehabilitating each of these ———.

Admiral HEINZ. Yes. It would involve an almost as new issue of the aircraft, almost new condition.

Mr. FORD. Where are you having this rehabilitation done?

Admiral HEINZ. This will be done in the United States.

Mr. FORD. Are you doing it by competitive bids or are you doing it through Government operations?

Admiral HEINZ. Government operations.

Mr. FORD. By whom?

Captain WAYNE. This is done under contract. The last time I was aware it was done by the AVCO people in Memphis, Tenn.

Mr. FORD. It is under competitive bid basis?

Captain WAYNE. I presume it is.

Mr. FORD. Let's find out for sure whether it is competitively done or by any other means.

Captain WAYNE. Yes, sir.

Mr. FORD. Let us find out the date of the last contract.

(The information requested follows:)

Generally, contracts for the rehabilitation of all aircraft for MAP, including C–47 aircraft, are let as a result of competitive bidding. However, whenever requirement urgency dictates, as determined by directives received from responsible higher authority, contracts are let on a sole source or selected list basis. Urgent requirements are those which require the accomplishment of work on aircraft with established delivery to country dates, such, that sufficient time for competitive bidding is not allowed.

The most recent MAP C–47 aircraft rehabilitation contract, USAF contract No. AF 90(60338976) for the rehabilitation of seven C–47 aircraft was let to Air International, Miami, Fla., on February 13, 1962. The contract method used was sole source due to the short delivery to country dates (May 15, 1962, for four aircraft and "as soon as possible but not later than August 1962" for the other three aircraft) and the proven reliability and quality workmanship of the contractor. The negotiated cost per aircraft (rehabilitation only) is:

Labor	$62,000.00
Materials	13,000.00
Centrally procured items	32,000.00
Total unit cost	107,000.00

The present average cost of rehabilitation of C–47 aircraft is $97,235. This figure is used for programing purposes.

DISTRIBUTION OF SURPLUS AIRCRAFT

Mr. FORD. Was the number ——— determined on the basis of your need or on the availability of the aircraft, or on what basis?

Captain WAYNE. ——— is a worldwide figure. The Admiral can speak to this.

Admiral HEINZ. The numbers to the countries in the Far East have been determined according to the size of the program, the need of the country and the availability of aircraft for the program.

(Off the record.)

Since we have an overall ceiling on the program, it was possible for that program to include—I am using this as an example—six ——— and three helicopters or three helicopters and ——— depending on the costs and the needs of the country.

In the Far East we have (off the record.)

Mr. FORD. Are there any other aircraft listed in the case of the Philippines that are in the category of surplus?

Captain WAYNE. Yes.

Admiral HEINZ. We have ——— aircraft scheduled for the Philippines from excess stocks.

Mr. FORD. I do not see them listed here.

Captain WAYNE. That list does not include all the major items or key items.

Mr. FORD. The ——— is a fairly substantial item and there are ——— that you mentioned. It does not seem substantially different than some of the other items which are listed here. You have ———.

Admiral HEINZ. I cannot say why they were not listed under the items.

Mr. FORD. How do you determine what are listed and what are not listed?

Admiral HEINZ. In general we try to list all those items which would in themselves indicate major items in the program.

I would think the ——— should have been included in that list.

Mr. FORD. I would think so.

Mr. TABER. Are you going to put it in the record?

Admiral HEINZ. It is in the record, sir.

LACK OF DETAILED COUNTRY JUSTIFICATIONS

Mr. FORD. Does the committee have, Mr. Chairman, a list of the items which are not so listed in the justifications or a complete and total list including those that are in the justification on a per country basis?

Mr. PASSMAN. We do not have such a list. Along the way, we have occasionally filled in detail on maybe a certain group or certain country. I think we were in accord ——— yesterday that, if we should go as far into the examination as I did on several items we would be here until Christmas, because we are making funds available primarily on faith rather than on justifications. That would apply to the detail. So, I think that maybe we should indicate again, at this point, that some of the witnesses indicated yesterday that the rehabilitation cost amounted to about 20 percent of the original acquisition cost.

WIDE VARIANCE OF REHABILITATION COSTS

General Palmer then came up with an estimate of about 27 percent for aircraft.

Now, here we are running into a rehabilitation cost of 40 percent of the acquisition cost. We should reconcile the difference between 27 percent worldwide and 40 percent for the ———. Do you think that is a valid point, General?

General PALMER. Entirely.

Mr. PASSMAN. Could it be that maybe this is an estimate, or as Mr. Ford indicates, maybe this is one that got by without a competitive bid? Your figures yesterday were very much to the point.

General PALMER. The statement I made yesterday was as follows: "The variation and rehabilitation cost is wide. It is generally 1 percent for ammunition items, for weapons it averages 20 percent, for aircraft it averages 27 percent."

Mr. PASSMAN. Thank you.

Mr. Ford made a valid point to check on the competitiveness, and whether or not the work was accomplished by competitive bidding. You are dealing with one of the least complicated aircraft when you deal with the ———.

You will give us some information relative to the wide range of rehabilitation costs?

General PALMER. We will be glad to give it to you, Mr. Chairman.

Mr. FORD. Off the record.

(Discussion off the record.)

Mr. MONTOYA. On this ——— what would be the rehabilitation cost?

General PALMER. For the ——— the rehabilitation cost is $———.

Mr. MONTOYA. What is the acquisition cost?

Admiral HEINZ. The acquisition cost is $———.

Mr. MONTOYA. The rehabilitation is close to 50 percent.

Admiral HEINZ. Yes, sir.

Mr. MONTOYA. With respect to the other items under the heading of the Philippines——

Mr. FORD. May I interrupt there? Wouldn't it be well to see whether there is a competitive bid involved in the rehabilitation in this instance as in the others?

Mr. MONTOYA. Will you answer that question?

Captain WAYNE. You are talking, gentlemen, about the 1963 program, which is not approved nor funded so whether there is a bid out for ——— in 1963——

Mr. PASSMAN. If the gentleman will yield, would that not be a clear indication that you have put in a high estimate? General Palmer came up with a positive figure yesterday of around 27 percent. Here you are working up to 50 percent. Now you say it is an estimate, and you do not have a firm bid. I wonder if you might want to check those figures again. You have 40 percent on one ——— and the ——— you get up to 50 percent.

Mr. FORD. We might ask them to put in the record their past experience, whether or not they have in the past had competitive bids or whether or not these figures you are using are predicated on those figures.

Admiral HEINZ. These are February 22, 1962, figures for rehabilitation.

Mr. PASSMAN. Please reconcile that estimate with General Palmer. He has been giving up some rather accurate information for 3 years, and there is a lot of difference between 27 and 40 and 27 and 50.

General PALMER. May we submit this information for the record, as Mr. Ford has requested?

(The information referred to follows:)

The programed costs per unit for rehabilitation of excess aircraft in the fiscal year 1963 MAP compare with original acquisition costs as follows:

Type aircraft	Acquisition cost (each)	Rehabilitation cost (each)	Rehabilitation as percent of acquisition cost	Fiscal year 1963 program quantity
F–84F	$769,330	$75,698	9.8	30
F–86F	211,111	89,192	42.2	21
F–86D	343,839	107,585	31.3	3
F–86L	343,839	108,714	31.6	1
C–47	95,466	97,235	101.8	44
H–13G/H	30,811	8,600	27.9	18
T–28A	123,413	20,438	16.6	7
T–33A	122,810	60,800	49.5	13

Based on the quantities of each aircraft in the fiscal year 1963 program, the average percentage is 27 percent.

The principal reason for the wide variation in the cost of rehabilitation as a percentage of original acquisition cost is the wage and price level prevailing at the time of original acquisition. The last procurement of the C–47 (the commercial version of which is the DC–3), for example, was about 15 years ago at a

cost of $95,466 whereas the procurement cost today of the AC–1 Caribou, a roughly comparable aircraft, is $650,000. Repair parts and labor required for rehabilitation must be paid for at today's price levels.

Other factors affecting rehabilitation costs are the complexity of the item and its age (e.g. the T–28A is less complex than the T–33A, the F–86D and F–86L have more electronics gear than the F–86F, the C–47 requires more extensive rehabilitation because of its age).

The unit cost estimates used in programing for rehabilitation of excess items, like the estimated costs for new procurement, are developed by the military departments based on recent experience in actual procurement. New procurement and rehabilitation of materiel for MAP are accomplished by the military departments under the same procurement regulations which govern procurement for their own accounts. Normally, this requires competitive bidding. In some cases rehabilitation may be accomplished at a Government installation and costs are charged in accordance with standard DOD industrial accounting practice. When priority delivery is required and the delivery deadline does not allow sufficient time for competitive bidding, contracts may be let on a sole source or selected list basis.

Mr. PASSMAN. All right, sir.

SURPLUS AIRCRAFT DISTRIBUTION

Mr. MONTOYA. Will you list country by country the surplus aircraft which you are giving to each country on the original acquisition cost and rehabilitation cost for each aircraft in the Far East section?

Mr. PASSMAN. Would you make that request worldwide?

Mr. MONTOYA. All right.

Captain WAYNE. You want it for the record?

Mr. PASSMAN. Yes.

(The information requested was subsequently furnished to the committee.)

Mr. PASSMAN. Yesterday we were given direct information, 27 percent, and we figured that was it. Now, since we find different figures here, it seems well to look at it worldwide, and see what the averages would be, and why there is any need for it to be higher here. This is only an estimate of what the contract may be; is that correct?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. I think you might possibly find you have got about twice as much in there as you need, or pretty close to it. Of course, we realize we would recoup that in future years by this squeezeout program, in the manner that half a billion was picked up this year.

Let us fix it so that you will not have so much squeezeout in the future.

THAILAND

Mr. PASSMAN. For Thailand you are requesting ——— for fiscal year 1963. You have $75,097,000 unexpended to the credit of Thailand from prior years appropriations?

Admiral HEINZ. That is correct.

Mr. PASSMAN. Of course, we will want the same type of information on this as on the others. That is, when you obligated the funds, what it is obligated for, and by year.

You will also give us the amount you have lost through deobligations. We want it on all these countries.

(Information was supplied to committee.)

Mr. PASSMAN. On page 194, Admiral, you indicate the program for this country. Do you have any idea as to when this program will be activated?

Admiral HEINZ. My own estimate is that the Thai would be ready for this program in perhaps 2 years—2 or 3 years. Again, whether this would be in the program at that time would also depend upon the situation 2 years from now as to whether you would have priority of delivery of the available ——— program.

Mr. PASSMAN. But you do indicate a program for Thailand in the justifications?

Admiral HEINZ. We indicate these are building up to this capability.

Mr. PASSMAN. Are we to ignore it completely or say that this is something in the making? The item is indicated in the justifications.

Admiral HEINZ. There are no funds for the program nor would we go into any program without first requesting funds for it. We have given no indication to the Thai that we will give them ———.

Mr. PASSMAN. In the justifications you say you will deliver additional ——— in 1963—

The program will give the Thai the capability and support in the interim, pending eventual development of ———

You say to the point "pending eventual development."

Does that mean what it says?

Admiral HEINZ. Speaking militarily I would like to see ——— capability in Thailand right now.

Mr. PASSMAN. We are trying to pin down whether or not you have a program in the making; and, if so, what is the future estimated cost to the United States? That is what we are trying to arrive at.

Admiral HEINZ. The ——— as you know is an expensive ——— and this is a program which we cannot justify programing for the Thai at this time.

If the military assistance program is to continue, it will be highly desirable to give them one in the future. Again, we are thinking of future possibilities and capabilities, not on any commitment basis whatsoever.

Mr. PASSMAN. You said about 2 years?

Admiral HEINZ. This is my own estimate.

Mr. PASSMAN. Which means that you would have to be making some progress toward your program at this time, would you not? Back on the blackboard in the United States, we are talking about, not with the Thai Government. You must have had some discussions of this program or it would not have been in the justifications.

Admiral HEINZ. We had no discussions with the Thai.

Mr. PASSMAN. Not with the Thai, but here in America?

Admiral HEINZ. Yes; again thinking in the future as to where the program might lead.

Mr. PASSMAN. How many and at what cost? Have you reached that stage?

Admiral HEINZ. We have not.

Mr. PASSMAN. You know that you are considering a program, but you could not have gone too far in the consideration because you do not have any estimate as to what the cost may be. Anyway, that is in the future.

CONSTRUCTION PROGRAM IN THAILAND

You are proposing a construction program of ——— in Thailand. What items are included?

Admiral HEINZ. In Thailand that construction cost is broken down as follows——

Mr. PASSMAN. Where will we find that information in your justifications?

Admiral HEINZ. These are details.

Mr. PASSMAN. Do you have them in the justifications?

Admiral HEINZ. They are not in the justification books.

Mr. PASSMAN. It is a faith item, unless we are alert enough to ask for the detail. We cannot ask for it on every item. You have thousands of pages and more thousands of items. On this one let us find out what it is.

Admiral HEINZ. Fleet facilities and housing, ———.

Mr. PASSMAN. What kind of housing?

Admiral HEINZ. This would be housing for naval personnel; it would be barracks.

Mr. PASSMAN. For U.S. or Thai personnel?

Admiral HEINZ. Thai personnel.

This is in the port (off the record).

Mr. PASSMAN. How many houses are involved?

Admiral HEINZ. The number of barracks involved in this I cannot say.

Mr. PASSMAN. You would not know how much per unit it would cost?

Admiral HEINZ. No, sir.

Mr. PASSMAN. You just have a figure in there for it. What else?

ARCHITECTURAL AND ENGINEERING SERVICES

Admiral HEINZ. For A. & E. services ———, for the Royal Thai Army ———; improvement of facilities at ——— and ———, A. & E. services, ———; U.S. Government administrative costs in connection with construction ———; facilities improvement at ——— .

Mr. PASSMAN. What is A. & E.?

Admiral HEINZ. Architectural and engineering. This is required before any construction project is undertaken. This is ———.

Mr. PASSMAN. $——— for architectural and engineering. Would we not need to know the number of housing units, or barracks units, and the estimated total cost before we could arrive at whether or not this figure is excessive? Would you not need the same type of information?

Admiral HEINZ. Yes, sir.

In other words, before any contract—well, the A. & E. services, the engineers determine what they figure will be the approximate value of architectural and engineering services for any project.

Mr. PASSMAN. What will the $——— for A. & E. apply to; just the housing?

Admiral HEINZ. This will apply to a multitude of construction projects in Thailand, most of them projects which we hope to fund in the future.

Mr. PASSMAN. What would the percentage of this be, of the estimated expenditure for the total project?

Admiral HEINZ. My guess is——

Mr. PASSMAN. We do not want a guess. You either have the information or you do not. Do you know the total cost?

Admiral HEINZ. I do not have the exact information.

Mr. PASSMAN. So, it would be strictly guessing?

Admiral HEINZ. Normally A. & E. runs from 5 to 10 percent of the total project.

Mr. PASSMAN. Why such a spread? You go from 5 to 10.

Admiral HEINZ. The engineers tell me this depends on the type of project.

Mr. PASSMAN. Six percent is the average in America, or at least in Louisiana, for that type service.

Admiral HEINZ. I do not know, sir.

Mr. PASSMAN. Are you using Thai architects and engineers or Americans?

Admiral HEINZ. Normally these would be Thais.

Mr. PASSMAN. But there would also be Americans?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. Do you know what firms we have been using in that region?

Admiral HEINZ. I do not.

Mr. PASSMAN. Could you find out for us the ultimate cost of this housing project, what the first slice would be, and when you would expect to complete it?

Admiral HEINZ. Yes, sir. I will find that and submit it for the record.

(The requested information follows:)

The fiscal year 1963 MAP architectural and engineering (A. & E.) request $——— is in connection with the construction of facilities and housing at a naval base. The ultimate cost of this project is estimated to be $6 million. Funds to finance the construction by local contractors will come fram Thailand sources and counterpart funds (administered by USOM). MAP is supporting the A. & E. charges. It is estimated that the construction costs in connection with the first element will total $900,000. The total project, to which the United States has no commitment, will include—

Barracks and messing facilities for 786 men.
Warehouse—400-ton capacity.
BOQ for 100 officers.
Officer and NCO quarters.
Roads, utilities, motor shed.

All quarters and barracks will be constructed of wood and they will be built in accordance with standards existing in Thailand.

CONSTRUCTION OF OTHER FACILITIES

Armiral HEINZ. Facilities and improvements at ——— and——

Mr. PASSMAN. What kind of facilities?

Admiral HEINZ. These are improvements to the airfields.

Mr. PASSMAN. Is that just one slice now, for the beginning of an expensive project?

Admiral HEINZ. This is part of overall improvements to ——— and ———.

Mr. PASSMAN. What amount have we spent on those facilities in the past?

Admiral HEINZ. I do not have that information.

Mr. PASSMAN. Can you anticipate the ultimate cost, for which this request is only a part?

Admiral HEINZ. Yes, sir; I could. As I recall, and again I am trying to recall this total figure, the program that we would like for one of these airfields, and these, again, are major airfields in Thailand, would run probably around $———. This includes ——— installations, air runway installations, fuel, control, all things of that nature, to make it into a good military airfield.

HOUSING PROJECT IN THAILAND

Mr. PASSMAN. What type of housing is that, Admiral?

Admiral HEINZ. In this case it is barracks.

Mr. PASSMAN. Is it the type of barracks to which they have been accustomed?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. Where do you have facilities similar to this?

Admiral HEINZ. There is no naval facility that I know of similar ———. Unfortunately, ———, which is an excellent port, has practically no facilities ashore.

(Off the record.)

Admiral HEINZ. It requires housing for the people down there to make even a minimal naval base facility out of it.

Mr. PASSMAN. Why do you want to move it?

Admiral HEINZ (reply off the record).

Mr. PASSMAN. Do the Thai officials agree with you?

Admiral HEINZ. They do, but they are hampered by a law in Thailand which states that every time a soldier, sailor, or airman is away from home overnight it costs them per diem. If the Navy goes to sea, they have to pay their Navy per diem.

Mr. PASSMAN. Do we have to pay the per diem?

Admiral HEINZ. No. They pay it. They pay all their salaries.

Mr. PASSMAN. They get the money, at least indirectly, from us, though? They had a very small Navy there until about 4 years ago.

Admiral HEINZ. They still have a relatively small Navy. (Off the record.)

Mr. MONTOYA. Will the chairman yield at this point?

Mr. PASSMAN. Of course.

ARCHITECTURAL AND ENGINEERING FEES IN FISCAL YEAR 1962

Mr. MONTOYA. What was the amount you had for A. & E. expense during the current fiscal year?

Captain WAYNE. I will give you these in pieces. Military road A. & E. comes to $——— plus $——— and A. & E. for ——— stations comes to $——— and A. & E. in connection with the ——— comes to $———.

Mr. MONTOYA. What is ———.

Admiral HEINZ. (Off the record.) A. & E. facilities, improvement comes to $——— and for the royal Thai Army post expansion, A. & E. is $——— and A. & E. services at ——— is $——— and A. & E. for ——— is $———.

That covers the 1962 program.

Mr. PASSMAN. Do you have the total for those items?

Captain WAYNE. I can total it for you.

Mr. MONTOYA. That would total more or less $———.

Mr. PASSMAN. That would lead into $——— in expenditures, at 5 percent, would it not?

Where do we find that information detailed in your justifications? Is it included?

Captain WAYNE. No, sir.

A. & E. FEES FOR PLANNED CONSTRUCTION PROJECTS

Mr. MONTOYA. If you went into that much A. & E. expense during the current fiscal year, it stands to reason that if you are following the plan which you have projected for the requested A. & E. expense in next year's budget that you are planning ahead in construction during this current year. Now you are using $——— of your request for the next fiscal year to project further expansion; is that correct? It will not be to service the $——— item for construction which you have listed in the budget request?

Captain WAYNE. Some of these A. & E. services are for items which you have not started to work on. Others are for items which you are actually working on. In other words, the A. & E. services covers not only the planning and the design but also the inspection, to insure that it meets the specifications for the contracts.

Mr. MONTOYA. Isn't it rather out of order to be planning an engineering project far in advance when such projects have not been approved by the Appropriations Committee or by the Congress?

Captain WAYNE. To the best of my knowledge the projects by themselves are not approved by the Congress.

The program is submitted.

Mr. PASSMAN. If the gentleman will yield, you are, nevertheless, obligating funds for that purpose and carrying them under an obligated, or reservation, status?

Captain WAYNE. Yes, sir.

Mr. PASSMAN. And even before you asked for the program you are doing that?

General PALMER. I am not clear on your point, Mr. Chairman.

Mr. PASSMAN. Governor Montoya has asked the admiral to enumerate these expenses that would apply to projects which are yet to be planned and started.

Do you have a firm obligation, or a reservation, and the amount in prior years' appropriations for the items which you have enumerated?

Admiral HEINZ. In all cases I would say that it is not true that we have money reserved.

Mr. PASSMAN. Were those funds actually reserved, or obligated?

Captain WAYNE. It is reserved and under construction in some of these cases.

Mr. PASSMAN. How about all cases?

Captain WAYNE. It is all obligated.

Mr. PASSMAN. Some of it includes projects for which you have not yet received approval of the Congress.

Admiral HEINZ. For construction funds.

Captain WAYNE. We do not request the Congress for approval of the construction funds by themselves or the construction project.

Mr. PASSMAN. You ask for a line item here in the justification. Some of that engineering cost would apply to it, would it not?

Captain WAYNE. We describe what the program contains in the 1963 book and also in the prior year book.

Mr. PASSMAN. Pursuing what Governor Montoya said, if I may, what is the total amount of this A. & E. reservation, or obligation, for fiscal year 1962 and prior years on hand, unexpended?

Captain WAYNE. For 1962 we cannot give you the A. & E. for 1962 and prior years.

Mr. PASSMAN. What figures did you give Governor Montoya?

Captain WAYNE. I gave him A. & E. for 1962.

Mr. PASSMAN. That is the question I asked. You were going to add the total.

Admiral HEINZ. The total of construction figures for 1962 is $———.

Mr. PASSMAN. $———.

Admiral HEINZ. Yes, sir.

A. & E. FEES AS RELATED TO CONSTRUCTION COSTS

Mr. PASSMAN. What is the total amount of the A. & E.? Let us determine the percentage. Is that detail classified that you are working on now, Admiral?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. How would that violate security?

Admiral HEINZ. The amount of the A. & E. is classified, sir. The book itself is classified because of all the details of equipment.

Mr. PASSMAN. Could you break out the A. & E. in this one country?

Admiral HEINZ. This is the complete program delivery and gives all of the costs and all of the items for this. While Captain Wayne is totaling them, I would mention that the undelivered or unexpended balance for construction is $———.

Mr. PASSMAN. $——— for 1962 and not $———?

Admiral HEINZ. The 1962 program was $———. The total undelivered in the construction line is $———. The total A. & E. showing 1962 is $———.

Captain WAYNE. $———.

Mr. PASSMAN. You asked for $——— last year. Now you have entered into a program of $——— for the same item, have you not? You have just told us $——— is for construction for fiscal 1962. Now you are only asking Congress for $———. Where did you get the authority for the difference?

Admiral HEINZ. These were program deviations during the year in this program.

Mr. PASSMAN. What percentage of this would it be of your total construction of $———.

Admiral HEINZ. This $——— applied to the total construction of $——— runs about 11 percent.

Mr. PASSMAN. Then it is not from 5 to 10 percent?

Admiral HEINZ. In this case it works out at 11 percent.

Mr. PASSMAN. In some places you may be paying 20 percent and in others 5? Could it work that way?

Admiral HEINZ. It could be. I would have to ask an engineer.

Mr. MONTOYA. You mentioned in your A. & E. figures for 1962 an item of $——— for road engineering. Will you explain the total cost of this project and the status of this project?

Admiral HEINZ. This is in 1962, sir.

Mr. MONTOYA. Yes. That is part of the detail that you read a while ago.

Admiral HEINZ. This is part of the detail from the 1962 book. In road construction and engineering, a large part of this would be for A. & E. work on the Chachinsad-Prachinsbury bypass road which is being built by U.S. forces and Thai.

Mr. MONTOYA. What was the total cost of the project to us?

Admiral HEINZ. The total cost of this particular road, the last estimate I saw was about $———.

Mr. MONTOYA. So your actual expenditure is almost one-twelfth of the engineering services?

Admiral HEINZ. It would work out to about that, sir.

Mr. MONTOYA. You have another item for $——— in the detail you read just a moment ago. What type of construction does that A. & E. service represent?

Admiral HEINZ. There is an item in here of $——— for facilities improvements. This would be for many facilities in Thailand. The facilities included there I do not have in the 1962 program.

Mr. MONTOYA. What was the total cost of construction?

Admiral HEINZ. In 1962 the total cost of construction was $———.

Mr. MONTOYA. Will you go into the item of $——— and explain the construction which that A. & E. item services?

Admiral HEINZ. This is for the Royal Thai Army for the expansion of various posts, improvements to those posts.

(Off the record.)

Admiral HEINZ. The details on these particular items of construction I do not have with me and we will have to submit them for the record.

(The information supplied follows:)

The fiscal year 1962 MAP line item $——— for A. & E. Services for the Thai Army covers architectural and engineering services in connection with the construction of the following Thai Army facilities:

Battalion headquarters.
Barracks for 886 men.
Rifle range.
Ammunition storage.
Roads and hardstands.
Officer and NCO quarters.

All buildings will be constructed of wood. They will be built by local contractors to the standards existing in Thailand. The total cost of the construction is estimated to be $4.6 million. Toward this construction $800,000 will be financed by the Thai Government. The remainder, $3.8 million, will be financed by local currency (counterpart funds).

AVERAGE A. & E. COST

Mr. PASSMAN. The record will show the average A. & E. cost is from 5 to 10 percent, but when we make the spread we find that it is averaged, on all of the programs, at approximately 11 percent. The record will show that some of the A. & E. costs will be 20 percent of the project. I wonder if you could supply to the committee the

names of the architects or engineers, the American firms, and upon what basis you employed them. Also, whether it was a fixed fee, a percentage basis, or just how you arrived at this high figure, which is a tremendously high percentage for A. & E. fees.

Admiral HEINZ. I cannot give you any justification for this percentage for A. & E., but we will get that for the record.

Mr. PASSMAN. If we can have the names of the firms, the architects and engineers, and whether or not this is on a percentage of the cost or whether you had a fixed fee in there, it would be helpful.

Admiral HEINZ. I am not certain of those details.

Mr. PASSMAN. Could you get that information?

Admiral HEINZ. We will get that information.

(The information requested follows:)

The following firms are employed in connection with architectural and engineering work under the military assistance program for Thailand. Both are American firms.

1. Tams.
2. Bourne & Sons.

Their fees are negotiated by U.S. Navy Bureau of Yards and Docks through its field activity, Officer in Charge of Construction, Southeast Asia.

Admiral HEINZ. In some cases the A. & E. is a separate contract.

UTILIZATION OF EXCESS AIRCRAFT

Mr. FORD. What is a SA–16 aircraft, Admiral?

Admiral HEINZ. This is the Navy UF–1 or UF–2. It is a search and rescue type amphibian, twin engine. It is used by the Navy and by the Air Force for search and rescue purposes. It also can be used as a reconnaissance plane or it can be used for ASW service. By putting ASW gear into it, you can do ASW search work. It is one of the two remaining amphibious types in the American service now.

Mr. FORD. Is this an excess?

Admiral HEINZ. Yes, sir, this is excess aircraft. The Air Force I believe has declared a number of them excess. The Air Force has declared some SA–16A's excess. I believe they were going to Europe. I believe they are going to Europe and not to the Far East.

Captain WAYNE. The SA–16 is not excess. This is new procurement.

Mr. FORD. Is this new procurement?

Captain WAYNE. This is new procurement.

Mr. FORD. What is the price?

Captain WAYNE. The price is $1,205,000, sir.

Admiral HEINZ. This is a SA–16B.

Mr. FORD. Who is the manufacturer of that?

Captain WAYNE. Grumman, sir.

Mr. FORD. Do you say the Air Force has some of these that are excess?

Admiral HEINZ. I believe the Air Force has some SA–16A's excess. The Navy has no excess. That I know.

Mr. FORD. Are we utilizing all that are in excess with the Air Force?

Captain WAYNE. Yes.

Mr. FORD. How many SA–16B's in 1962 are excess? Put in the record whatever the figure is for fiscal year 1962 and also what you are

contemplating for fiscal year 1963 and from what source. In addition, where you are using excess aircraft, how much you are paying for the rehabilitation per aircraft.

(The information requested follows:)

There are 18 SA–16B aircraft in the fiscal year 1962 program. All are excess SA–16A's being modified to SA–16B. Acquisition cost of the SA–16A was $510,026. Rehabilitation cost is $148,500. The cost of modification to the SA–16B configuration is $290,243 for a total cost to MAP of $438,743 per aircraft. Seventeen of these aircraft are also being further modified for antisubmarine warfare and fitted with ASW gear at an additional cost to MAP of $201,800. There are no other SA–16A's available from service excess at the present time.

There are four SA–16B aircraft in the fiscal year 1963 program to be provided from new procurement at an estimated cost of $1,205,000.

OTHER MILITARY EQUIPMENT FOR THAILAND

Mr. FORD. Item 31, the ——— you have ——— listed for Thailand in fiscal year 1963. What ——— is that?

Admiral HEINZ. This would be the ———.

Mr. FORD. Is this new procurement or excess?

Captain WAYNE. This is from stock.

Mr. FORD. Is that from stock considered excess or mobilization reserve or what?

Captain WAYNE. This has not been declared excess by the Army and we are buying it. ——— per item.

Mr. FORD. Do you have to rehabilitate it?

Captain WAYNE. That is included in that price.

Mr. FORD. Are these being rehabilitated in private concerns?

Captain WAYNE. I do not know.

Mr. FORD. Will you get that information for the record?

(The information requested follows:)

This rehabilitating work is not as yet underway since it relates to the fiscal year 1963 MAP. It is planned to accomplish this work at Letterkenney Arsenal, Pa.; Pueblo Arensal, Colo.; and Tooele Arsenal, Utah.

PROCUREMENT OF NEW EQUIPMENT UNDER MAP

Mr. FORD. The ——— you have ——— listed for Thailand. Are those new procurement or are those in excess?

Captain WAYNE. Those are new procurement, sir.

Mr. FORD. How much are you paying for those?

Captain WAYNE. ——— a copy.

Mr. FORD. What will be their use?

Captain WAYNE. That is a ———.

Admiral HEINZ. (Off the record.)

Mr. FORD. The ——— you are procuring ——— is that new procurement or excess?

Captain WAYNE. That is from procurement, sir.

Mr. FORD. What is the price?

Captain WAYNE. ———.

Mr. FORD. When you pay that much for new procurement is that the same price the services pay?

Captain WAYNE. Yes, sir.

Mr. FORD. That is all.

FISCAL YEAR 1963 COST OF VEHICLE PROCUREMENT IN THE FAR EAST

Mr. PASSMAN. We were discussing earlier a truck contract for Korea. I think the total project would be approximately ———. So far you have procured a large portion of the trucks from Japan, buying them in Japan because the price is cheaper.

Now, as it would apply to the other countries in the Far East, are you pursuing the same course as in Korea?

Admiral HEINZ. Generally, yes.

Mr. PASSMAN. What is the total cost of the truck program in the Far East?

Admiral HEINZ. $———.

Mr. PASSMAN. You are dealing with the fiscal year 1963 program. What has been the total cost of trucks for the program in prior years?

Admiral HEINZ. I will have to submit that for the record, sir. I have the number of trucks but not the total dollar cost.

Mr. PASSMAN. What is the total number of trucks in the fiscal year 1963 program?

Admiral HEINZ. The number of trucks in the fiscal year 1963 program is ———.

Mr. PASSMAN. All of the ——— will be procured in Japan, under the present program?

Admiral HEINZ. It is a Japan buy.

(The information requested follows:)

Cumulative costs to date for Japanese produced vehicles

	Fiscal year 1962	Prior years	Total
Vehicles	$36,300,500	$188,488,000	$224,748,500
Repair parts	1,964,600	11,046,000	13,010,600
Total	38,265,100	199,494,000	237,759,100

Mr. PASSMAN. Your entire program for the Far East is $——— for ——— —trucks and they are all being procured in Japan.

PRIOR YEAR PROGRAM FOR VEHICLES

Can you now get the information on prior years, including the total number of trucks?

Admiral HEINZ. The total program through fiscal year 1962 is 78,596.

Mr. PASSMAN. Which would be about ——— times the $———. This would bring the amount to around $——— you have spent for trucks in Japan.

PROJECTED PROGRAM FOR VEHICLES

Now, let us project this item into the future. Do you have a projected program for trucks?

Admiral HEINZ. No, sir. I can give you this as an indication perhaps, sir. The total allowance for the Far East of vehicles is ———. We have programed through fiscal year 1962, 78,596. In fiscal year 1963 we have ——— programed which is about ——— of the allow-

ance. So this would indicate that we have perhaps ——— more to complete the allowance. However, you would have attrition trucks to procure in the future.

Mr. PASSMAN. Are we not getting into something like a quarter-of-a-billion-dollar truck program, past, present, and future, in the Far East?

Admiral HEINZ. 240 million approximately.

Mr. PASSMAN. Nearly a quarter of a billion dollars is the amount of your truck procurement program in the Far East and they are all bought in Japan. The number will be ———, past, present, and future.

Admiral HEINZ. Yes, sir.

Mr. CONTE. I wonder if the chairman would yield a minute.

Mr. PASSMAN. Yes.

Mr. CONTE. I wonder if Mr. Reuther knows about this.

Mr. PASSMAN. We hope he will read the hearings.

Mr. CONTE. I think we better send him the hearings.

Mr. PASSMAN. We have just begun to uncover a few things. These gentlemen are helpful in supplying the detail if we are nosey enough to get into it.

Let us get into this secret document here. Are you familiar with this Military Assistance Commander in Chief, Pacific, report?

Admiral HEINZ. I am not familiar with this particular report.

Mr. PASSMAN. Would you like to comment on the last two paragraphs on the left-hand page? That is also dealing with trucks.

What other items do you have?

General PALMER. You mean on this side of the book?

Mr. PASSMAN. Yes; down at the bottom.

Admiral HEINZ. "Contracting increments represent approximately ——— remaining to be issued." This would be probably part of—this was August 1961—this would be part of the 1962 program, the 1963 program and an increment of the 1964 program.

Mr. PASSMAN. The same thing we are talking about now?

Admiral HEINZ. That is paragraph c.

Mr. PASSMAN. This is a part of the same program?

Admiral HEINZ. Yes.

VEHICLE REHABILITATION AND ASSEMBLY IN JAPAN

Mr. PASSMAN. What else do you have that would be in your procurement area, in the military assistance program, that you purchase from Japan? How about your automobiles?

Admiral HEINZ. In the past we have procured—not new procurement but we have done some rehabilitation.

Mr. PASSMAN. I am familiar with the plant in southern Japan, and it is a fine operation and any person would endorse that statement. In that program you take your rollup stocks from all over that area and you ship them into this plant. They disassemble, throw away the worn parts or unusable parts, and then they reassemble. You may take three trucks and make two or one. Is that the program which is being phased out?

Admiral HEINZ. The rebuild is phasing out, sir. These World War II vehicles have been rebuilt and reworked and rebuilt and the program is beginning to phase out.

Mr. PASSMAN. That project is near the end?

Admiral HEINZ. The rebuild is; yes. They are working now on assemblies rather than the entire vehicles.

Mr. PASSMAN. The rehabilitation of these vehicles certainly saved the American taxpayers a lot of money. They may not have needed the vehicles, but they would have bought them new if the used ones had not been available.

Admiral HEINZ. It is ——— this year for a rebuild and major assemblies.

Mr. PASSMAN. That is phasing up rather than out, is it not? For what purpose are you spending ———?

Admiral HEINZ. This is the rebuild program.

Mr. PASSMAN. How many units are they rebuilding?

Captain WAYNE. We do not have the number.

Mr. PASSMAN. How do we know, with the phasing out, whether you may be paying more for a rebuild job than you have to spend for a new one? You have to pay for support of the plant.

Admiral HEINZ. We do not pay more for a rebuild. This also includes assemblies.

Mr. PASSMAN. If you have a big fixed overhead in that plant, and I have been in the plant, it would depend on the amount of fixed overhead, as you would apply it to the per unit rehabilitation cost. It could be that you would be paying more. Not maybe for the labor and parts, but if you apply the overhead—and you pay a tremendous rent, in all probability, for this plant. Could we get information as to the costs for the rehabilitation of a quarter-ton truck and a half-ton truck and 2½-ton truck for the last available year?

Captain WAYNE. We are not rebuilding quarter-ton and three-quarter ton trucks.

Mr. PASSMAN. What does it cost to rehabilitate a 2½-ton truck?

Captain WAYNE. We are only rebuilding the large trucks, 4 tons to 6 tons, plus the components such as the transmission and differential for the quarter-ton, three-quarter-ton, and 2½-ton trucks. We have stopped the program for the 2½-ton truck, three-quarter- and quarter-ton truck rebuild line.

Mr. PASSMAN. You have to procure a lot of new transmissions and parts, do you not, today?

Captain WAYNE. For the new Japanese vehicles; yes, sir.

Mr. PASSMAN. So this is a continuing project?

Admiral HEINZ. Yes, sir; it will be because we are shifting over——

Mr. PASSMAN. What does a 4-ton truck cost, one similar to what you are getting in Japan?

Captain WAYNE. We are not building those.

Mr. PASSMAN. What does it cost to rehabilitate a 4-ton truck in this plant?

Captain WAYNE. We haven't the figures.

Mr. PASSMAN. Would you have the figures on a 6-ton truck?

Captain WAYNE. No, sir.

Mr. PASSMAN. Could you get us that information?

Captain WAYNE. Yes, sir.

(The information requested follows:)

The following are cost estimates to rehabilitate these vehicles in Japan for the military assistance program.

6-ton wrecker	$5,056	4-ton cargo	$3,543
6-ton tractor	5,144	4-ton dump	4,730
6-ton prime mover	4,570		

LIMITATION ON PROCUREMENT IN JAPAN

Mr. PASSMAN. It may possibly be that you are paying more for a rebuild job than a new truck would cost you. It happens in some of these plants. Are you procuring any other type of vehicles in Japan? How about automobiles?

Admiral HEINZ. No automobiles. They run from a quarter ton up to 2½ tons.

Mr. PASSMAN. You have given that. We want to know what else you are procuring for the military assistance program from Japan, or from other areas, because it is cheaper there than you can procure it in America.

Admiral HEINZ. Nothing to my knowledge.

Mr. PASSMAN. Just trucks?

Admiral HEINZ. Trucks.

Mr. PASSMAN. No textiles?

Admiral HEINZ. No, sir.

Mr. PASSMAN. Uniforms?

Admiral HEINZ. No, sir.

Mr. CONTE. Mr. Chairman, will you yield there?

Mr. PASSMAN. Yes.

Mr. CONTE. What happened to the "Buy America" policy?

Admiral HEINZ. This vehicle program in Japan was made a specific exception to that at the time the policy was instituted last year.

Mr. CONTE. It has amounted to, as the chairman pointed out, a quarter of a billion dollars.

Admiral HEINZ. This is the total program through the years. This is not just——

Mr. PASSMAN. You will reach ——— of the ——— and it will cost nearly a ——— this year. You have had this program in the past, and you are projecting it into the future?

Mr. CONTE. For the record, you might tell us how many man-hours it would take to produce and build that amount of trucks.

Admiral HEINZ. I will try to get that. I have no idea what they are.

(The information supplied follows:)

Statistics as to the number of man-hours required to produce vehicles are not maintained by the Department of the Army or any of its procuring agencies with respect to vehicle production in Japan or to vehicle production in the United States. To the knowledge of the Department of the Army personnel involved in the procurement of vehicles such statistics are not maintained by prime contractors. In the production of a given vehicle, several hundred subcontractors may be involved. Subcontractors, in the past, have resisted efforts to analyze their man-hour requirements in producing components.

Mr. PASSMAN. Are these trucks being paid for with this military assistance appropriated dollars?

Admiral HEINZ. "Military assistance" appropriation.

Mr. PASSMAN. I know you want to be fair, but I want a direct answer. The trucks we are procuring from Japan will be paid for with dollars appropriated by the United States?

Admiral HEINZ. Yes, sir.

Mr. RHODES. Was the decision to continue with this program in spite of the so-called "Buy America" policy made at the highest levels?

Admiral HEINZ. I do not know. I do not know who made that decision at the time.

Mr. RHODES. A decision like this certainly has a very definite effect on our international balance-of-payments situation. Is it a lot cheaper to buy these trucks in Japan than in the United States?

Admiral HEINZ. About 50 percent of the total.

Mr. RHODES. Do we have the comparable figures?

Admiral HEINZ. Yes, sir. I have previously given them. They are in the record already.

Mr. RHODES. Fine.

Admiral HEINZ. For the quarter-ton jeep, for the vehicle, spares, and transportation differential, $1,500 versus $3,300.

Mr. PASSMAN. Just as good a truck?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. It looks as if we should perhaps reverse this thing and let Japan aid us.

Mr. RHODES. It will happen if the balance-of-payments situation continues. I just hope they will be as generous as we are.

Mr. PASSMAN. The situation is getting worse by the day.

Admiral HEINZ. In some cases there may be a little more gimcracks on the U.S. product than on the Japanese product.

FISCAL YEAR 1963 PROGRAM REQUEST FOR THE FAR EAST

Mr. PASSMAN. For the Far East military programs you are requesting ———?

Admiral HEINZ. I refer to page 201, sir. The total Far Eastern area program is ———.

Mr. PASSMAN. Could it mean that countries we have already covered would also get a slice out of this?

Admiral HEINZ. Yes, sir. As I previously mentioned we have ——— set aside in here mainly for Vietnam. Possibly also for Thailand.

Mr. PASSMAN. You also said that they may not use this money. This is a reservation, or obligation, in the event that you need it. At the time it was put in it was included more or less as a contingency fund; is that correct?

Admiral HEINZ. It was put in with the feeling that we could not in fairness give you a concrete program but that we felt almost certain that we would need amounts approximating this for Vietnam and the rest of the southeast Asia.

Mr. PASSMAN. What funds do you have from prior years that fall in this same category?

Admiral HEINZ. We have in the Far East area programed a figure of ———.

Mr. PASSMAN. The ——— constitutes plus funds, over and above programs we have previously discussed that will be channeled into the countries of the Far East?

Admiral HEINZ. Yes, sir.

TOKOROZAWA LOGISTICS DEPOT

Mr. PASSMAN. Could you tell us how much will go to each country, when you obligated it, and for what purposes?

Admiral HEINZ. This program of ——— is for the logistics depot at Japan.

Mr. PASSMAN. When did you reserve, or obligate, that money?

Admiral HEINZ. That is the balance remaining for the cumulative program.

Mr. PASSMAN. From when?

Admiral HEINZ. 1950 to 1962.

Mr. PASSMAN. That is 12 years. For what did you obligate it, and for what purposes is it being kept in reserve?

Admiral HEINZ. This is for the operations of the logistics depot at Tokorozawa, Japan. This has worked—there are still obligations shown here for tanks, vehicles, and weapons for electronics and communications for other equipment and supplies for supply operations.

Mr. PASSMAN. Could this be called a residue, then, over a period of years? You have picked up a little here and there, and it could very well be that at some subsequent time, if you found no need for it, this money could be deobligated?

Admiral HEINZ. That is correct. You will find in the program this year we plan to draw down from the materiel there a total of $———. This will be delivered to countries in the Far East.

Mr. PASSMAN. Countries for which you have planned programs?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. This is somewhat complicated, is it not?

Admiral HEINZ. Yes, sir.

AREA PROGRAMING

Mr. PASSMAN. You go ahead and justify all you can for these individual nations, and in all probability you do it with all good intentions. You reserve and obligate, worldwide, billions of dollars more than you need; and after you get through with that you start up another program on the side for the same type of equipment and call it an area program, and then you channel out of the area program into the nations where you have a planned program.

Admiral HEINZ. You will notice that——

Mr. PASSMAN. Am I challenged on what I said or is it a statement of fact, that you do have country programs and you justify the country programs, and after you have finished justifying your country programs you set up an area program, and you requisition the same type of equipment for the area program as for the country program, and then the country may requisition out of the area program?

Admiral HEINZ. No, sir; that is not correct.

Mr. PASSMAN. You explain it, then.

Admiral HEINZ. Yes, sir.

SUPPLY OPERATIONS

The normal Far East area program comprises the following categories.

First, supply operations: In fiscal year 1963 this is programed for $——— for the cost of procuring and inspecting vehicles and repair parts for use in the Far East. That is $———.

For continuance of maintenance of MAP stockpiles——

Mr. PASSMAN. Stockpiles of what?

Admiral HEINZ. MAP equipment.

Mr. PASSMAN. To be used where?

Admiral HEINZ. For the Far East.

Mr. PASSMAN. Then, nations you have planned programs for likewise get equipment out of this program, if they need it?

Admiral HEINZ. No, sir; this does not pay for the equipment. This pays for inspection, procurement, cost involved in handling of materiel.

Mr. PASSMAN. This $——— you have as a contingency for fiscal year 1963 and the carryover of $——— is not for equipment, but is for service and personnel?

Admiral HEINZ. The $——— is for equipment.

Mr. PASSMAN. How about the $———, is that entirely for personnel? If so you might correct your justifications, because it says at page 201 that it is for aircraft, tanks, vehicles, weapons, ammunition, electronics, communications, other equipment and supplies, supplies for training, other services, and so on.

Are we not dealing with equipment as such here?

Admiral HEINZ. This is a cumulative program over a period of time——

Mr. PASSMAN. I know, but my question is, Admiral, you procure equipment with this money, do you not?

Admiral HEINZ. The money that is here has been programed in some cases for equipment——

Mr. PASSMAN. How much will be for equipment and how much of it will be for unidentifiable items?

Admiral HEINZ. You will notice in the cumulative program of $———, $——— has been for repair and rehabilitation of equipment; $——— has been for supply operations; $——— for training; $——— for other services which includes international military headquarters. You have $——— for construction; $——— for other equipment and supplies and then——

DISPOSITION OF REHABILITATED EQUIPMENT

Mr. PASSMAN. What do you do with this $——— when you rehabilitate the equipment? Who gets that equipment?

Admiral HEINZ. The equipment is furnished to countries in the Far East.

Mr. PASSMAN. Countries for which we have previously discussed fixed programs?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. And you also have repair and rehabilitation costs for equipment in those countries, do you not?

Admiral HEINZ. Yes, sir.

Mr. PASSMAN. We headed for the same place but took different roads.

You took equipment and rehabilitated equipment from the area programs and sent it into programs where you do have programs furnishing similar equipment. So, this is a plus item, and somewhere along the line, in all probability, this $——— will be channeled into the same nations to which we are giving aid under firm programs.

Admiral HEINZ. It is all intended for the same nations, sir.

Mr. PASSMAN. Why do you have to have a side deal like this?

Admiral HEINZ. The $——— is for the expenditures in southeast Asia this year and this is not of the Tokorozawa complex. I cannot say exactly what that will be expended for.

PROCUREMENT, INSPECTION, AND REPAIRS

In the normal Far East program this year we have $——— of which $——— is for procurement, inspection, repair parts——

Mr. PASSMAN. Let us separate those items, if you have the detail there which we do not have. You have $——— and as far as I am concerned that is an awful lot of money. How much of it is going to be spent for inspection, and inspecting what?

Admiral HEINZ. The $——— is a cumulative figure over 13 years.

Mr. PASSMAN. How much of it did you spend for inspection? Do you remember that or do your records indicate it anywhere?

Admiral HEINZ. Our records do not indicate that.

Mr. PASSMAN. You have ——— in that same category, unexpended. For what purposes will that be spent?

Admiral HEINZ. This will be for a completion of the repair and rehabilitation of equipment——

Mr. PASSMAN. How much of that will be spent for inspection? You would not reserve or obligate U.S. dollars without having a program, would you? How much would be used for inspection?

Admiral HEINZ. I do not have a breakdown.

Mr. PASSMAN. Where can we get it?

Admiral HEINZ. We can furnish it.

(The requested information follows:)

In the congressional presentation document, page 201, the estimated unexpended balance on June 30, 1962, for repair and rehabilitation is reported at $4,316,000. This was programed in fiscal year 1961 for rehabilitation of World War II vehicles in the Far East area. During March 1962 these funds were identified by the Department of the Army as no longer needed for these purposes and are available as a recoupment.

DEOBLIGATIONS

Mr. PASSMAN. Can you tell us in what years you reserved it?

You might do the same thing in this as we have requested with relation to the other. Tell us what year you entered into these contracts, and whether or not you feel the ——— could now be squeezed out and deobligated. You say it goes back over a period of 13 years. I think you will agree, Admiral, that some of these obligations are 7, 8, 9, or 10 years old. You say yourself that this is a cumulative total going back to 1952, so in all probability it would be rather difficult to identify this by item, would it not?

Admiral HEINZ. Yes, sir. I can say now that it is possible that there will be recoupments from some of the unexpended balances shown for the Far East programs. The certainty of such recoupments and possible amount cannot be anticipated at this time.

Mr. PASSMAN. It could be, if we should decide to set up a new set of books and start all over, that this could be squeezed out without doing any identifiable harm.

Admiral HEINZ. I think it would be difficult, sir.

Mr. PASSMAN. It could be that way, though?

Admiral HEINZ. We do have quite a bit of stocks in Japan at the Tokorozawa Depot.

Mr. PASSMAN. You have the stocks there, which have been bought and paid for from prior year appropriations, but here is money that you have not spent and you may not spend it. It could be squeezed out, or deobligated, later—this is a possibility?

Admiral HEINZ. A possibility.

Mr. PASSMAN. Thank you.

Captain WAYNE. I might point out, Mr. Chairman, the MAP orders have been issued to draw down on these sums of money. They are not charged to the MAP program deliverwise until actual service or the product has been delivered to the recipient or put in the pipeline for delivery.

Mr. PASSMAN. I know that is true. You have $100 billion to the credit of the military already obligated. You may not expend that money for 7 or 8 years, but since you have this on hand you could spend it. You may find need for it and you may not. I do not see where there would be any harm, since it has accumulated over a number of years, to wipe it out.

Captain WAYNE. If the money were sitting in the closet, I could agree with the chairman.

Mr. PASSMAN. Where is it? You have it obligated. If we should attempt to lower your appropriation and state that you have this one item here in unexpended funds, you would say, "Oh, no, that is obligated, we cannot touch that."

We have respected that position in the past, only to find that General Palmer has been able to deobligate, dereserve, squeezeout, or recoup, several billion dollars.

General PALMER. Not billions.

Mr. PASSMAN. Well, you will have $1 billion. You had $538.8 million in 1 fiscal year that lapsed because you could not even obligate it, and now you have upped it to over $1 billion. If you pick up other years—1 year, $281,000; another, $162 million, then $2 billion would be billions, would it not?

General PALMER. Not squeezed out by General Palmer, though.

Mr. PASSMAN. How much have you squeezed out?

General PALMER. About $320 million.

Mr. PASSMAN. You squeezed out $320 million since we met last year. Had you squeezed out any prior to that?

General PALMER. No; not more than the normal amount of reprograming.

Mr. PASSMAN. What is the normal amount?

General PALMER. Around $100 million a year.

Mr. PASSMAN. Since you have been there, you have squeezed out $320 million applicable to fiscal year 1962 and fiscal year 1963, and in the 2 preceding years you squeezed $100 million each year.

REPROGRAMING

General PALMER. The point is $100 million each year is normal reprograming and the squeeze part that you referred to is $320 million in the 2 fiscal years.

Mr. PASSMAN. How much?

General PALMER. $320 million.

Mr. PASSMAN. $317 million that you had obligated in fiscal year 1962, and you are projecting $205 million for fiscal year 1963, which would make a total of approximately $521 million.

General PALMER. Of which $200 million was normal reprograming that will occur every year.

Mr. PASSMAN. That is $500 million for those 2 years.

If we go back and pick up the normal $100 million for your first 2 years. That would bring it to $700 million, would it not?

General PALMER. No, sir; we are not——

Mr. PASSMAN. I am dealing with fiscal 1961 and 1960.

General PALMER. We are talking in different terms.

Mr. PASSMAN. I know that we are, but we are not going to be when we finally pin that down, and we are going to pin it down.

FUNDS DEOBLIGATED IN MILITARY ASSISTANCE PROGRAM, 1955–63

We want for the record the amount of funds that have been deobligated to the military assistance program, 1955–63, with fiscal 1963 projected, inclusive. Can you give us that information?

General PALMER. Yes, sir; $521 million.

Mr. PASSMAN. General Palmer, you are speaking only of fiscal year 1963 and fiscal year 1962.

General PALMER. Yes, sir——

Mr. PASSMAN. Prior to that there was $538.8 million in lapsed funds in the period I mentioned. We are not limiting it strictly to your tenure. We want to take it from fiscal year 1955 through fiscal year 1963, estimating 1963, inclusive, the amount deobligated.

General PALMER. The $538.8 million you speak of in an earlier year was never deobligated because it was never obligated. It lapsed.

Mr. PASSMAN. It lapsed, but it was money that had been appropriated in prior years which you did not need in the program, the same as was the case for the amount you deobligated.

General PALMER. As I say we haven't been able to define the terms in which we are conducting this discussion.

Mr. PASSMAN. Let us take the amount of deobligated funds, and add to that the amount of funds which lapsed because the administrators could not even find anything for which to reserve them.

(The following was subsequently submitted for the record:)

Military assistance—Status of lapsed funds and deobligations or recoupments, fiscal year 1955–63

[In millions of dollars]

Fiscal year	Lapsed funds returned to the Treasury	Total deobligations or recoupments
1955	$175.5	(1)
1956	14.0	$395.0
1957	14.2	188.7
1958	6.3	206.0
1959		222.9
1960		208.3
1961	8.3	120.6
1962 (estimated)		317.7
1963 (estimated)		204.6

[1] MAP order system was inaugurated during fiscal year 1955. Unpaid obligations representing funds obligated for materiel common to the military departments were deobligated from the military assistance appropriation and were transferred to the military department appropriations and the deobligated funds in the military assistance appropriation were reestablished as MAP order reservations in accordance with the provisions of sec. 110 of Public Law 778, Sept. 3, 1954.

Mr. RHODES. Off the record.

(Discussion held off the record.)

SPECIAL SOUTHEAST ASIA PROGRAM

Mr. RHODES. How about the special southeast Asia program? Would that be no-years funds?

Admiral HEINZ. 1963 funds, sir.

Mr. RHODES. To be spent in 1963 or to be lapsed?

Admiral HEINZ. To be obligated in 1963.

Mr. PASSMAN. Or reserved?

Mr. RHODES. Or reserved.

Admiral HEINZ. To be obligated in 1963.

Mr. PASSMAN. Obligated or reserved?

General PALMER. Obligated or reserved in 1963.

Mr. PASSMAN. You have two definitions there.

Mr. RHODES. It is not no-year money.

Mr. PASSMAN. That is right. Some of it goes back as long as 13 years.

Mr. RHODES. As the chairman has observed, for all practical purposes it is no-year money if it can be reserved.

INCREASING COSTS OF SUPPLY OPERATIONS

Mr. PASSMAN. Why is the cost of supply operations increasing?

Admiral HEINZ. The cost of supply operations depends upon the deliveries of materials scheduled for the fiscal year. It is not specifically tied. This is tied to the actual delivery of material during 1963 rather than the 1963 program. In this case it appears that the deliveries during 1963 will be greater than the actual rehab deliveries for 1963.

LOGISTICS DEPOT FOR FAR EAST STOCKPILE

Mr. PASSMAN. Where is the MAP stockpile?

Admiral HEINZ. Tokorozawa is the depot, in Japan.

Mr. PASSMAN. All in Japan?

Admiral HEINZ. This is the depot for the Far East. We maintain no other depots in the Far East.

Mr. PASSMAN. On page 202 you list MAP stockpiles in the Far East. The proposed program includes $———. For what purposes?

Admiral HEINZ. MAP stockpiles in the Far East, $———. They are at Tokorozawa.

The actual operations of the logistics depot itself will be $———. This is Tokorozawa, including overhead costs for the operations of the depot.

The maintenance shows $——— for MAP items.

Mr. PASSMAN. What is the total amount of the stockpile?

Admiral HEINZ. I shall obtain that for the record.

(The information requested follows:)

The estimated value of depot stocks to be at Tokorozawa on June 30, 1962, is $26.8 million for stocks charged to appropriations plus $245.8 million of stocks from excess valued at acquisition cost.

Mr. PASSMAN. Is this for just supervision, rent, overhead? Is there any detail at all on it?

Admiral HEINZ. The $——— for the cost of operations of the depot, as we stated here, is computed by the application of cost factors. This includes rent, overhead, pay, everything else to run the depot.

Mr. PASSMAN. This $———?

Admiral HEINZ.e The $——— is ——

MAINTENANCE COSTS OF LOGISTICS DEPOT

General PALMER. If I may clarify this point. The $——— for the costs of maintenance have to do with end items such as tanks or complete weapons or mainly ammunition.

The Tokorozawa logistics depot basically is concerned with repair parts, and the $——— has to do with the operations and costs of the repair parts activities.

As the admiral has said, on the premises but not on the paper of the logistics depot, there are a lot of end items which were rolled up, as you say, and have accumulated there and they are not in the repair parts stock which is handled inside the depot proper.

These end items, the cost of in-storage maintenance on those, is the ———. They are on a different set of books.

Mr. PASSMAN. Maintenance on equipment within the plant?

General PALMER. Of complete things, such as cannons, tanks, ammunition.

Mr. PASSMAN. Why would there be maintenance cost on new equipment?

General PALMER. It is not new. It is old. I don't know how old some of it is.

Mr. PASSMAN. We are thinking in terms of stockpiling. Do we stockpile old equipment?

General PALMER. Yes; as a matter of fact, in this program——

Mr. PASSMAN. Do you not refer to it as "stockpiled" after it has been made usable?

General PALMER. Not necessarily, Mr. Chairman.

STOCKPILES IN OTHER AREAS

The term "stockpile" got into this program first in connection with a large amount of stocks they put aside for the Federal Republic of Germany many years ago.

Then another so-called stockpile was put aside for another country. They brought together a great deal of equipment which they felt those countries would need when the time came.

There was also one in Japan of the same sort, and it is the residue of that which is being taken care of and kept.

This is not rehabilitation cost. This is merely maintenance in storage, which is quite a cost.

You keep stuff in the warehouse and you have to take care of it.

Mr. PASSMAN. If it were up to me we would not have to pay that cost.

General PALMER. This is wartime rollup.

Mr. PASSMAN. You have something similar in country Z, I believe.

General PALMER. Country Z is a different problem. The stockpile there consists of some equipment to which the U.S. Air Force retained title. They allowed the people there to use them, but have never allowed them to own them. Title has remained with the United States.

Mr. PASSMAN. For what purpose is the ———?

General PALMER. Where are we?

Mr. PASSMAN. In country Z, under the area program. This is under stockpiling.

General PALMER. For the maintenance of the ———.

Mr. PASSMAN. How many ———?

General PALMER. I think I have that.

Mr. PASSMAN. It is in country Z?

General PALMER. That is right.

Mr. PASSMAN. We are letting the people use them?

General PALMER. That is correct, sir.

Mr. PASSMAN. Do they now permit us to use that base which we built? They have our equipment on their property, used by the local people, but are we privileged to use the facilities?

General PALMER. We have been up to the present moment.

Mr. PASSMAN. I know that.

General PALMER. This thing is changing right at the moment. I would rather have that testified to by the proper people tomorrow.

Mr. PASSMAN. This equipment is ours, is it not?

General PALMER. That is right.

Mr. PASSMAN. This is a messed up proposition. We may not be allowed to use the place beyond the expiration of the contract. That could be the situation.

General PALMER. I think the witnesses on that subject will have better testimony than I have right now.

COUNTERINSURGENCY TRAINING PROGRAM IN OKINAWA

Mr. PASSMAN. When did we start contributing funds to the counter insurgency school in Okinawa, out of the military asssistance program? That is a full-fledged U.S. base there, is it not?

Admiral HEINZ. Okinawa is a U.S. base; yes.

Mr. PASSMAN. How did we get there with the MAP program?

Admiral HEINZ. Only through training. As we do with all the training programs, if the Army runs a program of training for foreign nationals the Army then is reimbursed for certain costs.

Mr. PASSMAN. This is a brandnew program, is it not?

Admiral HEINZ. The counter insurgency training——

Mr. PASSMAN. With reference to Okinawa.

Admiral HEINZ. The counter insurgency training in Okinawa is not brandnew this year. It has been going on since last year at least. I don't know how long.

Mr. PASSMAN. Have you justified it to the committee in prior years?

Admiral HEINZ. I believe it was in the training program.

Mr. PASSMAN. You have a project in Okinawa which is being financed in part out of the MAP?

Admiral HEINZ. The training is, yes.

Mr. PASSMAN. Of course it is for training. I could go up a line above and you have ——— for training in another area, which we are just skipping over because time will not permit going into all the detail.

How much have you spent on this project in Okinawa, from its inception?

Admiral HEINZ. I shall have to furnish that for the record, sir.

(The requested information follows:)

The U.S. Army Pacific Intelligence School has been in operation on Okinawa since February 1960.

In fiscal year 1961, 207 foreign students were trained at this school at a cost to MAP of $134,000. These funds were used to defray course tuition charges as well as normal student living allowances.

Because the school is conducted solely for the training of foreign national student officers, the Department of Army was authorized in fiscal year 1962 to expend $150,000 for the operation of this school in Okinawa in lieu of assessing tuition charges. These funds are being used to defray the cost of civilian instructors, supplies, training aids, Ryukyuan contract labor, communications, upkeep of facilities, transportation, and other costs incident to the operation of the school.

In fiscal year 1963, an increase in the number of students attending this school is anticipated. Included in the fiscal year 1963 military assistance program, therefore, is an increase in funds for operation of this school from $150,000 in fiscal year 1962 to $184,200 in fiscal year 1963. This additional requirement results mainly from an increase in the number of civilian instructors, training aids, and additional operation and maintenance expense for the additional facilities required to accommodate a greatly increased foreign student load.

On May 7, 1962, the first class of 35 foreign officers will enter a new Pacific Command counter insurgency operations course to be given on Okinawa. Ten weeks in length, this course will be repeated in subsequent months to meet the heavy requirement for this type training in southeast Asia. This training, although conducted on Okinawa by the U.S. Army, is not given by the Pacific Intelligence School but by the commanding general, U.S. Army, Ryukyu Islands.

The U.S. Army will be reimbursed from MAP funds at the rate of $541 per student for costs incurred in providing this course of instruction. One hundred foreign students are programed to attend this course in fiscal year 1963.

Mr. PASSMAN. How much did you have in fiscal 1962 in this project for Okinawa?

Admiral HEINZ. We don't have it here.

Mr. PASSMAN. You did have a program in fiscal 1962?

Admiral HEINZ. I know counter insurgency training was conducted then and now.

Mr. PASSMAN. This committee must make the recommendations for your money. How can we find out how much money you spent in Okinawa for this program in fiscal 1962?

General PALMER. $——— is shown in the program.

Mr. PASSMAN. You asked for $——— last year, did you not?

General PALMER. We asked for $——— and spent $———.

Mr. PASSMAN. That is what we get into by giving you more money.

FISCAL YEAR 1963 PROGRAM FOR OKINAWA

How much do you have programed for fiscal 1963?

Admiral HEINZ. For Okinawa $———. This is out of $——— total training for 1963.

Mr. PASSMAN. We have one of the most modern airbases in the world there, do we not?

Admiral HEINZ. At Okinawa?

Mr. PASSMAN. That fact is pretty generally known. We have some of the finest personnel there, in all branches of the service.

Why the MAP wants to get involved there I do not know.

Admiral HEINZ. We do that and it will perhaps increase in the future because we are conducting special warfare work, a special warfare center.

Mr. PASSMAN. What personnel are you bringing in?

Admiral HEINZ. Foreign nationals from the Far East.

Mr. PASSMAN. Is that not a sensitive base?

Admiral HEINZ. In other places you would have to bring them back to the United States to train them if you didn't do it there. This would be more expensive.

Mr. PASSMAN. I know that we will have some 110 nations involved, overall. But I did not know that we had gotten into Okinawa with this military assistance setup.

GUAM

How about Guam?

Admiral HEINZ. We have no training conducted at Guam that I know of.

LOGISTICS DEPOT IN JAPAN

Mr. PASSMAN. Now the logistics depot at Tokorozawa, Japan. They seem to be able to supply $——— in spare parts and equipment at no cost to the MAP program?

Admiral HEINZ. As a credit to the MAP program.

Mr. PASSMAN. Without any debit against the appropriation?

Admiral HEINZ. It is a credit rather than a debit. We are drawing down on the stocks and, therefore, this becomes a credit to the appropriation.

Mr. PASSMAN. So you have a channel of funds into the military assistance program other than that amount appropriated by Congress?

Admiral HEINZ. No, sir.

Mr. PASSMAN. Is this plus money which goes into the military assistance program?

Admiral HEINZ. This is a drawdown on stocks which are there and, therefore, it is a credit in kind.

Mr. PASSMAN. Would that fact indicate that the depot is overstocked?

Admiral HEINZ. It would indicate, sir, stocks were available.

Mr. PASSMAN. Is the depot overstocked?

Admiral HEINZ. It would indicate to me it has been overstocked and it has been decided to reduce the stocks.

Mr. PASSMAN. You would not have had that situation without surplus money.

JAPAN'S CONTRIBUTION TO FOREIGN ASSISTANCE PROGRAM

In prior years I believe you have given us some information as to the contribution that Japan is making to the military effort in the Far East. Would you like to comment on that matter briefly, Admiral? Is this contribution limited strictly to Japan or are they now assisting and training in other areas?

Admiral HEINZ. Japan's military effort is limited strictly to Japan.

Japan's economic assistance has been given throughout the Far East. Here assistance to other countries has been in the economic line rather than military.

Mr. PASSMAN. No military?

Admiral HEINZ. No military aid except in one minor way in which she furnishes small liaison type military aircraft to the Philippines as part of the war reparations.

RELATIONSHIP OF "BUY AMERICAN" POLICY AND PROCUREMENT

Mr. CONTE. Admiral, back to the purchase of trucks for the countries of the Far East, you say this has been the exception to the "buy American" policy. Can you reiterate the "buy American" policy with regard to purchase of mililtary equipment?

Admiral HEINZ. I shall have to get that information for you.

Mr. CONTE. Do you have that here, General Palmer?

General PALMER. That is section 604 of the law.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

Mr. CONTE. In section 604 it states funds made available under this act may be used for procurement outside the United States only if the President determines that such procurement will not result in adverse effects upon the economy of the United States.

It is my understanding that there has been a great deal of unemployment in the Michigan area in the automobile industry. Certainly we are not talking about nickels and dimes but a quarter billion dollars. To me it would be quite a spur in our economy, especially in the automobile industry, if these trucks were bought here in the United States.

Furthermore, I do not think that the truck itself, the Japanese truck, can compare with the American-made truck in performance, endurance, and every other way.

Admiral HEINZ. I would like to clarify one point on that. Of the approximately $240 million we are talking about the remaining part of the program is only about ——— and much of this was spent over a period of the past several years. In other words, we have already programed through and including fiscal year 1962 approximately $——— of that total. Remaining, including the 1963 program, there is about $———.

Most of this was done before the "buy American" policy was put into effect last year.

Mr. CONTE. It is my understanding that Mr. Reuther and others in Detroit have been screaming not only for the past 6 months but for several years about the depressed condition of the automobile industry and that we have to do everything we can to bolster it. It is just inconsistent to me to see these bills sent up here by the administration which cost millions of dollars for depressed areas to try to rehabilitate our employees, put them to work, and at the same time give millions of dollars of contracts for military assistance to Japan whose economy is going great guns, even better than our economy in this country. I just cannot understand this.

BALANCE-OF-PAYMENTS DEFICIT IN JAPAN

Mr. ELLIS. There has been an acute balance-of-payments problem in Japan this year. Their reserves have fallen by one-third. Much of the remaining reserves are short-term credits.

As I quoted earlier, they ran a trade deficit with the United States for $685 million in calendar year 1961. Many of the items they bought affect depressed U.S. industries. The largest single item they buy is cotton, which is a surplus item in the United States.

Mr. CONTE. By the same token, even though that sounds good, transistors and condensers coming into this country from Japan have depressed our domestic industry. I just cannot see it.

I think we also have an acute and unfavorable balance of payment and outflow of gold.

Mr. ELLIS. But not with Japan, sir.

Mr. PASSMAN. What was the balance-of-payments situation with relation to Japan?

Mr. ELLIS. The trade deficit?

Mr. PASSMAN. The balance of payments.

Mr. ELLIS. That is their total.

Mr. PASSMAN. Did Japan have a balance-of-payments deficit dealing with the worldwide program?

Mr. ELLIS. Yes, sir.

Mr. PASSMAN. There is no law saying that we have to give every nation a favorable balance-of-payment position. We certainly do not have one. What is their position worldwide?

Mr. ELLIS. In 1961, Japan's balance-of-payments current account deficit was $1,085 million, of which about two-thirds was with the United States.

Mr. PASSMAN. How about the balance of payments? You have two items, the trade and balance of payments.

Mr. ELLIS. Balance of payments—I was giving the balance-of-payments deficit. Global merchandise—trade deficit was $1,574 million.

Mr. PASSMAN. And did not during that same period, last year, the United States have a balance-of-payments deficit of $1,600 million?

Mr. ELLIS. I accept that.

Mr. PASSMAN. We have gone up as high as $4 billion and wound up with a net deficit of $19,600 million for the past 10 years.

Mr. ELLIS. If it had not been for Japan the total balance of payments would have been worse.

Mr. PASSMAN. It follows, nevertheless, that we had a balance-of-payments deficit last year.

Mr. ELLIS. No question about it.

Mr. PASSMAN. And we had a decrease in our gold reserves last year.

Mr. ELLIS. No doubt about that.

Mr. PASSMAN. We are getting slapped on either cheek.

Mr. CONTE. Do you know whether Japan bought any gold from the United States last year?

Mr. ELLIS. I do not know. I would doubt it since their gold and foreign exchange went down during the year. If they did it would have netted out, I am sure.

PURCHASE OF GOLD BY JAPAN

Mr. PASSMAN. I might say that in 1959 Japan did buy from us $157,400,000 worth of gold. In 1958 it was $30 million.

I have the figures for 1960 in my office. Over a recent period of years they bought over a quarter billion dollars worth of U.S. gold against their dollar credits.

Mr. CONTE. We have been talking about trucks. How about passenger cars?

Admiral HEINZ. None.

Mr. CONTE. Have we bought passenger cars for any of these countries in the Far East?

Admiral HEINZ. There are no passenger cars approved in this program, sir.

Mr. CONTE. None at all?

Admiral HEINZ. That is right. The trucks we are talking about are all military type vehicles, that is from quarter-ton jeeps to——

Mr. CONTE. I realize that. There are no passenger cars, however?

Admiral HEINZ. That is right.

Mr. CONTE. Off the record.

(Discussion held off the record.)

PUBLIC LAW 480 AGREEMENTS

Mr. CONTE. With regard to X country have we made any contracts with them with regard to Public Law 480 commodities?

Mr. ELLIS. Yes, sir. We have had an agreement almost every year, Mr. Conte. The 1962 agreement was $52 million. Estimated for fiscal year 1963 it is $———.

Mr. CONTE. What part of this was used by X country for the purchase of military equipment?

Mr. ELLIS. I don't understand the question.

Mr. CONTE. We generated local currency there. What was the local currency used for?

Mr. ELLIS. Our plans are to use the Public Law 480 currency for military purposes, military budget support.

Mr. CONTE. $51 million. This is $51 million in addition to what you are asking in this budget. What is the exact amount you are asking for?

Admiral HEINZ. The amount for X country is ———.

Mr. CONTE. In actuality, then, we are asking here for about ——— for military assistance to this country. That is what it amounts to.

Admiral HEINZ. Yes, sir.

Mr. CONTE. Out of this ——— they can purchase their military equipment from any country they want. Is that right?

Admiral HEINZ. No, sir; that is for pay subsistence. It is their own defense budget cost.

Mr. CONTE. The defense budget would include military equipment as well.

Admiral HEINZ. It could include buying military equipment from other countries.

However, in the case of Korea the budget is worked out jointly by our mission in Korea and the Korean Government and we know exactly where they are budgeting all their money in their defense budget. This has been very carefully scrutinized.

(Off the record.)

None of it is going for purchase of military equipment in any other country. We are providing them with the equipment.

Mr. CONTE. The Foreign Affairs Investigating Team stated with regard to X country that the local currency given by the United States to finance the military budget is being used to buy the country's own dollars at the central bank and finance the import of military equipment not supplied by the United States as part of the military assistance program.

Mr. ELLIS. I think that applies to Turkey.

Mr. CONTE. The same report also states—

> In the same country U.S. officers when sent to the same base on temporary duty received $5.60 per day.

Is this true?

General PALMER. I will have to see what you are reading.

I haven't the facts.

Mr. CONTE. We should find out before the hearings are over. If we are paying our own personnel $5.60 a day subsistence and we are giving these foreign allies of ours $12 a day this demands another look. This is a serious situation.

Mr. ELLIS. This report was published over the weekend and we got it yesterday. It is being staffed up very seriously.

Mr. PASSMAN. There is something we overlooked a while ago, in our haste to get through the examination.

REPLACEMENT PARTS FOR VEHICLES PROCURED IN JAPAN

We were speaking in terms of some ——— trucks which American dollars purchased from Japan, with the total amount close to a quarter billion dollars.

We must also take into account that, by the fact we purchased these trucks from Japan, under the military assistance program, we will

have to appropriate American dollars in the future to buy Japanese replacement parts for them.

That fact, in itself, could cost more than the original appropriation. It could be that in 2 or 3 years the repair parts will exceed the original cost, so this may be just a beginning.

To say the least, whatever the cost of the maintenance of those trucks and repair parts, they will be made in Japan and paid for with American dollars.

Do you agree with that statement?

Mr. CONTE. Definitely.

TRAVEL OF FOREIGN TECHNICIANS

Another disturbing thing in this report, I realize you have not read it:

> In one country local currencies applied by the United States to the military budget were being used to pay for first-class air travel for foreign technicians, not United States, to go home on leave every 2 years. U.S. Ambassadors are currently required to travel second class when riding on jets, although they can travel first class in the Pacific area.

Do you know anything about this, that these technicians were allowed to come home every 2 years by jet with first-class transportation?

Admiral HEINZ. I do not. I believe that also applied to Turkey. The next group can testify on that.

I am familiar with some facts applying to country X and Vietnam.

Mr. PASSMAN. Thank you very much, Admiral.

TUESDAY, MARCH 27, 1962.

MILITARY ASSISTANCE, NEAR EAST AND SOUTH ASIA, INCLUDING AFRICA

WITNESSES

BRIG. GEN. STEPHEN O. FUQUA, JR., U.S. ARMY, DIRECTOR, NEAR EAST AND SOUTH ASIA AND AFRICA REGION, OASD (ISA)
GEN. W. B. PALMER, DIRECTOR OF MILITARY ASSISTANCE
COL. AUBREY P. NATHAN, SPECIAL ASSISTANT, OFFICE OF THE DIRECTOR OF MILITARY ASSISTANCE, OASD/ISA
LT. COL. ROBERT SIMPSON, U.S. AIR FORCE, OFFICE OF THE DIRECTOR OF MILITARY ASSISTANCE
CHARLES QUINN, JR., OFFICE OF THE NEAR EAST AND SOUTH ASIA AND AFRICA REGION, OASD (ISA)
COL. HOWARD JUNKERMANN, ASSISTANT TO THE DIRECTOR OF NEAR EAST AND AFRICA REGION
COL. WILLIAM A. CURTIN, OFFICE OF THE ASSISTANT TO THE SECRETARY OF DEFENSE, LEGISLATIVE AFFAIRS
CLARENCE S. GULICK, DIRECTOR, OFFICE OF DEVELOPMENT PLANNING, BUREAU FOR THE NEAR EAST AND SOUTH ASIA
TOM FARER, MAP PRESENTATION COORDINATOR, PRCS, AID
JAMES N. CORTADA, DIRECTOR OF NEAR EAST AND SOUTH ASIA REGIONAL AFFAIRS, DEPARTMENT OF STATE

Mr. PASSMAN. The next item will be consideration of the request for funds for the Near East and south Asia.

AFRICA

General FUQUA. This is divided into two parts. I shall testify on Africa first.

Mr. PASSMAN. We have with us for this presentation Gen. Stephen O. Fuqua, Jr., Director, Near East and South Asia and Africa region.

Of course, General Palmer is still with us, and will continue to be throughout the military assistance program hearings.

Mr. PASSMAN. Please proceed, General Fuqua.

STATEMENT BY BRIG. GEN. STEPHEN O. FUQUA, JR.

General FUQUA. Mr. Chairman and members of the committee, it is a privilege to appear before you for the purpose of discussing the military assistance program in the Africa region.

In the Africa region, the cumulative program to June 30, 1962, will total $107.3 million, of which it is expected $71.7 million will have been expended by that date and $35.5 million will still be in the pipeline.

The proposed fiscal year 1963 military assistance program for the Africa region is $37.6 million, which is $7.2 million more than the fiscal year 1962 program of $30.4 million. We propose fiscal year 1963 grant aid programs for the same eight countries as in fiscal year 1962 plus a special Africa program to cover anticipated requirements in some other countries. Exhibit A is an unclassified version of the regional summary on page 95 of the presentation book.

The proposed fiscal year 1963 program for the Africa region of $37.6 million will provide $10.9 million for essentially fixed charges such as training and supply operations; $4.6 million for force maintenance to provide spare parts, attrition replacement, training ammunition, repair and rehabilitation of equipment and other consumables for forces currently in being; and $22 million for force improvement. Exhibit B is a comparison of the fiscal year 1962 military assistance program with the proposed fiscal year 1963 military assistance program by major categories.

The force improvement includes naval patrol craft, vehicles, weapons, ammunition, communications equipment and liaison, trainer and transport aircraft.

STRATEGIC SIGNIFICANCE TO THE UNITED STATES

Over 60 percent of U.S. imports of asbestos, chromite, cobalt, columbium, tantalum, palm oil and thorium come from Africa. African countries bordering on the Mediterranean have special strategic significance. Our air bases and communications facilities are vital links in our worldwide strategic position. It is most important that the United States prevent significant gains by international communism in Africa. Bloc offers of military assistance to Ghana, Guinea, Morocco, Mali, and Sudan are evidence that the Soviet bloc is seeking opportunities to exert its influence in this area.

I will now discuss the individual country programs.

(Classified information relating to the individual country programs was presented to the committee.)

SPECIAL AFRICA PROGRAM

In addition to specific African country programs shown in the presentation book, we are requesting ——— for a special Africa program to finance new military assistance programs to improve the internal security of certain African countries. Until negotiations as to the scope and extent of military assistance are completed with the countries concerned, it is not possible to develop firm definitized programs. In certain instances, however, these country programs will be continuations of programs planned in fiscal year 1962.

A $25 million area program was included in the fiscal year 1962 presentation to meet anticipated programs for several newly independent nations (discussion on pp. 1292–1293, fiscal year 1962 hearings).

(Classified figures on country programs followed.)

SUMMARY

In summary, the proposed fiscal year 1963 program for Africa is $37.6 million to be devoted mainly for items and training which will improve the internal security capability of the specified African countries; in certain instances equipment and training provided will be useful in civic action programs. In addition, in those countries where the United States has base requirements our assistance is designed to enhance our continued unhampered use of the facilities required. The special Africa program is necessary to meet anticipated needs in other African countries and to continue fiscal year 1962 programs not yet approved.

Africa

[In thousands of dollars]

	Annual programs				Estimated deliveries/expenditures from fiscal year 1954–62 programs		
	Proposed, fiscal year 1963	Cumulative, fiscal year 1954–62	Fiscal year 1962 as of Jan. 4, 1962	Fiscal year 1961	Fiscal year 1962	Cumulative through June 1962	July 1962 and after
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Africa	$37,560	$107,262	$30,416	$24,963	$22,459	$71,734	$35,528
Cameroun	———	317	317	———	258	258	59
Ethiopia	———	67,480	11,649	13,576	13,432	54,000	13,480
Liberia	———	2,925	1,969	807	833	1,238	1,687
Libya	———	4,525	799	665	358	3,001	1,524
Mali	———	1,046	403	620	877	943	103
Africa undistributed	———	30,969	15,279	9,295	6,701	12,294	18,675
Credit assistance	———	4,756	———	———	59	4,220	536
Liberia	———	1,376	———	———	5	1,330	46
Africa undistributed	———	3,380	———	———	54	2,890	490
Excess stocks	765	11,740	595	1,566	3,345	11,303	437

NOTE.—Values have been included in the undistributed line for programs and deliveries which remain classified because of intergovernmental agreement or because of their sensitive nature.

Africa—Comparison, fiscal year 1962 and proposed fiscal year 1963 military assistance program

[Millions of dollars]

Category	Proposed fiscal year 1963	Actual fiscal year 1962
Total	$37.6	$30.4
Essentially fixed charges	10.9	5.1
Supply operations (PCH & T) and nutritional surveys	2.9	2.3
Training	8.0	2.8
Force maintenance	4.6	3.8
Spare parts	2.3	2.4
Attrition, training ammunition and rehabilitation of materiel	2.1	1.0
Other consumables	.2	.4
Force improvement	22.0	21.5
Aircraft	.2	.9
Ships		.6
Tanks vehicles and weapons	4.2	5.4
Missiles		
Electronics and communications	1.0	1.3
Construction	(1)	.1
Special programs	15.4	11.2
All other	1.2	1.9

[1] Less than $50,000.

Mr. PASSMAN. Thank you very much, General Fuqua.

In Africa last year there was a military aid program in the amount of $30,416,000. This year you are requesting $37,560,000, an increase of $7,144,000.

UNEXPENDED BALANCE

What is the unexpended balance to the credit of this area, estimated as of June 30, 1962?

General FUQUA. The unexpended balance is $35,528,000.

Mr. PASSMAN. You have an unexpended balance greater than the total amount of the fiscal year 1962 program and almost as great as the 1963 program request.

General FUQUA. That is correct, sir.

Mr. PASSMAN. What is the anticipated unexpended balance as of June 30, 1963? Have you been able to project that estimate?

General FUQUA. I haven't that figure, sir.

Mr. PASSMAN. The program is growing in this region?

General FUQUA. Yes, sir, it has increased and it is anticipated it may increase some more. For this reason we have requested the Special Africa program I referred to in my statement.

CLASSIFICATION OF MILITARY AID

Mr. PASSMAN. It has been established earlier that if we consummate the contracts presently being considered out of 1962 funds we will have a MAP program in 65 nations of the world. You have a number of African nations included here.

General FUQUA. That is right, sir.

Mr. PASSMAN. How can we give military aid, whether it is little or much, without the other nations in the world knowing the recipient countries are getting military aid? I do not believe it would be possible.

General FUQUA. We have done this, sir, in response to a request of the ——— Government involved.

Mr. PASSMAN. Did you find out why they did not want to acknowledge they were getting some military aid from the United States?

General FUQUA. In their request they expressed a sensitivity to having appeared to enter into a military alliance or agreement.

Mr. PASSMAN. Somewhat similar to a situation in another part of the world.

General FUQUA. Mr. Tasca will comment on that further.

Mr. TASCA. There is also another reason too, and that is that the United Arab Republic has been getting a great deal of assistance from the Soviet bloc.

Mr. PASSMAN. And assistance from the United States, too, have they not?

Mr. TASCA. I don't believe so but I shall leave that to General Palmer. That is not my area, sir.

Mr. PASSMAN. I speak of the U.S. assistance, regardless of the type. They have been getting substantial aid, have they not?

Mr. TASCA. Some economic assistance, but I would like to state that the United Arab Republic is not in the Bureau of African Affairs.

Mr. PASSMAN. I will not haggle over this item. We did not bring it up. However, during the hearings, we have found out that there were other nations which wanted military aid, but they wanted to price it themselves. (Off the record.)

Is this leading in the same direction? Are they trying to fool the Russians? What is the situation?

Mr. TASCA. It is also a matter of security. They would not want others to know the amount of aid they are getting.

Mr. PASSMAN. That is really over my head.

We were in another country, where the Russians had built a hotel. Before we went out on an inspection trip the State Department classified this big eight- or nine-story hotel, and the people in that country detoured us.

We did not know about that item until we got back to the States and obtained a picture of the hotel located in that country's capital city.

MOROCCO

I see that you have aid for another country in Africa, across the Mediterranean from Spain, in which we built expensive airbases, then turned them back to the country.

We were told last year that Russian personnel were present at the bases.

Do you have money in this request for Morocco?

General FUQUA. Yes, sir.

Mr. PASSMAN. Is this the country where we built airbases and turned back at least one of them to the Moroccans, and they terminated our contract?

General FUQUA. We turned back one base.

Mr. PASSMAN. One very expensive base.

General FUQUA. That is right.

Mr. PASSMAN. And the others are scheduled to be turned back?

General FUQUA. This was a base projected after Korea. It was never put into operational use and became excess to Air Force needs.

Mr. PASSMAN. If I remember correctly, when we were in Madrid last April we were told that Russian technicians were at the airbase

which we turned back, familiarizing themselves with the operation of it. So that base is back in Moroccan hands and, if our information is accurate, it is manned in part by Russian technicians, and we are going to turn the other bases back later. There is an agreement to that effect?

General FUQUA. There is. The base you are referring to was turned back to Morocco in March 1960. We have had no responsibility for it since then. When Morocco received Russian jet fighters in February 1961 the planes and accompanying technicians were sent for a short period to that base. They were subsequently transferred elsewhere in Morocco.

Mr. PASSMAN. Do you have any money in this bill for Morocco?

General FUQUA. We do.

Mr. PASSMAN. Is the amount classified?

General FUQUA. Yes.

Mr. PASSMAN. It is substantial?

General FUQUA. Yes, sir.

Mr. PASSMAN. We shall recess until tomorrow morning.

WEDNESDAY, MARCH 28, 1962.

Mr. PASSMAN. The subcommittee will come to order.

Near the close of the hearing yesterday we were discussing the situation in Morocco. This is repeating, but we were told during our very brief visit to Madrid last year that Russian technicians were then on the base which we are now giving, or have given up. The fact that we are giving up the other bases also is, of course, disappointing, but under the terms of the contract I suppose that is all we can do. However, to learn of such a high request for military aid to Morocco, in the amount of $———, is somewhat astounding. That is an increase of $——— over the appropriation for fiscal 1962.

ESTABLISHING LEVEL OF MILITARY ASSISTANCE PROGRAM

At what level are the decisions reached for military funds for a nation? Is the decision made in the State Department or is it made by the military authorities?

Mr. TASCA. It is a joint decision, sir. It is made by the State Department, by the military, and with the White House—the President.

Mr. PASSMAN. The President probably follows the recommendations of the State Department, where the requests are actually firmed up and brought into form, are they not? Does the military have very much to do with it other than possibly establishing what could be used?

General FUQUA. As far as the development of the military portion of this program is concerned, Mr. Chairman, the military does develop what we feel is a proper military program. As to the political advisability of it being offered to another nation that is, in the final analysis, a responsibility of the State Department, but we work closely with State in reaching the policy decision.

Mr. PASSMAN. It is a bit difficult to be a rubber stamp for programs from downtown, and I do not intend to be.

The press called me recently and asked what I thought of Fowler Hamilton. I said, in effect: he possesses great ability. He is a dedicated public servant, and if the administration will give him the right to really operate the AID program, to hire and fire personnel based upon their qualifications, and to establish the needs for aid to the various countries and fix the level of that assistance, based upon valid justifications, then the Congress and the American people will buy the program. But unless he is given those rights he will be just one more of the many, many directors.

And the further into these hearings we go, the more convinced I am that these things are not being done. The State Department is even fixing these military levels, and yesterday we sat here for hours, also the day before, and we were not given detailed information until we pried it out. It was certainly not in the justifications. You have just as little as can be committed to print here. I want to assure you there is nothing personal about my comment, but this is taxpayers' money that we are handling. So I just wanted to establish for the record that these military requests are fixed at the diplomatic, the civilian, level, and not by the military authorities. You are asked to fit your hardware into a program that is worked out at the State Department, so understanding that fact we shall proceed.

Mr. TASCA. Sir, may I add a note to this?

Mr. PASSMAN. Please do.

PROCEDURE FOR GRANTING MILITARY AID

Mr. TASCA. I believe the Department of Defense has a great deal to do with the amount of, and kinds of, military aid. When a foreign government asks for military aid they usually have some ideas of their own as to the kinds of things they would like to do and the first thing that happens is, it goes to the Department of Defense. They look at it and make a thoroughgoing appraisal as to whether it makes sense in terms of our objectives in the country, and U.S. foreign policy objectives generally. So we do not——

Mr. PASSMAN. It goes first to the Department of Defense, or does it originate in the State Department?

Mr. TASCA. We may act as the channel of communication giving it to the Defense Department but——

Mr. PASSMAN. That is just about the way it is all firmed up. You have a right to express yourself in the record, but I am not being deluded. The State Department is fixing the military program, it is on a political basis, and it has been so stated many times before.

Mr. RHODES. What form would your directive to the Department of Defense take, assuming a decision is being made to give military assistance to country X?

Mr. TASCA. I think it all depends on the individual situation. It depends on how the request from the foreign country arises. If the foreign government says to our Ambassador in the field that they would like to have the United States consider the possibility of some aid, military aid, they will come forward with a program of things they would like to get. The Ambassador will get that. He has a country team. In some teams it is the military attaché. In some cases it is the MAAG who has its own channels of communication to

the Department of Defense. You may have increments of aid; you will have cases, for example——

Mr. RHODES. Perhaps you misunderstood my hypothesis. In my question I said there was no aid to the country, but the country had requested it.

Mr. TASCA. I did misunderstand. If there was no military aid there might be a military attaché. If there is not a military attaché then the Ambassador presumably would be the sole channel of communication back to the Department of State. He would send in the program that the foreign government has asked for. That would go to the Department of Defense and the Department of Defense would look at it and screen it from the standpoint of whether it makes sense as a military program. We would look at that program in terms of the foreign policy aspects affecting the particular country, the foreign policy generally and then from that point on there will be consultations between the State Department and the Department of Defense and at some point there would be recommendations from the Secretary of State and he Secretary of Defense to the President and then there would be a decision made on the form and kinds of aid.

Mr. RHODES. Don't you have your order reversed? Don't you make a foreign policy decision before you go through all of the fuss and bother of trying to determine a military program?

MILITARY AID PROGRAM IN AFRICA

Mr. TASCA. Well, sir, we do have general foreign policy directives. You take, for example, in Africa. In the case of military aid in Africa—we are very lukewarm in encouraging any arms buildup in Africa. We prefer to see the African countries concentrate on economic development. So that as a general proposition we do not encourage any governments in Africa to submit programs for military aid. Now anything that does come in in the form of a request would be examined against that background.

Mr. RHODES. General, did you have something you wanted to add?

Mr. PASSMAN. If that is your policy, and you are encouraging that policy, why is military aid continuing to increase in Africa?

Mr. TASCA. One reason is, sir, we have had in the last fiscal year 18 new countries. There is a new one that came in in December. That is Tanganyika and one of the things that happens when these countries become independent is that they do want to have some armed forces of their own.

BASES IN MOROCCO

Mr. PASSMAN. How many bases have we built in Morocco?

General FUQUA. We have built four, sir.

Mr. PASSMAN. What was the total cost?

General FUQUA. Approximately $———, sir.

Mr. PASSMAN. $———. We are now giving up one of these bases, and we are giving up the others later.

General FUQUA. That is correct, sir.

Mr. PASSMAN. They had Russian technicians on the base last year, did they not?

General FUQUA. There were last year; yes, sir.

Mr. PASSMAN. Do you know that they are not still there?
General FUQUA. Our information is that they are no longer there.
Mr. PASSMAN. The base is not manned by American personnel?
General FUQUA. That is right.
Mr. PASSMAN. We have given up the airbase?
General FUQUA. Yes.

ECONOMIC AND MILITARY AID TO MOROCCO

Mr. PASSMAN. There was no military aid, as such, for Morocco until fiscal year 1960, was there?
General FUQUA. That is right.
Mr. PASSMAN. You started your aid in Morocco just about the time we were told the $——— worth of bases would be given back to Morocco. You had accumulated through fiscal 1962 $———. Now you are asking for $——— for fiscal year 1963 alone; is that correct?
Mr. TASCA. Yes, sir.
General FUQUA. That is correct, sir.
Mr. PASSMAN. That fact certainly would not support you in your position, would it, that you are placing emphasis on economic, and not military aid?
(Off the record.)
Mr. TASCA. We have had forces in this country since 1942.
Mr. PASSMAN. What was the total cost from the inception of the program through fiscal year 1962?
Mr. TASCA. Could you take that on, General?
Mr. PASSMAN. If you will, go to page 111.
General FUQUA. The total cost, sir, has been ———.
Mr. PASSMAN. What amount are you requesting for fiscal year 1963?
General FUQUA. $———.
Mr. PASSMAN. I want the State Department to tell us why you are requesting an increase.
Mr. TASCA. Yes, sir.
Mr. PASSMAN. $——— more in 1 year than the total amount since you have originated the program.
Mr. TASCA. Well, sir, we do want to stay in there. We have an agreement to stay in this area until 1963. We think it is very important for us to stay there until the end of 1963.
Mr. PASSMAN. That is 9 months.
Mr. TASCA. (Off the record.)
Mr. PASSMAN. Why did you increase this program for fiscal year 1963, Mr. Secretary? You are requesting $——— more for 1963 than the total amount you have received since the inception of the program. We are giving up all the bases, which we established at a tremendous expenditure. Now you are asking for more in 1 year than the (off the record).
General FUQUA. The King of Morocco has asked for additional aid——

NEED FOR INCREASE IN MOROCCAN PROGRAM

Mr. PASSMAN. There is $——— over last year and $——— over the total amount since the inception of the program.

If you could, tell us briefly what brings about this necessity for an increase.

General FUQUA. Yes, sir. The King of Morocco——

Mr. PASSMAN. Of the total $——— there is still $——— on hand, unexpended, so you have really spent only $——— since the inception of the program. Why is it necessary to increase it in such proportions for fiscal year 1963?

General FUQUA. During this period of time the King of Morocco decided he wanted to expand his armed forces. He has had offers from the Soviet bloc.

Mr. TASCA. And we have felt in view of the importance of this base, in view of the importance of the location now and even after fiscal year 1963 because it is very close to our bases in Spain——

Mr. PASSMAN. They are close to the bases we have given up?

Mr. TASCA. We haven't given them up.

Mr. PASSMAN. We have given up one.

Mr. TASCA. We will have them until after fiscal year 1963.

(Off the record.)

Mr. PASSMAN. This is by request of the King of that country?

Mr. TASCA. Yes, sir.

Mr. PASSMAN. And he is not especially friendly to the United States, is he?

Mr. TASCA. We think he is friendly, sir. We do not think he is unfriendly.

POLICY OF NONALINEMENT

Mr. PASSMAN. Why did he kick us out of there, then?

Mr. TASCA. A lot of these countries feel that, in terms of their posture in the world, they want to be unalined—they do not want to be on one side or the other in the sense of getting involved in issues which they view as issues of the cold war. Primarily in this country, I suppose, and it is true in other countries because they are poor countries, they want to spend all their time building up their own countries. They do not feel that at their stage of development they want to get involved in issues which they think would involve them in alinement with one side or the other.

Mr. PASSMAN. You just said, Mr. Secretary, that we are proposing this increased amount because the Soviets promised to give them some aid. I am wondering if this is not more or less just appeasement, and I am wondering if their friendship is limited to the amount of money they are getting. I do not want you to think that I am trying to deal in personalities here, but we are in 65 nations with this military program, and the people who have kicked us hardest appear to be getting the biggest buildup this year. You take ———, ———, and ———. It just does not add up.

MILITARY EQUIPMENT FOR MOROCCO

What kind of equipment are you going to supply to them for this money this year?

General FUQUA. The increase is largely due to a $——— program which involves the development of a service for the Moroccan ———.

Mr. PASSMAN. You are tying it right in with those airfields we have given up and will give up.

General FUQUA. Sir, they will use the airfields, that is true. We feel that this——

Mr. PASSMAN. But not using them under the supervision of American personnel, and the plan is so developed?

General FUQUA. We feel that the program that is envisaged will involve the presence of U.S. military personnel along with the equipment and will involve training——

Mr. PASSMAN. What is this $——— special grant?

General FUQUA. It will be a program to provide for them ——— and also——

Mr. PASSMAN. Are you referring now to some obsolete or obsolescent military equipment?

General FUQUA. They are in a sense obsolescent. They are in active service.

Mr. PASSMAN. The ——— is obsolescent so far as our own services are concerned?

General FUQUA. We still use the ———.

Mr. PASSMAN. They are obsolescent though. How about the other ———.

General FUQUA. The ——— are currently in use by our Air Force. We could make these available——

Mr. PASSMAN. Is it in an obsolescent stage?

General FUQUA. Yes, it is.

Mr. PASSMAN. Could it be, again, that this program is giving the military a right to unload a lot of obsolescent equipment and to acquire a new appropriation to be spent for new equipment? Is that actually what we are going to conclude before these hearings are over?

General FUQUA. No, sir.

ORIGIN OF MOROCCAN PROGRAM

Mr. PASSMAN. Who cooked up this program of ——— for obsolescent equipment for the Moroccans?

General FUQUA. This program was developed by a survey team which went to Morocco.

Mr. PASSMAN. Military or civilian?

General FUQUA. The military team of Air Force officers.

Mr. PASSMAN. By request?

General FUQUA. Yes, sir.

Mr. PASSMAN. Of whom?

General FUQUA. It was requested by the State Department from Morocco itself.

Mr. PASSMAN. And you had no knowledge of it, the military, until the State Department had requested their survey team? Your request came from the State Department, to go out there and make a survey and establish a need for the $——— in this obsolescent equipment?

Mr. TASCA. But the request came after a request of the Moroccan Government.

General FUQUA. They made the request——

Mr. PASSMAN. I do not blame them. They might request the Capitol and get it. Nothing would surprise me.

DETAIL OF REQUEST FOR MOROCCO

Mr. RHODES. Just a minute, Mr. Chairman. They have no ——— listed here.

Mr. PASSMAN. They have no detail.

What is your detail on this $——— package?

General FUQUA. The detail was not available, sir, when the book was printed.

Mr. PASSMAN. Do you now have any detail?

General FUQUA. We have some detail we could provide.

Mr. PASSMAN. How much detail do you have with respect to building other airfields over there, as well as buildings and hangars?

General FUQUA. We are not building any airfields.

Mr. PASSMAN. Any hangars?

General FUQUA. We are going to use the facilities which are currently in existence. The program calls for the furnishing over a period of time of the ——— I mentioned plus a training program to provide training for the Moroccan ———.

EQUIPMENT COST

Mr. PASSMAN. Let us total up the items included in the ——— What will be the cost of the ———? The ——— first. How many and at what cost?

General FUQUA. ———.

Mr. PASSMAN. What is the cost?

General FUQUA. I do not have that.

Mr. PASSMAN. What was the original acquisition cost?

General FUQUA. I do not have that answer, sir.

Mr. PASSMAN. Are you going to develop the military assistance program at the original acquisition cost of the equipment or will it be on a percentage of the cost?

General FUQUA. It will be at a reduced cost which has not yet been developed. This program——

Mr. PASSMAN. How can this committee intelligently take this bill out if we cannot tell the other members of the committee what this $——— package consists of? Could you have one of your aides get that information? If so, we can discuss it before we finish the hearings.

General FUQUA. Yes, sir.

(The information requested was submitted to the committee.)

Mr. PASSMAN. Beyond the ——— and the ———, what is the next item?

Are there any other———?

General FUQUA. There are no other ——— involved in this transaction.

Mr. PASSMAN. What else do you have in the package?

General FUQUA. There are some———.

Mr. PASSMAN. How many ———?

General FUQUA. ———.

Mr. PASSMAN. At what cost?

General FUQA. The cost has not yet been determined, sir.

Mr. PASSMAN. Are they new or old ones?

General FUQUA. These will be new, sir.

Mr. PASSMAN. And you do not know the cost of them?
General FUQUA. Not at this time.

BASIS OF BUDGET ESTIMATES

Mr. PASSMAN. How did you arrive at the need for ——— if you do not know the cost of this equipment?
General FUQUA. This was an estimate, sir, that this program would cost this much. As we go along it will be——
Mr. PASSMAN. How did you arrive at your estimate, General? You had to have some reason to put a $——— figure down, unless it is a pie-in-the-sky figure. Where did you get those figures?
General FUQUA. We have the figures in the survey report.
Mr. PASSMAN. Can you get that survey report? The committee would like to have a look at it. We would like to know how these round figures get into these requests.
General FUQUA. Yes, sir. I can make it available to you.
Mr. PASSMAN. What else do you have——
Mr. TABER. Why not bring the report down?
Mr. PASSMAN. He will do that.
What else do you have in this $——— package?
General FUQUA. In that $——— there is the continuation of the ——— program.
Mr. PASSMAN. Did you not say that this was a new one-package program, the $———?
General FUQUA. This $———.
Mr. PASSMAN. Of course you have $———, General, and this is a $——— package that we are trying to find out about.
General FUQUA. The part which is the smaller part of this program is new. It is not part of this $———.
Mr. PASSMAN. What does that call for, sir?
General FUQUA. About $——— of the total $———.
Mr. PASSMAN. What are you going to procure with the $———?
General FUQUA. It is estimated we will procure ———.
Mr. PASSMAN. What kind, General?
General FUQUA. ———, sir.
Mr. PASSMAN. At what cost?
General FUQUA. We don't have the cost at the present time, sir.
Mr. PASSMAN. Can you tell us how the committee can make recommendations for funds for this, if you do not know what it is going to cost?
Are they going to be new or old ———?
General FUQUA. These will be new, sir.
Mr. PASSMAN. Where will you get them?
General FUQUA. They will be procured in the United States somewhere. I don't know.
Mr. PASSMAN. But you do not know the cost?
General FUQUA. I haven't that detail.
Mr. PASSMAN. What else is included in this $——— package?
General FUQUA. We have nothing more than that $——— package.

Mr. PASSMAN. The ——— part of it is $———?

General FUQUA. Yes, sir.

Mr. MONTOYA. Will the gentleman yield at that point?

Mr. PASSMAN. Yes, I yield.

Mr. MONTOYA. What cost figures do you have for rehabilitation of these ——— before you deliver them to them?

MOROCCAN MILITARY PROGRAM REQUEST

General FUQUA. We haven't the figures available right now. We can get that later. We haven't determined yet which ——— are going to be delivered. As soon as it is determined what will be delivered, if that program is accepted—it has not yet been offered to the Moroccans.

Mr. MONTOYA. Is that rehabilitation cost going to be within the $——— item?

General FUQUA. Yes, sir.

Mr. PASSMAN. Sir, what do you mean this hasn't been offered to the Moroccans? I thought it was by their request.

General FUQUA. They requested a program. We have not yet offered a program, the program I have been discussing.

Mr. PASSMAN. They want a program?

General FUQUA. They have requested a program.

Mr. PASSMAN. In prior years, while we were spending $——— in Morocco, did they request a program?

General FUQUA. They requested no such program as we are considering at this time.

Mr. PASSMAN. Did they request a military program?

General FUQUA. Yes, sir. Primarily a ground program which has been in being for some time.

Mr. PASSMAN. But we were able to go from the inception of the program through fiscal year 1962 with a total military aid expenditure of only $———. Now you are requesting $——— for 1 fiscal year, based upon the fact that the Moroccans asked for these items.

General FUQUA. They asked for an increase in their military program largely because of the ——— program.

Mr. PASSMAN. Since this has not been submitted to the Moroccans, why couldn't you have worked out a program similar to what they have had in previous years? Why do we have to shoot the moon on this thing? We would look at a question like this, where we have spent $———, and they said, "Get out," and we have agreed to get out, and have turned one base back. Now we come up with a program for 1 year (off the record).

General FUQUA. We feel the program which we have been considering is a program which will be responsive to their requirements. It will give them the entire type of program which they are capable of absorbing.

Mr. PASSMAN. I had thought that we worked out these programs.

General FUQUA. We said that they asked for the program. We will be the ones who will develop the program and offer it to them.

Mr. PASSMAN. What do you think would happen if you went back to the Moroccans and said that we have expended in their behalf $——— since the inception of this program? Suppose we said, "We want to give you the same amount for fiscal year 1963, because you have $——— unexpended coming." What do you think their answer would be?

General FUQUA. I do not know what their answer would be.

Mr. PASSMAN. You would have to go to the State Department to determine the reaction, because you do not know?

STATE DEPARTMENT JUSTIFICATION FOR MOROCCAN REQUEST

General FUQUA. We would have to consult the State Department.

Mr. PASSMAN. This is not something in the nature of Haile Selassie's modern fighter planes in Ethiopia; is it?

Mr. TASCA. Sir, the King does want to have certain armed forces and he is determined to have them. We think that this country is important enough to us and their friendship is going to be important, even after 1963.

Mr. PASSMAN. They have not indicated in the past that this friendship is particularly important, have they?

Mr. TASCA. I think the fact that we have had one of our major SAC bases there and will have up until 1963 and have had throughout the whole period since the end of the war has been very valuable to us, sir.

Mr. PASSMAN. You are talking about 21 months. We have given up one air base. (Off the record.)

Mr. TASCA. We prefer to have the United States helping them. (Off the record.)

Mr. PASSMAN. If we may go to your justifications, page 109, I think it would contradict your statement, Mr. Secretary, so you ought to change one or the other. (Off the record.)

Mr. PASSMAN. You do not actually work this out yourself. You, too, take orders from a little higher up, do you not?

Mr. TASCA. We are all part of a team, sir, and I represent the views of the Department.

Mr. PASSMAN. You do not formulate these plans, do you?

Mr. TASCA. No, sir, I do not.

Mr. PASSMAN. There is no use for me to press it any further.

Mr. ALEXANDER. Would the chairman yield?

General, at page 111 you set out in "Other equipment and supplies" your ——— request. You detail it to us as equipment which is the major portion of that amount of money. You have in your justification no request for ——— no request for———. Is this a means of hiding it or why didn't you list them as ——— and list them as ———?

General FUQUA. At the time this book was printed, sir, this information was not available. There was no attempt to hide any of this information.

Mr. ALEXANDER. How in the world would you arrive at the figure of $——— if you didn't know what was going into that figure?

General FUQUA. We knew at the time the book was printed and we put in line 8 ——— which you refer to. We knew that this was an estimate of what this program would cost. We did not have the breakout at the time or else we would have put it in the various categories of the line items.

Mr. ALEXANDER. How could you possibly arrive at a definite figure unless you knew what was going into it?

General FUQUA. Well, the survey had not yet been completed at the time this book was printed.

Mr. ALEXANDER. How could you arrive at a figure if the survey isn't completed?

General FUQUA. There was an estimate, sir.

Mr. PASSMAN. How do you get odd dollars in the estimate? If you used a round figure it would be different.

General FUQUA. The odd figure is something else. It is for one sheepsfoot roller and one loader scoop with spares.

Mr. PASSMAN. If you follow down here, you see the various small figures. You have to be dealing with items and the cost of items, to be able to put this down, and you had that information at the time you printed this book.

General FUQUA. I have that information that I can give you, sir.

Mr. PASSMAN. I thought you told the gentleman you did not have it.

General FUQUA. I thought he was talking about the ——— program.

Mr. PASSMAN. It is all part of this.

General FUQUA. The breakout of the program is what we didn't have.

Mr. PASSMAN. Is it ———?

General FUQUA. It is ———.

Mr. PASSMAN. Then, again, you had to deal with the items to arrive at the amount, did you not?

General FUQUA. The $49,000, as I explained, was for these two pieces of equipment. This is the program we were discussing earlier.

Mr. ALEXANDER. In other words you just estimated a program and then you are filling it in as you want to now?

General FUQUA. We estimate a program. If the program does not come to ——— it will be refined to the cost that it comes to. This was our best estimate at the time that we are presenting our program to Congress.

Mr. ALEXANDER. Is this the way you draw up all of these requests? You estimate what you think you are going to need before you itemize the things that you are going to put into the program?

General FUQUA. No, sir. Quite often, we know.

Mr. ALEXANDER. Why did you make an exception——

General FUQUA. Because we didn't have the information at the time we were making this request for funds before Congress. Normally or quite often we do have far more detail and can put it in the book and can give you much more detail about it, as we do in some of the other line items.

Mr. PASSMAN. Will the gentleman yield at that point?

Mr. ALEXANDER. Certainly.

PROGRAM REQUEST BY KING OF MOROCCO

Mr. PASSMAN. The King of Morocco requested some kind of a program?

General FUQUA. Yes, sir.

Mr. PASSMAN. It has not yet been submitted to the Moroccans?

General FUQUA. That is correct, sir.

Mr. PASSMAN. They do not know what kind of a program they are going to have?

General FUQUA. That is correct, sir.

Mr. PASSMAN. So, if this program is cut back this year there would not be any damage done, inasmuch as there has been no commitment for this amount of money, or this particular program?

General FUQUA. Well, the King has requested—as you say he has requested a program.

Mr. PASSMAN. But he did not know what program you were going to submit?

General FUQUA. I am sure he expects a program of some sort to be offered to him.

Mr. PASSMAN. Certainly. But if you did not carry it out as you have planned it here, and as you are asking for about ———. (Off the record.) There would not be any harm done, would there?

General FUQUA. I cannot say there would be no harm done. I believe it would mean——

Mr. PASSMAN. He doesn't know what kind of a program you are going to offer?

General FUQUA. He expects ——— program of some kind.

Mr. PASSMAN. He has had a program of some kind in the past?

General FUQUA. Not ——— program.

Mr. PASSMAN. What type of program have you had in the past, then?

General FUQUA. It has been largely an Army program, sir.

USE OF UNEXPENDED BALANCES

Mr. PASSMAN. What are you going to do with the ——— you now have to the credit of the Morrocans, unexpended?

General FUQUA. This ———.

Mr. PASSMAN. From prior year reservations. What do you have planned to deliver to Morocco for the ——— that you have in reserve.

General FUQUA. They are itemized here in the book. (Off the record.)

Mr. PASSMAN. That is a pretty big item. What do you mean by "Other equipment and supplies"? What does that represent?

General FUQUA. I do not have that column broken up——

Mr. PASSMAN. Do you know in what year you reserved those funds?

General FUQUA. They are from 1960 and 1961. This program started——

Mr. PASSMAN. It is a relatively new program?

General FUQUA. In 1960 we instituted a ——— year program with the Moroccan Government.

Mr. PASSMAN. But at the time you did not have in mind any ———.

General FUQUA. There was no ——— program.

Mr. PASSMAN. There was no ——— program, but the King came up and asked for one ,and we jumped to do his bidding, so we prepare such a program to submit for his approval.

General FUQUA. We are preparing a program.

Mr. MONTOYA. Will the gentleman yield at that point?

Mr. PASSMAN. Surely.

AID FUNDS FOR MILITARY BUDGET SUPPORT

Mr. MONTOYA. Now, General, are you aware that in addition to the military assistance program which you have been justifying here that there is another item that goes into the Government known as "Budget receipts from U.S. Aid"? Are you acquainted with that?

General FUQUA. I am aware of it. I am not sufficiently acquainted with the details to discuss it, sir.

Mr. MONTOYA. Are you also acquainted with the fact that for 1959 budget receipts from U.S. aid amounted to $42 million; for 1960, $53 million; and for 1961, $44 million; and that these budget allocations of money into the internal government budget of Morocco can be utilized for defense expenditures by that government? In effect, this could be added to the actual sum which you are requesting because they could utilize the full sum for military expenditures if they wished.

Mr. PASSMAN. That amounts to some $40 million.

Mr. MONTOYA. That is right; $41 million for 1959, $53 million for 1960, and $44 million for 1961.

General FUQUA. I have no information as to the magnitude of the figure, sir.

Mr. MONTOYA. It is in the justification here.

Now, the point I want to make after my preliminary statement is this: In any negotiations with the Moroccan Government, has the State Department or anyone else dealing with this subject brought up the matter of utilization of the so-called budget receipts assistance which we have been extending instead of increasing the "Military assistance" item in the appropriation?

General FUQUA. Mr. Tasca, could you speak to that?

Mr. PASSMAN. Could you address yourself to that point, Mr. Secretary?

Mr. TASCA. I might say on that, that it is certainly a possibility. What you have said is certainly accurate. They could have used this money for military. I think the answer to that is that it is a country that also has a development program and we think it is important that they do have their development. They attach very great importance to it, so if there had been this substitution they would have had a slow rate of development, and I think that would have created a situation there which would not be good in terms of the fact that we do have a big base complex and will have it until the end of 1963.

Mr. PASSMAN. In connection with your reply to the Governor's question, how much are they losing by kicking us out of the country with those bases? What will the ultimate loss be to them by asking us to give up a ——— expenditure in the country? We have personnel and maintenance in there. What will they lose?

General FUQUA. It will be on the order of $15 million a year, sir.

Mr. PASSMAN. They are going to lose that much, and that could have been used for economic development, could it not?

Mr. TASCA. Yes, it could. I think it is just an indication of how strongly they feel about getting themselves unalined and they are willing to pay that——

Mr. PASSMAN. But we are trying to realine them, while they are getting unalined?

Mr. TASCA. We would like to keep them friendly to us because they are still important and will remain important.

Mr. PASSMAN. Mr. Secretary, to see this thing jump from $——— last year to $——— this year, during a time in which we have had to give up a $——— investment there, you can understand why the committee would be somewhat disturbed. As helpful as we were, to have these people play with us like we were monkeys on a string, it is absolutely embarrassing, and I believe it is embarrassing to some of you gentlemen.

FUNDS FOR TRAINING PURPOSES

Mr. ALEXANDER. Mr. Chairman, I wanted to follow up on one point.

General, in training you have $———. You stated that the $——— was an estimate. Is the amount of training an estimate or was that a firm figure at the time it was put in the book?

General FUQUA. The training $——— that you alluded to, sir, includes training, an estimate of training which would be required to be commensurate with the program of ———.

Mr. ALEXANDER. But you didn't know what the program was at the time this was estimated. Now, the training is also an estimate, is that right?

General FUQUA. Yes, sir. The training is an estimate as far as that ——— part is concerned.

Mr. ALEXANDER. Do you have that firmed up now?

General FUQUA. It isn't firmed up; no, sir. It is still an estimate.

Mr. ALEXANDER. Could you break it down?

General FUGUA. I could break it down to show how much ——— training there will be.

(Off the record.)

Mr. ALEXANDER. Yet you are giving them ———.

General FUQUA. Yes, sir, but no training is involved in this.

Mr. ALEXANDER. How much of the money involved is for training of ———?

General FUQUA. I cannot give you the dollar figure. I have the spaces and the number of personnel involved in a table here for both the Army and the training programs.

Mr. ALEXANDER. Are they trained in the United States or are they trained in Morocco?

General FUQUA. As far as one service is concerned they will be trained both in the United States and overseas. As far as the other is concerned it is envisaged they will be trained in the United States.

Mr. ALEXANDER. How many would you bring over here under your program?

General FUQUA. We would estimate ———.

Some personnel would take more than one course.

Mr. ALEXANDER. How long would they stay in this country?

General FUQUA. It varies. For instance, 46 weeks for ———. Each one of these programs would vary in its length. The course would last a little bit longer than say the command and staff course. For each one I could break it out and give it for the record, sir, but at the time we put these figures in I did not have it and I do not have it right now but it is fixed—the length of each one of these courses is fixed.

Mr. ALEXANDER. Could you put that in the record?

General FUQUA. The length of the course?

Mr. ALEXANDER. The entire program for ——— what it would cost, whether it would be training in the United States or in Morocco.

General FUQUA. It would be training in the United States. This training program calls for the United States.

Mr. ALEXANDER. That is all, Mr. Chairman.

(The information requested was submitted to the committee.)

MOROCCAN AIRBASES

Mr. RHODES. General, when we leave these airfields in Morocco, what shape will we leave them in? Will we leave them in operating condition?

General FUQUA. We will leave them in the operating condition as they will be on the last day of our occupancy. We will remove our property, of course, the movable property.

Mr. RHODES. They will be in perfect condition to take some more MIG aircraft, then?

General FUQUA. They will be in operating condition.

Mr. TASCA. May I make a statement on this?

Mr. PASSMAN. Did you leave the base which we vacated in good operating condition?

General FUQUA. We did, sir.

Mr. TASCA. I would like to make one statement off the record on this problem.

(Discussion off the record.)

SOVIET TECHNICIANS IN MOROCCO

Mr. TASCA. The second point, which can be on the record is we are working with them on the conversion of these bases to various types of civilian uses.

Mr. PASSMAN. But they did bring in Russian technicians, and there are some Russian technicians still there, and do you have Russian——

General FUQUA. Not at this base.

Mr. PASSMAN. (Off the record.)

Mr. PASSMAN. Russian MIG's are landing on this base which we gave up, are they not?

General FUQUA. They have been moved.

Mr. PASSMAN. They could, if they wanted to, use that base?

General FUQUA. They could land there.

Mr. RHODES. It does not matter what base they are on; they are still in Morocco. They use a base which the general chooses to call ———.

General FUQUA. This is a French base and hasn't been under our supervision.

Mr. RHODES. There are Russian personnel still in Morocco, flying personnel, and there are MIG aircraft there?

General FUQUA. That is correct, sir.

Mr. RHODES. Did we have any agreement with the Moroccans before we evacuated this first base as to whether personnel of a foreign nation would be allowed on the airfields?

General FUQUA. There is no agreement to my knowledge.

Mr. Tasca, do you know of any agreement?

Mr. TASCA. No, sir, I know of no agreement at that time.

(The following was subsequently submitted for the record)

The Moroccans have assured us the bases will not be turned over to anyone else. Putting these planes on the base was considered by them for Moroccan use and not foreign use.

Mr. RHODES. Suppose this agreement were not to be honored by the Moroccan Government, would we then continue our aid to them?

Mr. TASCA. I think we would take a very serious view of it, sir, and we would certainly want to look at the various means available

to try to persuade the Moroccan Government that this was a most unfortunate occurrence.

CONVERSION OF BASES TO CIVILIAN USE

Mr. RHODES. Don't you think it would be safer from our standpoint if we would dismantle those bases before we move out? After all, these bases are very close to some rather important areas of Europe—important to us.

Mr. TASCA. Sir, I think there would be one major disadvantage to that and that is that the King of Morroco would like to see these bases converted to civilian use to the maximum extend possible so they could be used to help the economic development of the country. If we moved in the direction of making that unlikely and impossible, that we would create a great deal of unfriendly feeling in the country.

We have one case where it already happened. In the case of Guinea when the French moved out they did move everything out and the result was the people were extremely angry with the French and the Soviet bloc moved in in great force with technicians, aid and equipment, and so on. We do not think in view of the importance of the area and in view of the fact that our other bases are very close by that it would be a wise thing for us to follow a policy that would make these people basically unfriendly to the United States.

Mr. RHODES. In view of the political alinement of the people who are heads of the Government of Guinea, I doubt if your example is a very good one.

It strikes me that it would certainly be possible to leave a base in condition to be used for civilian aircraft but not for military. There is a great difference between a civilian base and a military base. If we have these bases in such condition as to be readily available for use by military aircraft, in light of the experience we have already had with the King of Morocco, then I think somebody is guilty of a degree of negligence which is just a little bit short of something worse.

There is a valid difference between a civilian airfield and a military airfield and I hope you people will keep it in mind.

Mr. PASSMAN. What was the import of your statement, "Importance to the area"?

Mr. TASCA. This an area that is very close to our NATO bases, and also to the bases we have in Spain.

UTILIZATION OF PRESENT UNEXPENDED BALANCES

Mr. PASSMAN. General, you have this unexpended credit in the amount of $———, dating back to fiscal 1961 and 1962. This amount could be dereserved or deobligated in subsequent years if you found no need to go through with this part of it; is that correct?

General FUQUA. This is correct, if the program were cut off.

Mr. PASSMAN. Or if you changed your program, because you are coming up with a different program for fiscal year 1963. It could be that you would not need to carry out some of the items in the prior years' program.

General FUQUA. There could be changes; yes, sir.

Mr. RHODES. Mr. Chairman, let us find out if they know how much of this $ ——— is obligated and how much is dereserved.

Mr. PASSMAN. We have asked previously, and we want to ask the same question of you. We shall ask that question all the way through.

General FUQUA. This $———?

Mr. PASSMAN. Everything in your area. This question will also apply to all the countries we shall examine—regarding any unexpended balance, when it was obligated, whether it is obligated or merely reserved, and so forth.

General FUQUA. As far as determining when it was obligated, this information is not available because of the accounting system.

Mr. PASSMAN. General Palmer has said he could give it to us. Will you discuss it with him?

We want the information, the accounting system notwithstanding.

I believe you said earlier a good part of the $——— package would be for obsolescent equipment that is presently on hand, such as the———.

General FUQUA. Yes, sir.

EXCESS STOCKS IN TOTAL AFRICAN PROGRAM

Mr. PASSMAN. Percentagewise, what would you think, of the total request in your area, what would come off the shelf or from obsolescent or excess equipment? Would it be 75 percent?

General FUQUA. I would say that of the two types of——— that we are discussing——

Mr. PASSMAN. I am speaking about the total area.

General FUQUA. You are not talking specifically Morocco, now?

Mr. PASSMAN. I am referring to your entire area. What part would come off the shelves, that has already been procured, and would maybe fall in the obsolescent category?

General FUQUA. I do not have that figure. I can give you the amount——

Mr. PASSMAN. I do not know the difference in the cost of a———. Would you say it would be 50, 60, or 75 percent?

General FUQUA. I do not believe I can give you a dollar estimate.

Mr. PASSMAN. Let us take the $——— package for Morocco. What percentage of that would come out of obsolescent equipment or off the shelf?

General FUQUA. I would say all of the equipment would come from that currently in use. They would not be new.

Mr. PASSMAN. Equipment we have procured, and which would be in the obsolescent category?

General FUQUA. Yes, sir.

USE OF OBSOLETE EQUIPMENT

Mr. PASSMAN. What would we do with this equipment if we did not have a military assistance program into which to pour it? Do you have any idea as to what we would do with it?

General PALMER. May I take that, Mr. Chairman? The total Department of Defense excess at this moment is somewhere on the order of $13 billion.

Mr. PASSMAN. And foreign aid is getting just about all of it.

General PALMER. The amount going into the military assistance program each year is on the order of $100 million.

Mr. PASSMAN. There will be a lot of necessary corrections to the transcript if your figure is accurate.

(Discussion off the record.)

VALUE OF EXCESS STOCKS FURNISHED TO ITALY

Mr. PASSMAN. There is a tremendous amount of this; it may not be obsolescence, but it may be in military where you overpurchase—ammunition, tanks, planes, ships. What we are talking about is the overall amount that comes off the military shelves, not necessarily limited to the obsolescent part of it, but the total amount that may be in excess of our needs, whether it is in the original shipping cases or not.

We shipped out $65 million worth of used parts to one country this year for which you had no estimate for last year. That was to Italy. Do you see how readily and rapidly it adds up?

General PALMER. I would like to correct the record on that, Mr. Chairman. The $65 million in excess stocks was for ——— medium tanks, M–47.

Mr. PASSMAN. You had no request, no justifications last year, yet you allocated $65 million to Italy.

It is fiscal year 1962. Excess stocks, value of acquisition cost, $65,950,000, to this one country alone.

General PALMER. That is right, ——— medium tanks, M–47.

Mr. PASSMAN. You wanted $401,000 last year. You actually allocated $65,950,000.

Let us go to page 63 of 1962, under "Proposed 1962 Excess Stocks for Italy." You had zero, but when we come in and study the justifications, the same page for the same country, we find that you did provide $65,950,000 in excess stocks.

General PALMER. We did not obligate a penny for excess stocks.

Mr. PASSMAN. Let us go to page 63.

General PALMER. They were excess and provided without cost.

Mr. PASSMAN. It says "Excess stocks."

General PALMER. That is correct.

Mr. PASSMAN. My question was: What would you do with the excess, obsolescent military equipment if you did not have the military assistance program into which to pour it?

General PALMER. My answer is that there is approximately $13 billion worth of Defense Department excess, and military assistance took $120 million.

Mr. PASSMAN. How could you get $120 million, when on this one page you gave excess stocks to Italy, for which you had no justifications last year, of $65 million.

General PALMER. That is correct, sir. In October 1961.

In October 1961, an agreement was reached between the Italian Government and the U.S. Government whereby the United States would provide ——— excess M–47 tanks to Italy, with the two countries sharing equally the rebuild cost, estimated at $12.5 million.

The purpose of the agreement was to encourage a substantial increase in Italy's own defense efforts within the context of conventional force buildup to meet the Berlin crisis. The $65,950,000 in excess stocks for Italy in the fiscal year 1963 presentation book is the acquisi-

tion cost, not an obligation, the acquisition cost of ——— tanks, M–47, which also appear below under key end items.

Mr. PASSMAN. General, I am not challenging your right to put anything you want to in the record.

However, on page 63 of last year's justifications, under excess stocks, value of acquisition cost for Italy, you had zero.

General PALMER. That is correct.

Mr. PASSMAN. But when we look into the justifications for fiscal year 1963, we find that you did give to Italy $65,950,000 in excess stocks.

General PALMER. That is correct, in accordance with the testimony I gave a moment ago.

Mr. PASSMAN. How are you going to limit the excess, the off-the-shelf items, and those that are obsolescent to $100 million?

General PALMER. Just a moment. You just threw in another factor.

ACQUISITION COSTS OF EQUIPMENT IN MILITARY ASSISTANCE PROGRAM

Mr. PASSMAN. I am going to put it all in. It had an acquisition value. What we are trying to arrive at is what was the acquisition value of all military equipment that is channeled into this program?

General PALMER. This can very easily be computed. The figure I gave you last year was that it would be 23 percent of the total materiel program.

Mr. PASSMAN. We are just trying to arrive at the cost. What is the total military program? We will take it for this year. Is it $1,500 million?

General PALMER. No.

Mr. PASSMAN. That is your request for this year?

General PALMER. Not for materiel; no, sir. The total of equipment and supplies in the proposed fiscal year 1963 program is $1,183 million. It was estimated by the services that 22 percent of the dollar value will be in equipment and supplies coming out of stock and 78 percent will come from new production.

Mr. PASSMAN. What percentage is that of the total program this year? It is 22 percent of approximately $1.2 billion.

General PALMER. I make that $260 million.

Mr. PASSMAN. That is a quarter of a billion dollars in this category for fiscal year 1963?

General PALMER. This is correct, sir. This is not out of the Defense Department excesses. It is goods off the shelf.

Mr. PASSMAN. It is equipment and supplies that were previously purchased by the Defense Department, whether it is now in excess or obsolescent, charged or not charged against this appropriation. It follows, nevertheless, that this year alone more than a quarter of a billion dollars worth of this materiel will flow into the military assistance program.

General PALMER. This is correct.

Mr. RHODES. That figure is a cost to the Department of Defense?

General PALMER. This is a cost for the military assistance appropriation, Mr. Rhodes.

Mr. RHODES. How much did the equipment cost the Department of Defense when it was originally acquired? Do you have that?

General PALMER. No; I have not. This is an individual computation on a great many different items.

Mr. PASSMAN. It could be several times that amount.

General PALMER. It could be; yes.

Mr. PASSMAN. It could easily be, if you go back to the original acquisition cost, it would total perhaps a billion dollars, that which is included for fiscal year 1963.

General PALMER. I do not believe so.

Mr. PASSMAN. It could be very much higher than the figure we just used, though.

General PALMER. It could be higher; yes.

Mr. PASSMAN. We established yesterday that the rehabilitation cost of ammunition is 1 percent, I believe.

General PALMER. That is the average rehabilitation cost.

Mr. PASSMAN. Is that the only part you charge to this program?

General PALMER. No, sir. That is rehabilitation of excess stocks. We are talking, as I understand it, about items taken from stocks.

Mr. PASSMAN. Off the shelf?

General PALMER. Off the shelf, not excess.

DISPOSITION OF DEPARTMENT OF DEFENSE EXCESS STOCKS

Mr. PASSMAN. We are discussing it all, General. The excess is a part of it and had an acquisition cost. It has to be disposed of some way. If we did not have a military assistance program around the world through which we could use the excess stocks, the rehabilitated equipment——

General PALMER. The excess.

Mr. PASSMAN. The excess, yes, first, and the obsolescent material—what disposition would we make of the equipment that we have? Would you sell it locally?

General PALMER. I presume a good part of it actually is being sold locally, Mr. Chairman.

The total stocks inventories of the Defense Department are estimated at roughly $44 billion and they have some $13 billion worth of excess.

Mr. PASSMAN. That is nearly a third of the total.

General PALMER. Yes, sir.

Mr. PASSMAN. I can see where they need this market in 65 nations. I do not think we are going to quarrel about that.

VALUE OF EQUIPMENT TRANSFERRED TO MAP FROM THE DEPARTMENT OF DEFENSE

Mr. RHODES. Mr. Chairman, I would like to find this, if we can, and I am addressing myself to all equipment which was ever owned by the military services and was transferred to the military assistance program in the last fiscal year. If it is available, may we have the credits which MAP gave to the Department of Defense because of these transfers and further, I would like to have the original cost of that equipment to the Department of Defense.

Mr. CRAWFORD. I think it would be impossible to make that determination.

Mr. RHODES. If you could furnish an estimate, that would be sufficient.

(The information requested follows:)

Neither delivery nor program records provide data on the acquisition value to the U.S. military departments of stocks furnished to MAP which are withdrawn from their existing stocks, other than excess stocks, and charged to appropriations in accordance with approved pricing policy.

Mr. PASSMAN. We went all the way around the bush but we made a good point, that they need this market to get rid of excess or obsolescent or accumulated equipment.

CAMEROUN

Do you have a program for Cameroun for fiscal year 1963?

General FUQUA. Yes, sir; we have a program.

Mr. PASSMAN. How much does it amount to?

General FUQUA. $———, sir.

Mr. PASSMAN. What did you have in the program for Cameroon last year?

General FUQUA. $317,000, sir.

Mr. PASSMAN. Why such a ——— for Cameroun?

General FUQUA. It is anticipated, sir, that there will be a request for a program from the Cameroun.

Mr. PASSMAN. You are asking for money for a program for Cameroun, but you have not even received a request from them for a program?

General FUQUA. We anticipate there will be.

Mr. PASSMAN. So far you have received no request from Cameroon for a military program?

General FUQUA. That is not entirely correct, sir.

Mr. PASSMAN. Tell us what part is correct.

General FUQUA. For this year——

Mr. PASSMAN. You have not received from the Cameroun Government a request for a military program applicable to fiscal year 1963?

General FUQUA. That is correct, sir.

ETHIOPIA

Mr. PASSMAN. For Ethiopia, do you have a program for fiscal year 1963?

General FUQUA. We have, sir.

Mr. PASSMAN. What is the cost?

General FUQUA. $———, sir.

UNEXPENDED BALANCE

Mr. PASSMAN. What amount do you have to the credit of Ethiopia, unexpended?

General FUQUA. We have, after July 1962, $13,480,000, sir.

Mr. PASSMAN. General, do you have any idea what part of that sum may be expended and what part may be deobligated, dereserved, or recouped, in subsequent years?

General FUQUA. I have no estimate, sir.

Mr. PASSMAN. It would stand to reason that a part of it could be recovered?

General FUQUA. It is possible it could be; yes, sir.

VESSEL FOR ETHIOPIA

Mr. PASSMAN. Out of this request for fiscal year 1963, do you have funds to pay for a vessel, yacht, ship, schooner, or whatever it may be, that was being reconditioned for the Emperor of Ethiopia?

Mr. GARY. The Lion of the Tribe of Judah?

General FUQUA. Not in this program, sir.

Mr. PASSMAN. When did you request funds through this committee or the Congress—off the record.

(Discussion off the record.)

General FUQUA. It is a converted seaplane tender, sir.

Mr. PASSMAN. When did you request from the Congress funds to pay for the converted seaplane tender that is being reconditioned for the Emperor of Ethiopia?

General FUQUA. This was 1961, sir.

Mr. PASSMAN. Where do we find it? Did you request of the Congress funds to pay for this vessel?

General FUQUA. Not to pay for the vessel, sir.

The vessel is loaned to the Ethiopian Government.

Mr. PASSMAN. Did you request money, or did you anticipate that we would be making the loan on a permanent basis, and request money from the Congress to recondition the vessel to the specifications of the Lion of the Tribe of Judah?

General FUQUA. It was after the presentation of the program to the Congress, sir, that this matter came up.

Mr. PASSMAN. Where did you get your authority? This is not the exception. You do just about everything according to your wishes, but we would like occassionally for you to cite authority for these unusual occurrences.

General FUQUA. It was agreed to between the Secretaries of Defense and State, sir, that this money——

Mr. PASSMAN. Where does Congress come in? I realize we have abdicated just about all of our powers, but are we precluded from being considered when we come into these agreements?

General FUQUA. This ship, sir, is not in the category that requires congressional approval and for that reason——

Mr. PASSMAN. It is necessary to get the approval of the Congress for something such as this?

General FUQUA. No, sir. It was reported.

Mr. PASSMAN. You do not need congressional authority. You spend the money, then report it?

General FUQUA. Yes, sir.

Mr. PASSMAN. Thank you.

General PALMER. May I add, it was reported on the 101–B report.

Mr. PASSMAN. When was that reported, prior to or after the gift?

General PALMER. After the reprograming. The ship was only turned over——

Mr. PASSMAN. Was Congress in session when it was reported?

General PALMER. I could not say that, sir.

Mr. PASSMAN. I want to know if the Congress was in session, or you did like you frequently do, make up your mind to spend money without congressional authority and report it after you have entered into the agreement and have spent the money. How about it, Mr. Secretary? You are in on this. Was the Congress in recess when you allocated funds to rebuild this vessel for Ethiopia?

Mr. TASCA. I think the general has the date.

General FUQUA. November 1, 1961 when this was reported to the Congress, sir.

Mr. PASSMAN. Was Congress in session?

General FUQUA. I do not know.

Mr. PASSMAN. I can tell you we were not in session.

We could not have done too much about it, in that we were not in session?

General FUQUA. Sir, according to the way the regulations read as far as I know a report is made to the Congress of the action that we have taken.

Mr. PASSMAN. How could we object to it when we were not in session?

General FUQUA. I think it was a matter of informing you, sir, and not seeking your approval.

Mr. PASSMAN. How much is it costing to recondition this vessel?

General FUQUA. $——— sir.

Mr. PASSMAN. What are they doing to it?

General FUQUA. I can give you a breakdown of some of the items that go to make it up.

The activation cost—it was taken from the reserve fleet—the activation cost was $——— to bring it out of the mothballs and put it as an active ship.

Mr. PASSMAN. Did an earlier report not show a lower figure?

General FUQUA. I do not—I do not believe we had a breakdown on this.

Mr. PASSMAN. Let us get the itemized cost for the remainder of the alteration. You are making some alterations?

General FUQUA. There are some, yes, safety alterations.

It is going to be a training ship and also operate as a flagship for the Emperor.

Mr. PASSMAN. You are going to have a stateroom for the Emperor on the ship?

General FUQUA. Yes, sir, there will be quarters that the Emperor can occupy, that is correct.

Mr. PASSMAN. What type of interior finishing are you giving to the Emperor's quarters? Are you familiar with that?

General FUQUA. Yes, sir.

Mr. PASSMAN. What is it going to be?

General FUQUA. It is going to be fitted with wallpaper, gold wallpaper, golden color. It is not gold in the sense that it is anything other than the commercial standard type gold wallpaper.

Mr. PASSMAN. We have standard, commercial-type gold down at Fort Knox. But we are not going to have it very long at the rate we are going.

General FUQUA. No, sir. The wallpaper cost $121.

Mr. PASSMAN. Are there any gold knobs or anything?
General FUQUA. No, sir.
Mr. PASSMAN. What color is the bathtub?
General FUQUA. I do not know, sir.
Mr. PASSMAN. Let us get the other costs.
General FUQUA. Safety alterations to meet modern safety standards, $———.
Mr. PASSMAN. What else?
General FUQUA. Logistics support, $———.
Mr. PASSMAN. It will be the Emperor's flagship, and be used for that purpose?
General FUQUA. Yes, sir.

OPERATION OF VESSEL BY NON-U.S. PERSONNEL

Mr. PASSMAN. Will that ship be operated with American or Ethiopian personnel?
General FUQUA. It is not to be operated with American personnel. As a matter of fact, it has been turned over to the Ethiopian Government as of the 31st of January of this year.
Mr. PASSMAN. Where are they getting the personnel to operate this ship? Are they Ethiopians?
General FUQUA. There are some Ethiopian personnel and some Norwegian personnel.
Mr. PASSMAN. That is personnel already trained, ready to take over the ship?
General FUQUA. The personnel that were trained by the United States consisted of some Norwegian personnel and some Ethiopian personnel.
Mr. PASSMAN. What did that training cost us?
General FUQUA. The training cost $———, sir.
Mr. PASSMAN. In addition to that, they have another $135,000 to bring it up to $———?
General FUQUA. That training $——— is in addition to the amount to refit it.
Mr. PASSMAN. That brings it up to about $1 million plus?
General FUQUA. Yes, sir.

TERMS OF LOAN

Mr. PASSMAN. What are the terms, a year or 2 years that you will let him have the ship?
General FUQUA. This is on loan to the Government of Ethiopia from our Government.
Mr. PASSMAN. For how long?
General FUQUA. It is an indeterminate loan.
Mr. GARY. Will the gentleman yield?
Mr. PASSMAN. Yes.

ITEMIZATION OF TOTAL REHABILITATION COST

Mr. GARY. You said a million plus. Do you have the exact figure?
General FUQUA. I have the figures, sir. The total cost to refit or put this ship into operation, to turn over to the Government of Ethiopia, is $3.1 million.

Mr. PASSMAN. Three what?
General FUQUA. $3.1 million.
Mr. GARY. Let's get the rest of it.
General FUQUA. (Off the record.)
Now other alterations, the state quarters, $175,000——
Mr. PASSMAN. What was that, sir?
General FUQUA. The quarters that we alluded to.
Mr. PASSMAN. That cost $175,000?
General FUQUA. For the alterations to provide quarters.
Mr. GARY. Quarters for whom?
General FUQUA. Quarters for personnel and for the Emperor.
Mr. PASSMAN. $175,000?
Mr. GARY. $175,000 for the stateroom for the Emperor?
General FUQUA. And other quarters for personnel that will be on board; in addition to those quarters already there.
Mr. PASSMAN. How much was that, sir?
General FUQUA. $175,000.
Mr. PASSMAN. How about the air conditioning?
General FUQUA. $———.
Mr. PASSMAN. For the air conditioning?
General FUQUA. Yes, sir.
Mr. PASSMAN. It must be quite hot in that part of the world.
General FUQUA. It is. The temperature goes to 130-odd degrees in that area.
Mr. PASSMAN. What else is there?
General FUQUA. The training bridge. It is to be used in addition as a training ship, $———.
Mr. PASSMAN. I wonder if that includes high-powered binoculars for the Lion of the Tribe of Judah, when he wants to look out at things?
General FUQUA. This is just the fixed installation.
Additional officer berthing. $———.
Mr. PASSMAN. It would really follow that this $175,000 would be for the Emperor's section of the ship?
General FUQUA. I believe that is correct, sir.
Mr. PASSMAN. Thank you, sir. Please proceed.
General FUQUA. Other modifications to include the changing of some of the tanks from fuel to water tanks, and certain contingencies, which means bills that have not yet been received, $———, for a total of $———, which, totaled with that $——— I gave you before, brings it to $3.1 million.
Mr. PASSMAN. $3.1 million to fix him up so that he can cruise?
General FUQUA. This puts the ship in proper condition.
Mr. PASSMAN. Shipshape?
General FUQUA. Shipshape; yes, sir.

TRAINING PURPOSE OF SHIP

Mr. GARY. What is the ship going to be used for?
General FUQUA. It is a training ship, sir.
Mr. PASSMAN. To train whom and for what purpose?
General FUQUA. Training the naval cadets of the Ethiopian Navy.

FORCE OBJECTIVES

Mr. RHODES. I want to talk about the Navy. The force objective for their Navy is ——— patrol craft by 1966.

General FUQUA. That is correct, sir.

Mr. RHODES. How many cadets are you going to train to man ——— patrol craft? There will be more people on that than there apparently were on PT–109 during a certain part of World War II.

General FUQUA. I do not know how many cadets. We do have in our program a training for the naval force.

Mr. GARY. Are we going to have a flagship for those ———?

Mr. RHODES. A flagship for those ——— patrol craft.

Mr. PASSMAN. Is this not actually a political consideration proposition because the Emperor wanted something like this?

General FUQUA. Yes, sir.

PAYMENT OF PERSONNEL AND OPERATING COSTS

Mr. PASSMAN. Thank you for being completely fair about it.

Is this ship not going to be actually manned by 22 contracting Norwegians as sailors?

General FUQUA. Yes, sir.

Mr. PASSMAN. Who will pay the Norwegian sailors?

General FUQUA. The Ethiopian Government, sir.

Mr. GARY. Where will they get the money?

General FUQUA. I do not know, sir; they will budget it from their own budget, as far as I know.

In other words, it is not in the military assistance program, any money to pay the crew of this ship.

Mr. PASSMAN. I wonder, gentlemen, just how far we will go merely pleasing some of these people in other parts of the world? This same man wanted some of our best fighters, to frighten his tribesmen. Now here we are spending millions of dollars to equip a superduper ship for the Emperor of Ethiopia.

Mr. RHODES. Don't forget the two Boeing 720 airplanes.

Mr. CONTE. That came out in the hearing last week.

Mr. RHODES. Land, sea and air. Next stop—deep space.

Mr. TASCA. I would like to say first of all that we do have communications facilities at Kagnew.

(Off the record.)

Mr. PASSMAN. Does it help the Ethiopian Government for us to have that facility with good old Uncle Sam protecting their interests? Is this not a 2-way street?

Mr. TASCA. (Off the record.)

Mr. PASSMAN. Are they not interested in the protection of their country, or it is a one-way street? They do not want to be destroyed, do they?

Mr. TASCA. They do not, sir.

Mr. PASSMAN. Would securing their rights and the rights of their people not be sufficient reason for them to give us some consideration?

Mr. TASCA. Well, sir, I would say that their attitude would likely be that, having Kagnew there does not necessarily give them a great deal of security.

Mr. PASSMAN. Then we have to bribe them to get them to give us permission to make an installation in that country that may be in the interest of our security, as well as their own?

Mr. TASCA. I do not think it is a matter of a bribe. It is a matter of something they are giving us within the context of very friendly relations between our countries. They have sent forces to Korea.

Mr. PASSMAN. What if they had asked you for a $200 million battleship fully manned? Would you have yielded to that request?

Mr. GARY. Or a carrier?

Mr. PASSMAN. Mr. Secretary, we have gone far afield in this. I think the Congress is waking up. I hope the people downtown wake up, too. Just how far are we going to permit these people to blackmail us into giving them something they do not have any more use for than I do a cork leg, other than for the Emperor to have a little floating palace, manned by experts from another nation? If they had asked for a battleship, we have not turned them down so far, so we probably would have negotiated?

Mr. TASCA. I do not think they would ask for a battleship.

Mr. PASSMAN. You cannot tell what they will ask for, if you read some of the record.

Mr. TASCA. It would be most unlikely we would find a battleship serving their purposes or ours.

UTILIZATION OF PATROL CRAFT

Mr. PASSMAN. How about the patrol craft? Are you presently utilizing the patrol craft?

General FUQUA. They are utilizing them; yes, sir.

Mr. PASSMAN. What percentage of the time?

General FUQUA. I do not understand your question, sir.

Mr. PASSMAN. There are ——— patrol aircraft. Are they being used on a permanent basis or a part-time basis?

General FUQUA. Patrol boats, not aircraft?

Mr. PASSMAN. You have patrol craft. I do not want to change your terminology.

General FUQUA. Patrol craft; they are active in their naval service, sir.

Mr. PASSMAN. What is the degree of utilization for the patrol craft?

General FUQUA. They are being utilized to patrol the coast, along the coast of Ethiopia. To what extent of the percentage of the time they are used, I cannot say.

Mr. PASSMAN. Are they operational 1 day a year, 2 days, or 10 days? Do you actually know?

General FUQUA. I do not know.

Mr. PASSMAN. Thank you.

Mr. Gary?

Mr. GARY. Mr. Chairman, I was just wondering if any of the defense support funds or economic aid is going to support this ship that we have provided for the Emperor?

Mr. MOSSLER. The answer to that would be "No," sir. We are not putting any supporting assistance at all into Ethiopia.

ECONOMIC AID TO ETHIOPIA

Mr. PASSMAN. Do we have economic aid for Ethiopia?

Mr. MOSSLER. We have a small development grant program for them.

Mr. PASSMAN. How do you know they will not use this money for operation of the ships? We do not have supervisors there to see how they use their checks, do we?

Mr. MOSSLER. Yes, sir.

Mr. RHODES. Would you yield?

Mr. PASSMAN. Yes.

Mr. RHODES. Do we have any local currency generated by Public Law 480 activity?

Mr. MOSSLER. We have no title I Public Law 480 program in Ethiopia.

Mr. PASSMAN. (Off the record.)

How are they going to operate this other thing if they cannot operate these patrol boats? Do you suppose we could arrange for a little loan for them?

Mr. TASCA. I have not seen this report, sir.

Mr. PASSMAN. We would like for you to read it.

If you will refer to prior years, you will find that financial aid to Ethiopia has been fantastic, when you take into account the degree of development in the country and the size of the country.

I believe that in fiscal year 1946 to 1961 they received a total of $76,600,000. That was just for economic aid. In fiscal year 1962 they had $6,400,000, and they are in for fiscal year 1963 for $5.9 million.

General PALMER. Off the record.

(Discussion off the record.)

Mr. CONTE. If the chairman will yield?

Mr. PASSMAN. I shall be glad to yield.

SOCIAL UNREST IN ETHIOPIA

Mr. CONTE. General, the justifications given for this ship and also the fighter planes, the F–86's, I believe, and the loan on the two 720's, have all been for political conditions. I was in Ethiopia last year. I spent some time there. [Off the record.] I think this thing rebels against the U.S. Government. Here are people with a per capita gross national product of $45 a year. How do you think these people feel about the Emperor and his Government being given this lush cruiser and these airplanes when these people are just scratching out of the surface and getting a bare existence? What they want in Ethiopia more than anything in the world is land reform and tax reform so these feudal lords will pay their share of the cost of government and give up some of this land to the poor farmers and unless we go in there and unless we start tying some strings on some of these gifts that we give them, we are going to find we will be in trouble with a new regime coming in.

The young college graduates out there are just fed up with this administration. They are going to do something about it.

I think it is just a matter of time. We are taking the wrong policy here.

Mr. PASSMAN. If we do not stop appeasing people like the Emperor, and start looking a little bit in the direction of the poorer people, you may not have an emperor over there.

Mr. CONTE. That is what I said.

There is revolt in the wind in Ethiopia, and a very strong wind. It is a very serious situation.

PROCUREMENT OF TRUCKS FOR AFRICAN REGION

Mr. PASSMAN. I would like now to restate for the record that out in the Far Eastern region we have a truck contract with Japan that is in full force at this time calling for ——— trucks at a cost of $240 million and the reason that we are buying the trucks in Japan is that we can buy them cheaper than we can in the United States.

Will you discuss with us briefly whether or not there is a similar program in your overall region? Where do you procure your trucks?

General FUQUA. We procure our trucks in the United States.

Mr. PASSMAN. All of them?

OFFSHORE PROCUREMENT IN LIBYA

General FUQUA. In the case of Libya, we have some offshore procurement, sir.

Mr. PASSMAN. That means placing orders with other nations for equipment you need?

General FUQUA. That is right.

Mr. PASSMAN. It simply means placing orders with other nations for equipment?

General FUQUA. That is correct.

We do have in the case of Libya some of this offshore procurement.

Mr. PASSMAN. For instance, what is it?

General FUQUA. In the truck category, we are, in our program for 1963, requesting ———. It does not appear in your book, sir.

Mr. PASSMAN. Why not?

General FUQUA. It does not appear as offshore procurement.

Mr. PASSMAN. People reading this book would not know but what you were getting them from GM in Detroit, would they?

General FUQUA. There is no way of determining it from looking at it.

Mr. PASSMAN. What is the total cost of the truck program for fiscal year 1963 for Liberia, in dollars?

General FUQUA. Libya, sir?

Mr. PASSMAN. Libya; yes.

General FUQUA. It is $———.

Mr. PASSMAN. How many did you have in prior years?

General FUQUA. Accumulative through 1962, 111.

Mr. PASSMAN. Why did you not buy them in the United States?

General PALMER. They are equipped with British equipment.

Mr. PASSMAN. That gives the people not only the money out of American dollars to buy trucks procured in some other country, but in subsequent years they will have to buy the spare parts from that manufacturer, too?

General FUQUA. That is correct, sir. This is an agreement we have with the Libyans.

Mr. RHODES. Will you yield, Mr. Chairman?
Mr. PASSMAN. Yes. I yield to the gentleman.

MILITARY HARDWARE FOR ETHIOPIA FOR TRAINING

Mr. RHODES. I notice on page 101 that part of the proposed program for fiscal year 1963 is ——— rounds of rocket ammunition, 3.5 inch. I presume that is the bazooka; is that right?
General FUQUA. What page, sir?
Mr. RHODES. 101.
General FUQUA. On Ethiopia?
Mr. RHODES. Yes.
General FUQUA. That is correct, sir.
Mr. RHODES. Why that many rounds of bazooka ammunition to Ethiopia?
General FUQUA. This is training ammunition and some war reserve which we are placing in Ethiopia.
Mr. RHODES. Is this a normal expenditure of ammunition for a fiscal year? I notice in fiscal year 1962 it is ———; for fiscal year 1961 it was ———. Why suddenly ———? Did you find yourself a little long on them in the Army stocks or something?
General FUQUA. No, sir.
General PALMER. ——— are practice rounds, for training and instruction.
Mr. RHODES. General, why all of a sudden are you going to expend ——— round of bazooka ammunition when you have not spent half that much before? Is there a difference in the mission, through additional force, or what?
General FUQUA. There is no mission. They wanted more training ammunition. There is no increase as far as the force is concerned, Mr. Rhodes.
Mr. RHODES. I am just trying to find out why they want these? What is the answer? Why all of a sudden ——— rounds of bazooka ammunition.
General FUQUA. The only answer I can give you right now, Mr. Rhodes, is they want it for training and they want it for some reserve stocks.
Mr. RHODES. How many bazookas do they have?
General FUQUA. ——— will have been delivered by June of 1962, sir.
Mr. RHODES. For ——— divisions. That is about ——— per division. How does that compare with the number in American divisions?
General FUQUA. I do not have the figure as to how many would be in an American division as now reorganized, sir. I do not know the answer to that.
Mr. RHODES. You could get that, could you not?
General FUQUA. We could get the actual TO.
Mr. RHODES. And you know what the road division calls for?
General FUQUA. We could furnish that for the record.
(The information requested was submitted to the committee.)
Mr. PASSMAN. On yesterday we established, with the help of the witnesses, that in one country you had so many rifles that every soldier could have a rifle, and some of them could have one on each shoulder.

Do you have a comparable situation in Ethiopia, that you can give each soldier two rifles, if he should need them?

Let us get the number of men and the number of rifles.

General FUQUA. ——— rifles furnished as of June of 1962.

Mr. PASSMAN. How many are planned to carry out the entire program?

General FUQUA. Beg your pardon, sir; ———.

Mr. PASSMAN. Do they have sufficient ammunition to be on a war footing?

Mr. RHODES. Not the rifle ammunition.

Mr. PASSMAN. Why would they need in some countries two rifles for each soldier, but here you are not going to have that many rifles.

General FUQUA. This does not provide two rifles for each soldier.

Mr. PASSMAN. I wonder if these people will find out some other nation is getting two rifles per soldiers, and if the Lion of the Tribe of Judah might not feel that he is possibly being neglected.

General FUQUA. They have other rifles that they have gotten from other sources that do not appear.

Mr. PASSMAN. Which would bring it up to the point that they could have a rifle for each shoulder, if they wanted, and maybe some extras?

General FUQUA. It is possible, sir.

Mr. RHODES. Mr. Chairman.

Mr. PASSMAN. Yes.

Mr. RHODES. How many men are there in the units we support?

General FUQUA. We support ———, sir.

NAVAL VESSEL FOR ETHIOPIA

Mr. RHODES. Getting back to this flagship. I just want to ask the Secretary if it isn't likely that we may find ourselves in a dangerous situation there? Are we going to have to furnish a flagship for every ruler around the world now? This gets to be a matter of pride.

Are we keeping it secret? Is the information classified, so that the other nations won't know about it?

(Discussion off the record.)

General PALMER. In answer to Mr. Rhodes' question whether the information is classified, it has been reported in detail in the San Francisco newspapers.

Mr. RHODES. Yes; we know that. I would like to have the Secretary's observation as to whether this will get us in serious trouble with other potentates around the world.

Mr. TASCA. As far as Africa is concerned, there is no problem at the present time. We have not had a request. This is part of the naval program for Ethiopia.

Mr. RHODES. You are saying that with your tongue in your cheek, are you not, Mr. Secretary?

Mr. TASCA. No, sir; we do not have a request from other countries.

Mr. RHODES. I am talking about the naval program. You do not really believe that this ship is part of a naval program?

Mr. TASCA. The Emperor thinks it is a naval program.

Mr. RHODES. Maybe we should have the Emperor here testifying, but I am asking you what you think about it. You do not think this is part of the naval program, now, do you?

Mr. TASCA. They have something of a coastline. They have a problem securing the coastline from smugglers.

Mr. RHODES. What is this ship armed with? What armament does it carry? Do they have .30-caliber pistols?

General FUQUA. It is a converted seaplane tender. Here is a picture of the ship, Mr. Chairman.

Mr. RHODES. Does it actually have armament on it?

General FUQUA. Yes, sir.

UTILIZATION OF NAVAL VESSEL FOR TRAINING

Mr. PASSMAN. Does the Emperor have any use for this ship?

Mr. TASCA. One could answer that in terms of what we would do if we were in his position.

Mr. PASSMAN. This is not the question. Do you think the Emperor has any use for this ship?

Mr. TASCA. I think he does, as a ship.

Mr. PASSMAN. If he has use for it, why was it a political consideration? Let us take out the political part of it. Does he have any use for it otherwise?

Mr. TASCA. General?

General FUQUA. He has a use for it, yes, as far as a training ship. He wants to have a naval force. He wants to have a training ship and he wants to have a ship that he can use as his own flagship so he has a need as far as he is concerned.

Mr. PASSMAN. As his own flagship?

General FUQUA. As his flagship, as the commander in chief of the forces.

Mr. PASSMAN. Do you think things would go to pot over there if he had not obtained this ship?

General FUQUA. I do not think they would have gone to pot, sir. I think this is a request which he has made to the United States. It has been considered, as Mr. Tasca has said, as politically desirable to make this loan of the ship and fit it out for the Emperor.

Mr. PASSMAN. I think possibly you would want to take it out of the record when I read this into the record:

(Off the record.)

Mr. CONTE. Would you yield?

Mr. PASSMAN. Yes.

Mr. CONTE. Mr. Chairman, the gentleman on the end, in answer to Mr. Rhodes' question, stated that they have need for the ship because of smuggling. Is this a proper ship for sea coast patrol for smuggling? What is the maneuverability of this ship? How many knots does it do?

Mr. TASCA. What I meant was they have need for a small naval program because of the fact they have a coastline and they ought to have some naval units. Whether that is the kind of ship that we would have put into that kind of a job is something else. The Emperor did want that kind of a ship. He wanted it fitted out and from the standpoint of the relations between our country and Ethiopia, bearing in mind the importance of Kagnew to us, it seemed to us that it was the proper thing to go ahead and to give him that ship on the basis that we have done so.

Mr. CONTE. I appreciate that answer much more than the previous answer because certainly this ship is not adequate for patrolling for smuggling.

General FUQUA. This ship can extend the legs of the smaller patrol ships. It can refuel them and assist in that way. True, it is not a small, fast, lightly maneuverable ship as the patrol ships are, but it can extend the length of radius of operation of the smaller ships.

Mr. CONTE. It is a seaplane tender?

General FUQUA. It is a converted seaplane tender.

Mr. CONTE. Why do you need a ship for refueling or maintenance of the small coast guard boats? Those boats make a fast attack or fast survey of a suspected ship and they are right back into the harbor.

General FUQUA. I think if they are out away from their base, this ship could provide maintenance; that is, give them provisions and fuel in case they run out of it so they would not have to go back to the main base.

Mr. CONTE. The probability of these ships being out that far is very slim.

General FUQUA. I cannot comment on all the possibilities that might confront them.

Mr. PASSMAN. Do not get yourself so far out that you will drown before you get back ashore. You too, Mr. Secretary. You have read this secret report, have you not?

(Off the record.)

Mr. PASSMAN. That is in your report. Let us stop the subterfuge. We shall recess until 2 o'clock.

AFTERNOON SESSION

SPECIAL AFRICAN PROGRAM

Mr. PASSMAN. The committee will come to order. Before we get into the Near East and the South Asian portion of the military assistance request, I think I recall that last year there was a $25 million item included to be available for emergencies in the African region.

General PALMER. I think you are thinking of the special African program.

Mr. PASSMAN. What happened to the $25 million special package, General?

General FUQUA. I haven't my book with me but I think I can recall it in sufficient detail.

Mr. PASSMAN. Is the $25 million package for Africa in the justifications?

General FUQUA. It is, sir.

It was explained in my opening statement, sir.

Mr. PASSMAN. We want to know whether or not you have actually disbursed the funds.

General FUQUA. Some of them have been accounted for. I can give you an accounting for some of the funds, sir.

Mr. PASSMAN. Is this to be considered something like the regional programs in other areas, such as we have discussed for the Far East?

General PALMER. We have a regional program in the Far East to finance the unpredictable expenditures of the war in the Far East.

Mr. PASSMAN. The $25 million was made available for emergency expenditures?

BREAKDOWN OF SPECIAL FUND PROGRAM FOR FISCAL YEAR 1962

General PALMER. The $25 million area program was included in the fiscal year 1962 presentation to meet the anticipated programs for several newly independent nations. As of March 14, 1962, $2,582,000 of this area program had been distributed as follows:

To the Camerouns, $317,000; to Mali, $403,000; and to Liberia, $1,862,000.

In fiscal year 1962, programs totaling $6,642,000.

This is an additional amount. We have already distributed out of this $25 million $2,582,000 to the three countries I just named. In addition, fiscal year 1962 programs totaling $6,642,000 are still under consideration for certain other countries, each of which has requested military assistance as follows:

(The information was presented to the committee.)

Those are still under consideration, but will probably be turned into country programs for fiscal year 1962.

This is the utilization which is being made of the $25 million.

Mr. PASSMAN. But any allocations under your present plans will be in addition to what you have in your country justifications for your regular programs?

General PALMER. The last seven countries I mentioned, yes. We presented no country justifications for those.

Mr. PASSMAN. As it stands, though, of the $25 million you have actually disbursed $2,582,000.

General PALMER. Programed.

Mr. PASSMAN. How much have you actually disbursed?

General PALMER. We couldn't tell that, Mr. Chairman. This is all from the fiscal year 1962 we are currently in.

EXPENDITURES FROM SPECIAL FUND IN FISCAL YEAR 1962

Mr. PASSMAN. If you have large unexpended funds, it may be that you will get this mixed up with some other program, and I think we should know how much you have. What we are trying to find out is how much you have actually disbursed out of the $25 million; that is, deliveries made.

General PALMER. Probably none.

Mr. PASSMAN. So that $25 million is available for disbursement, even though $2,582,000 has been obligated for specific programs. You have $6,642,000 in programs in the making, which would leave in excess of ——— to be spent on programs yet to be firmed up?

General PALMER. That is correct.

Mr. PASSMAN. None of the disbursements have actually been made as of yet?

General PALMER. I do not believe so, Mr. Chairman. We do not keep the current day-by-day disbursement——

Mr. PASSMAN. I merely mention that fact so if we should run out of money before the year is over, and could find only sufficient money to fund you for the money previously appropriated, you would not go out of business overnight?

General PALMER. To the extent in this case of about $16 million we would not, sir.

Mr. PASSMAN. Out of that $16 million, with new programs to most of these countries, and your regular justifications, it may be that some of that money could in later years be deobligated, dereserved, or recouped?

General PALMER. I doubt it very much in programs of this very small size, sir.

Mr. PASSMAN. It could be, though?

General PALMER. It is possible.

Mr. PASSMAN. Thank you.

NEAR EAST AND SOUTH ASIA

Now, with regard to the Near East and South Asia. Do you have a general statement on this region, General Fuqua?

General FUQUA. I have, sir.

Mr. PASSMAN. We shall be very glad to hear from you.

(A classified paper was read by General Fuqua.)

Mr. PASSMAN. Thank you very much, General.

What would a foreign nation, or an official of a foreign nation, have to do to this country, or to our leaders, for us to interpret it as an insult?

Mr. CORTADA. I think that, seriously speaking, people who run our Government would react to offenses and indignities as would any ordinary person in the street.

Mr. PASSMAN. Would they have to spit in our face, strike us or what?

We have been sitting here looking at these nations all over the world, and we go out here and find people who have just kicked us around until the seat of our pants is just about out.

We will discuss your region: Saudi Arabia, Afghanistan, and Iraq. I am just wondering if we have reached the point that we have a hide so thick that we cannot be insulted.

We discussed this morning Morocco, where we spent $ ——— for four air bases. We have given one up and will give the other three up at the end of fiscal year 1963. We are so afraid that in them losing what they would have earned had they permitted the United States to stay in there, we decided to work out a package of something like $——— for them. Then, we go into some of these other countries where we have absolutely been undressed politically and diplomatically speaking, and we have fantastic sums for them.

Mr. CORTADA. Can I say a word about——

Mr. PASSMAN. I want you to. I want to know if there is such a thing as the United States being insulted by these people, who are taking our money, letting us almost go broke dollarwise building up these facilities and then have them say, "Get out of here."

Let us see what it is all about.

Mr. CORTADA. Now on the Dhahran airport agreement, sir——

Mr. PASSMAN. I am not talking about one place, I mean around the world.

Mr. CORTADA. It would be better if I could deal with one thing at a time.

Mr. PASSMAN. All right.

WITHDRAWAL FROM DHAHRAN AIRBASE IN SAUDI ARABIA

Mr. CORTADA. The Dhahran airfield agreement was for a 5-year period beginning in 1957. It expires April 2, 1962.

Mr. PASSMAN. Is that the year when they blackmailed us for $25 million, right out of the clear blue sky, and we did not expect it? We said, "That is blackmail. Since you are going to shake us down for $25 million, will you not help us find some project so we can pretend we are going to spend the money on something, like a dock down there—" Are you familiar with that situation?

Mr. CORTADA. No, sir.

Mr. PASSMAN. You should familiarize yourself with it.

Mr. CORTADA. At that time, the United States on April 2, 1962, will discontinue the operational control of the airfield and withdraw all U.S. forces and personnel associated with the operation.

Mr. PASSMAN. Out of the country, withdraw?

Mr. CORTADA. Our U.S. Air Force personnel associated with this operation. However, an arrangement has been made with the Saudi Arabian Government whereby 25 Air Force personnel will remain on the base to service American Air Force planes going through to Pakistan.

Mr. PASSMAN. How much is that costing us?

Mr. CORTADA. The Saudi Arabian Government——

Mr. PASSMAN. We are not to use the base for anything but a relay stop, on the way to some other nation?

Mr. CORTADA. Is this correct, General?

General FUQUA. This is correct. When the airbase phases out we will have privileges for landing and refueling and moving on.

Mr. PASSMAN. We did not build that airbase believing it would be limited to that use, just as a stopping place on the way to delivering material to some other nation?

General FUQUA. It was built for the purpose it was used for in the past several years.

Mr. PASSMAN. Was it built for the purpose it will be used for in subsequent years?

General FUQUA. No, sir.

Mr. PASSMAN. Thank you.

I am afraid to ask what the cost is. It may hit us again like the ——— for Morocco but I will get up the courage to ask about it later.

Proceed, Mr. Secretary.

COMMERCIAL OPERATION OF AIRFIELD BY A U.S. FIRM

Mr. CORTADA. The Saudi Arabian Government has contracted the services of an American company.

Mr. PASSMAN. Is that the 25 Air Force people?

Mr. CORTADA. No, sir. The 25 Air Force personnel——

Mr. PASSMAN. They are just for the service aircraft going through?

Mr. CORTADA. That is my understanding, sir. But the operation of the airfield itself will be conducted by an American firm, Commonwealth Services, Inc., of New York.

Mr. PASSMAN. Will they operate it as a commercial airport or a military airport?

Mr. CORTADA. This will be operated essentially as a commercial airport. Is that correct, General?

General FUQUA. That is correct.

Mr. PASSMAN. This is all to be handled by Saudi Arabia?

Mr. CORTADA. They will pay the whole bill.

Mr. PASSMAN. With regard to any military aircraft they have, whether they are MIG's or some other model, being in their country, with their airbase, they can use whatever they please?

Mr. CORTADA. On the subject of MIG's the Saudi Arabian Government has steadfastly refused to enter into relationships of that kind with the Soviet bloc.

Mr. PASSMAN. They can use the airfield for any purpose they want?

Mr. CORTADA. That is correct.

Mr. PASSMAN. If they want to put up a World's Fair out there, they could do it, couldn't they?

Mr. CORTADA. That is correct.

Mr. PASSMAN. You are asking for the Near East and South Asia area $422,936,000, as compared to $422,418,000 last year. This is an increase of $518,000?

General FUQUA. Yes, sir.

Mr. RHODES. Could we ask a little more about the contract under which this airfield operates?

Mr. PASSMAN. I am sorry I did not pursue that.

Of course, the Saudi Arabian Government employed the civilian firm out of New York?

Mr. CORTADA. That is correct, sir.

Mr. PASSMAN. We did not have anything to do with it?

Mr. CORTADA. Not to my——

Mr. PASSMAN. It was strictly up to Saudi Arabia?

Mr. CORTADA. And the private concern.

Mr. PASSMAN. That is primarily to be maintained so the Saudi Arabians can use the facility as a civilian airport?

Mr. CORTADA. That is correct, sir.

Mr. PASSMAN. And that is not unusual, is it?

Mr. CORTADA. It would be unusual in Saudi Arabia because it is the first time it has happened there, sir.

Mr. PASSMAN. It is not unusual for these people to employ American firms to teach them certain techniques?

Mr. CORTADA. No. As a matter of fact I think it is rather encouraging that when they took the decision to terminate——

Mr. PASSMAN. They let all nationalities get off the airplanes there at Saudi Arabia?

Mr. CORTADA. May I complete my previous sentence, sir?

Mr. PASSMAN. Yes.

Mr. CORTADA. When, through mutual agreement, the decision was taken to conclude the base arrangement——

Mr. PASSMAN. Who suggested concluding it? The United States or Saudi Arabia?

Mr. CORTADA. I do not have all my facts at hand on that one, sir. I was not on the premise when that——

Mr. PASSMAN. I could give you the answer, but you proceed.

Mr. CORTADA. I am sure you know as much about it as anyone else.

Mr. PASSMAN. I am afraid not, but my 6-year-old niece would know the answer to that one.

Mr. CORTADA. I think it is encouraging that they did turn immediately to an American firm to operate the field, as an expression of their desire to maintain——

Mr. PASSMAN. They are getting a lot of American aid, are they not?

Mr. CORTADA. Not aid, sir.

Mr. PASSMAN. Saudi Arabia?

Mr. CORTADA. No.

Mr. PASSMAN. Read your record.

Mr. CORTADA. Not direct aid.

May I say a word about that, sir?

TECHNICAL ASSISTANCE PROGRAM IN SAUDI ARABIA

The aid record with regard to Saudi Arabia refers solely to a technical assistance program between 1952 and 1954 which is no longer in effect. Export-Import Bank loans between 1945 and 1950 all of which have been repaid, and assistance provided under the 1957 Dhahran airfield agreement for the construction of the new port facilities, and for a civilian airfield.

Mr. PASSMAN. How about the $25 million that I referred to as a shakedown?

Mr. CORTADA. I do not have that, sir.

Mr. PASSMAN. You seem to have everything else, sir; why did you not include that?

Mr. CORTADA. I thought you referred to the economic assistance.

Mr. PASSMAN. That was economic assistance, pure and simple.

Mr. CORTADA. Currently we have no economic aid for them.

MILITARY GRANT AID TO SAUDI ARABIA

Mr. PASSMAN. They are eligible to apply for economic aid, are they not? Let us see how much we have in grant aid under "Military." Do you have any funds for this year?

General FUQUA. Yes.

Mr. PASSMAN. How much?

General FUQUA. Saudi Arabia, $———.

Mr. CORTADA. This is military aid, not economic aid.

Mr. PASSMAN. Grant assistance, military aid.

Mr. CORTADA. Yes, sir.

Mr. PASSMAN. How much carryover do you have for them?

General FUQUA. After July 1962 there will be $———.

Mr. PASSMAN. Is this printed presentation correct?

General FUQUA. I do not understand your question, sir.

Mr. PASSMAN. How much did you have unexpended to the credit of Saudi Arabia as of this time?

General FUQUA. As of July it will be $———, sir.

Mr. PASSMAN. What kind of military equipment is planned for Saudi Arabia?

General FUQUA. That equipment is for training——

CONSTRUCTION PROGRAM IN SAUDI ARABIA

Mr. PASSMAN. Would there be any funds spent on this for airport construction?

General FUQUA. No, sir.

Mr. PASSMAN. What construction do you have in Saudi Arabia that will cost a total of $———.

General FUQUA. I do not have the detail on that figure, sir.

Mr. PASSMAN. Is that one of those items that may be dereserved, deobligated, or recouped, in subsequent years, since you have no information on it?

General FUQUA. It is a possibility, sir. I will have to furnish that information for the record.

(The information was subsequently supplied to the committee.)

Mr. PASSMAN. Did you tell us last year you were going to complete the airfield out there, even though we were being pushed out?

Mr. CORTADA. I do not know, sir. I will be very pleased to give you an insert if you wish me to follow it up.

General FUQUA. I do not recall, sir. I do not recall that we made any such statement. However, I could check that.

Mr. PASSMAN. You could not say positively that you did not?

General FUQUA. I cannot say, sir.

Mr. PASSMAN. Could the State Department so state?

Mr. CORTADA. As I said, sir, I do not recall the nature of the testimony but I should be very pleased to submit it as an insert.

Mr. PASSMAN. Is our policy broad enough that we could have made the statement that we were going to complete the airbase, notwithstanding the fact that we were going to move out?

Mr. CORTADA. I really cannot respond, sir.

Mr. PASSMAN. Is there a policy broad enough that we could do that?

Mr. CORTADA. I hesitate strongly to respond one way or the other. Not because I am begging the question. I am trying to see just whether we would or we would not.

COST OF AIRBASE CONSTRUCTION

Mr. PASSMAN. What did the airbase cost us?

General FUQUA. The airbase construction was $50 million, sir, with $10 million in movable property, making a total of $60 million. That was not under "Military assistance."

Mr. PASSMAN. That is one of those "plus" items that does not even show under "Military assistance"?

General FUQUA. It was not under "Military assistance."

Mr. PASSMAN. American dollars paid for the construction, and the funds came out of our oversea military construction account?

General FUQUA. Yes, sir.

Mr. PASSMAN. And you add to that all the money we have given them under the military assistance program to actually get the total?

General FUQUA. The total expended in Saudi Arabia; yes, sir.

Mr. PASSMAN. It would be the same thing in any other country. That is also true in Morocco, for example.

General FUQUA. Yes, sir.

Mr. PASSMAN. Do you want to finish your statement?

Mr. CORTADA. I think that if contracts had been let out, if they were firm contracts that had to be honored, we probably would have gone ahead with it.

Mr. PASSMAN. We were under the impression that we built the airbase and it would be a matter of formality in extending the contract?

Mr. CORTADA. This is going back 5 years before, sir, and I do not know the early history of the negotiations in 1957.

LANDING RIGHTS IN SAUDI ARABIA

Mr. CONTE. From this $50 million investment here the justification at page 143 says we have "limited rights, to that airfield." How limited are those rights?

Mr. PASSMAN. I believe the limited rights would be that if we are possibly taking planes into another country we may land there for refueling.

General FUQUA. That is right.

Mr. CONTE. How often have we used it?

General FUQUA. I do not know exactly, sir. I would say probably four or five times a month. This is a guess. It is used along the MATS route that goes in that area. They land at Dhahran airfield when they are going into Pakistan and the New Delhi area and coming back. Just what the schedule calls for, I do not know.

Mr. CONTE. That is a pretty steep investment for landing four or five times a month.

Mr. PASSMAN. This airbase, for all practical purposes, is back under the control of Saudi Arabia, and it is used primarily for a commercial airport?

General FUQUA. When it phases out on the 2d of April it will revert to the Saudis and will be used as a commercial field.

Mr. PASSMAN. As a commercial airport.

Beyond that date we have no assurance that we may stop there for refueling, do we?

General FUQUA. Well, I cannot say whether the Saudis will honor the agreement.

Mr. PASSMAN. But the agreement is in effect now only through April 2?

General FUQUA. The present agreement expires April 2, 1962. We hope to have certain rights after that date.

RESTRICTED USE OF DHAHRAN AIRBASE

Mr. PASSMAN. Can all nationalities get off planes at that airport, or do the Saudi Arabians have certain restrictions in this respect?

General FUQUA. Mr. Cortada, would you speak to that?

Mr. PASSMAN. Be direct if you can.

Mr. CORTADA. I will be direct, sir. There is no reason for begging a question of that kind because it is of great concern to us in the Department.

Mr. PASSMAN. It is a fact that people of certain faiths cannot get off the plane there, even if they are Americans?

Mr. CORTADA. That is correct. There are situations where the Saudi Arabians object to people of another faith——

Mr. PASSMAN. Even though they might be Members of the U.S. Congress?

Mr. GARY. Be specific. You are talking about the Jewish people.

Mr. CORTADA. The Saudi Arabians are discriminatory in that regard. The Department has been very much concerned over this for a long time. I am quite sure you know that, sir. The Department has through the Ambassadors taken this up repeatedly.

AFGHANISTAN

Mr. PASSMAN. You have ——— for fiscal year 1963 as your request for Afghanistan?

General FUQUA. That is correct.

Mr. PASSMAN. How much do you have unexpended to the credit of Afghanistan?

General FUQUA. ——— as of July 1962, sir.

Mr. PASSMAN. For what purposes is this to be spent?

General FUQUA. It is all training, sir.

SOVIET ASSISTANCE

Mr. PASSMAN. Let me read from an article in the Washington Post of today, written by Mr. Warren Unna, who was over there:

> When I first visited here 3 years ago, nonalined Afghanistan was assuring its friends it was keeping a neutral balance by allowing all of its military aid to come from the Soviet Union.

Are we using the Soviet equipment for this training program? Are we putting up the money?

General FUQUA. No, sir.

PROPOSED TRAINING PROGRAM FOR AFGHAN OFFICERS

Mr. PASSMAN. How much can you discount this statement?

General FUQUA. Training is done in the United States.

Mr. PASSMAN. But they will go back and use Soviet equipment?

General FUQUA. That is correct, sir.

Mr. PASSMAN. Thank you. This proposed training program is contingent upon its acceptance by Afghanistan?

General FUQUA. Yes, sir.

Mr. PASSMAN. Since we know they are going to send them over and train them, then take them back and use the Soviet equipment, why do we not strike out this item?

General FUQUA. It has been felt, sir, that if we can train them (off the record) the Afghans will accept this program and send some more of their people over here.

AFGHAN MILITARY EQUIPMENT

Mr. PASSMAN. They have nothing but Soviet equipment?

General FUQUA. I would not say they have nothing but Soviet equipment, sir.

Mr. PASSMAN. In general it is Soviet equipment. You will bring the people over, train them, and they will return to Afghanistan and use Soviet equipment?

General FUQUA. Most of it is.

Mr. PASSMAN. How much U.S. equipment has been supplied to Afghanistan?

General FUQUA. We have not furnished any.

Mr. PASSMAN. You are proposing a package to give them ——— to bring those people over to train them, but you do not know yet whether the Afghanistan Government will accept this program, do you?

General FUQUA. We do not, sir. We have programed this amount hoping that they will accept.

Mr. PASSMAN. To train them to use equipment that did not come from America?

TRAINING OF AFGHANS

General FUQUA. They will be trained in the United States.

(Off the record.)

Mr. CONTE. Will the chairman yield?

Mr. PASSMAN. I yield.

Mr. CONTE. Mr. Chairman—General, why would it be cheaper to train these individuals in, say, our base up in northern Italy, SETAF? Why transport them way over to the United States when we have just about everything under the sun in SETAF?

General FUQUA. We do not have this type of training (off the record) available in SETAF.

Mr. CONTE. What kind of training are they getting?

General FUQUA. Pilot training, largely.

Mr. CONTE. We have a wing squadron up there at SETAF, don't we?

General FUQUA. What kind of a squadron?

Mr. CONTE. A wing?

General PALMER. Off the record.

(Discussion off the record.)

Mr. RHODES. Will you yield?

Mr. CONTE. Surely.

Mr. RHODES. Do you teach them how to fly?

General FUQUA. We have flight, technical, and English language training.

Mr. RHODES. Are your students pilots already?

General FUQUA. We have ——— undergoing flight training. They are not pilots. They are being trained as pilots.

Mr. CONTE. In SETAF they have some small planes. They teach them to fly.

Mr. PASSMAN. Will the gentleman yield?

Mr. RHODES. Certainly.

Mr. PASSMAN. We have never furnished them military equipment. According to this statement, they get all of it from the Soviet Union. It would be obvious as to why they would not train them in this section.

Mr. RHODES. I do not understand this. You said that the Afghanistan Government has not accepted this. Yet I thought I understood you to say a while ago you had ——— people already being trained.

General FUQUA. They have not accepted this year's program.

Mr. RHODES. What is this year's program?

General FUQUA. $———

Mr. RHODES. For what?

General FUQUA. For training.

Mr. RHODES. What kind of training?

General FUQUA. Pilot, air technical, language training in the United States.

Mr. RHODES. It is all Air Force training?

General FUQUA. Some is Air Force. There are a few spaces for Army. There are ——— courses for ——— people provided by the Department of the Army for short courses here in the United States.

Mr. RHODES. Are they officers or enlisted men?

General FUQUA. They are officers, largely.

Mr. RHODES. It is classified as to what sort of training is being given and how many people are getting it? Could you supply that for the record?

General FUQUA. I believe that can be furnished for the record.

Mr. RHODES. If it can be furnished for the record, I think it should be included.

(The information requested was submitted to the committee.)

Mr. PASSMAN. So far as I am concerned we have furnished no military equipment to Afghanistan. You are requesting $——— for a training program that they have not accepted. Did they request this program?

General FUQUA. This has not been requested; no, sir.

Mr. PASSMAN. It has not been requested, and the record will show that you are going to train these people, and send them back to use military equipment that Russia has supplied.

Mr. RHODES. Mr. Chairman, it seems to me this is an ideal situation in which to use the contingency fund. We appreciate the MAP people coming in telling us what they have in mind on this sort of thing but until the final results are obtained on something like this, is this not what we appropriate this contingency fund for?

Mr. PASSMAN. That is true.

We run into other instances where there has been no request for a program to a country, where they have no U.S. military equipment, but we are formulating a program, submitting it to them, hoping they will accept it. It all depends on whether you are on the side road or the main street. There is an answer for all of them.

General PALMER. May I make one observation, sir?

The contingency fund provided in section 451 of the Foreign Assistance Act is not applicable to military assistance. It is entirely for the aid provided in part I of the act.

Mr. CONTE. How about the new contingency fund we set up for the military?

Mr. RHODES. You have contingency funds all the way through here.

UTILIZATION OF SECTION 510 AUTHORITY FOR CONTINGENCIES

Mr. CONTE. That is what it amounts to. What is the fancy name it has?

Mr. PASSMAN. Supporting assistance.

Mr. RHODES. It is in the regional programs.

Mr. CONTE. It was $300 million.

Mr. PASSMAN. In section 510.

General PALMER. Section 510, and as Secretary McNamara has testified, he has not used that this year and has no intention of using it, if avoidable.

Mr. RHODES. Isn't that for equipment only?

General PALMER. Not exclusively for equipment.

Mr. PASSMAN. It is available for any purpose. There is no restriction.

Mr. RHODES. You have a contingency fund.

General PALMER. Actually there is a difference in practice because what are described around here as contingency funds are spent every year and this is not being spent. It is a special authority, so-called in the act. The President may, if he determines it to be vital to the security of the United States, order defense articles from the stocks of the DOD and defense services for the purpose of part II, subject to subsequent reimbursement. I do not think the President could be asked to determine it vital to the security the United States to provide a few military training spaces to Afghanistan.

I am sure the Secretary of Defense would feel it was not.

Mr. CONTE. The funds are used for just about everything under the sun.

Mr. PASSMAN. It would not be necessary to use this special contingency fund when you have found $317 million in deobligated, shakedown, squeezeout, recouped money.

Mr. RHODES. In page 149, under training, in the area program you have a request for $———. As the chairman pointed out these area programs to me are contingency funds.

Mr. PASSMAN. Certainly they are. It pours right back into the program, to the same countries that have programs.

You have ——— Afghan students in the United States. What does it cost to train them in the United States, after you bring them over?

TRAINING OF AFGHAN STUDENT PILOTS

You have a training course. What do you train them to do?

General FUQUA. Some of them are being trained as pilots, some of them are reeciving——

Mr. PASSMAN. Pilots to man what kind of aircraft?

General FUQUA. Jet aircraft, sir.

Mr. PASSMAN. Manufactured by what country?

General FUQUA. We are training them on U.S. manufactured aircraft, sir.

Mr. PASSMAN. But they have no U.S. aircraft in Afghanistan, do they?

General FUQUA. Not to my knowledge.

Mr. PASSMAN. I did not mean to interrupt. We are just training them?

General FUQUA. Training them to be jet pilots.

Mr. PASSMAN. What other training is given?

General FUQUA. Technical aviation and English language training.

Mr. PASSMAN. The others?

General FUQUA. Courses at the Air University.

Mr. PASSMAN. The others?

General FUQUA. And some are taking English language training. It is English language training, with the idea that it is a military-type language.

Mr. PASSMAN. Like "scuttlebutt," "on the deck," et cetera?

General FUQUA. Technical training.

Mr. PASSMAN. What is it costing to train them?

General FUQUA. I do not have the exact costs here. They are already here now.

Mr. PASSMAN. Where did you get the authority to bring these people over? What appropriation did you use?

General FUQUA. We requested——

Mr. PASSMAN. Did you justify it last year?

General FUQUA. It was justified——

Mr. PASSMAN. For Afghanistan, for ——— people to be trained in the United States?

General FUQUA. No, sir; these people——

Mr. PASSMAN. That came out of your flexibility account?

General FUQUA. These were 1961 programs, sir.

Mr. PASSMAN. They are still over here; are they not?

General FUQUA. We have ——— them still here, sir; that is correct.

Mr. PASSMAN. How much did it cost to bring these people over and keep them from 1961 up to the present?

General FUQUA. I will have to furnish that for the record.

Mr. PASSMAN. When do you send them back home?

General FUQUA. It is contemplated they will have finished by January of 1964 if they undergo the full course of their training.

Mr. PASSMAN. 1961 to 1964. You have no idea what it is going to cost?

General FUQUA. I do not have the cost figures, sir.

Mr. PASSMAN. You did not have it set out in the justifications last year?

General FUQUA. In the 1961 program we asked for $———.

Mr. PASSMAN. To bring these ——— people over to train them?

General FUQUA. I am not sure of that. I am not sure that is solely for that.

Mr. PASSMAN. Can you assure the committee that you have not spent more than that amount on them?

General FUQUA. I would prefer to furnish the cost for the record, which will then say yes or no.

(The information referred to was supplied to the committee.)

Mr. PASSMAN. How do we reconcile this difference? In 1961 you put in for training $———; is that correct?

General FUQUA. For 1961, we have $———.

Mr. PASSMAN. We want to give you the book. It refers to the year you brought them over to train them to go back where they have only Soviet equipment to be operated.

Am I looking at the correct figures? Is that what you requested?

General FUQUA. $———.

Mr. PASSMAN. According to your book, in 1963, you obligated $———; did you not? That is for training.

General FUQUA. That is the fiscal year 1961 program, that figure of $———.

Mr. PASSMAN. You have obligated that, have you not? That is the amount you are showing.

General FUQUA. Yes, sir.

RECONCILIATION OF DISCREPANCIES

Mr. PASSMAN. How do you reconcile this? Do you have an explanation of the difference between what you requested and what you obligated?

General FUQUA. I have no ready answer.

Mr. PASSMAN. Thank you.

General, there are too many discrepancies about what you requested and what you obligated. I think we should know why you asked for one figure, which was made available, yet you come back and we see that you have obligated double the amount requested.

General PALMER. Certainly nobody on this committee would hold that you gave us money appropriated to line items in this book.

Mr. PASSMAN. But when we find so many of them. You have received a reduction in funds almost every year, yet you find sufficient money in many instances to obligate double what you requested the previous year.

Mr. RHODES. General, if you mean by that that this whole thing is a gigantic guessing game I agree with you. I think you have to guess and we have to guess.

Mr. PASSMAN. That vote would be unanimous.

General PALMER. We agree unanimously.

GREECE

Mr. PASSMAN. You are asking for $——— for Greece?

General FUQUA. Yes, sir.

Mr. PASSMAN. Do you have any carryover funds to the credit of Greece from prior years?

General FUQUA. We have, sir.

Mr. PASSMAN. In what amount?

General FUQUA. $194,732,000.

Mr. PASSMAN. Could you tell us in what years you obligated this money?

General FUQUA. No, sir, I cannot.

Mr. PASSMAN. With that large amount, it could be that there might be some recoupments or deobligations?

General FUQUA. I believe that is entirely possible, sir.

Mr. PASSMAN. Thank you.

Could you include also in this recapitulation you will give us the years this was obligated and the purposes for which it was obligated?

If you will, make this just as complete as you can, sir.

General FUQUA. Yes, sir.

(The information requested was supplied to the committee.)

NAVAL VESSELS FOR GREEK PROGRAM

Mr. PASSMAN. For Greece you are providing ——— destroyers this year?

General FUQUA. That is correct, sir.

Mr. PASSMAN. They already have ———?

General FUQUA. Destroyers and escorts. DD's and destroyer escorts.

Mr. PASSMAN. You have ———. Your force objective in 1966 is only ———; is that correct?

General FUQUA. Yes, sir.

Mr. PASSMAN. (Off the record.)

General FUQUA. Yes, sir.

Mr. PASSMAN. Do you suppose we could get that one back?

General FUQUA. There is a replacement involved in this, sir.

One of the destroyers that they had on hand is no longer required.

Mr. PASSMAN. (Off the record.)

General FUQUA. Yes, sir.

Mr. PASSMAN. Why did you shoot all the way to 1966? Did these come out of mothballs?

General FUQUA. These were transferred or accepted by Greece——

Mr. PASSMAN. You will have one extra. You replaced one. That leaves ———. The force objective ———. You are asking for ———. Is that a typographical error or do you just have an extra one you want to get rid of?

General FUQU. There were ——— destroyers that were programed for Denmark, I believe.

Mr. PASSMAN. You gave them to Greece?

General FUQUA. Greece wanted them and an arrangement was made.

Mr. PASSMAN. How did Greece find out Denmark did not want them and you had them over there. You did not have a program for them, did you, for Greece until Denmark turned them down?

General FUQUA. That I believe is correct, sir.

Mr. PASSMAN. Why did Denmark turn them down?

General FUQUA. I do not know, sir.

IRAN

Mr. PASSMAN. Are we in as good favor in Iran as we would like to be, or used to be?

Mr. CORTADA. May I ask you to clarify the question, sir? Do you mean whether our position in the country is not the same?

Mr. PASSMAN. I do not know that I can make it any plainer.

Mr. CORTADA. I would say that we are in excellent relations with Prime Minister Amini's Government, sir.

Mr. PASSMAN. He is pro-Western, is he not?

Mr. CORTADA. He is pro-Western.

Mr. PASSMAN. Is he looking both ways?

Mr. CORTADA. No, he is pro-Western in his outlook and with the support of the Shah he is courageously trying to make reforms in the country. They have just got a land reform program underway.

FISCAL YEAR 1963 REQUEST FOR IRAN

Mr. PASSMAN. What amount are you requesting for Iran for fiscal year 1963, sir?

General FUQUA. We are requesting ———, sir.

Mr. PASSMAN. Do you have a carryover?

General FUQUA. Yes, sir, $79,163,000.

Mr. PASSMAN. Of course, that falls in the same category as other unused carryovers; at some subsequent date some of it could be deobligated?

General FUQUA. Yes, sir, the same question you asked before.

Mr. PASSMAN. I like to keep putting it in there. I am impressed by the amount of cuts that have been made and the amount of deobligations that have been accomplished.

(Disscussion off the record.)

Mr. PASSMAN. They have a long coast line?

General FUQUA. They have a fairly long—I do not know the length of the coast line—they have a pretty long one along the Persian Gulf. They also have one along the Caspian Sea.

Mr. PASSMAN. Is this coming out of excess stocks?

General FUQUA. No, sir.

Mr. PASSMAN. This is going to be new production?

General FUQUA. They are used vessels that will be overhauled, sir.

Mr. PASSMAN. Did Iran request this program?

General FUQUA. I beg your pardon?

Mr. PASSMAN. This equipment, did they request it?

General FUQUA. Yes, sir.

Mr. PASSMAN. Was this a single request or in an overall package?

General FUQUA. It was a requirement submitted through the MAAG and U.S. CINCEUR to the Department of Defense.

(Discussion off the record.)

Mr. PASSMAN. What will have been accomplished by putting these ——— over there? You have ——— of them.

General FUQUA. ———, sir.

Mr. PASSMAN. It is excess to the needs of the United States?

General FUQUA. It is not in the excess stock list.

Mr. PASSMAN. It is not new procurement, is it?

General FUQUA. It is not new procurement. It is not in the category of excess.

Mr. PASSMAN. But it is in excess of the needs of the United States?

General FUQUA. Yes, sir.

Mr. PASSMAN. Then, of course, the Defense Department will recoup a percentage, if not all, of the cost of this item, which will make available new money for the Defense Department?

General FUQUA. I am not sure I understand your statement.

Mr. PASSMAN. What is the cost of this item?

General FUQUA. ———, sir.

Mr. PASSMAN. Of course, you will charge the MAP with ——— and make ——— available for the Defense Department for new obligations?

General PALMER. That is correct.

General FUQUA. That is right.

PROPOSED CONSTRUCTION IN IRAN

Mr. PASSMAN. Now, General, you have proposed construction amounting to ——— in Iran. What items are included?

General FUQUA. I can give you a list of the breakout of it. POL facilities are ———.

Mr. PASSMAN. Is that for petroleum?

General FUQUA. Petroleum, oil, and lubricant facilities.

Mr. PASSMAN. Maybe docks for oil companies to land their vessels and load on the oil?

General FUQUA. No, sir.

Mr. PASSMAN. What is it?

General FUQUA. Fuel storage facilities for the Iranian military forces.

Mr. PASSMAN. What kind of fuel storage—gasoline or crude oil?

General FUQUA. I would judge it would be gasoline in this instance.

Mr. PASSMAN. What is the cost of this?

General FUQUA. ———, sir.

Mr. PASSMAN. What is next?

General FUQUA. The construction at Kharg Island on the Persian Gulf, ———.

Mr. PASSMAN. Construction of what?

General FUQUA. Construction of an operating base for coastal patrol vessels and minesweepers.

(Off the record.)

General FUQUA. It could also be used by U.S. Naval Forces.

Mr. PASSMAN. The Government has only ——— minesweepers?

General FUQUA. They have ———; yes, sir.

Mr. PASSMAN. That is going to give each one a base, then.

What else is there?

General FUQUA. Three supply points, ———.

Mr. PASSMAN. Supply points of what?

General FUQUA. Army supply points.

Mr. PASSMAN. What kind of construction are they putting up there?

General FUQUA. They are at ———.

Mr. PASSMAN. For what purposes are they to be used?

General FUQUA. Storage and stockage of military supplies, sir.

Mr. PASSMAN. For the Iranian Government?

General FUQUA. Iranian Army, sir.

Mr. PASSMAN. What else?

General FUQUA. Troop facilities at Gouchon, ———; Army headquarters facilities at Hamadan, ———; munitions storage points, ———; and hangar construction, ———.

Mr. PASSMAN. Hangar construction—where will that be?

General FUQUA. For the Imperial Gendarmerie in various points throughout the country. The costs that I have just listed total ———; of which actual construction costs are ———, and the Government cost for supervision, inspection, change orders, total ———

Mr. PASSMAN. Will you repeat what that covers?

SUPERVISION COSTS FOR CONSTRUCTION PROJECTS

General FUQUA. It is categorized as Government costs, which includes supervision, construction change orders, and inspection.

Mr. PASSMAN. This runs about 60 percent, then. Would that be the same as maybe the architectural and engineering fees we discussed yesterday?

General FUQUA. I do not know whether it is.

Mr. PASSMAN. Who will do this inspection and supervising?

General FUQUA. The U.S. Corps of Engineers does it, sir.

Mr. PASSMAN. Your supervision cost is going to be ——— on a construction cost of ———?

General FUQUA. That is correct, sir. This $——— that I just gave you is for other prior projects in addition to new ones.

Mr. PASSMAN. However, you have only ——— for it under construction.

General FUQUA. $———.

There is ——— in undelivered or uncompleted construction.

Mr. PASSMAN. You had money for that from prior years, though. You have got change order, supervision, and inspection in this year's funds, and in prior years you received money for the same purposes. This is the fiscal 1963 program we are talking about.

If you put all of your construction and facilities together, it is $———. That leaves $——— for the items you mentioned, as applied to this fiscal year?

General FUQUA. Yes, sir.

VEHICLE PROCUREMENT FOR IRAN

Mr. PASSMAN. How many trucks are you proposing to provide for Iran?

General FUQUA. In the fiscal year 1963 program we propose ——— 2½-ton trucks ——— one-quarter ton trucks, and truck tractors at 5 tons.

Mr. PASSMAN. Giving a total of——

General FUQUA (continuing). And ——— 4- to 6-ton trucks.

Mr. PASSMAN. The total number of trucks would be what?

General FUQUA. ———.

Mr. PASSMAN. At what cost?

General FUQUA. Each one of these truck categories has a different cost.

Mr. PASSMAN. The total cost?

General FUQUA. Total cost of trucks?

Mr. PASSMAN. Yes.

General FUQUA. I don't have that readily available.

Mr. PASSMAN. Where are you procuring them?

General FUQUA. In the United States, sir.

Mr. PASSMAN. When you do not know what they will cost, how are we going to arrive at the amount needed?

General FUQUA. I can give you from my figures here, costs on the quarter-ton trucks.

Mr. PASSMAN. If you will put it together it will be just as well.

Mr. CORTADA. I would guess purely from what the commercial price of a truck would be and multiplying it out——

General FUQUA. I have it here.

It is ———.

Mr. PASSMAN. All of the trucks are being procured in the United States?

General FUQUA. Yes, sir.

ESTABLISHMENT OF VEHICLE REQUIREMENT

Mr. PASSMAN. Did they request this truck program?

General FUQUA. This is a program developed with our MAAG, coordinated with CINCEUR and submitted to DOD.

Mr. PASSMAN. With respect to many of these programs we have discussed you have had no request from the government involved, and you do not know whether the government would accept the proposal after you submit it. Why did we get so far ahead with the truck program?

General FUQUA. This is a little different category of country from Afghanistan.

Mr. PASSMAN. Do you possibly have some help from the manufacturers in establishing these needs?

General FUQUA. No, sir.

The requirement is established through military needs and not commercial truck manufacturers.

Mr. PASSMAN. Does this fall into a different category than some of the other things, where the country had no request but we submitted one to them, hoping for their approval?

Do you have an approved program here?

General PALMER. No, sir. No program is approved until the money is voted by the Congress.

Mr. PASSMAN. How do you know they will accept this program?

General PALMER. They have asked for more.

Mr. PASSMAN. How much more?

General PALMER. I will have to take this off the record.

(Discussion off the record.)

OIL PRODUCTION IN IRAN

Mr. PASSMAN. Do they have oil in Iran?

General FUQUA. Yes, sir.

Mr. PASSMAN. Quite a lot of oil?

General FUQUA. Yes, sir. It is one of the largest producers of oil.

Mr. PASSMAN. One of the largest in the world?

General FUQUA. Yes, sir.

Mr. PASSMAN. What do they do with the money they get from the oil?

Mr. CORTADA. They pump it into a very advanced economic development program.

They have had a considerable amount of progress.

Mr. PASSMAN. This is a very wealthy country so far as oil is concerned?

Mr. CORTADA. Yes, sir.

Mr. PASSMAN. Do you have any idea as to the amount of dollars they receive from the sale of oil per annum?

Mr. CORTADA. About $300 million.

Mr. GULICK. This year.

Mr. PASSMAN. Have we ever discussed getting aid in reverse from them?

Mr. GULICK. Although they have a lot of oil, they are favored in that regard, they are not a wealthy country in any overall per capita sense. The oil revenues constitute about half of the revenues of the Government.

Mr. PASSMAN. They got along before they got this $300 million, and before they started getting this annual revenue from oil?

Mr. CORTADA. Not so well, sir. One of the results of what was happening in those days was the advent of the Mossadagh regime and all the consequences that it brought forth.

Mr. RHODES. May I ask a question, Mr. Chairman?

Mr. PASSMAN. Yes.

Mr. RHODES. (Discussion off the record).

VEHICLES PROGRAMED FOR IRAN IN PRIOR YEARS

Mr. PASSMAN. Have we made any trucks available to Iran in previous years?

General FUQUA. Yes, sir.

Mr. PASSMAN. How many?

General FUQUA. Accumulatively, the number of trucks, as of 1962, programed is ——— quarter-tons, ——— 2½ tons, ——— 5-ton tractor trucks. ——— 4 to 6-ton trucks.

Mr. PASSMAN. We have programed for them prior to 1963 about ———trucks?

General FUQUA. ——— total, sir.

Mr. PASSMAN. Do you actually believe they need and can use that many trucks advantageously?

General PALMER. Yes, sir. This a rather low rate. U.S. forces have a far higher rate.

Mr. PASSMAN. How many soldiers do they have?

General FUQUA. ———.

Mr. PASSMAN. Do they have soldiers just to give them an occupation in that country?

General FUQUA. No, sir.

Mr. PASSMAN. How well trained are they?

General PALMER. They are quite well trained, Mr. Chairman.

Mr. PASSMAN. How many rifles did we give them in all categories?

General FUQUA. ———.

Mr. PASSMAN. That is not quite a rifle per man?

General FUQUA. No, sir.

JORDAN

Mr. PASSMAN. You request for Jordan ——— for fiscal year 1963?

General FUQUA. Yes, sir.

Mr. PASSMAN. And you have a carryover in the amount of——

General FUQUA. $7,123,000.

Mr. PASSMAN. Of course, that falls in the same category as the others.

Since some of it has been obligated for many years, and it could be that in subsequent years, through the squeezeout, you could have deobligated funds?

General FUQUA. That is entirely possible.

AIRCRAFT FOR IRANIAN GENDARMERIE

Mr. CONTE. Mr. Chairman, before we leave Iran, why do they need ——— aircraft?

General FUQUA. These are for the gendarmerie, sir.

Mr. CONTE. For what?

General FUQUA. The gendarmerie is scattered throughout the entire country of Iran. The ——— is a small aircraft which could be used for providing a capability to give them better transportation and more mobility around the country.

Mr. CONTE. How many of this type does the FBI have here in the United States?

General FUQUA. I do not think we could compare the two at all The road—the railroad systems in Iran are very poor. To get quick mobility you need to take to the air. That is the primary reason.

Mr. CONTE. They have a seat capacity of about six?

General FUQUA. Four.

Mr. PASSMAN. I refer to the ——— aircraft. What connection does that have with the military assistance program?

General FUQUQA. The gendarmerie is supported under the military assistance program.

Mr. PASSMAN. There is no justification for this from a military standpoint, is there?

General PALMER. The internal security of the country.

Mr. CONTE. Do you know of any other country that has such aircraft for their internal police?

General FUQUA. I do not, sir.

Mr. CONTE. I have never seen any in part of the world I have been in.

Mr. PASSMAN. How did they maintain internal security before somebody cooked up this idea?

General FUQUA. It was just less effective.

Mr. PASSMAN. They got along all right, did they not?

General FUQUA. Yes, sir, but this improves their capability.

Mr. PASSMAN. You are speaking of within the country?

General FUQUA. Yes, sir.

Mr. PASSMAN. We have to give them military equipment to fight other nations if need be, and also equipment to keep peace in their own country.

Out of all the nations in the world we find here that this country requested ——— aircraft, and it is the only country where you have this type aircraft.

You have given ——— of them. Did your request money for it last year?

Mr. CONTE. There were ——— last year.

General FUQUA. This is correct, sir.

AIRCRAFT IN 1962 PROGRAM

Mr. PASSMAN. We want you to tell us where we can find your request for money for these aircraft last year. Give us the page number in the 1962 justifications.

General FUQUA. I think it was obviously put in after——

Mr. PASSMAN. After the bill was presented to this committee and the Congress?

General FUQUA. Yes, sir.

Mr. PASSMAN. There were no justifications anywhere last year for these ——— aircraft, and you allocated funds for them after the Congress adjourned and went home. Now you have ——— this year.

General FUQUA. Yes, sir.

Mr. PASSMAN. Mr. Conte?

Mr. CONTE. I think the record also should show, sir, that they have many other types of aircraft in this country that they could use for transportation of these people.

Mr. PASSMAN. They are not quite as luxurious as this aircraft.

I have a friend who owns one. We go around the country in it quite often. It is a pretty little job. It is a fine little businessman's plane.

I think the record should show, and I want to stress, that on almost every page you turn to here you are spending money that you did not request of the Congress last year. This is just one of the items.

(The following was subsequently submitted for the record:)

Due to doubt expressed pertaining to the wisdom of the Defense Department having provided light aircraft to the Iranian gendarmery the following explanation is submitted.

The L–19A cannot be obtained, either from Service stocks or new production. The L–19E could be obtained in the quantity needed at approximately $28,000 each. The stripped-down ——— will cost approximately $23,000, which is approximately $3,000 per unit less than the cost of the commercial version. The aircraft as purchased could not be described as plush.

DETAILS OF PROGRAM FOR JORDAN

Mr. RHODES. Mr. Chairman, have you begun Jordan?

Mr. PASSMAN. There is no definite program for Jordan.

Mr. RHODES. That was the point I was about to make.

Mr. PASSMAN. There is no program for Jordan.

Mr. RHODES. There is ——— and no detail at all.

Mr. PASSMAN. There is a blank page. We are going to recommend funds according to the justifications we find on this page.

RATIO OF VEHICLES TO PERSONNEL IN IRAN

Mr. CONTE. Mr. Chairman, how many trucks are there in Iran? May I ask another question on that?

Mr. PASSMAN. Yes.

Mr. CONTE. If you take the cumulative amount of trucks, in what you are asking for here, it comes out to about ——— trucks. That comes out to about one truck for every 18 men; is that right?

General FUQUA. I have not computed it, sir.

Mr. CONTE. My addition may be off.

Mr. PASSMAN. Let us compute it. It is important information.

Mr. CONTE. ——— trucks and you said there were ——— in the Army?

General FUQUA. That is correct, sir.

Mr. CONTE. I figure about 18 men to a truck.

Mr. PASSMAN. Of course, that is a prior program. You have to add to that the several thousand that will be added this year.

Mr. CONTE. I did. I added those. Then I imagined that they had gotten a few trucks on their own.

Mr. PASSMAN. I would not think so. Not with Uncle Sam providing them.

Mr. CONTE. Maybe through Public Law 480.

Mr. PASSMAN. It is possible.

Mr. CONTE. Isn't that a pretty high average, General?

General FUQUA. I believe that this computation may give an erroneous impression. I do not think that every one of the trucks that over the years has been provided to Iran is still in service and still operational, which would mean that this total of ——— would be a little bit less.

Mr. CONTE. When did we start giving them trucks?

Mr. CORTADA. I believe it was in 1951.

Mr. PASSMAN. We are talking about trucks. When did you start putting trucks in the country.

General FUQUA. I do not know when we actually started.

Mr. PASSMAN. I think that somewhere along the way we heard that the Shah of Iran wanted ———. You are not trying to meet that goal; are you?

General PALMER. (Off the record.)

Mr. PASSMAN. Why do you want to take such matters as this off the record? If you would start talking a little bit straight as to some of these situations, we would not get in all the mess we are in.

(Discussion off the record.)

REASON FOR PROVIDING TRUCKS TO IRAN

Mr. CONTE. Mr. Chairman, one other question on those trucks. I do not believe we should leave it that lightly. One of the reasons that you have given for the aircraft for the internal police is because of poor transportation facilities in Iran. If communications are that bad, where are you using all of these trucks?

General FUQUA. Communications are not too good between many of the cities in Iran. There are parts of the country where communication facilities or roads are adequate. They need trucks for the use in those areas where highway transportation is adequate. There are places that are quite remote where you need to augment transportation with aircraft.

Mr. CONTE. ——— aircraft is a lot of aircraft.

General FUQUA. It as a pretty large country.

Mr. PASSMAN. What is the land area of the country?

General FUQUA. 629,000 square miles.

Mr. PASSMAN. And the population?

Mr. CORTADA. 21.1 million, sir.

Mr. PASSMAN. If you want to give each sheik one of these superduper jobs, all right, but justify them. The committee does not ap-

preciate the fact of the spending of money for items going into the hundreds of millions of dollars that have never been justified before the committees of the Congress. I do not know who in the executive branch is taking it upon themselves to do this.

Mr. CONTE. I cannot see, Mr. Chairman, why these gendarmerie cannot ride military aircraft and ride these trucks to get in and about the country. It seems a little unbelievable that they have to ride around in a lush ———. We do not do it here in the United States. That is a lush plane.

PAKISTAN

Mr. PASSMAN. What is your program for Pakistan for fiscal year 1963?

General FUQUA. Pakistan is $———, sir.

Mr. PASSMAN. You have $———.

General FUQUA. Yes.

Mr. PASSMAN. You are classifying the unexpended amount for Pakistan. Why?

(Off the record.)

General FUQUA. Yes, sir.

Mr. PASSMAN. How many were in the race when that President was "elected" out in Pakistan?

Let us get into the political end of it a little bit.

Mr. CORTADA. He was not elected.

Mr. PASSMAN. How did he get his job?

Mr. CORTADA. That was a coup d'etat, and he assumed power.

Mr. PASSMAN. How long ago was that?

Mr. CORTADA. 1958; Mr. Gulick, you were in Pakistan at the time, were you not?

Mr. GULICK. No.

Mr. CORTADA. I think the interesting thing is he has just returned the country to constitutional government and given it a constitution.

Mr. PASSMAN. He got the Presidency without opposition. He simply took over.

Mr. CORTADA. Yes, sir.

Mr. PASSMAN. How about the elections he promised?

CONSTITUTIONAL GOVERNMENT IN PAKISTAN

Mr. CORTADA. Well, with the constitution now again in effect, one could be hopeful eventually there would be a return to an election-type government.

Mr. PASSMAN. How long would it be, do you think? Do you see any sign of returning to a normal——

Mr. CORTADA. Well, yes.

Mr. PASSMAN. What signs do you see?

Mr. CORTADA. The fact that a constitution has been adopted in the country, that there has been a return to a constitutional form of government and that is a move in the right direction.

Mr. PASSMAN. Did they set an election date?

Mr. CORTADA. No, not yet, sir.

Mr. PASSMAN. I think he is a rather clever fellow.

Mr. CORTADA. I think he is quite competent.

Mr. PASSMAN. I think he is a little too clever. He did not knock me off my feet when he was over here.

You do have a request for $———.

UTILIZATION OF MILITARY EQUIPMENT

U.S. Auditor's Report 15940/61 seems to indicate the United States has supplied too much equipment, in that Army equipment has been stored for extensive periods of time. Would you like to comment on that situation—which, however, is not an unusual one?

General FUQUA. Mr. Chairman, would you state again the subject of the report?

Mr. PASSMAN. It is the U.S. Army Audit No. 15940/61. It seems to indicate the United States has supplied too much equipment for the reason that the Army equipment has been stored for extensive periods of time. Also, inability of the host country to absorb, utilize, and maintain the equipment is indicated. That, too, is not unusual, but since they have the report, let us have your comment on it, General.

General FUQUA. Our report on that, sir, is December 31, 1961, indicates, that all serviceable equipment cited in the report as having been on hand at Pakistan Army depots for extensive periods of time has been issued to the using units. In addition, the complete inventory of all signal items on hand at the Army central ordnance depot, Rawalpindi, is conducted by an Army representative in September 1961 and action to issue items on hand is progressing in an orderly manner. It is anticipated that all serviceable items identified as a result of this inventory will have been issued by January 1, 1962.

Mr. PASSMAN. Could it mean that the order was issued to get it out and they got it out of the way?

Do you see justification for my question after reading the record that you have had Army equipment in warehouses for long periods of time?

General FUQUA. Your question is certainly a proper question.

Mr. PASSMAN. Please answer the second part. The indication is that the host country is without the ability to absorb, utilize, and maintain the equipment we are giving them.

General FUQUA. To prevent a future accumulation of serviceable items in depot, stock procedures have been established.

Mr. PASSMAN. Now, that is the point. To prevent a repetition of it, they have new criteria for operations in subsequent years.

General FUQUA. It means exactly that they have established stock procedures whereby the general headquarters of the Pakistan Army is given timely notice of expected arrival of equipment so it can be properly taken care of.

Mr. PASSMAN. Now, applying that to the statement from the report, it means there will not be a repetition of this if we can prevent it?

General FUQUA. We certainly hope that the measures that have been instituted will prevent a recurrence.

Mr. PASSMAN. I wanted the record to show that this audit report cannot be just glossed over.

PREVENTION OF FUTURE ACCUMULATION OF SERVICEABLE EQUIPMENT

General FUQUA. I gave you the answer to the first part. The second part is to prevent future accumulation of serviceable items in depots.

Stock procedures have been established whereby the GHQ of the Pakistan Army is given timely notice of expected arrival of this equipment.

GHQ will then insure that the equipment is issued and allocated to troop units within 60 days of the arrival of that equipment in the country and reporting procedures have been established to permit the Army element of our MAAG in Pakistan to police this system and keep it under control.

Mr. PASSMAN. How about the inability to absorb, utilize, and maintain the equipment? I do not believe you answered it. Are we giving them more equipment than they can actually advantageously utilize in the interest of their country?

General FUQUA. No, sir.

Mr. PASSMAN. Does the report indicate inability of the host country to fully absorb, utilize, and maintain the equpment?

General PALMER. Mr. Chairman, the auditor's conclusion seems to have been drawn entirely from the fact that the equipment was in storage.

Mr. PASSMAN. Yes, but they say just exactly what I read, General.

General PALMER. I understand that.

Mr. PASSMAN. If we are giving them more equipment than they can utilize and absorb, then there should be a halt called to it, not just get it out of the warehouses and park it under a fig tree somewhere, where the auditors will not find it.

General FUQUA. That is absolutely true.

Mr. PASSMAN. Thank you.

General FUQUA. I do not think I am answering the question you thought I was, sir.

Mr. PASSMAN. What questions are you answering?

RECOMMENDATIONS OF MAAG IN PAKISTAN

General FUQUA. It is true that the Military Advisory Group in Pakistan is proposing this procedure and if there is any indication that Pakistan is getting more equipment than they can utilize they will make a report through proper channels and action will be taken.

Mr. PASSMAN. We do have some ifs.

General FUQUA. We have instituted procedures to keep this from being done and to warn them should this situation develop.

Mr. PASSMAN. Should there be a repetition of it?

General FUQUA. Yes, sir.

Mr. PASSMAN. This was under a U.S. Army audit, but it was Air Force people who made the audit?

General FUQUA. Under the auspices of the U.S. Army Audit Agency.

RATIO OF AIRCRAFT TO CREWS

Mr. PASSMAN. I am glad you are working together so nicely.

Last year we found that in some countries you had more airplanes than you had pilots. Is that true in Pakistan? Do you have as many pilots as you have aircraft?

General FUQUA. In some of the tactical squadrons we have more crews than we have aircraft.

Mr. PASSMAN. What is the total of aircraft?

General FUQUA. These are F–86's.

Mr. PASSMAN. What is the total aircraft in the country?

General FUQUA. ——— aircraft, sir.

Mr. PASSMAN. How many crews do you have?

General FUQUA. ——— crews in the tactical squadron.

Mr. PASSMAN. How many pilots do you have in the squadron?

General FUQUA. I do not have that figure.

Mr. PASSMAN. According to this, it looks like you have three aircraft for each pilot.

(The information was subsequently submitted to the committee.)

General FUQUA. There is some training and some obsolescent aircraft in the inventory which will make that ratio rise and put it somewhat out of proportion, Mr. Chairman.

Mr. PASSMAN. But you are scheduling more aircraft than for——

General FUQUA. We are scheduling more training, sir.

Mr. PASSMAN. You procure the aircraft and train them, or do you first train them?

General FUQUA. The aircraft are programed, but they won't be delivered for some time. Training is usually ahead so when the aircraft are on the ground in Pakistan the trained personnel will be available to take them over.

Mr. PASSMAN. Turkey's program is for 1963.

General FUQUA. That is correct.

Mr. PASSMAN. You have to their credit from prior years' appropriations a total of $267,228,000?

General FUQUA. Yes, sir.

Mr. PASSMAN. And you will, of course, give the same information on this as for the other countries—when you obligated it, how much, for what, and when?

General FUQUA. Yes, sir.

(The information requested is found on p. 508.)

REHABILITATION COSTS OF EXCESS STOCKS

Mr. PASSMAN. I believe you have excess stocks here of $———.

General FUQUA. Yes, sir.

Mr. PASSMAN. What does that cover?

General FUQUA. It covers ——— F–84F aircraft and ——— Wilcox radio transmitters.

Mr. PASSMAN. And the only charge made to Turkey would be the rehabilitation cost?

General FUQUA. That is correct.

Mr. PASSMAN. What does it cost to rehabilitate an F–84?
General FUQUA. $75,698.
Mr. PASSMAN. What did the aircraft cost originally?
General FUQUA. Approximately $800,000.

COMPARISON OF AIRCRAFT REHABILITATION COSTS

Mr. PASSMAN. You have the F–86 aircraft that costs new $800,000 and the rehabilitation cost is $75,698, which makes it about 8 or 9 percent of the acquisition cost to recondition; is that correct?
General FUQUA. Yes, sir.
Mr. PASSMAN. Is this a more complicated aircraft than the C–47?
General FUQUA. Yes, sir.
Mr. PASSMAN. You had better talk to some of your people in other regions because they are paying up to $90,000 just for rehabilitating the C–47's. Could that be on account of the different region or a different contractor? That is what was established yesterday, that rehabilitation costs almost 50 percent of the acquisition cost.
Are these just a lot of figures put down to get by this committee?
General FUQUA. No, sir.
Mr. PASSMAN. Why would this complicated aircraft cost three or four times as much as a C–47 and yet you have it rehabilitated for less money than the C–47?
General PALMER. May I say a word here?
Mr. PASSMAN. Please do.
General PALMER. I cannot endeavor to be factual on this point.
Mr. PASSMAN. We know that you cannot, sir.
General PALMER. When these aircraft or any equipment are turned over by military assistance it has to be turned over in new condition. That is, restored "like new" is the expression.
The C–47 is a very old aircraft, of course, and I presume that placing that in "like new" condition is expensive in a great many ways that it is not with these newer types.
Mr. PASSMAN. Will you check into this matter?
General PALMER. Yes, sir.
Mr. PASSMAN. Let us know whether or not you rehabilitate them on a competitive contract basis.
General PALMER. Yes, sir.
(The information requested may be found on p. 510.)

VEHICLE PROCUREMENT FOR TURKEY

Mr. PASSMAN. How many trucks have been supplied to Turkey through fiscal year 1962?
General FUQUA. It is ——— one-quarter ton trucks.
Mr. PASSMAN. From what book are you reading?
General FUQUA. I am reading from page 147 of the justifications.
Mr. PASSMAN. I am talking about what is programed.
General FUQUA. ——— quarter ton trucks, ——— three-quarter ton, ——— 2½ ton.
Mr. PASSMAN. About ———. And you are asking now——
General FUQUA. ———.

Mr. PASSMAN. Now you are requesting only about ——— for fiscal year 1963?

General FUQUA. That is correct, sir.

Mr. PASSMAN. That is a very low replacement figure, and we are impressed with it. Out in Iran we are giving almost as many in fiscal year 1963 as we have given during the entire program. I wonder if it is because these people did not request them that they did not get any more than that?

General FUQUA. I am sure if they felt the Turkish Army wanted them they would have made the request.

Mr. PASSMAN. It is a striking comparison, the number of trucks for the Turkish Army and the number for the other country, with the size of their army.

General PALMER. These are programed according to the judgment of the U.S. military as to what they actually require.

LIQUIDATION OF STOCKPILES

Mr. PASSMAN. Now, is there a good possibility that the stockpile in ——— will be liquidated?

General FUQUA. I wouldn't judge as to whether it is a good possibility but there is always a possibility that it will be liquidated, sir.

Mr. PASSMAN. I refer you to page 150 of the justification book:

(A classified portion of the book was read.)

There must be some indication that the stockpile would be liquidated, because you have not put this in for any other country, have you?

General FUQUA. No, sir.

Mr. PASSMAN. There is a good chance that it will be liquidated. That is the only country for which you have included that type language?

General FUQUA. That is correct.

Mr. PASSMAN. Then, why are you requesting more funds for Saudi Arabia for fiscal year 1963 (off the record).

General FUQUA. The funds we have requested in fiscal year 1963 for Saudi Arabia are for training only.

Mr. PASSMAN. But you do have a credit to this country of $——— from previous years. We have covered this already, but if there is a possibility there will be no equipment in there, I do not know why we could not possibly delay the training program until there is something more certain about it.

Now, what country is scheduled to receive the ——— for which $——— is requested for training?

NESA REGIONAL TRAINING PROGRAM

General FUQUA. The unit ——— is planned to be allocated to the NESA country.

Mr. PASSMAN. To what?

General FUQUA. One of the countries in the Near East-South Asia region.

Mr. PASSMAN. What countries are to receive the $——— for training?

General FUQUA. This money has been held in the area program, sir, because the country which will receive it has not yet been determined.

Mr. PASSMAN. You have not yet firmed up a definite need for it?

General FUQUA. No; we have not yet firmed up the country which will get the unit.

We know we have a unit which will be allocated to one of the NESA countries.

Mr. PASSMAN. But you have to first decide upon the country before you firm up the need for money.

General FUQUA. We feel there will be a country which will get it.

Mr. PASSMAN. You are speaking of feelings. I am speaking of the American taxpayers' money, General.

General FUQUA. It will not be spent unless the unit goes in there.

Mr. PASSMAN. You are asking for it, anyway, and you are asking for it in advance of firming up the country that will get the unit.

General FUQUA. That is correct, sir.

Mr. PASSMAN. What would you do if you should find out that the country which is getting the unit already has funds out of some other appropriation? Then you would not spend the money?

General FUQUA. No, sir.

Mr. PASSMAN. Why not wait until you need the money, and have a firm program, before asking for it?

We have a $350 billion direct public debt, and a $746 billion indirect debt. We have obligated unborn generations to a trillion dollars already, and this year we will spend $7 billion or $8 billion more than we take in because we make funds available to all the agencies without firm justifications.

To cut loose on a program like this worldwide causes me a lot of concern.

General PALMER. Mr. Chairman, I think I can clarify that point.

Mr. PASSMAN. All right, sir.

General PALMER. There are three countries in the Near East area, all of which need ———. We have only one unit coming available from production.

Mr. PASSMAN. Which country? Do you know yet?

General PALMER. This is the point. We have not selected the country, but we will have the equipment for only one unit becoming available and as soon as the decision is made as to which country this will go to we will then allocate the training funds to that country.

Mr. PASSMAN. Is it not also true that you already have for this area ——— for training purposes?

General PALMER. That is quite true, sir, including this amount.

Mr. PASSMAN. If you want to subtract that, then, you still have approximately ——— already programed for training in the countries in this area?

General PALMER. That is correct.

General FUQUA. That is right.

Mr. PASSMAN. Thank you.

WEDNESDAY, MARCH 28, 1962.

MILITARY ASSISTANCE, WESTERN HEMISPHERE REGION

WITNESSES

BRIG. GEN. WILLIAM ENEMARK, DIRECTOR, WESTERN HEMISPHERE REGION, OASD/ISA
GEN. W. B. PALMER, DIRECTOR OF MILITARY ASSISTANCE
MILTON BARALL, DEPUTY ASSISTANT SECRETARY OF STATE, BUREAU FOR INTER-AMERICAN AFFAIRS
COL. AUBREY P. NATHAN, SPECIAL ASSISTANT, OFFICE OF THE DIRECTOR OF MILITARY ASSISTANCE, OASD/ISA
LT. COL. ROBERT SIMPSON, U.S. AIR FORCE, OFFICE OF THE DIRECTOR OF MILITARY ASSISTANCE
COL. THURLOW N. ASHTON, MILITARY ASSISTANCE PROGRAM ASSISTANT TO GENERAL ENEMARK
COL. WILLIAM A. CURTIN, OFFICE OF THE ASSISTANT TO THE SECRETARY OF DEFENSE, LEGISLATIVE AFFAIRS
GEORGE O. SPENCER, OFFICER IN CHARGE OF LATIN AMERICAN MILITARY AFFAIRS AND SECURITY
TOM FARER, MILITARY ASSISTANCE PROGRAM PRESENTATION COORDINATOR, PROGRAM REVIEW AND COORDINATION STAFF, AID
RICHARD H. CRAWFORD, OFFICE OF THE MILITARY ASSISTANCE COMPTROLLER, OASD/ISA
WILLIAM BRADFORD, SPECIAL ASSISTANT FOR CONGRESSIONAL PRESENTATION

Mr. PASSMAN. The committee will come to order.

We shall hear next from General Enemark, who is director of the Western Hemisphere region for the military assistance program.

General Enemark, we shall be pleased to hear from you at this time.

STATEMENT OF GENERAL ENEMARK

General ENEMARK. Mr. Chairman and members of the committee, it is a privilege to appear before you for the purpose of discussing the military assistance program in the Latin American region.

In the Latin American region, the cumulative program to June 30, 1962, will total $423,426,000, of which it is expected $346,275,000 will have been expended by that date and $77,151,000 will still be in the pipeline.

The proposed fiscal year 1963 military assistance program for the Latin American region is $76,974,000, which is $856,000 more than the fiscal year 1962 program of $76,118,000. We propose fiscal year 1963 grant aid programs for 19 countries in this region, one more than in fiscal year 1962. Exhibit A is an unclassified version of the regional summary on page 205 of the presentation book.

The proposed fiscal year 1963 program for the Latin American region of $76,974,000 will provide $24,522,000 for the essentially fixed charges such as training; packing, handling, crating, and transportation; and nutritional surveys; $12,430,000 for force maintenance to provide spare parts, attrition replacement, training ammunition, and repair and rehabilitation of equipment; and $40,023,000 for force

improvement. Exhibit B is a comparison of the fiscal year 1962 military assistance program with the proposed fiscal year 1963 military assistance program by major categories.

The $40 million force improvement would include $23 million for repair, rehabilitation, and outfitting five ASW ships; $6.7 million for aircraft; $3.8 million for Army equipment including trucks, engineer equipment, and small arms; $2.9 million for electronics and communication equipment; $ ——— for ——— and $2.1 million for other items.

The total value of the program to be applied against the ceiling established in section 511(a) of the Foreign Assistance Act of 1961 is $57,386,000 as follows:

Total program	$76,974,000
Deduct: Training	19,588,000
Applies against ceiling	57,386,000

The strategic importance of Latin America to this country cannot be overestimated. Latin America is a major source of essential raw materials and a major market for U.S. products. Its nations have been our traditional allies in peace and war and their friendship is necessary to effective U.S. use of the Atlantic and Pacific sealanes in the event of any major hostilities.

The existence of hostile governments in Latin America would be a grave menace to the United States should we become engaged in warfare on any considerable scale anywhere in the world. The denial to this country of the resources of the area for any extended period would have grave consequences to the United States, both in the prosecution of war and in recuperation from war damages.

Today, Latin American political, economic, and social instability is a serious danger. Cuba has shown us what can happen.

The President's Alliance for Progress was conceived to meet these circumstances. Extremists both left and right can be counted upon to use every means including subversion, terrorism, and civil war to defeat the effort to bring the Alliance for Progress to fruition.

The role of the security forces in Latin America, both police and military, therefore assumes paramount importance. If the Alliance for Progress is to have its chance, governments must have the effective force required to cope with subversion, prevent terrorism, and deal with outbreaks of violence before they reach unmanageable proportions. They must be able to sustain themselves against attacks by the international Communist organization and its indigenous members. (Classified information followed.)

In addition to the internal security threat there is a threat to the sealanes. We seek to meet this threat by working closely with the Latin American navies in the field of antisubmarine warfare. (Classified information followed.)

They will also contribute to internal security by patrolling their coastal waters in order to detect subversive infiltration by surface or submarine craft.

We have already loaned a total of 20 destroyers and submarines to South American countries. Of these, 16 have been delivered and 4 are being readied for delivery. Two of the latter are being rehabilitated in shipyards and should be ready for delivery in calendar year 1962.

Funds to rehabilitate the other two are included in the fiscal year 1962 program and work on them should begin this year.

The military assistance program for fiscal year 1963 contains funds to activate and modernize four additional destroyers. (Classified information followed.)

For these, ship loan legislation will be required; a bill is being submitted to the Armed Services Committees in this session.

Twice in the last 3 years CINCLANT Fleet has sent a task group composed of U.S. destroyers, submarines, and patrol aircraft around South America to conduct combined antisubmarine warfare exercises with South American navies. The quality of the forces has been improved greatly and the Latin American navies have developed mutual respect and a willingness to cooperate.

The program outlined above will maintain and strengthen the close friendly relationship between the United States and Latin American military which has become a tradition; it will contribute a significant element of support to the U.S. position and prestige in the area. (Classified information followed.)

We foresee an intensification of the revolutionary danger to the hemisphere during the next several years. Last year's crisis in Brazil precipitated by the resignation of President Quadros showed that there is a grave potential for Communist-supported violence in the largest nation of the hemisphere. (Classified information followed.)

In fiscal year 1962 we completed the commitment to Brazil under the Fernando de Noronha agreement wherein we obtained authority to establish missile tracking facilities. (Classified information followed.)

As part of the Castro regime's effort to subvert its neighbors it has publicly called for the overthrow of the democratic constitutional government of Venezuela. Political terrorism (classified information followed) but has been held in check (classified information followed). Our program for Venezuela includes training (classified information followed).

The Dominican Republic has only begun the difficult transition from tyranny to representative government and will be vulnerable for sometime to propaganda and subversive assaults sponsored or supported from Cuba and the deposed Trujillos. After having abrogated the military assistance agreement with the Dominican Republic in 1960, we are now preparing a new program designed to strengthen this new and friendly government and to assist in reorganizing, training, and reorienting the armed forces.

At the request of the Dominican Government a Department of Defense survey team visited the Dominican Republic in late January to discuss the development of a military assistance program, the signing of a new military assistance program agreement, and the establishment of a MAAG.

As a result of the survey, programs were developed for fiscal year 1962 and fiscal year 1963. (Classified information followed.)

A mutual defense assistance agreement with the Dominican Republic was signed on March 8, 1962. A Presidential determination was made on March 14, 1962, to cover the fiscal year 1962 materiel program. (Classified information followed.)

In Colombia, long existing violence and bloodshed in the rural areas are a constant menace and do not fail to attract Cuban attention. (Classified information followed:)

In recent years, the character of Latin American military establishments has been undergoing a significant change. The day of the caudillo or military-political tyrant is passing and the Latin American armed forces are becoming increasingly dedicated to the preservation of constitutional government and reflective of public opinion.

It is this change in outlook which makes them receptive to civic action activities which are an integral part of internal security. They are seeking a better relationship and closer identification with the civilian population.

Other examples of the change in outlook are found in Argentina and El Salvador. (Classified information followed:)

For Latin America as a whole, the Alliance for Progress holds great promise both to the other American nations and to ourselves. Nevertheless, during its formative stages, the immediate prospect is for increasing tension, growing subversion, and further revolutionary outbreaks.

We therefore consider that the training and equipping of the necessary internal security forces of the Latin American nations should be pressed forward with all possible decision and speed while maintaining a minimum antisubmarine warfare effort. They must be able to protect themselves against the Communist threat of violence and subversion, including guerrilla warfare, and the movement of armaments and men clandestinely across land, sea, and air borders for subversive purposes.

A good start has been made and we are continuing to build upon this foundation in fiscal year 1963. The chief emphasis throughout is on training, communications, transportation, and civic action for the ground forces; training and air transport capacity for the air forces; and antisubmarine and coastal patrol effectiveness for the naval forces.

COMMUNISM IN THE WESTERN HEMISPHERE

Mr. PASSMAN. Thank you, sir.

We find ourselves somewhat confused, general. It may be that the State Department would like to help us out on this.

Certainly you would have the right, to take it out of the record if it is classified data.

I quote from page A–2345 of the Congressional Record for March 27, 1962:

> Our seeming tolerance of communism was given an added, if inadvertent emphasis in President Kennedy's famous interview in November with the Moscow newspaper Izvestia, in which he said:
>
> "Mr. Jagan, who was recently elected Prime Minister in British Guiana, is a Marxist, but the United States doesn't object because choice was made by an honest election, which he won. If the people of any country choose to follow a Communist system in a free election, after a fair opportunity for a number of views to be presented, the United States would accept that."

As far as I am concerned, the President's statement notwithstanding, I am afraid of Communists anywhere, but whether or not these two could be tied together is something concerning which we would like to have a statement.

Mr. BARALL. (Classified reply.)

(Discussion off the record.)

U.S. AID TO CUBA

Mr. PASSMAN. Cuba was primarily liberated by the United States, was it not?

Mr. BARALL. We helped liberate them and we occupied them at one time but it was never really a possession.

Mr. PASSMAN. After we liberated Cuba, occupied it, and then spent money and time helping to create an independent government for Cuba, we should have had, in following years, in all probability, closer support from Cuba, as such, than from any other Latin American nation. Will you agree with that statement, in view of the great aid and friendship we have given them through the years?

Mr. BARALL. We have certainly helped them to a certain extent, principally in the trade area by paying a premium price for sugar.

Mr. PASSMAN. We walked the last mile to help give them independence, did we not?

Mr. BARALL. We certainly helped to get their independence.

Mr. PASSMAN. And whether it was a sugar subsidy or other types of aid in the years which followed, it would appear that Cuba was the greatest recipient, per capita, of our aid than any other nation to which we have ever extended aid?

Mr. BARALL. You refer to economic aid?

Mr. PASSMAN. I am talking about all types of aid, and I shall read a statement into the record by one of our outstanding Ambassadors.

From page 511 of the hearings last year, under the caption "Total Subsidy to Cuba in 14–Year Period," I quote:

Mr. PASSMAN. So the total aid in 14 years to Cuba has been about $2,250 million.

Mr. WOODWARD. At least, I would say.

Mr. GARY. That is on sugar alone?

Mr. PASSMAN. No. That includes other aid also.

Mr. WOODWARD. The sugar subsidy has been $2,100 million, and aid has been $52 million. That is $2,152 million. I think if we looked around we could certainly find at least $100 million more of various kinds of assistance.

Mr. PASSMAN. A person could use $2,250 million and not be far off base as to the total subsidy, or aid, to Cuba in the past 14 years?

Mr. WOODWARD. I would think that would be very close.

Let me be sure the record shows that, as far as I am concerned, I would make any sacrifice within reason to help bring Cuba back into the free world. And with God and justice being on our side I think eventually they will come back, or we will get them back. But is this not a clear indication that money, within itself, will not buy the type of security we are seeking?

Mr. BARALL. I do not think anybody can disagree with that statement, that money alone certainly won't do it.

Mr. PASSMAN. This is a prime example, and Cuba is only 90 miles off our shore. This is a situation not unlike the Alliance for Progress, and no person wants to see that program succeed any more than I do. However, I think that we are too easy, and these people are not unmindful of that fact, that we pull our checkbook out quite readily.

MILITARY ASSISTANCE TO CUBA BY OTHER COUNTRIES

General PALMER. Mr. Chairman, this might be a good point to put in the record the answer to a question you asked me as to the military assistance countries to whom we give military assistance, who are supplying military equipment to Cuba.

We dealt with the facts regarding the Belgium situation on March 23. I have looked further into it and I find that Italy made a contract in July 1959 to supply $2.5 million worth of military materiel to Cuba, consisting in the main of mortars, howitzers, and ammunition. The State Department has been informed by the Italian Government that there have been no shipments made since June 1960.

Mr. PASSMAN. Let us hope this contract can be canceled. We realize the importance of Italy, which has received billions of dollars of aid from the United States, and I think, just on the basis of general principles, Italy ought to stop without any further talks. If Italy does not understand our purpose, which is to live and let live, then no nation could.

We appreciate that information.

General PALMER. They have understood our point for the past 2 years, now.

Mr. PASSMAN. They should have understood it before they ever entered into the agreement. I do not think, however, it would be helpful to prolong this discussion.

If it is agreeable, we shall recess until tomorrow morning at 10 o'clock.

THURSDAY, MARCH 29, 1962.

Mr. PASSMAN. The committee will come to order.

ORIGIN OF MILITARY ASSISTANCE PROGRAM

For the programs in your area, General Enemark, do you work them up and submit them to the governments for approval or do you work them up after you have received requests from the various governments?

General ENEMARK. They are work up in conjunction with the Government. The long-range plan is prepared essentially by our people. Programs are developed in accordance therewith and are discussed in general terms.

Mr. PASSMAN. Yesterday we were told that in some instances we formulated plans without a request from the country, then submitted them to the country for consideration or approval. We wondered if you followed such a policy in your region in some instances.

General ENEMARK. In all cases I would say that the request for assistance initiates with the country.

Mr. PASSMAN. So, on all of the estimates submitted to the committee for Latin America, they have been under discussion and a general plan has been worked out prior to your request to Congress for the funds?

General ENEMARK. That is correct, sir.

Mr. PASSMAN. We are talking about the fiscal year 1963 program, of course.

General ENEMARK. Yes, sir.

PROGRAM COMMITMENT PRIOR TO AVAILABILITY OF FUNDS

Mr. PASSMAN. We are to a large extent obligated to a program, then?

General ENEMARK. No, sir; we are not obligated.

Mr. PASSMAN. No legal obligation, but perhaps a moral obligation, because you have discussed the levels and the programs with the countries.

General ENEMARK. I do not believe that there is either a moral or legal obligation, sir.

Mr. PASSMAN. At least you have discussed these programs with the countries involved and have decided upon the level of aid prior to submitting the request?

General ENEMARK. The dollar value is not discussed.

Mr. PASSMAN. But the items themselves?

General ENEMARK. In very general terms only.

Mr. PASSMAN. Then you are working out a program without the knowledge of the countries as to what they are actually going to get?

General ENEMARK. They do not know specifics as to what they are going to get.

Mr. PASSMAN. It is advanced to the stage that they have a general idea?

General ENEMARK. They have a general idea so that they can plan and always the discussions are based on the availability of funds made from the Congress.

Mr. PASSMAN. That is true even when we appropriate for the Post Office Department. That is the type of language which goes throughout all the bills.

In effect, there is no legal obligation, but is there a moral obligation that we are committeed to a program prior to the time you get the money?

General ENEMARK. We are on the record as supporting a program for the area and for the countries; yes, sir.

Mr. PASSMAN. Then considerable harm could be done with respect to our relations with the countries involved if, after having discussed these programs, we did not make the money available to carry them out?

General ENEMARK. Yes, sir.

UNEXPENDED BALANCE IN LATIN AMERICAN PROGRAM

Mr. PASSMAN. General, what is the amount of the unexpended balance in Latin America?

General ENEMARK. The unexpended balance for Latin America is shown on page 205 of the book; estimated July 1962 and after is $77,151,000.

FUNDS DERESERVED OR DEOBLIGATED

Mr. PASSMAN. It is your responsibility to understand and firm up and go over the country programs in your entire region, is it not?

General ENEMARK. Yes, sir.

Mr. PASSMAN. So when it gets to higher authority it goes with your recommendations as to the needs?

General ENEMARK. Yes, sir.

Mr. PASSMAN. So when it gets to a higher authority, and goes to the desk of Secretary McNamara, who certainly could not go into detail that you do, he relies to a very large extent upon his subordinates, if we may use that word, to firm up the programs and submit them to him for his approval?

General ENEMARK. Yes, sir.

Mr. PASSMAN. You are familiar, I am sure, with the fact that from prior appropriations, applicable to fiscal year 1962 and to fiscal year 1963, an amount in excess of one-half billion dollars has been dereserved. Do you know how much of this amount came from your region?

General ENEMARK. I do not have that information.

Mr. PASSMAN. Out of the total of deobligated funds would it not be in your interest to know what part, if any, had been deobligated from the amounts originally obligated for your region?

General ENEMARK. I believe if I understand the question that these funds are returned.

Mr. PASSMAN. That is right. The MAP did not use them. The money was obligated at one time, but it was not needed. They deobligated the funds, but under the law they became available for new obligations.

General ENEMARK. But they lost their identity at the time. We have no record of that.

Mr. PASSMAN. You do not know whether any funds were dereserved from your region last year out of the $500 million anticipated and in effect?

General ENEMARK. No, sir. I do not have that information.

Mr. PASSMAN. You do formulate the plans of the needs and submit them to higher authority?

General ENEMARK. That is right, sir.

Mr. PASSMAN. They would not have access to any information that you do not have, would they, with respect to the country programs?

General ENEMARK. With respect to the country programs, no. I do not have the data on the overall area program.

Mr. PASSMAN. I am speaking of the country programs. They would not have any information that you do not possess with respect to the country programs?

General ENEMARK. The funding is not handled in my—this portion of the funding is not handled in my office.

Mr. PASSMAN. I am speaking of the level of need, the materiel, and whatever it is.

General ENEMARK. Yes, sir. I have that responsibility.

Mr. PASSMAN. They would not have any information that you do not have?

General ENEMARK. On the requirements, that is right, sir.

Mr. PASSMAN. Of the $77,151,000 unexpended in your area, would you know how much of that may be dereserved, or deobligated, in subsequent years?

General ENEMARK. No, sir.

Mr. RHODES. Mr. Chairman, how does that figure compare with the comparable figure last year?

Mr. PASSMAN. It is like all the others. It is going up. It was $54,864,000 last year. Now it is up to $77 million. They are putting more in the pipeline.

COST OF ACTIVATION OF NAVAL VESSELS

How much money do you have budgeted to activate and modernize the ——— destroyers for ———?

General ENEMARK. The funds ——— showing on page 217 amount to $——— for ships.

Mr. PASSMAN. Is that for destroyers ———?

General ENEMARK. The amount is $——— for the destroyer activation.

Mr. PASSMAN. Give it to us, if you will ———.

General ENEMARK. I have it, sir.

Mr. PASSMAN. How much, sir?

General ENEMARK. $ ——— and for ——— it should be the same thing. I imagine it is.

Mr. PASSMAN. These are destroyers now owned by the United States and are in excess of needs of this country?

General ENEMARK. Yes, sir

Mr. PASSMAN. Will this make available, in effect, a new appropriation for the Defense Department?

General ENEMARK. Make a new appropriation for the Defense Department?

Mr. PASSMAN. Make available new funds, if you take these which are in excess, and charge them to the military assistance program, that makes the funds available for our own Defense Department?

AUTHORIZATION FOR LOAN OF VESSELS

General ENEMARK. They are on ship loan. This is the cost of modification and rehabilitation of making them available.

Mr. PASSMAN. They will be on loan?

General ENEMARK. Yes, sir.

Mr. PASSMAN. What kind of a contract is involved?

General ENEMARK. This is the subject of ship loan legislation which is being submitted separately, sir.

Mr. PASSMAN. What is the status of the proposed legislation?

General ENEMARK. It is being submitted. I do not know whether it has actually come to the Congress yet or not.

Mr. PASSMAN. But you are requesting funds for such purpose?

General ENEMARK. We are requesting the authority to loan the ships and we are also requesting authority to make the necessary modifications and repair and rehabilitation.

Mr. PASSMAN. Under our normal processes over the years, until we abdicated a good part of our authority to the Executive, which would come first, the authorization or the appropriation? We are considering the appropriation for this item of $———, yet you do not even have authorization and do not know that you will have one. Are we not getting the cart ahead of the horse?

General ENEMARK. Well, sir, in essence the requirements are submitted virtually simultaneously.

Mr. PASSMAN. Has legislation been introduced?

General ENEMARK. I do not know the answer specifically, sir. I know the last I heard about it it was being prepared for submission.

Mr. PASSMAN. You do not know whether there is actually any such legislation pending before the Congress at this time?

General ENEMARK. I do not know whether there is actual legislation pending before the Congress at this time.

Mr. PASSMAN. Do you think there would be great harm done if we did not make these funds available until such time as you have the legal authorization?

General ENEMARK. Yes, sir, I do, because if this were to happen it would delay the program an entire year.

Mr. PASSMAN. What harm will be done if it is delayed a year?

General ENEMARK. The harm is that we would not be developing the necessary antisubmarine warfare capability in Latin America, which is critical to our own defense.

Mr. PASSMAN. All of this is said to be critical in the 65 nations receiving military aid all over the world. You think there would be harm done if we did not go ahead with a program that was not been authorized by the Congress?

General ENEMARK. Yes, sir.

VESSEL TITLE TRANSFER

Mr. RHODES. How much does it cost the MAP to have the complete title to a destroyer transferred and to deliver the destroyer to another country?

General ENEMARK. This would be an "as is, where is" type?

Mr. RHODES. No. Let's make it comparable to the transaction you have here except you will deliver the destroyer, with no strings attached.

General PALMER. Outright sale?

Mr. RHODES. Yes.

General ENEMARK. I do not know that we have any records on that.

Mr. RHODES. It would not be a sale except as between the MAP program and the DOD. We are not going to sell it to the other nation. You are not selling these?

General PALMER. No; we are not. Title to them remains in the U.S. Navy.

Mr. RHODES. What I want to know is, What would the Defense Department charge the MAP if the ships were actually going to be turned over as a gift under the military assistance program?

General PALMER. I believe I am correct in this—I have not got a lawyer here today—that is not a legal possibility. I think the Navy is not allowed to alienate ships, so to speak.

Mr. PASSMAN. Could you tell us the acquisition cost of destroyers?

General ENEMARK. I do not have that information.

Mr. PASSMAN. Could you get that information for us?

General ENEMARK. I think we could; yes sir.

(The information was subsequently submitted to the committee.)

TYPES OF MILITARY ASSISTANCE

Mr. PASSMAN. Here is what we are confronted with, the way I see it. We have four types of military assistance programs, and you cannot put them all together. We have the oversea military construction, such as with the half billion dollars we spent for bases in Morocco and Saudi Arabia. That is one type, which we do not see, nor have the time to get into the costs. We have the outright military assistance program which this committee considers. We have also the excess equipment that we give away, for which the recipients pay the rehabilitation cost.

Now we are into another program though which it is proposed to take assets of the United States and assign them to other nations. In all probability they will wear them out and never return them. The program could go in a period of years into billions of dollars.

I just wonder how we are ever going to be able to put the cost down, unless we show for the record the acquisition cost of these destroyers. You are going to have that kind of a program. Haile Selassie has one of these superduper jobs on loan. This stuff is being fanned out over the world on loan now.

PRESENT NAVAL VESSEL LOAN PROGRAM

Do you have any proposal for your region, sir, as to what you will request on loan for these nations? We are now discussing destroyers. Is it going to be broader than that or do you think that is about the limit?

General ENEMARK. At the present time the legislation would include destroyers.

(Off the record.)

Mr. PASSMAN. Would it be a sale or loan?

General ENEMARK. The vessels will be on loan (off the record).

Mr. PASSMAN. These vessels, the destroyers, will be fitted with the modern equipment?

General ENEMARK. Yes, sir. This is true of these destroyers. They are in an ASW configuration for antisubmarine warfare.

(Off the record.)

Mr. PASSMAN. Because we are making grants to these nations just about as fast as we can write the checks, with the assurance that they will pay for it out of some other funds, out of money they get from us.

General ENEMARK. In the case of ——— we have no grant aid program for materiel.

Mr. PASSMAN. It does not have to be materiel. I have said before, and this is undoubtedly true, practically all of these countries earn substantial dollars from their exports. If we are going to give them money, regardless of the restrictions you place there, that will release money they earn from their exports which they normally spend in America.

SIZE AND SCOPE OF SHIP LOAN PROGRAM

Do you know whether this legislation is broad enough that we might make aircraft available on loan?

General ENEMARK. It is not contemplated that aircraft would be provided under that legislation.

Mr. PASSMAN. Is it restricted to the actual number of ships, the type and size, and what nations will get them, or is it broad enough to expand it later?

General ENEMARK. No, sir; it lists specifically the numbers of vessels.

Mr. PASSMAN. Do you have any idea at this time how many vessels are included?

General ENEMARK. I only know that pertaining to my own area, sir.

Mr. PASSMAN. There are only ——— in your area?

General ENEMARK. (Off the record.)

Mr. PASSMAN. That is for this year. You have had a similar program in the past, have you not?

General ENEMARK. Yes, sir.

There was no ship loan legislation and no ship loans accomplished in fiscal year 1962. There have been ship loans before. I believe I included in my statement information to the effect that—I will check my statement if I may——

Mr. PASSMAN. I think it has been about 20, loans of a total of 20 destroyers and submarines to Latin America. What legislation did you use to do this?

General ENEMARK. I do not know the number or name of the bill, sir, but it was authorizing legislation.

Mr. PASSMAN. I think it was passed a couple of years ago. This is new legislation.

General ENEMARK. Public Laws 85–220 and 85–532 covered that.

Mr. PASSMAN. I know you had legislation, a program that called for 20. Have you pulled all 20 out and assigned them?

General ENEMARK. Yes, sir.

Mr. PASSMAN. You are asking for ——— for fiscal year 1962?

General ENEMARK. Yes, sir.

Mr. PASSMAN. Will that close the program or do you foresee a continuation in the future?

General ENEMARK. I cannot answer that question right now.

Mr. PASSMAN. We are trying to find out whether they are coming in with something broad enough to be able to expand it later without new legislation.

General ENEMARK. No, sir.

The legislation to be submitted provides the authority to loan those ships which we need and which we want to provide in the fiscal year 1963 program.

LOAN OF VESSEL TO ETHIOPIA

Mr. PASSMAN. By what authority did we make the ship loan to Haile Selassie? Was it under the old legislation or is it kind of at the Presidential level?

General PALMER. I am sure it was under ship loan legislation, sir, but I am not prepared to cite the act at this time. I will furnish it for the record if you wish.

(The information requested follows:)

Under the authority of the Foreign Assistance Act of 1961, as amended (Public Law 87-195), and subject to the terms and conditions of the mutual defense assistance agreement between the Government of the United States and the Government of Ethiopia, dated May 22, 1953, the Government of the United States loaned to the Government of Ethiopia the U.S.S. *Orca* (AVP-49). This vessel will be utilized by the Government of Ethiopia as a training ship. The Government of Ethiopia took possession of the vessel on January 31, 1962, and renamed it the H.M.S. *Ethiopia* (A-01). This vessel is not of the type designated in 10 U.S.C. 7307 relating to the loan of combat vessels.

Mr. PASSMAN. Mr. Rhodes?

REHABILITATION COSTS OF DESTROYERS

Mr. RHODES. Have you given us the same figure for the repair and rehabilitation of each of these destroyers?

Do they each cost the same?

General ENEMARK. Yes, sir.

Mr. RHODES. Who prepared the figure?

General ENEMARK. It was prepared by the Department of the Navy.

Mr. RHODES. Is it an estimate or is it a firm figure?

Mr. COMER. It was an estimate predicated on prior experience in overhauling this type destroyer.

PAYMENT FOR VESSELS

Mr. RHODES. How will MAP actually pay for the destroyer? Will they pay the exact amount? Is this a guaranteed cost or if the cost is in excess of this will you find it necessary to pay the excess?

General PALMER. It is an estimate and we shall have to meet the Navy's bill.

Mr. RHODES. And if the bill is less than the amount indicated here will you still pay the amount indicated?

General PALMER. No, sir; we pay the cost actually charged against the job.

Mr. RHODES. Do you have any way of checking the costs?

In other words, do you have auditors who work over the time sheets and all?

General PALMER. No, sir; I do not. The operation of the military assistance program from its inception has depended upon the service departments to audit these accounts exactly as they do any other of their accounts. The top organization I have to plan, program, and manage the program is less than a hundred people. In other words, there is no duplication of the auditing and that sort of effort.

MILITARY ASSISTANCE TO LATIN AMERICA

Mr. PASSMAN. What has happened to the policy advocated by President Eisenhower that we make economic aid available to the Latin American countries, rather than military aid?

Do you recall statement of General Eisenhower's 3 or 4 years ago about these people actually needing economic aid and not military aid?

Mr. BARALL. Sir, I think that statement was made at a time when there was relatively greater stability in Latin America and it was considered that by providing economic aid you could add to that stability but since then, with the growth of Castroism, not just in Cuba, but the same forces in other countries in Latin America, we have now rethought that military aid continues to be necessary and as General Enemark stated in his opening statement, particularly with respect to internal security forces.

Mr. PASSMAN. I wonder if that observation would apply to Africa, where they are bringing in these new nations about every other month?

Mr. BARALL. I am not qualified to reply on that, sir.

General PALMER. Mr. Chairman, I think it is fair to point out that the military assistance program is $75 million and the economic program in Latin America is over $500 million.

Mr. PASSMAN. It starts small but it is bound to grow.

General PALMER. The proportion is very heavily in the direction of President Eisenhower's policy and President Kennedy expanded the same policy.

Mr. PASSMAN. It would appear that it is on the way up by about 50 percent this year. You had $42 million in 1960. In 1961 you went up to $54 million, and now you are going up to $77 million.

General PALMER. It is about the same as last year, Mr. Chairman.

Mr. PASSMAN. Let us see if it is the same. I used accurate figures. It is up about $800,000.

General PALMER. $800,000.

Mr. PASSMAN. But it is on the way up.

General ENEMARK. We are operating within a congressionally imposed ceiling on defense articles of $57,500,000.

Mr. PASSMAN. Is training included in that limitation?

General ENEMARK. No, sir; it is not.

INCREASE FOR TRAINING PROGRAM

Mr. PASSMAN. That is another item. Have you had a decrease in training?

General ENEMARK. No, sir; an increase.

Mr. PASSMAN. How much did you have for training last year?

General ENEMARK. The program, as shown on page 20 of the book shows that training last year was $18,870,000 and this year it is $19,588,000.

Mr. PASSMAN. What was the amount for training in 1961?

General ENEMARK. In 1961, $10,853,000.

Mr. PASSMAN. It has almost doubled from 1961 to your proposed amount for 1963?

General ENEMARK. Yes, sir.

Mr. PASSMAN. In fiscal 1960 you had $5,830,000; 1961, $10,853,000; 1962, $18,870,000, and for fiscal 1963 you are up to $19,588,000.

That is a 400 percent growth. What are you training them to do, play ball?

General ENEMARK. No, sir; as indicated by Mr. Barall and General Palmer and as I indicated yesterday, the internal security problem is extremely difficult.

Mr. PASSMAN. I did not think, in the beginning, that this thing was going in the direction General Eisenhower said that it should. Your military materiel is right up to the limit, and there is no limitation on training, is there?

General ENEMARK. Yes, sir.

Mr. PASSMAN. By law?

General ENEMARK. No, sir; not by law, but by the availability of funds in the overall program; that is, the amount they can absorb and the availability of funds worldwide.

Mr. PASSMAN. But there is no legal limitation fixed on dollars, if they are available?

General ENEMARK. That is correct, sir.

Mr. PASSMAN. Thank you, sir.

ARGENTINA

Mr. PASSMAN. Argentina is the country where they overthrew a President yesterday, is it not?

Mr. BARALL. Yes, sir; or this morning, yes, sir.

General ENEMARK. That is what I read in the papers, sir.

Mr. PASSMAN. The armed forces brought about this action?

Mr. BARALL. Yes, sir.

Mr. PASSMAN. Were you dealing with the civilians or military when you worked out this program? What would be the status of this request with the new Government?

With whom will the State Department deal now?

Mr. BARALL. It is not quite clear as to who will take over the Government there. The reports we had this morning said that the constitutional successor to President Frondizi, the President of the Senate, would become the next President. Our reports are not clear enough so that we can say that that is what has been decided but there has been no change in the overall military leadership of the country. We have every reason to believe that they would expect us to continue with the program in the present magnitude as planned.

Mr. PASSMAN. We do not advocate overthrowing legally elected Presidents, do we?

Mr. BARALL. No, sir; we advocate quite the opposite.

We are presently considering whether there is a recognition question with respect to Argentina or whether this will be a constitutional government which continues.

Mr. CONTE. Mr. Chairman.

Mr. PASSMAN. Mr. Conte?

Mr. CONTE. I heard on the radio coming here this morning that the President of the Senate refused to accept the position.

Mr. BARALL. I said the reports were not here. Both he and the next in line, third in line, the President of the Chamber of Deputies had

stated earlier that they would not accept. In other words, they made this statement at a time when they wanted to see President Frondizi continued in office. That was while he was still in office. I am not sure of what they are quoting, an earlier statement or new statement.

Mr. CONTE. The radio was very specific and said the President of the Senate had turned it down and were hopeful the Speaker of the Assembly would accept it. Also the State Department said they may suspend foreign aid if it is a military government.

Mr. GARY. Will the gentleman yield?

Mr. PASSMAN. Yes.

REFORMS BY COUNTRIES PRIOR TO RECEIVING ASSISTANCE

Mr. GARY. This morning "Today," the television program, had the new Administrator of AID on TV, Mr. Fowler Hamilton, and he stated very definitely that they were not going to give aid in Latin America unless they did carry out their part of the program. He was shown speaking to the Press Club on yesterday. He said some of the countries were making progress and that they naturally would help those countries which are making progress, rather than those that were not.

Mr. PASSMAN. That is indeed encouraging, but he had better take another look, because they have just about disbursed all the money made available last year. That is a sure thing, and the record will back it up. They were not going to do such as that, but they have just about spent it all.

Mr. GARY. That was before he became Administrator.

Mr. PASSMAN. Most of the checks have been disbursed since January 1.

PROPOSED LOANS TO ARGENTINA PRIOR TO REFORMS

I believe that Argentina was offered $150 million about 6 or 7 weeks ago?

Mr. BARALL. It was an offer of credits of $20 million in the form of a balance-of-payments loan and $130 million in terms of availabilities for sound projects, which were to be submitted.

Mr. PASSMAN. Sound projects where?

Mr. BARALL. In Argentina.

Mr. PASSMAN. There is a $150 million consideration for Argentina, regardless of the basis. Am I correct in the figure?

Mr. BARALL. Yes, sir.

There was a public announcement that credits up to $150 million would be made available for projects as submitted to the evaluated and to be studied and to be engineered and in accordance with the requirements of U.S. law.

Mr. PASSMAN. Had projects been submitted at the time of the commitment?

Mr. BARALL. No, sir.

Mr. PASSMAN. Is that in line with the Alliance for Progress program, that we are going to commit the money prior to reforms and so forth?

Mr. BARALL. Can I go off the record.

Mr. PASSMAN. If you would give us the answer, then you may go off the record, sir.

Mr. BARALL. Well, we are still——

Mr. PASSMAN. You do not have to answer the question.

I am not going to try to fool you. I do not want you to try to fool me. You know that we made this commitment, and as fast as they need the money they will get it, if past performance means anything. There is nothing personal about this. We are dealing with the taxpayers' money.

There is $150 million in some form committed for Argentina if it can be utilized?

Mr. BARALL. Yes, sir.

PURCHASE OF U.S. GOLD BY ARGENTINA

Mr. PASSMAN. Is it true that in the last two quarters of 1960 and the last three quarters of 1961 Argentina had sufficient dollar credits to buy $140 million of U.S. gold?

Mr. BARALL. I do not happen to know the answer to that.

Mr. PASSMAN. Let me say for the record that it was $50 million in the second and third quarters of 1960 and it was $90 million in 1961, for a total of $140 million in just a little over a year.

Mr. Gary?

EFFECT OF CHANGE IN GOVERNMENT OF ARGENTINA ON LOAN STATUS

Mr. GARY. This $150 million that has been committed was committed to the Frondizi government, was it not?

Mr. BARALL. Yes, sir.

Mr. GARY. Since that time the Frondizi government has been overthrown?

Mr. BARALL. Yes, sir.

Mr. GARY. Then that commitment would not be a commitment to the present regime; is that correct?

Mr. BARALL. I believe that this will be restudied. There is a statement under consideration right now to the effect that all aid would be suspended.

Mr. GARY. I hope very much that it will be restudied in its present setting as to the present situation in Argentina.

Mr. BARALL. As I understand, that is the intention of the executive branch.

Mr. GARY. The commitment was made to a government not now in power.

Mr. PASSMAN. Would I be ugly to put this in the record? I appreciate what you said. I concur with the gentleman. I think we had a little nation out in the Near East, Iraq, where we had been putting substantial aid, and we had substantial funds to the credit of Iraq. We were supporting the Government. You had a hostile Government that killed the King, or whatever his title was, and 3 days later we had a foreign mission in there.

We shaped up a larger plan for them. We kept pouring the money in. You didn't miss a stroke. I wonder if that may be the same thing down there?

Mr. BARALL. No, sir. I do not think it is fair to say we have been pouring money into Argentina.

Mr. PASSMAN. I asked the question. You remember the situation out in Iraq, do you not?

Mr. BARALL. Yes, sir. I remember reading about it. I have no responsibility for that area.

Mr. PASSMAN. We poured the money in there, just the same.

Mr. CONTE. May I ask a question on Argentina, Mr. Chairman?

Mr. PASSMAN. Yes.

CURRENT COMMITMENTS TO ARGENTINA

Mr. CONTE. Pursuing this one step further, of this $150 million, $20 million has been committed?

Mr. BARALL. For balance-of-payments purposes.

Mr. CONTE. When was this done?

Mr. BARALL. It was done approximately 4 weeks ago.

CHANGE IN ARGENTINE GOVERNMENT

Mr. CONTE. Didn't CIA have any information as to this revolution that was about to take place?

Mr. BARALL. I do not believe that you have to ask for the CIA. I think it has been quite clear for some time that the President of Argentina, Mr. Frondizi, was having difficulty with his military people. Among other things, they were trying to get him away from a position of being neutralist with respect to Cuba and you will recall that after the last conference at Punta del Este, under military pressure, the president dismissed the foreign minister so that it has been no secret that there has been some dissention and some difficulty between the president and the armed forces. What was not clear was that President Frondizi would be overthrown at this present time.

He has weathered a number of these storms before and it was not clear that he would not be able to serve out his entire term.

Mr. CONTE. That is my point. I think CIA or someone in the Government should have had the information that he was about to be toppled.

Mr. BARALL. I do not see how anybody in the U.S. Government could have information before the people who do these things in other countries decide to do them. I do not believe this decision was made, except within the last few days.

Mr. CONTE. I do not think you just topple a government in a day or two.

Mr. BARALL. It can be done and it is done in Latin America. A handful of determined men can decide to topple a government within a few days. This is perfectly possible in Latin America and in other areas of the world where you do not have constitutional government well established as it is in the United States and in a number of other countries.

Mr. PASSMAN. Governments are being toppled all over the world, are they not?

Mr. BARALL. Yes, sir.

Mr. PASSMAN. One was toppled about 3 days ago out in the Middle East.

Mr. BARALL. The Argentine crisis arose only after the election results were known. This election took place on March 18. The CIA

would really have to be omniscient to be able to predict what the election results would be and what the military reaction to those results would be.

(Discussion off the record.)

Mr. RHODES. I would like to make a comment for the record, if I may. I am afraid the record shows or indicates that there is some disapproval in the committee of recent actions in Argentina. I think we should all realize that the situation came about by resurgence of the Peronistas, who were allied with the Communists. I certainly for one do not approve of any more Communist governments in South or Central America and if it becomes necessary to do something in order to prevent it occuring I am perfectly willing to do it, and to applaud those who take effective action to prevent a Communist takeover.

I wanted that in the record.

Mr. PASSMAN. I want the record to show that, too. I am merely indicating that you never know when there is going to be a new government. They just overthrow them overnight.

Mr. RHODES. That is right. We can all deplore the fact that the election came out the way it did.

Also we do not have the facts before us as to how fair an election it was. We do not know that. We do not know whether this was really the will of the Argentine people being expressed by way of an election. Therefore, I am not going to condemn those who have acted to prevent Communists and Peronists from taking this country over.

Mr. PASSMAN. I do not believe the record is going to show that I condemn the military. I was merely asking the question, who are we going to deal with now, as these negotiations were made with the President that the military just kicked out, and whether or not this will carry over, or whether we are going to have another look at it.

Mr. BARALL. We are certainly going to have a look at it. We are studying first whether there is a recognition question or whether it is a continuing government.

Mr. PASSMAN. Mr. Gary?

Mr. GARY. As I understand the situation, the army is certainly anti-Peron, and so are we because Peron is sympathetic with the Communists.

I directed my remarks to the fact that since we had made commitments to one government and another government was going to take over, we should review and reevaluate the situation. I did not say we should not give the aid. I think it is a situation we should study very carefully. Apparently, with the army in there, if they get a proper leader who is against Peron and his return to Argentina, we will be in a much better position than we have been. At least Frondizi was not on our side. He was supposed to be neutral.

We would like to have a friendly government there. Frondizi, in the recent Conference did not vote with us on any of the issues. If we can get somebody who is most favorable, I would be more inclined to give money than I have been to the Frondizi government. I do think the whole commitment ought to be reevaluated under the present situation and conditions.

Mr. BARALL. The executive branch will certainly reevaluate the situation in Argentina.

Since we are talking about a military appropriation, perhaps I could say that the military in Latin America have acted in general in

a very responsible way in recent years. We have a number of countries in which they deposed chiefs of state and took over only on a temporary basis, ran elections, and stepped down and yielded to civilian presidents. The case of Argentina is one of those. We have every hope that there will be a return to civilian constitutional government in Argentina after the present difficulties are ended.

Mr. GARY. The military has promised this, as I understand it.

Mr. PASSMAN. I want the record to show that I am not interfering with policy. I am thinking in terms of money, and I think that sometimes we are quite gullible.

GOLD RESERVES IN ARGENTINA

Here is a nation with a literacy rate of 86 percent, which is almost comparable to ours; is it not?

Mr. BARALL. Yes, sir.

Mr. PASSMAN. There are a lot of very wealthy people in that country. We do know that they had so many more dollars than they needed for commerce that they were able to buy $140 million worth of our gold in 1960 and 1961. We just wonder why it was necessary to go out and commit such large sums as $150 million, as was done.

Mr. BARALL. Sir, they do not have great reserves of foreign exchange.

Mr. PASSMAN. How did they buy this $140 million in gold, Mr. Secretary?

We tried to keep them from buying it. They had money they did not need, and it was invested in American securities drawing a profitable rate of interest. The State Department or the Treasury, maybe both, pointed out to them, in effect, "You have no justifiable need for the gold. You are drawing a very nice return on this investment. Why not leave it invested?" They said, and I parapharse, "No, we want gold for the dollars." Am I making a statement of fact, or are you familiar with the situation?

Mr. BARALL. I am not fully familiar with the facts but I am certain the Argentine reserves are not very great in terms of foreign exchange. You cannot expect a country to be entirely without reserves. I believe you were talking about their exercising their choice of keeping their reserves in the form of gold rather than other forms.

Mr. PASSMAN. Well, they gave up interest-bearing U.S. securities. They requested gold for their credit. They do not usually use gold frequently in the commerce of the world, do they?

Mr. BARALL. No, sir.

Mr. PASSMAN. They wanted gold. If they had such great need for the dollars, I would not know why they would put such a tremendous amount in gold.

SOURCE OF ARGENTINA'S MILITARY EQUIPMENT

Where does Argentina purchases its military equipment?

General ENEMARK. She procures some from us and she procures others from other countries of the world.

Mr. PASSMAN. Do you know what other countries?

General ENEMARK. I know she bought some military equipment from (off the record).

Mr. PASSMAN. Do you know of any others?

General ENEMARK. I do not know specifically of any others.

Mr. PASSMAN. As we are making available, or have done so, a tremendous amount of money for training purposes for Argentina, and very little, if any, for equipment, and as they are buying equipment, should we not find out where they are buying the equipment and, also, why we should be providing the money to do the training if they have the money to buy the equipment elsewhere?

CUMULATIVE MILITARY SALES TO ARGENTINA

General ENEMARK. I can say this with respect to the sales. The cumulative sales to Argentina under section 508 amount to $5,861,000.

Mr. PASSMAN. That is about 7 years.

General ENEMARK. Yes, sir.

Mr. PASSMAN. Which is about $800,000 a year. What sum are you asking for training alone for fiscal year 1963?

General ENEMARK. For fiscal year 1963 we are asking ———.

Mr. PASSMAN. So, we are giving almost ——— times as much for training as they are making equipment purchases from us.

General ENEMARK. That is under section 508. In addition to that, the cumulative on page 18 of direct sales to Argentina amount to ———. Now, the purpose of training is to provide them a capability for internal security and also a capability to cooperate with us in hemisphere defense in the antisubmarine warfare field.

Mr. PASSMAN. If they have money to buy and pay for military equipment from the United States and other nations, could they not raise the cash to pay for their training?

TRAINING OF PERSONNEL FOR INTERNAL SECURITY

General ENEMARK. It is possible that they do, but again the impact which we have in providing the training to these people, in improving their training stature and their military stature, is worth it in our opinion.

Mr. PASSMAN. I am thinking of money. They did not buy ——— worth of equipment from Great Britain and other nations just to put it into storage. They bought the equipment to use and thus they had to train personnel to use it.

General ENEMARK. Yes, sir.

Mr. PASSMAN. They must have had in mind when they purchased this equipment that they would train personnel to operate it.

General ENEMARK. The point is that here we are doing our best to develop their capability to maintain their internal security. It is in our interest to help them and to help them in this field in developing these forces (off the record).

Mr. PASSMAN. I am not going to prolong it, but if they have the money to buy ——— worth of equipment and pay cash to Great Britain, to the United States, and other nations——

General ENEMARK. This ——— is all to the United States, sir.

Mr. PASSMAN. My point is this, sir: If they have sufficient dollars to buy $——— worth of equipment and pay cash for it, they must

have had in mind putting up money to pay for training. I am wondering if we should let them have time to work out their own problems without rushing in with our money.

General ENEMARK. (Off the record.) We want them to have training and capabilities which will work with our own.

General PALMER. May I put in a word, Mr. Chairman, on this question?

Mr. PASSMAN. Certainly, General.

IMPORTANCE OF TRAINING PROGRAMS IN LATIN AMERICA

General PALMER. This training for Latin America which as you have said is going up in amount, is going up because the situation in Latin America is regarded by us as one of greatest urgency.

Mr. PASSMAN. I could not quarrel with that statement.

General PALMER. The pot is coming to a boil down there in many countries.

(Off the record.)

General PALMER. Now, the American Government considers that the urgency of the situation well justifies the additional expenditures we are making to give the necessary training to these Latin American people.

Mr. PASSMAN. I am in ——— accord with your views except that we have established that this is being done in some of the wealthier nations in Latin America which have ample funds to do it themselves. But, if there is an advantage in giving it to them, I at least want the record to show it.

BOLIVIA

You are requesting $——— for Bolivia for fiscal 1963.

General ENEMARK. That is right, sir.

Mr. PASSMAN. As compared to $1,275,000 for fiscal year 1962.

General ENEMARK. That is right, sir.

UNEXPENDED BALANCE

Mr. PASSMAN. What amount do you have unexpended to the credit of Bolivia?

General ENEMARK. As shown on page 210 there is $1,413,000 which is estimated to be expended or delivered after July 1962.

CONSTRUCTION EQUIPMENT

Mr. PASSMAN. How much is budgeted for construction equipment?

General ENEMARK. Approximately $———, sir.

Mr. PASSMAN. What kind of construction equipment is it?

General ENEMARK. The equipment includes some cranes, concrete mixers, graders, and pneumatic compressors.

Mr. PASSMAN. Equipment which could be used in road construction?

General ENEMARK. That is right, sir.

Power equipment and that sort of thing.

(Off the record.)

Mr. PASSMAN. Do you know how many trained pilots there are in Bolivia?

Generela ENEMARK. I cannot answer that question, sir.

TRAINING PROGRAM

Mr. PASSMAN. Do you know how many aircraft they have?

General ENEMARK. According to the book they have been furnished under the military assistance program ——— and we have in this program ———.

Mr. PASSMAN. If they are possibly short of trained pilots why are we programing additional aircraft for them?

General ENEMARK. We are also assisting them in their training program. ———. We are assisting them to develop their training base.

Mr. PASSMAN. Some excess stocks are included for Bolivia. What type of excess stocks?

General ENEMARK. The equipment being furnished to Bolivia out of excess.

Mr. PASSMAN. Will they pay anything but the rehabilitation cost?

General ENEMARK. No, sir.

AIRCRAFT REHABILITATION COSTS

Mr. PASSMAN. What is the rehabilitation cost per plane for the ———?

General ENEMARK. ——— airplanes.

Mr. PASSMAN. Is that for ———?

Colonel ASHTON. If I may answer that, the pure rehabilitation cost is $——— airplanes. We have, in addition to that, the concurrent spares and other items to go with it which makes it a total project of approximately $———.

Mr. PASSMAN. Heretofore we have been discussing the rehabilitation cost of planes. I wonder if that, too, includes spare parts.

Colonel ASHTON. I am not very clear. The rehabilitation is——

Mr. PASSMAN. It looks reasonable, but in previous days we have discussed the rehabilitation cost of other aircraft, and the amount appeared to be excessive. It may be that the rehabilitation cost also includes the spare parts.

General PALMER. This point had not come to my attention before, Mr. Chairman, and I will have to go back through the record and check the points where this has been raised.

Mr. PASSMAN. What is the rehabilitation cost on C–47 aircraft?

General ENEMARK. $97,000.

Mr. PASSMAN. Does that include the spare parts?

General ENEMARK. No, sir; that is the cost of the rehabilitation.

Mr. PASSMAN. $97,000.

General ENEMARK. About $97,000.

Mr. PASSMAN. Is that per plane on the C–47's?

General ENEMARK. Per plane.

Mr. PASSMAN. What is the acquisition cost?

General ENEMARK. The acquisition value is $190,000 for two aircraft, sir.

Mr. PASSMAN. So actually it costs 50 percent of the acquisition value to rehabilitate the C–47's.

General ENEMARK. I believe that is true, sir.

Mr. PASSMAN. Is it done on a contract basis?

General ENEMARK. Yes, sir.

Mr. PASSMAN. Yesterday, I believe, or the day before, we discussed a larger number of C–47's where the rehabilitation cost was $90,000. You might check into that.

Colonel ASHTON. It is according to the type of aircraft and wherever in the world it is done that determines the exact cost.

Mr. PASSMAN. I thought they were all rehabilitated here in America.

Colonel SIMPSON. I do not know where they are doing this now, sir, but they used to do some in Italy.

Mr. PASSMAN. On certain types of field equipment we have 1 percent for rehabilitation, some 20 percent, with an average of 27 percent, and now we run into a rehabilitation cost of 50 percent of the acquisition cost.

That appears to be rather high. I do not know what they do. It may call for a lot of equipment, but I wish you would help to clear it up.

Mr. BARALL. Without being an expert it seems to me the answer lies in the time of acquisition of the C–47, when costs were much lower than they are now. With respect to contracts I know they are contracts for the rehabilitation of airplanes outside the United States and this contract may shift from one country or one plant to another because it is on a competitive basis.

Mr. PASSMAN. That applies to all equipment, that the acquisition cost today may be far more than the acquisition cost of the same equipment years ago. But we have already established for the record—and I think General Palmer gave us an accurate report on it—that the average rehabilitation cost is about 27 percent of acquisition.

General PALMER. Mr. Chairman, I promised earlier to cover that and I will include these figures in the whole thing.

Mr. PASSMAN. That is quite all right. I think maybe we should have some comparison as to why the ——— are so low as compared to the C–47's.

General PALMER. You will remember yesterday the same point came up in comparing the C–47's and F–84's. We will furnish it for the record.

(The information requested was furnished on p. 510.)

BRAZIL

Mr. PASSMAN. For Brazil you are requesting ——— for fiscal year 1963.

General ENEMARK. That is correct, sir.

Mr. PASSMAN. What amount did you have for Brazil in fiscal year 1962?

General ENEMARK. $23,715,000, sir.

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ESTIMATED PIPELINE IN FISCAL YEAR 1962

Mr. PASSMAN. You will have $28,386,000 in the pipeline on July 1?

General ENEMARK. That is an estimate, sir.

Mr. PASSMAN. That is a sizable amount compared to some of the others. Why is it so much higher? Does that not represent almost a third of the carryover for all of Latin America?

General ENEMARK. This is true, but I think that is not out of proportion to the other countries.

General PALMER. This has been by far the biggest Latin American program overall, Mr. Chairman.

Mr. PASSMAN. This is the country in which the governor of one of the States seized a telephone company of which 96 percent of the stock was owned by Americans?

Mr. BARALL. Yes, sir; it is.

Mr. PASSMAN. I believe the governor of this Brazilian State is the brother-in-law of the President of Brazil.

Mr. BARALL. That is right, sir.

Mr. PASSMAN. I understand that they are very close personally.

Mr. BARALL. You get reports that they are very close. You also get reports that they are not close any more.

Mr. PASSMAN. At least they are brothers-in-law?

Mr. BARALL. Yes, sir.

EXPROPRIATION OF PROPERTY

Mr. RHODES. Mr. Chairman, in connection with this you will recall a few days ago I made some comments in here which were somewhat derogatory to the expropriation. We must have a pretty good pipeline out of here because ever since then a gentleman from the Brazilian Embassy has been trying to see me. He sent me a fact sheet which was sent out by the Brazilian Government concerning the expropriation. I should have brought that today. It might be a good thing to put in the record. It is certainly a self-serving document.

Mr. PASSMAN. I hope the gentleman will insert it in the record.

(The information requested follows:)

[Press release, Brazilian Embassy, Washington, D.C., Mar. 1, 1962]

FAIR COMPENSATION FOR ITT PROPERTY EXPROPRIATED IN BRAZIL

Referring to the the recent expropriation of the Companhia Telefonica Nacional (CTN) by the State of Rio Grande do Sul, Brazil, the Brazilian Embassy wishes to clarify the misunderstandings that have been printed lately in the press.

The expropriation of CTN was carried out with due respect to existing laws and a sum of money has been deposited for the purpose of the transfer of property. The exact and just value of the indemnity payment will be established only at the moment of a final decision, which may be expedited through an agreement of both parties. The final compensation will be established in accordance with the Constitution and laws of Brazil which provide for fair compensation in cash and not in any kind of bonds.

It should be noted that the CTN has been operating without a contract and it had no official concession at all that would entitle it to any kind of compensation for the cessation of its operations. A large part of the controversy arises from the fact that the CTN did not accept the arbitral decision regarding the valuation of its assets, which had been signed by two experts chosen by mutual agreement. This decision had established the value of all property of CTN at Cr$1.350.000.000 (1,350 million cruzeiros), which was agreeable to the

Government of Rio Grande do Sul. The nonacceptance of such decision by the CTN was considered by the State Government as a breach of the agreement. The purpose of such an appraisal was to permit the formation of a semipublic corporation capable of solving the problems of telephonic communications, which were highly inadequate. The CTN had a waiting list of several thousand would-be subscribers to telephone service, which it could not fill at all.

It is relevant also that each of the 21 States of Brazil operates autonomously and that the Brazilian Federal Government had nothing to do with the expropriation of CTN property. However, it has been active to accommodate the dispute and several meetings were held at the Brazilian Ministry of External Relations last week in an attempt to reach a mutual agreement. Representatives of the American Embassy, of CTN, of the State government of Rio Grande do Sul and of the Brazilian Federal Government took part in the meetings. Governor Brizzola himself explained to U.S. Ambassador Lincoln Gordon that he was forced to expropriate the CTN exclusively in acount of the precarious services it was rendering the communications system of the State of Rio Grande do Sul. Governor Brizzola has reiterated his decision to submit the whole affair to the consideration of the Brazilian courts as the CTN has not accepted any kind of conciliatory proposal.

[Exact copy of press release, Brazilian Embassy, Washington, D.C., Mar. 28, 1962]

HIGHLIGHTS OF THE SPEECH OF PRESIDENT GOULART AT THE BRAZILIAN-AMERICAN CHAMBER OF COMMERCE IN RIO DE JANEIRO, ON MARCH 23, 1962

"I assure you that the Brazilian Government has no bias or prejudice of any kind whatsoever against those who represent or defend foreign capitalistic interests. I, personally, see you as businessmen who naturally need to obtain protection for your investments at a level that is adequate to cover the risks which they may encounter."

"As to investments, it is also natural that they be granted guarantees. In short, we desire to make it possible for businessmen to work with tranquility, which is equally necessary in order to maintain the progress of our country. What you, gentlemen, cannot but consider—and I am sure that you do—is the fitness of placing Brazil always on the first plane. We feel that investments should serve the joint interests of Brazil and of the investors. They should be thoroughly protected, but there should be an equally thorough understanding of their purpose and of the role assigned to them whithin our development policy."

"It was because of this, in relation to the problem of the need for a legal statute to define and stimulate the scope of operation of foreign capital that in my last Message to Congress I made an appeal for a just solution in the interest of Brazil. And such a solution will be a mainstay in preventing hostility to foreign elements which are honestly collaborating in our economic life while preventing any spoliation of our economy, which is at the same time a dispenser of bounty and in need of help, but which can never return to the colonial stage."

"It should be understood, however, that Brazil will always have the right to establish her own rules, provided they offer security, tranquility and rentability on foreign investments."

"We desire that the investor should feel happy in our country, that he should prosper, but that his prosperity should be first the prosperity of Brazil and should never represent our impoverishment. This is, I am sure, your thought also."

"Another point that I believe it is my duty to approach at this meeting is that referring to the sector of public services. Enterprises which once fulfilled an outstanding function in the economic history of the country, in fundamental sectors of our development, are today unable to meet the necessities of our expanding economy and of an ever growing public service clientele. Companies and services have deteriorated and become more and more deficient. I believe that no one can deny that concessions for public service in Brazil, in general, function badly, inadequately and insufficiently."

"If any of these enterprises for sundry reasons cannot comply with their duty to serve the public well, and if these same enterprises claim that they are no longer obtaining satisfactory results, and as we wish, that capital should remain here, in sectors where it will not be bothered and where it can give a

greater contribution to the national progress. It would not be difficult to find a solution by agreement which, wile [sic] considering the high interstes [sic] of the Nations and people, still would not create embarrassment or cause loss to these foreign capital investments. At this time when the Government seeks to establish ever closer relations, as is the case with Brazil and the United States, the problem presents itself as a challenge to the capacity of these same Governments and to the common sense and understanding of all those interested."

Mr. RHODES. The gist of the whole thing is that the Brazilian Government condemns the company for not accepting the offer made.

Mr. PASSMAN. The offer was about $400,000 for an $8 million investment?

Mr. RHODES. Something like that.

Mr. PASSMAN. Again, I wonder if we would not accomplish more by talking straight to them about pulling out the checkbook.

Mr. BARALL. Sir, I would like to point out that our Embassy and the State Department have been working very effectively with I.T. & T. to defend American interests and to make sure prompt, adequate, and effective compensation is paid for this plant.

Mr. RHODES. What do you mean by "effective"? Has it been done yet?

Mr. BARALL. "Effective" means paying in something of value, and what is at issue, really, is the value of the company. But the Federal Government of Brazil has not said that they shouldn't receive compensation for it.

Mr. RHODES. There is a big difference between receiving compensation and receiving "just" compensation.

Mr. BARALL. That is the point. What is just compensation is to be determined by examination of the books, or arbitration. This is the point we are working on right now, to find a mean acceptable to both sides of determining a fair value of a company.

Mr. RHODES. Again quoting from this release, they said they had appraised the property and found the property worth much less than the company had claimed. This was, of course, a unilateral appraisal.

Mr. BARALL. This position was not accepted by the State Department.

Mr. MONTOYA. Will the gentleman yield at that point?

Mr. RHODES. Yes.

Mr. MONTOYA. Is there any truth actually to what has been said about the expropriation, that the state can expropriate without any prohibition or deterrence by the Federal Government or the federal constitution?

Mr. BARALL. I believe that is true, the same it is in the United States of America where a State has the right of eminent domain and can take property.

Mr. MONTOYA. But we have the Federal Constitution which says it cannot be done without due process. That is what I mean.

Mr. BARALL. And the Bralizian law says—well, it doesn't say "due process," that is our term, but their law says they are to make payment promptly and that is why the government of the State offered some equivalent like $400,000. I say the issue is not whether prompt, adequate, and effective payment should be made. The issue is what is adequate payment. Nobody has accepted the idea that the unilateral decision of the State of Rio Grande do Sul is adequate, because that is not the way you decide whether it is adequate or not.

Mr. PASSMAN. But the Government criticized the company for not accepting payment, did they not?

Mr. RHODES. Yes; they seem to be rather critical.

Mr. BARALL. I haven't seen that statement, but I do know, as in the United States, if there is no satisfaction, it becomes then a matter of diplomatic negotiation between the two governments and we have been working with the Federal Government on it in Brazil.

RETURN OF PERONISTS TO POWER

Mr. PASSMAN. In my remarks with respect to Argentina, I made some statements about former President Frondizi, who succeeded in getting the legislation or administrative decisions through which permitted the Peron followers to come back into power.

Mr. BARALL. It was not a matter of legislation, as I recall it. They were barred from participating in the elections, and I believe it was an administrative decision to let them run for office.

Mr. PASSMAN. It was his decision to permit them to get back on the scene as a political party.

Mr. BARALL. That is right.

Mr. MONTOYA. And with which decision the military had considerable disagreement.

Mr. BARALL. Yes; that is right. I believe the disagreement probably revolved on whether the Peronists would dowell or not in the election, and I think Mr. Frondizi guessed wrong.

CHILE

Mr. PASSMAN. The MAP request for Chile is $——— for fiscal year 1963?

General ENEMARK. That is right, sir.

Mr. PASSMAN. As compared to $8,581,000 for fiscal year 1962?

General ENEMARK. That is right.

Mr. PASSMAN. You already have in the pipeline $10,755,000, which will be expended in subsequent years?

General ENEMARK. That is right.

Mr. PASSMAN. Does Chile have qualified pilots to man any new planes?

General ENEMARK. Yes, sir.

CONSTRUCTION PROGRAM

Mr. PASSMAN. You also include construction equipment for Chile?

General ENEMARK. I believe so; yes, sir.

Mr. PASSMAN. That could be used in road construction and street construction and so on, could it not?

General ENEMARK. That is right.

COLOMBIA

Mr. PASSMAN. For Colombia you have $———?

General ENEMARK. Yes, sir.

Mr. PASSMAN. In fiscal 1961 you had $3.8 million. It went to $10,096,000 in 1962, and the 1963 request is $———.

General ENEMARK. This is an area where there is a very critical internal security problem.

Mr. PASSMAN. Do both sides get some of the equipment to fight with, or do you keep it pretty much on one side, with respect to this internal situation?

General ENEMARK. The equipment furnished under the military assistance program goes to the government for the use of the military forces. I would say it is all on the good side in this case.

Mr. PASSMAN. How about the other cases?

General ENEMARK. I think the same way.

Mr. PASSMAN. It could be that with two or three factions in these countries, if one group overthrows a government it takes over the equipment that is owned by the former government.

General ENEMARK. Yes, sir.

Mr. PASSMAN. A lot of governments have been overthrown in Latin America over a period of years.

General ENEMARK. Yes, sir.

Mr. PASSMAN. So I just wondered—it did sound like I was being a little facetious—whether they divided up the equipment before they got into these shooting scrapes or whether they just go in and take it over.

General ENEMARK. The equipment is furnished to the military forces and it is used by them.

Mr. PASSMAN. I have reference only to the internal security part of it.

General ENEMARK. That is right.

TRAINING PROGRAM IN COSTA RICA

Mr. PASSMAN. The program for Costa Rica is $———.

General ENEMARK. This is a training program.

Mr. PASSMAN. What amount did you have for fiscal 1961?

General ENEMARK. In 1961 there is $58,000.

TOTAL FISCAL YEAR 1963 TRAINING PROGRAM FOR LATIN AMERICA

Mr. PASSMAN. What is the total for the training program for all of Latin America, fiscal year 1963?

General ENEMARK. $19,588,000 if my memory serves me correctly. Yes, sir.

USE OF FUNDS ORIGINALLY REQUESTED FOR CUBA

Mr. PASSMAN. Will any funds you may have to the credit of Cuba be deobligated and put to use in some other country?

General ENEMARK. There are no funds for Cuba, sir.

Mr. PASSMAN. You do have some unexpended funds to the credit of Cuba. Can any witness state that these funds will be deobligated and the military goods will not be delivered to Cuba?

General PALMER. I would rather put it that we will furnish a complete statement for the record. I suspect that it is a mistake, because we have made no deliveries of military equipment to Cuba for years.

Mr. PASSMAN. But I am correct when I indicate that you have

Cuba here, classified, and you do have some funds to the credit of Cuba, unexpended?

General PALMER. The book shows there is $300,000 of direct sales to Cuba which has not been delivered.

Mr. PASSMAN. That is correct.

General PALMER. The status of that item I would like to explain for the record because it takes us all by surprise.

Mr. PASSMAN. We can leave that in the record, that you do have funds for Cuba which will either be expended or canceled?

General PALMER. This is correct, but the exact status of this item, whether it is an erroneous entry, figures printed in the wrong place, is what I would like to look into.

Mr. PASSMAN. If you do find that you have military funds for direct sales credited to Cuba, can you give the committee any assurance that delivery will not be made?

General PALMER. Yes, sir, but I want to look into it and get the whole statement correct.

Mr. PASSMAN. I am trying to get in the record that the committee can be assured, regardless of what happens, that we are not going to disburse any funds to Cuba, and we can look forward to having it canceled out.

Last year the cumulative through 1961, military assistance program to Cuba, direct sales, was $4,501,000, and in the new book, the same page, you show that cumulative direct sales, a year later, at $4,806,000. I wonder if we could get an explanation on that also.

General PALMER. The whole thing will be explained; yes, sir.

(The following was subsequently submitted for the record:)

On August 19, 1960, the Director of Military Assistance directed the military departments to terminate and close out sales activities with Cuba. Since that date the military departments have made no sales of military equipment to Cuba, and since that date there have been no deliveries of supplies to Cuba or performance of services for Cuba under military sales agreements.

The figures on the values of purchases and sales to Cuba reported on page 18 of the fiscal year 1963 congressional presentation book and page 19 of the fiscal year 1962 congressional presentation book are erroneous. Both purchases and deliveries to Cuba should have been reported at $5,106,000 in both books.

Mr. PASSMAN. This is in your region, General. What do you know about it?

General ENEMARK. I do not have anything to do with direct sales, Mr. Chairman.

Mr. PASSMAN. Who covers the direct sales part of this military equipment?

General PALMER. The direct sales are handled in a direct transactions between the U.S. military services and the country concerned under section 507. They do not enter the military assistance appropriation in any way and this is why we are not prepared to discuss this point. I will have to find out what the real facts are.

Mr. PASSMAN. Do you have someone you can call and find out?

General PALMER. No, sir, I do not believe so.

Mr. PASSMAN. But you do have figures listed in four columns, changes from last year to this; am I correct?

General PALMER. Page 18 of this year shows different figures than that shown last year.

Mr. PASSMAN. And where you had no reserve for Cuba last year, you do have it this year.

General PALMER. This is not a question of reserves, this is a question of undelivered cash sales.

Mr. PASSMAN. Unexpended funds and a credit to them in the amount of the figure shown.

General PALMER. That is correct.

Mr. PASSMAN. We can discuss Cuba's figures as long as we do not use the amount, can we not?

General PALMER. We can use the amount and later take it off the record.

Mr. PASSMAN. You are dealing, certainly, with an enemy of the United States. Now, why should this be in the classified category?

General PALMER. All of the direct sales are classified and this is the official answer—"to avoid embarrassing the country."

Mr. PASSMAN. Embarrassing Cuba?

General PALMER. That is the general policy on all direct sales, Mr. Chairman.

Mr. PASSMAN. We could not embarrass Cuba now, could we?

General PALMER. Mr. Chairman, I have no authority to sit at this table and change the classification policy of the Government.

Mr. PASSMAN. You spoke of an error earlier, and I tell you, General, we want the information on this matter.

General PALMER. Mr. Chairman, I am perfectly willing to find out what the facts are in this business, and if it is available today I will give it to you today. If I cannot get it until later, I will have to give it to you later.

Mr. PASSMAN. Why would it not be available today?

General PALMER. Because this is not something handled by the military assistance account—by my office.

We will have to find out whether these were Army, Navy, or Air Force sales and what the items are——

Mr. PASSMAN. We are going to have an explanation of this, that is a sure thing.

General PALMER. The records will be in one of the military departments, Army, Navy or Air Force, or maybe in all three of them, I don't know. This is the point.

Mr. PASSMAN. Would you make available, General Palmer, the names of the individuals who would have complete knowledge of this matter so the committee may talk to them?

General PALMER. Yes, sir.

SOURCE OF CUBAN CREDITS

Mr. RHODES. Mr. Chairman, one other thing I believe we should get information on, too, is the manner which this credit arose. In other words, from whence came the $300,000 or whatever the amount is that is shown on the books for Cuba.

General PALMER. From the Cuban Government, if this is right.

Mr. PASSMAN. You went from zero balance last year to a $300,000 credit this year, which indicates some transactions to the account of Cuba since we last discussed it in this committee. And there have also been some disbursements, according to these books, to the credit

of Cuba since you last appeared. It is going to require a lot of explaining as to what has or has not occurred.

Mr. RHODES. We want to know not only what the money was meant for but we also want to know where the money came from.

General PALMER. The money would have come from Cuba. It was a cash purchase.

Mr. RHODES. General, you are saying that now, and you are probably right, but will you get us the whole history of the transaction? It is a little unusual for this to have occurred.

General PALMER. This is what I have been offering to do Mr. Rhodes, to get you the whole history of the transaction.

Mr. RHODES. That is all I asked you to do. I didn't want the answer right now. I do not think you can give the answer right now.

Mr. PASSMAN. But we want more than just a history. We want to talk to the people, whether it is Army, Air Force, Coast Guard, Marines, as to why there is a credit on the books this year when there was no credit last year, why disbursements this year are shown on the books as having increased over disbursements for the same period last year.

General PALMER. This will be done, Mr. Chairman. The one point I want to be sure we are all clear on is this—that not 1 penny of appropriated funds, military assistance or otherwise, are involved in this cash transaction under section 507 .

Mr. PASSMAN. We are still dealing with an enemy government.

General PALMER. This is correct, but there are no appropriated dollars involved.

Mr. PASSMAN. We will find out about that. We want complete information.

DOMINICAN REPUBLIC

Now for the Dominican Republic, the request is $———?

General ENEMARK. Yes, sir. This was entered as a single-line item in the program, as I indicated in my prepared statement. Because at the time the books were prepared it was not known precisely of what the program would consist. The program which was developed includes about $——— for materiel and about $——— for training.

Mr. PASSMAN. Reading your statement, we moved from a dictatorship not considered too friendly to the people into what we hope to be a friendly government; is that correct?

General ENEMARK. Yes, sir .

Mr. PASSMAN. But would the record not indicate we dealt with a dictatorship prior to the time we got the new friendly government?

General ENEMARK. No, sir.

Mr. PASSMAN. When did you deliver $6,108,000 through the MAP to the Dominican Republic?

Mr. BARALL. I think the answer is that we dealt with the Dominican Government until such time as the Organization of American States voted sanctions against them and then we stopped dealing with them.

Mr. PASSMAN. This indicates that it did not make a lot of difference what type of government they had at one period. We dealt with them in the past.

Mr. BARALL. In international affairs the Dominincan Republic under Trujillo was not unfriendly to the United States. They voted

consistently with us and supported us in the United Nations and other international organizations.

Mr. PASSMAN. Dictatorship notwithstanding?

Mr. BARALL. Unfortunately we cannot decide what type governments other people have. We deal with governments.

Mr. PASSMAN. We deal with them regardless of the kind of government they have. We make available our hard-earned money and also make available military equipment.

I quote from your statement:

> We are now preparing a new program designed to strengthen this new and friendly government.

If you had just said "new government" we would have been talking about something else at this point, but you say "this new and friendly government," which might imply something less than friendly in the past.

General ENEMARK. That is not implied. This is a new government. It is a friendly government.

Mr. PASSMAN. You say new and friendly government.

Mr. BARALL. That is right.

Mr. PASSMAN. Could you not just as well have said friendly government or new government?

Mr. BARALL. It is both.

Mr. PASSMAN. Both new and friendly?

Mr. BARALL. Yes, sir.

Mr. PASSMAN. We supported the old government, as well as the new and friendly government, with military assistance?

General ENEMARK. We did up until the time when the Organization of American States took action against it.

Mr. PASSMAN. El Salvador $———.

ECUADOR

In Ecuador you have $———.

The cumulative figure for 1952–62 is $21,740.000. In fiscal year 1962, as of January 1962, you had $2,256,000, and for fiscal 1963 you request $———.

You also have construction equipment for this country?

General ENEMARK. Yes, sir.

Mr. PASSMAN. You are going to procure ——— trucks for Ecuador. Are those going to be American trucks?

General ENEMARK. Yes, sir.

Mr. PASSMAN. You have excess stocks also for this country?

General ENEMARK. Yes, sir

Mr. PASSMAN. In the excess military stock arrangement you charge the program and the countries only for the cost of rehabilitation?

General ENEMARK. That is right, sir.

GUATEMALA

Mr. PASSMAN. Guatemala ———.

General ENEMARK. (Off the record.)

Mr. PASSMAN. ———. In 1961 you had $321,000. That went up to $2,666,000 in 1962. You have a carryover to be expended in future years of $2,339,000?

General ENEMARK. That is correct, sir.

HAITI

Mr. PASSMAN. Haiti ———.

General ENEMARK. That is right, sir.

Mr. PASSMAN. In 1961 they had $445,000. In 1962, $2,196,000. You have to their credit to be expended in future years $1,926,000?

General ENEMARK. Yes, sir.

Mr. PASSMAN. Why are you proposing to provide ——— training in this country?

General ENEMARK. Because they have ———.

Mr. PASSMAN. Do they have them in other countries in Latin America?

General ENEMARK. Yes, sir; there are some ———.

Mr. PASSMAN. How many ——— do they have in Haiti?

General ENEMARK. ———.

Mr. PASSMAN. To be used for what purpose?

General ENEMARK. Internal security.

Mr. PASSMAN. What is the ——— for repair and rehabilitation of equipment?

General ENEMARK. That is in connection with the rehabilitation of ———.

Mr. PASSMAN. How many?

General ENEMARK. ———. There is a repair and rehabilitation cost.

Mr. PASSMAN. Repair and rehabilitation for ———?

General ENEMARK. Yes, sir. It is being furnished from excess.

HONDURAS

Mr. PASSMAN. Honduras, ———.

General ENEMARK. That is correct, sir.

Mr. PASSMAN. We were discussing a program yesterday, or the day before, I believe, out in one of the Far Eastern nations where we had furnished a rifle for every person in the armed services and arranged it so some of them could have two rifles, one on each shoulder. It looks as if you have that same type of program down in Honduras. You have a program for ——— men and you are making available ——— rifles; is that correct?

General ENEMARK. We are supporting those men and, in addition, there are some weapons being furnished for internal security use by other units.

Mr. PASSMAN. With reference to "existing forces, military assistance support units containing ——— of the active military strength."

You don't say anything about internal security in here. You have ——— men and you want ——— rifles.

General ENEMARK. Those have been furnished in the past. It is possible some of those were attrition.

Mr. PASSMAN. It could be that this is a case where a close check might show that you have almost two rifles for each soldier, too; could it not?

General ENEMARK. I believe, as I said before, it is quite probable that some of these are attrition weapons that have been furnished in the past.

Mr. PASSMAN. How long does a rifle last if you use it only in practice and not in a shooting war?

General ENEMARK. It would last for several years.

Mr. PASSMAN. You did not start this program until 1954, so they could not be too old. That is, even if you gave them the rifles back then.

But the rifles did go into the program in 1962, and it was ——— then for the ——— men. Let us let the record show there is almost 2 rifles for each man, unless you have something to disprove it.

General ENEMARK. I can give you something for the record on that if you wish.

Mr. PASSMAN. Well, put anything you want to in there.

(The information requested was submitted to the committee.)

MEXICO

Mr. PASSMAN. Mexico, ——— for training.

NICARAGUA

Mr. PASSMAN. For Nicaragua you have ———.

In 1961 you had $554,000 for Nicaragua, and that went up to $1,727,000 in 1962. You are now requesting ———. For the pipeline, you have $1,322,000. They get excess stocks?

General ENEMARK. Yes, sir.

PANAMA

Mr. PASSMAN. For Panama you request ———.

General ENEMARK. That is training primarily.

Mr. PASSMAN. Where do they get their equipment?

General ENEMARK. I do not know the answer to that question specifically, sir. We provided some equipment in 1962 in the program, as indicated here.

PARAGUAY

Mr. PASSMAN. Paraguay. ———. (Off the record.)

PERU

Mr. PASSMAN. In Peru you are asking for ———.

That is $3,901,000 in 1961, $10,753,000 in 1962, and ——— in 1963. In excess of $10 million also will be available, from prior years, for expenditure in future years?

General ENEMARK. Yes, sir; that is right.

URUGUAY

Mr. PASSMAN. Uruguay is in for ———.

General ENEMARK. That is right, sir. (Off the record.)

General ENEMARK. The big item here is ———.

VENEZUELA

Mr. PASSMAN. In Venezuela you ask for ———.

General ENEMARK. That is right, sir.

Mr. PASSMAN. Also there will be a credit assistance program, will there not?

General ENEMARK. Yes, sir.

Mr. PASSMAN. For what purpose will that money be spent?

General ENEMARK. We have not yet gotten their shopping list but we have an agreement with Venezuela which was entered into several years ago which provides that we will sell to them, funds being available, equipment. (Off the record.)

Mr. PASSMAN. So this program really is not firm yet?

General ENEMARK. The ——— credit for fiscal year 1963 is not firm.

Mr. PASSMAN. I am speaking of the credit.

General ENEMARK. That is right. We have an indication there that they will come in——

Mr. PASSMAN. That comes out of the military assistance appropriation?

General ENEMARK. Yes, sir. From the credit assistance revolving fund.

Mr. PASSMAN. With this figure, it could be in, it could be out, up or down; you have no program?

General ENEMARK. Not on the $———.

Mr. PASSMAN. Since there is no firm program——

General ENEMARK. I repeat though, sir, this is credit to be repaid.

Mr. PASSMAN. I am familiar with the type of repayments we get for most of this stuff. That is why I asked the question.

General ENEMARK. Venezuela is up to date on its repayments.

Mr. PASSMAN. That is encouraging. When I say it may be up, may be down, or it may not be used at all, would your answer be "Yes"?

General ENEMARK. Yes. It depends on whether or not they request the credit (off the record).

OTHER SERVICES

Mr. PASSMAN. You have a little item here "Other services, $———." What is that?

General ENEMARK. That is for———sir.

ESTIMATE FOR OBLIGATIONS AND DEOBLIGATIONS

Mr. PASSMAN. I do not know whether you were here when we asked for a list showing the unexpended credits to each country, and by region, what year you made the obligation or reservation for the equipment, and how much of it you consider, by your own evaluation, will be deobligated in subsequent years. It would stand to reason that if some of these obligations go back 4, 5, 6, or 7 years, you might wish to clean the slate and start over. It may make a better program, possibly, for all of us. Certainly General Palmer

is working in that direction with his big squeezeout this year. We hope that detail will be complete, including reservations which have been made for countries even before they have asked for the programs, or before we have discussed such programs with them.

Mr. Gary?

Mr. GARY. Mr. Chairman, I think you have covered the Latin American program very thoroughly. I do not know of any particular questions I have to ask at this time.

Mr. PASSMAN. Mr. Natcher?

Mr. NATCHER. I have nothing at this time, Mr. Chairman.

Mr. PASSMAN. We might say that there will probably be other meetings, in order to get the detail that we have requested.

Mr. GARY. If you get the latest on South America, you probably will have to have a meeting the day before we go to the floor because things are changing so rapidly down there.

Mr. PASSMAN. For your particular purpose, does this program cover all Latin American countries, except Cuba?

General ENEMARK. That is right, sir.

Mr. PASSMAN. It is your responsibility to look over the needs by item for your region and after you have reached a conclusion, then you move it to higher authority?

General ENEMARK. That is right, sir.

Mr. PASSMAN. Sir, would it not seem to follow that you would know more about your particular region than some individual dealing with the entire worldwide program?

General ENEMARK. I would think so; yes, sir.

Mr. PASSMAN. So, it would appear to me that for information as to what we should or should not do, the testimony of the regional representatives should be extremely important. Will you agree to that?

General ENEMARK. Yes, sir.

Mr. PASSMAN. Thank you, sir.

THURSDAY, MARCH 29, 1962.

MILITARY ASSISTANCE, NONREGIONAL

WITNESSES

GEN. W. B. PALMER, DIRECTOR OF MILITARY ASSISTANCE
RICHARD H. CRAWFORD, OFFICE OF THE MILITARY ASSISTANCE COMPTROLLER, OASD/ISA
COL. AUBREY P. NATHAN, SPECIAL ASSISTANT, OFFICE OF THE DIRECTOR OF MILITARY ASSISTANCE, OASD/ISA
LT. COL. ROBERT SIMPSON, U.S. AIR FORCE, OFFICE OF THE DIRECTOR OF MILITARY ASSISTANCE
COL. WILLIAM A. CURTIN, OFFICE OF THE ASSISTANT TO THE SECRETARY OF DEFENSE, LEGISLATIVE AFFAIRS
TOM FARER, MAP PRESENTATION COORDINATOR, PRCS, AID

Mr. PASSMAN. Gentlemen, this session of the basic examination has reached the point of the nonregional programs.

General Palmer, I believe you have a statement to make on the nonregional programs and the nonregional administrative expense program.

General PALMER. Yes, sir, the nonregional, which includes administrative.

Mr. PASSMAN. We shall be glad to hear from you at this time.

AUDIT OF UNEXPENDED BALANCES

General PALMER. Mr. Chairman and gentlemen, before I begin my formal statement, I would like to say that the Defense Department has assigned a team of auditors to go through all of these unexpended balances and make a thorough audit of them. This is in the same direction as the information that the committee has been requesting. I just thought it would be worthwhile for that information to be known to you.

Mr. PASSMAN. Thank you, General.

We are glad to know that that audit is underway and that the information will be forthcoming.

BREAKDOWN OF EXCESS STOCKS PROGRAM

General PALMER. There are certain pieces of information that were requested last Friday, March 23, when I was before the committee and which it was suggested I bring in at this portion of the hearing. One was the breakout of excess stocks programed to countries in fiscal year 1962.

Mr. PASSMAN. This has to do with acquisition costs?

General PALMER. It is by country and item at acquisition cost.

Mr. PASSMAN. Applicable to fiscal year 1962?

General PALMER. Yes, sir.

Mr. PASSMAN. Are you going to have the same type of information on fiscal year 1963 for us?

General PALMER. I have it right here, Mr. Chairman.

Mr. PASSMAN. As this information is confidential, if we insert only the grand total can we leave that in the record?

General PALMER. Entirely, and by region, also.

Colonel SIMPSON. The regional figure is not classified.

Mr. PASSMAN. I am holding a confidential document in my hand. I must leave it up to you as to what can be put in the record.

Give us what you can on another sheet, nonclassified, containing that which can be placed in the record. We shall retain this information.

(The information requested follows:)

Military assistance program—Acquisition cost of excess equipment provided all nations cumulative June 30, 1962

	Thousands
Total	$2,173,681
Europe	621,553
Belgium	17,321
Denmark	20,558
France	289,767
Germany	718
Italy	64,603
Luxembourg	178
Netherlands	43,819
Norway	39,348
Portugal	18,066
Spain	17,789
United Kingdom	72,163
Yugoslavia	27,527
Europe, undistributed	9,696
Africa	11,303
Ethiopia	10,443
Liberia	134
Libya	293
Mali	0
Africa, undistributed	433
Near East and South Asia	248,298
Afganistan	0
Greece	95,622
Iran	47,381
Iraq	3,342
Israel	0
Jordan	893
Lebanon	294
Turkey	83,147
NESA, undistributed	17,619
Far East	1,123,968
Australia	0
Cambodia	9,052
China, Republic of	$368,422
Indochina	21,882
Japan	169,872
Korea	133,842
Laos	24,484
New Zealand	0
Philippines	49,210
Thailand	34,451
Vietnam	59,497
Far East, undistributed	253,256
Latin America	128,652
Argentina	342
Bolivia	133
Brazil	70,196
Chile	18,202
Colombia	9,530
Costa Rica	0
Cuba	5,516
Dominican Republic	1,873
Ecuador	4,082
El Salvador	3
Guatemala	107
Haiti	205
Honduras	76
Mexico	0
Nicaragua	72
Panama	0
Paraguay	237
Peru	12,099
Uruguay	5,662
Venezuela	317
Latin America, undistributed	0
Nonregional	39,907
MAP disposal account	38,865
MAP owned property	1,042

PAKISTAN

General PALMER. I was asked why there was an increase in ——— for Pakistan in the fiscal year 1962 program, in the fiscal year 1963 presentation book as compared to last year's book.

The fiscal year 1963 presentation book shows ——— in the program for fiscal year 1962, whereas there were only ——— in last year's book. The reason is that the MAAG in Pakistan recommended and the U.S. European Command approved accelerating the completion of the existing commitment which we already had made to the Government of Pakistan (off the record).

The items became excess during the period between the publication of the fiscal year 1962 book and the publication date of the fiscal year 1963 book.

The fiscal year 1963 presentation book therefore shows an increase in the excess entry and a decrease in the grant-aid entry in the fiscal year 1962 column, as compared to last year's book.

My "Nonregional Statement" is as follows:

GENERAL STATEMENT ON NONREGIONAL PROGRAM

The final portion of the proposed fiscal year 1963 appropriation for military assistance consists of the nonregional section which appears on pages 271 to 286 of the presentation book. It consists of the administrative expenses and certain programs not directly attributable to any country.

ADMINISTRATIVE EXPENSES

The costs of administering military assistance are paid from three sources:

(1) The appropriations for military assistance.
(2) The appropriations of the military departments.
(3) Contributions in currency or in kind by the host governments.

MILITARY ASSISTANCE APPROPRIATIONS

The amount requested for administrative expenses in fiscal year 1963 is $25 million. This is $500,000 more than was available in fiscal 1962; the Foreign Assistance Appropriation Act, 1962 placed a limitation of $24.5 million on administrative expenses. The requested increase is made necessary by the transfer from the State Department to MAP of support for MAP personnel assigned to USRO in Paris; the creation of new MAAG's in the Dominican Republic, Liberia, and Mali; and the increased strength of MAAG's in southeast Asia.

The $25 million requested will be used for: Pay of civilians assigned to MAP activities; military station allowances under rates authorized by the joint travel regulations; travel and transportation; rent; communications and utility services; printing and reproduction; supplies, materials, and equipment required in the administration of the program.

The distribution of MAP administrative expenses by object classification is shown on page 275 of the presentation book; the distribution by country and activity for fiscal year 1961, fiscal year 1962, and fiscal year 1963 is shown on pages 278 and 279.

The average personnel strengths charged to MAP administrative expenses, also distributed by country and activity, are shown on pages 280 and 281 of the presentation book. The net change from fiscal year 1962 is an increase of 236 people mostly caused by transfer of ARMISH-Iran and PEO-Laos personnel to the rosters of the MAAG's in those two countries.

MILITARY DEPARTMENT APPROPRIATIONS

Section 632(d) of the Foreign Assistance Act of 1961 continued the existing provision that the military departments are not to be re-

imbursed for the salaries of military personnel engaged in military assistance activities. The military departments also pay: (*a*) approximately one-half of the costs incident to the change of station of military personnel, (*b*) the costs of medical care of military personnel and their dependents, and (*c*) incidental costs for the support of military personnel and their dependents which are not attributable to duty with the military assistance program. In the accounts of the military departments these costs are not separately identified with respect to MAP personnel.

For fiscal year 1963, this indirect contribution to military assistance is estimated at approximately $87 million consisting of:

	Million
Military pay and allowances	$70
½ PCS travel	10
Medical care, dependent schooling, etc	7

CONTRIBUTIONS BY HOST GOVERNMENTS

A total of $3.95 million is required for purchase of foreign currency from the U.S. Treasury. The U.S. Treasury will receive from certain governments approximately $2.95 million in local currency during fiscal year 1963 for application against MAP administrative expenses in their respective countries. In turn this local currency will be purchased from the U.S. Treasury with military assistance appropriated funds in accordance with section 1415 of the Supplemental Appropriation Act of 1953. The U.S. Treasury will receive another $1 million of local currency contributed by various governments in support of the military assistance training missions, which will be purchased from the U.S. Treasury with military assistance appropriated funds. Page 282 of the presentation book shows all of the contributing countries and their contributions.

Assistance in kind in the form of rent-free housing and office space, services and equipment is provided by certain countries. Page 283 shows a list of these, and an estimate of the value of such assistance in U.S. dollars. I respectfully request that pages 275, 278, 279, 280, 281, 282, and 283 of the presentation book be placed in the record as accompanying this statement.

NONREGIONAL PROGRAMS

Costs totaling $22,055,000 are carried under this heading. They consist of:

	Thousands	
MAP-owned property		———
Civic action, programs under development		$10,000
Training costs:		
(1) Contract cost of the Military Assistance Institute	$———	
(2) Per diem for students at MAI	———	
(3) Foreign Services Institute language training	———	
(4) Special training courses	———	
(5) NATO standing group tours	———	
(6) Department of State; common services provided to MAP training missions	———	———
Other services: MAP share of costs, Inspector General of Foreign Assistance		———
Total		$22,055

FUNDS FOR ADMINISTRATIVE EXPENSES

Mr. PASSMAN. On the nonregional programs, administrative expense, you had $24,500,000 last year. You are asking for $25 million this year, an increase of $500,000.

What amout do you anticipate having unexpended for this item on June 30, 1962?

General PALMER. $5,437,000 in unexpended obligations.

Mr. PASSMAN. The increase of $500,000 is for what purpose?

General PALMER. The increase of $500,000 is to meet the necessary administrative expenses of the program, Mr. Chairman. It is made necessary by the transfer from the State Department to the military assistance program of support for military assistance personnel assigned to USRO in Paris, by the creation of new MAAG's in the Dominican Republic, Mali, and Liberia, and the increased strength of the MAAG's in the southeast Pacific.

Mr. PASSMAN. What is the cost of the MAP personnel assigned to USRO in Paris?

General PALMER. I do not have that broken out, Mr. Chairman. They are carried as departmental spaces.

Mr. PASSMAN. Give it to us if you will. Departmental spaces means individuals, is that correct?

General PALMER. Yes, sir.

(The requested information follows:)

Cost of MAP administrative personnel assigned to U.S. regional organization—Estimated direct obligations fiscal year 1963

Object classification:		Amount
11	Personnel compensation	$276,000
12	Personnel benefits	95,000
21	Travel and transportation of persons	65,000
22	Transportation of things	10,000
25	Other services	391,700
	Services of other agencies, State support to USRO	(388,700)
26	Supplies and materials	1,000
31	Equipment	3,000
	Total direct obligations	841,700

REPRESENTATION ALLOWANCE

Mr. PASSMAN. How much money have you budgeted for representation allowance out of this request?

General PALMER. Out of this administrative appropriation, we propose in fiscal year 1963, $110,500. The estimated expenditure in fiscal year 1962 will be $110,000. The actual expenditure in fiscal year 1961 for $107,865.

Mr. PASSMAN. This is worldwide?

General PALMER. Yes, sir.

Mr. PASSMAN. On page 281, 282, and 283 you indicate a classified country. Which country is that?

General PALMER. The classified country is ———. I do not know whose idea it was to conceal that fact in this book, where we have put in all the classified information.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. You have one country where even the name is stamped out.

General PALMER. No, sir.

Mr. PASSMAN. You have one and you cannot even mention the name of the country, much less the amount. There is only one of them where you blank out the name. The name is even classified.

NONREGIONAL PROGRAMS ESTIMATE

General, on the other nonregional programs, the estimate for 1963 is $22,055,000?

General PALMER. That is correct, sir.

Mr. PASSMAN. As compared to how much for the preceding year?

General PALMER. Against $67,315,000 for the preceding year.

Mr. PASSMAN. That is a substantial reduction in this item.

General PALMER. Yes, sir.

EQUIPMENT PROGRAM IN JAPAN

Mr. PASSMAN. Why do we have to fund a ——— program for Japan at a cost of ———?

General PALMER. I believe I testified on this earlier, Mr. Chairman. In any event, the proposed program, ——— for ———, which is entered in the MAP-owned property account, is part of the equipment which is going to be furnished to Japan.

We fund this in order to permit production of the ——— initial equipment and training ——— and ground equipment and when the production is completed and delivery made in fiscal year 1965, Japan will reimburse us for this amount.

This is an "economical buy" transaction.

CIVIC ACTION PROGRAMS

Mr. PASSMAN. On page 286 under military asistance you have a $10 million request for what is, as far as I can determine, nothing more nor less than economic aid. Would you care to comment concerning this?

General PALMER. I would be delighted to comment, Mr. Chairman.

This program is to finance civic action programs, of which the President has directed that they be developed in those countries where it is worthwhile. Studies are being made at the present time to identify countries in which expanded civic action programs will be worthwhile and the amounts which should be funded for this purpose.

I would like to develop that a little bit more.

Under the new emphasis on civic action, military assistance has been judged legally permitted to support three things in this connection: (1) maintenance of military forces whose primary mission is military when they are employed on civic action projects—that is to say, to maintain their military equipment; (2) equipping and maintaining forces such as engineering, transportation and medical forces, who will be primarily engaged in this type of project; and (3) the provision of special items of equipment to enhance civic action capabilities of any designated unit.

The actual funding of the project, such as buying the materials to build a house, a school, a road, will be funded by the AID. This is simply a question of supporting the military units on projects that are considered worthwhile and within the scope of military units.

Mr. PASSMAN. Is it not similar to the development assistance program?

General PALMER. Well, I think there is a resemblance, Mr. Chairman. The point here in particular is that in many of these countries the only indigenous organization which has the cohesion and the strength to undertake some of these things are the military forces and if they can be spared—this is the theory—if they can be spared from guarding the border, so to speak, and from instant readiness for war, they might properly be used for something which does the country some good, instead of standing more or less idle.

Mr. PASSMAN. Presently you have no country or no region planned for these funds? It is in the study stage?

General PALMER. That is correct.

CIVIC ACTION PROGRAM DEFINED AS ECONOMIC AID

Mr. PASSMAN. Am I making a statement of fact when I say it is either economic aid or closely associated to economic aid?

General PALMER. Yes, sir. By definition, it is unquestionably intended to assist in the economic and social development of the country. "The term 'civic action' is employed to describe using military forces on projects useful to the populace at all levels in such fields as training, public works, agriculture, transportation, communications, health, sanitation, and others helpful to the economic development."

Mr. PASSMAN. Will this be a new program?

General PALMER. No, sir; it is an old program. They have been doing this for a long time. It is thought, as I say, the President feels that this is not being used to the exent it should be used to get the maximum benefit out of the military forces in certain countries.

Mr. PASSMAN. This is an expansion of some older program that has been operating under the military in certain countries?

General PALMER. Yes; I think this has come out in the testimony quite frequently in the course of the hearings.

Mr. PASSMAN. It would appear that there is a new, full-scale survey going on which could create another category of foreign aid, something like development assistance.

I suppose the purpose of the $10 million is to create a need. That is how we get into these very expensive programs, by starting some new program. This $10 million, of course, will be an offshoot of the study the President has requested?

General PALMER. That is correct, sir.

Mr. PASSMAN. It will be for certain countries?

General PALMER. It will be for those countries in which the study indicates that it is worthwhile to pursue this type of civic action program further than has been done in the past.

Mr. PASSMAN. To a large extent, this would accomplish the same purpose as the supporting assistance funds—that is, bridges, roads, et cetera?

General PALMER. Using indigenous military forces for the work.

Mr. PASSMAN. Using military forces as a vehicle to get the grant aid. From little acorns big trees grow. This thing could go sky high, could it not, if it were cut loose?

General PALMER. Off the record.

(Discussion off the record.)

POTENTIAL COST OF CIVIC ACTION PROGRAM

Mr. PASSMAN. If history means anything, this could lead into another very expensive foreign-aid program. In 1961 we had what appeared to be an innocent amendment for $10,000 for what they then called the Youth Corps. They changed the name later to the Peace Corps. That $10,000 had grown into a million dollars before we got back up here, out of the contingency fund. It jumped all the way to $30 million last year. This year the request is for $63,700,000. If this item should grow in such manner, it would take a billion dollars to run it in about 3 years. I wonder if we could not have a little information as to what countries and in what regions this will be used. This looks to me like another Latin American deal. Let us know how far you have advanced with the examination, or survey.

Can you tell us how much you spent in 1962 on the same type of program, prior to the President's request for reexamination in certain countries?

(The following was subsequently submitted for the record:)

(a) The first phase of the survey on civic action projects has been completed. It involved the visit of State/AID/Defense teams to 10 countries during February and March of 1962. Seven of the countries were in Latin America; two were in the Far East; and one was in the Near East. The primary purpose of the team visits was to determine the extent to which civic action might be expanded on a selective basis in 1962. The final phase of the survey will be completed with the submission of adjusted fiscal year 1963 programs on or about July 15, 1962.

(b) Prior to the President's request for reexamination of civic action programs in certain countries, the fiscal year 1962 MAP contained about $9 million in clearly identifiable civic action programs. These programs consisted of support for engineer units, selected air transport squadrons, and other lesser units, in Latin America and Africa, which spend a major part of their time on civic action projects. MAP is also supporting units which undertake civic action projects on a part-time basis, e.g., engineer units in Korea.

General PALMER. We do not have it separately identified, sir.

Mr. PASSMAN. Where will we locate this in the military assistance fund? Can we find it anywhere?

General PALMER. No, sir; you cannot, because it has been simply an incidental occupation of the troops.

Mr. PASSMAN. Would it be accomplishing the same purpose as now practiced, other than this would set it out as a separate program?

General PALMER. The desire of the administration is to expand this considerably.

Mr. PASSMAN. That is exactly what I thought.

REPRESENTATION COSTS

What amount was budgeted last year for reimbursement to the State Department, General?

General PALMER. Last year the amount budgeted to the State Department was $4,571,000, plus $350,000, which was programed to the economic organization for the support of the MAAG in Laos.

Mr. PASSMAN. What is the representation request in this item under this heading?

General PALMER. May I ask on what page you are, sir?

Mr. PASSMAN. 286; that is a State Department item?

General PALMER. This is reimbursement to the State Department where they carry the expense of representation requirements. It is part of this item of reimbursements.

Mr. PASSMAN. What part of this is for representation requirements?

General PALMER. The point here is, sir, that in some places parties are thrown at the Embassy. For instance, when I was in Manila, the MAAG chief had a reception. It was held at the Embassy. The State Department was reimbursed.

Mr. PASSMAN. The Embassy billed the military program?

General PALMER. The Embassy billed the MAAG for the party.

Mr. PASSMAN. The State Department collected their whiskey money from the military? The cost of the party at the Embassy was billed to the military?

General PALMER. The Military Assistance Advisory Group gave the party.

Mr. PASSMAN. At the Embassy?

General PALMER. At the Embassy; the Embassy billed them for the party, just as if you were to have the party at a hotel or at a club.

Mr. PASSMAN. The Embassy is kind of running a hotel on the side, then?

General PALMER. It is the most dignified and suitable place for that sort of function.

Mr. PASSMAN. Did the State Department charge any rent for the use of the Embassy for the party?

General PALMER. I do not believe so, sir.

Mr. PASSMAN. Your military group has a representation allowance?

General PALMER. This is correct.

Mr. PASSMAN. The military people had their party at the Embassy?

General PALMER. That is correct, sir.

Mr. PASSMAN. The Embassy is under the State Department?

General PALMER. That is correct, sir.

Mr. PASSMAN. Then the Embassy, under the State Department, billed the military for the cost of their party at the Embassy?

General PALMER. That is right.

Mr. PASSMAN. Could you give us any idea of what this cost worldwide, since this is a worldwide program?

General PALMER. We can break this item out that you have asked about.

Mr. PASSMAN. Particiularly the representation allowance.

General PALMER. Yes; we will break it out.

(The requested information follows:)

Worldwide representation allowances, fiscal year 1963

Country MAAG or activity	Administrative expenses	Mission training expenses	Total
Europe:			
Belgium	$5,000		$5,000
CINCEUR	7,000		7,000
Denmark	4,000		4,000
DEFREPNAMA	1,500		1,500
France	6,200		6,200
Germany	4,500	$2,500	7,000
Italy	7,000		7,000
Netherlands	4,000		4,000
Norway	4,000		4,000
Portugal	4,000		4,000
Spain	6,000	1,000	7,000
United Kingdom	4,000		4,000
Subtotal, European area	57,200	3,500	60,700
Near East:			
Greece	5,300	1,700	7,000
Iran	1,200	5,800	7,000
Pakistan	7,000		7,000
Saudi Arabia		2,600	2,600
Turkey	2,500	4,500	7,000
U.S. Element Central Treaty Organization	2,000		2,000
Subtotal, Near Eastern area	18,000	14,600	32,600
Africa:			
Ethiopia	1,000	3,000	4,000
Liberia	800		800
Libya	2,000		2,000
Mali	800		800
Morocco	300		300
Subtotal, African area	4,900	3,000	7,900
Far East:			
Cambodia	4,000		4,000
CINCPAC	3,000		3,000
Classified	400	2,400	2,800
Japan	5,000	2,000	7,000
Korea	7,000		7,000
Laos	1,000	2,000	3,000
Philippines	5,000		5,000
Taiwan	1,000	6,000	7,000
Thailand	1,000	6,000	7,000
Vietnam	1,000	6,000	7,000
SEATO Permanent Military Planning Organization	2,000		2,000
Subtotal, Pacific and Far Eastern area	30,400	24,400	54,800
Grand total	110,500	45,500	156,000

NOTE.—Representation allowances for all military assistance activities are administered through the Department of State in strict accordance with the State Department instruction, "Standardized Regulations (Government Civilian, Foreign Areas)."

FUNDS FOR INTER-AMERICAN DEFENSE COLLEGE

Mr. PASSMAN. Last year language got in the bill for funds for the Inter-American Defense College and it was taken out, I believe, in conference. Is that language back in any bill?

General PALMER. I do not believe this was in the military assistance appropriation bill, was it?

Mr. PASSMAN. Yes.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. It was provision for funds for the Inter-American Defense College. It is one of those things that got in and in conference we did not accept it. I just wondered if it had gotten back in through maybe some other request.

Can you look up the language later, and put it in the record, as to whether you requested it? Do you have any money in the budget for this purpose this year?

General PALMER. I cannot remember it, sir. If it is, I will have to look it up.

Mr. PASSMAN. If you will, look it up for us.

(The information requested follows:)

The action last year concerned a proposal to use MAP funds to construct facilities for the Inter-American Defense College. This proposal was not approved, but specific authorization was granted for "maintenance, repair, alteration, and furnishing of U.S.-owned facilities" for this purpose.

Subsection 636(g)(3) of the Foreign Assistance Act of 1961 provides that funds made available for military assistance shall be available for—

"(3) Maintenance, repair, alteration, and furnishing of U.S.-owned facilities in the District of Columbia or elsewhere for the training of foreign military personnel, without regard to the provisions of section 3733 of the Revised Statutes (41 U.S.C. 12) or other provision of law requiring a specific authorization or specific appropriation for such public contracts."

House of Representatives Report No. 1088, 87th Congress, 1st session, on page 71 states that:

"Section 636(g)(3) of the Senate bill authorized the maintenance, repair, alterations, and furnishing of U.S.-owned facilities for the training of foreign military personnel without regard to certain statutes relating to public contracts.

"The House amendment contained no comparable provisions.

"The managers on the part of the House accepted the Senate provision which was designed primarily to make it possible for the United States to provide available facilities for an Inter-American Defense College to be used for training students from member countries of the Inter-American Defense Board."

There are no funds in the fiscal year 1963 military assistance program for the Inter-American Defense College nor have any MAP funds been used for construction of facilities for the Inter-American Defense College. Buildings at Fort McNair, D.C., will be altered and repaired to provide suitable facilities for the Inter-American Defense College, which is scheduled to begin operation on November 1, 1962.

STRIKE AIRCRAFT PROGRAM

Mr. PASSMAN. Several days ago, reference was made to the strike aircraft, FX for grant aid countries.

General PALMER. Yes.

Mr. PASSMAN. Did you get that information for us?

I believe you were going to give us the name of the countries, number of planes to each, 1963 cost, type of planes, basis for selection and so forth.

Let me go off the record.

(Discussion off the record.)

General PALMER. This program contains a total of ——— aircraft which we have described in the presentation as "FX." The cost would be $———.

This is a program of the type you earlier asked a question about, which would be projected on into future years, as we have an inventory of ——— aircraft in the MAP which is rapidly becoming obsolete. The eight countries that are envisioned as receiving such

aircraft through grant aid are (off the record). The aircraft might well be purchased by other countries.

Mr. PASSMAN. Is this a program that will be firmed up subsequent to fiscal year 1963?

General PALMER. The program will be firmed up in fiscal year 1963 but, of course, the deliveries would not occur until fiscal year ———.

Mr. PASSMAN. Are you asking for any funds for fiscal year 1963 for the aircraft?

General PALMER. $———.

Mr. PASSMAN. I believe you stated the decision had been made as to the type of plane?

General PALMER. No, sir.

Mr. PASSMAN. Have you made a decision on the type of plane?

General PALMER. This decision has not been made.

I would like to explain this a little.

It is not, of course, within my purview as Director of Military Assistance to be the fellow who picks an airplane manufactured by a certain company and says, "We will use your airplane, Mr. So-and-So, all over the world." This question was referred for a cost-effectiveness evaluation to the Air Force and the Director of Defense Research and Engineering. Since then the cost-effectiveness factor has brought in the Assistant Secretary of Defense, Comptroller, so that there are three very powerful elements in the Department of Defense participating in this evaluation and this means that the ultimate decision as to what aircraft is selected must rest with the Secretary of Defense or his Deputy; that is, either Mr. McNamara or Mr. Gilpatric.

Mr. PASSMAN. A study is being made at this time?

General PALMER. This is underway right now because it is an important question.

What we are seeking is an aircraft which can be bought for not over $——— which will meet the requirements of the countries I enumerated, instead of getting them a much more sophisticated aircraft which would cost a great deal more.

Mr. PASSMAN. Could you anticipate when a decision may finally be reached?

General PALMER. I would hope to have a decision made by the end of this fiscal year. I am sure you are well aware, sir, that there are a great many interested companies and there is likely to be a great, a very powerful, reaction from them which will bring strong political influences to bear throughout the Government, both the executive branch and the legislative branch.

This decision might well be delayed. I hope not.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Thank you very much, General Palmer. These hearings have been just possibly a little irritating at times. In all probability, would you need about 30 days to get up all of this other information?

General PALMER. Your suggestion is very kind, Mr. Chairman. I would like to have 30 days to review this and try to get some of those mice out of the book.

Mr. PASSMAN. I think we have made it completely clear as to what we want. When you made the obligation is what we would like to know, and the purpose you made it for, whether it is for new equipment or off the shelves, in what year you made the obligation, and the possibility of having it deobligated, so that we can get this slate clear.

There are items which we know they have been carrying as obligations for as long as 8 years. They are going to have a hard time telling us for what purposes they obligated the money.

TUESDAY, APRIL 17, 1962.

PEACE CORPS

WITNESSES

ROBERT SARGENT SHRIVER, JR., DIRECTOR
JOHN D. CORCORAN, ASSOCIATE DIRECTOR FOR MANAGEMENT
WARREN W. WIGGINS, ASSOCIATE DIRECTOR FOR PROGRAM DEVELOPMENT AND OPERATIONS
BILL MOYERS, ASSOCIATE DIRECTOR FOR PUBLIC AFFAIRS
WILLIAM P. KELLY, DIRECTOR OF CONTRACTS AND LOGISTICS

FUNDS APPROPRIATED TO THE PRESIDENT

Object classification

[In thousands of dollars]

		1961 actual	1962 estimate	1963 estimate
11	Personnel compensation:			
	Permanent positions	237	2,680	5,389
	Positions other than permanent	33	776	972
	Other personnel compensation	22	470	241
	Total, personnel compensation	292	3,926	6,602
12	Personnel benefits	12	373	731
21	Travel and transportation of persons	178	1,220	2,076
22	Transportation of things	1	309	648
23	Rent, communications, and utilities	39	777	1,470
24	Printing and reproduction	40	290	397
25	Other services	546	10,994	15,565
	Services of other agencies	84	2,373	4,719
26	Supplies and materials	25	215	473
31	Equipment	149	623	919
41	Grants, subsidies, and contributions	254	8,900	30,150
	Total obligations	1,620	30,000	63,750

Personnel summary

	1961 actual	1962 estimate	1963 estimate
Total number of permanent positions	132	467	1,025
Americans	132	369	735
Locals		98	290
Full-time equivalent of other positions	6	120	150
Average number of all employees	40	458	901
Number of employees at end of year	223	547	1,093
Average GS grade	8.7	9.7	9.7
Average GS salary	$7,637	$8,050	$8,042
Average grade, grades established by the Director, Peace Corps	13.5	16.2	16.2
Average salary, grades established by the Director, Peace Corps	$12,081	$15,827	$15,849
Average grade, grades established by the Foreign Service Act of 1946, as amended:			
Foreign Service Reserve	1.8	2.8	3.7
Foreign Service Staff	12.5	10.8	11.0
Average salary, grades established by the Foreign Service Act of 1946, as amended:			
Foreign Service Reserve	$16,513	$13,257	$10,983
Foreign Service Staff	$4,264	$5,359	$5,158
Average salary of ungraded positions		$1,685	$2,118

Program and financing

[In thousands of dollars]

	1961 actual	1962 estimate	1963 estimate
Program by activities:			
1. Peace Corps projects:			
Africa	210	5,500	12,271
Far East	44	5,900	10,454
Latin America	284	4,350	12,271
Near East and south Asia		3,950	10,454
2. Program support	445	5,028	9,402
3. Administration	637	5,272	8,898
Total obligations	1,620	30,000	63,750
Financing: Comparative transfers from other accounts	−1,620		
New obligational authority (appropriation)		30,000	63,750

Mr. PASSMAN. The committee will come to order.

This morning we shall take up the request for the Peace Corps for fiscal year 1963.

1963 BUDGET REQUEST

The fiscal year 1963 estimate for the Peace Corps is $63,750,000. The actual appropriation for fiscal year 1962 was $30 million, so there is an increase in the estimate for fiscal year 1963 over fiscal year 1962 in the amount of $33,750,000.

We shall insert the appropriate justification pages at this point in the record.

(The pages follow:)

APPENDIX B

Summary of obligations by object class, departmental and oversea expenses—Administrative

	Fiscal year 1961, actual		Fiscal year 1962, estimate				Fiscal year 1963, estimate	
			Original estimate		Current estimate			
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
PERSONNEL SUMMARY								
Total number of permanent positions	95		281		346		574	
Departmental	95		181		164		244	
Overseas	2		100		182		330	
Americans	2		100		84		200	
Locals					98		130	
Full-time equivalent of other positions	3		12		72		75	
Average number of all employees	29		229		323		543	
Number of employees at end of year	143		265		390		609	
OBJECT CLASSIFICATION								
11 Personnel compensation:								
Permanent positions		$193,184		$2,000,926		$1,973,000		$3,578,000
Positions other than permanent		18,560		171,600		450,000		486,000
Other personnel compensation		18,017		104,644		149,000		236,000
Total, personnel compensation		229,761		2,277,170		2,572,000		4,300,000
12 Personnel benefits		9,851		323,399		268,000		527,000
21 Travel and transportation of persons		150,550		649,160		654,000		1,112,000
22 Transportation of things		1,043		403,140		208,000		509,000
23 Rent, communications, and utilities		31,421		687,196		611,000		1,046,000
24 Printing and reproduction		2,701		37,065		85,000		120,000
25 Other services		15,614		126,000		68,000		98,000
Services of other agencies						40,000		54,000
State and ICA administrative support		62,883		350,763		332,000		481,000
26 Supplies and materials		20,318		71,600		50,000		125,000
31 Equipment		112,979		276,400		384,000		526,000
Total, obligations		637,121		5,201,893		5,272,000		8,898,000

APPENDIX B—Continued

Summary of obligations by object class, departmental and oversea expenses—Program

	Fiscal year 1961, actual		Fiscal year 1962, estimate				1963 estimate	
			Original estimate		Current estimate			
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
PERSONNEL SUMMARY								
Total number of permanent positions	37		88		121		321	
Departmental	37		88		111		241	
Overseas					10		80	
Americans					10		50	
Locals							30	
Full-time equivalent of other positions	3		2		48		75	
Average number of all employees	11		65		135		311	
Number of employees at end of year	80		85		157		378	
OBJECT CLASSIFICATION								
11 Personnel compensation:								
Permanent positions		$43,910		$468,416		$707,000		$1,704,000
Positions other than permanent		14,128		36,400		326,000		486,000
Other personnel compensation		4,555		15,360		321,000		112,000
Total, personnel compensation		62,593		520,176		1,354,000		2,302,000
12 Personnel benefits		2,230		35,595		105,000		204,000
21 Travel and transportation of persons		26,928		103,200		566,000		964,000
22 Transportation of things		300		3,000		101,000		139,000
23 Rent, communications, and utilities		7,040		62,839		166,000		424,000
24 Printing and reproduction		37,288		197,000		205,000		277,000
25 Other services		246,948		8,925		126,000		167,000
Services of other agencies				638,660		333,000		890,000
State and ICA administrative support		20,404		1,886,037		1,668,000		3,294,000
26 Supplies and materials		4,849		75,465		165,000		348,000
31 Equipment		36,718		37,000		239,000		393,000
Total, obligations		445,298		3,567,897		5,028,000		9,402,000

APPENDIX C

Total personnel summary

	Fiscal year 1961, actual		Fiscal year 1962, estimate				Fiscal year 1963, estimate	
			Original estimate		Current estimate			
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
PERSONNEL SUMMARY								
Total number of permanent positions	132		369		467		895	
Departmental	130		269		275		485	
Overseas	2		100		192		410	
Americans	2		100		94		250	
Locals					98		160	
Full-time equivalent of other positions	6		14		120		150	
Average number of all employees	40		294		458		854	
Number of employees at end of year	223		350		547		987	

II. MEETING A WORLDWIDE NEED—FISCAL YEAR 1963 PROGRAM AND BUDGET

The first 12 countries where volunteers have been at work have asked the Peace Corps to send them—this year—more than three times the number of volunteers now in their countries. These requests are summarized as follows:

	Volunteers now in host countries	Additional volunteers now in training or entering training by Aug. 31, 1962	Total
Chile	45	20	65
Colombia	62	60	122
Ghana	51	185	236
India	26	60	86
Malaya	36	196	232
Nigeria	107	400	507
Pakistan	57	100	157
Philippines	182	817	999
Sierra Leone	37	135	172
Tanganyika	35	30	65
Thailand	45	74	119
West Indies	15	113	128
Total	698	2,190	2,888

In addition, the Peace Corps has agreed to implement, by this summer, projects involving a total of nearly 2,000 volunteers requested by 20 other countries. Candidates for several of these projects are already in training.

	Volunteers requested
Afghanistan	12
Bolivia	100
Brazil	[1] 152
Ceylon	42
Dominican Republic	50
Ecuador	207
El Salvador	[2] 27
Ethiopia	300
Honduras	27
Iran	50
Ivory Coast	70
Liberia	120
Nepal	80
North Borneo-Sarawak	102
Pacific Trust Territory	66
Peru	224
Somali Republic	80
Togo	50
Tunisia	128
Venezuela	104
Total	1,991

[1] 53 in training.
[2] In training.

The above projects are described in detail in chapter VII.

Finally, the Peace Corps and still other countries are actively considering projects for prompt implementation which now total approximately 230 additional volunteers.

Thus, programs involving 4,879 volunteers have been put into operation or are firmly planned in 32 countries, and agreements on another 230 volunteers are expected to be concluded shortly.

It is estimated that some 2,400 of this total of approximately 5,100 volunteers will be in training or abroad by the end of June. The 2,400 total is 300 less than the estimate of 2,700 volunteers in training or abroad contained in last year's congressional presentation, which was based upon a request for $40 million in fiscal year 1962.

The applicants from whom the remaining 2,700 volunteers are expected to be selected will enter training in July and August. This figure corresponds to the 3,000 volunteers (after in-training attrition) included in the Peace Corps' fiscal year 1962 budget request for training early in fiscal year 1963 under programs or training contracts financed with fiscal year 1962 funds. Like the 2,400 figure, the 2,700 reflects in part the difference between the amount authorized by the Congress and the $30 million actually appropriated.

The program summarized above does not begin to meet the demand for Peace Corps volunteers on the part of other countries. Many of the countries listed have requested far more volunteers than the Peace Corps is able to provide at the present time. Consideration of many requests from other countries for well-conceived projects, which would utilize more even than the $40 million requested by the Peace Corps for fiscal year 1962, has had to be delayed. The present program is the result of the best efforts of the Peace Corps to make the most effective possible use of the Agency's limited financial resources.

The President, in his budget message for fiscal year 1963, endorsed a program for which $63.75 million will be required in fiscal year 1963. This program will involve 6,700 volunteers in training or abroad by June 30, 1963.

Of the $63.75 million requested, more than half—$32.39 million—is required to meet the continuing costs of approximately 5,100 volunteers entering training prior to the end of August 1962, whose entry into service will be financed from fiscal year 1962 funds. The remainder—$31.36 million—is requested to meet the fiscal year 1963 costs of volunteers entering training after the end of August 1962. This figure is roughly comparable to, and will be used for the same general purpose as, the $30 million appropriated last year.

Thus, in addition to the continuing costs of approximately 5,100 volunteers on board by August 31, 1962, the Peace Corps budget request will provide for the entry into service of another 5,260 volunteers by the following August. Of these, it is estimated that some 1,600[1] will be on board by June 30, making a total of 6,700 volunteers on that date.

The Peace Corps budget for fiscal year 1962 is analyzed in detail in chapter VI.

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[1] Information concerning programs under development for these volunteers will be supplied to the appropriate committees of the Congress.

Volunteers by project, as of Feb. 15, 1962

Country	Training in United States	In host country		Total	Men	Women
		Training	On duty			
Africa:						
Ghana			51	51	29	22
Nigeria			107	107	70	37
Sierra Leone			37	37	26	11
Tanganyika			35	35	35	
Far East:						
Malaya		36		36	13	23
Philippines	50	55	127	232	117	115
Thailand		45		45	31	14
Latin America:						
Brazil	53			53	35	18
Chile			45	45	29	16
Colombia	60		62	122	122	
El Salvador	27			27	22	5
St. Lucia			15	15	8	7
Near East-south Asia:						
India			26	26	25	1
Pakistan			57	57	39	18
Total	190	136	562	888	601	287

Volunteers by occupational skills, as of Feb. 15, 1962

	Training in United States	In host country	Total
Nurses		31	31
Medical technicians		20	20
Agricultural, forestry, etc	92	70	162
Home economists	21	6	27
Teachers	50	444	494
Vocational training or manual skills	26	40	66
Arts and crafts		9	9
Engineers		20	20
Surveyors		30	30
General skills	1	15	16
Other (geologists, etc.)		13	13
Total	190	698	888

Volunteers by age and marital status, as of Feb. 15, 1962

	Men	Women	Total
20 and under	35	7	42
21 to 25	434	216	650
26 to 30	103	43	146
31 to 40	25	9	34
41 to 50	2	1	3
51 to 60	1	6	7
61 to 70	1	5	6
Total	601	287	888
Average age	24	25	
Married [1]	25	24	49
Single	576	263	839

[1] Unequal because some married to nonvolunteers.

Volunteers by State of legal residence, as of Feb. 15, 1962

State	Number	State	Number
Alabama	6	Nevada	4
Alaska		New Hampshire	4
Arizona	5	New Jersey	43
Arkansas	3	New Mexico	4
California	112	New York	108
Colorado	13	North Carolina	11
Connecticut	14	North Dakota	8
Delaware	3	Ohio	32
District of Columbia	8	Oklahoma	5
Florida	15	Oregon	12
Georgia	1	Pennsylvania	51
Hawaii	4	Rhode Island	7
Idaho	5	South Carolina	4
Illinois	73	South Dakota	3
Indiana	18	Tennessee	10
Iowa	24	Texas	32
Kansas	16	Utah	2
Kentucky	8	Vermont	7
Louisiana	7	Virginia	12
Maine	2	Washington	13
Maryland	20	West Virginia	3
Massachusetts	37	Wisconsin	16
Michigan	37	Wyoming	4
Minnesota	18		
Mississippi	1	U.S. total	878
Missouri	20	Puerto Rico	10
Montana	5		
Nebraska	8	Grand total	888

VI. THE PEACE CORPS BUDGET

In its presentation to the Congress for fiscal year 1962, the Peace Corps estimated the all-inclusive cost per volunteer to be approximately $9,000. This overall figure has proved to be valid to date, and the Peace Corps believes that it continues to be the best estimate for the annual cost per volunteer. However, its composition has changed somewhat from the original estimate. (A detailed explanation of the revised composition of this cost estimate can be found in app. A to this chapter.) This fundamental annual cost factor of $9,000 per volunteer, including all administrative costs, is basic to all of the budget data which follow.

In this analysis, the budget for fiscal year 1963 is divided into two principal parts: (1) continuing costs of the 5,110 volunteers entering training prior to the end of August 1962 and fully or partially financed with fiscal year 1962 funds; and (2) costs of the estimated 5,260 new volunteers entering training after the end of August 1962 whose entry into service is financed with fiscal year 1963 funds.

The Peace Corps has found that training for most projects has to begin during the summer months—from mid-June through the end of August. There are several reasons for this. First, the largest category of volunteer jobs is teaching, and the school year in most host countries begins in the fall. Training for such projects must, therefore, begin in the summer. In addition, summer training enables members of high school and college graduating classes to plan during their senior year on Peace Corps service after graduation, it permits teachers to be recruited, and it enables the Peace Corps to make maximum use of college campuses as training sites. Thus, the natural program phase of the Peace Corps is from the beginning of September of any year to the end of the following August, with the majority of volunteers entering training toward the end of this period.

Planning for this summer intake requires that programs be fully developed, applicants recruited, and all commitments made at least 2 months before the volunteers are scheduled to enter training. This means that the necessary contracts with private agencies and universities for project administration or for the training of volunteers must be signed at least this far in advance.

Accordingly, financial provision must be made for volunteers entering training in the first 2 months of the fiscal year from funds available in the prior fiscal year. These volunteers fall into two categories: those in directly administered projects for which training contracts must be concluded in advance and those in privately administered projects which are funded for 2 years at

the time the contract is signed. Last year, the Congress appropriated funds to cover the input of volunteers through August 1962 as indicated below. The Peace Corps budget request for fiscal year 1963 is designed to finance the continuing costs of those volunteers and the initial costs of new volunteers entering training from September 1962 through August 1963.

COST OF VOLUNTEERS ENTERING DUTY PRIOR TO THE END OF AUGUST 1962 (5,110)

As is indicated in chapter II, programs utilizing approximately 5,110 volunteers are almost completely developed and will require the full $30 million appropriated for fiscal year 1962. Of the $63.75 million requested for fiscal year 1963, $32.39 million are required for the continuing costs of this portion of the program.

The table below sets forth the fiscal year 1962 and fiscal year 1963 financial estimates for the 2,400 volunteers who are expected to enter training during fiscal year 1962, and the approximately 2,700 additional volunteers who will be totally or partially financed from fiscal year 1962 funds.

Volunteers entering training through August 1962

	Number of volunteers	Cost (in millions of dollars)	
		Fiscal year 1962 estimate	Fiscal year 1963 budget
A. On board by June 30, 1962	2,400	15.86	17.10
1. Contract administered projects	500	[1] 9.00	----------
2. Directly administered projects	1,900	[2] 6.86	17.10
B. Entering training in July and August 1962	[3] 2,710	14.14	15.29
1. Contract administered projects, financed with fiscal year 1962 funds	560	[1] 10.08	----------
2. Directly administered projects, training financed with fiscal year 1962 funds	2,150	[4] 4.06	[5] 15.29
Total	5,110	30.00	32.39

[1] Cost factor is $18,000 (funded for 2 years by contract at $9,000 per year). Also see footnote 1 in sec. A below.
[2] Based on an estimated 762 man-years on board during fiscal year 1962 at a cost factor of $9,000 per man-year.
[3] Comparable to the estimate of 3,750 candidates to enter training in the summer of 1962 made in the fiscal year 1962 congressional presentation.
[4] A cost factor of $1,600 is used for a 2-month training period (see app. A to this chapter). In addition, 18 percent of this cost is added for extra trainees selected to allow for in-training attrition, making a total of $1,888 per volunteer selected.
[5] The balance of the cost of the 2,150 volunteers at $7,112 per volunteer ($9,000 minus $1,888).

A. Volunteer entering training by June 30, 1962 (2,400)

1. *Contract administration (500).*—The 500 volunteers entering duty during fiscal year 1962 under contract administration with private agencies and universities are financed for 2 years at the time the contract is signed, and thus no funds are budgeted for fiscal year 1963.[1]

2. *Direct administration (1,900).*—The 1,900 direct administration volunteers who enter training during fiscal year 1962 are on duty throughout fiscal year 1963 and thus are a full charge against that year's budget, at the cost factor of $9,000 each, for a total fiscal year 1963 cost of $17.1 million.

[1] Technically, the $75 monthly termination payments for these 500 volunteers are not forward funded but are obligated and simultaneously expended into a Treasury Department trust account as they accrue. Thus, they are actually charges against fiscal year 1963 funds. The same applies to the 560 volunteers under contract administration funded in fiscal year 1962 but who will enter training early in fiscal year 1963. These charges for the 1,060 volunteers under contract administration would increase the fiscal year 1963 budget. However, this understatement of the fiscal year 1963 budget is approximately offset by the fact that it is correspondingly overstated for the 650 new contract volunteers entering duty in fiscal year 1963, all financed from fiscal year 1963 funds. For simplicity of presentation, these and other offsetting items, such as transportation costs, are ignored in this analysis.

B. Volunteers entering training during July and August 1962 (2,710)

1. *Volunteers fully financed from fiscal year 1962 funds by contract (560).*—It is anticipated that 2-year contracts with private agencies and universities involving a total of 1,060 volunteers will have been signed in fiscal year 1962. Of these, 500 will enter training in fiscal year 1962 (see sec. A above) and 560 will enter the first 2 months of fiscal year 1963. Like the 500, there is no budget charge in fiscal year 1963 for the 560 since all their costs ($10.08 million) are carried in the fiscal year 1962 budget.[1]

2. *Volunteers whose training financed from fiscal year 1962 funds (2,150).*—It is planned to contract with fiscal year 1962 funds for the training in July and August 1962 of enough candidates so that, after attrition, 2,150 volunteers will be available for oversea service in the direct administration program. Training costs of $1,888 ($1,600 plus 18 percent for attrition) each are thus a charge against fiscal year 1962 funds, and the remaining costs ($7,112 per volunteer) are a charge against the fiscal year 1963 budget.

FISCAL YEAR 1963 COSTS OF VOLUNTEERS ENTERING DUTY AFTER THE END OF AUGUST 1962 (5,260)

The following table summarizes the costs of 5,260 new volunteers who enter training after August 31, 1962, and before September 1, 1963, fully or partially financed in fiscal year 1963. A total of $31.36 million is required for this needed expansion of the Peace Corps program.

Volunteers entering training Sept. 1, 1962–Aug. 31, 1963

	Number of volunteers	Cost (in millions of dollars)	
		Fiscal year 1962 estimate	Fiscal year 1963 budget
A. Entering training from September 1962–June 1963	1,590		14.76
1. Contract administered projects, financed with fiscal year 1963 funds	600		[1] 10.80
2. Direct administration	990		[2] 3.96
B. Entering training in July and August 1963	3,670		16.60
1. Contract administered projects, financed with fiscal year 1963 funds	600		[1] 10.80
2. Directly administered project, training financed with fiscal year 1963 funds	3,070		[3] 5.80
Total	5,260		31.36

[1] Cost factor is $18,000 per volunteer (funded for 2 years by contract at $9,000 per year).
[2] Based on an estimated 440 man-years on board during fiscal year 1963 at a cost factor of $9,000 per man-year.
[3] Based upon a cost factor of $1,600 per volunteer for a 2-month training period plus 18 percent for in-training attrition.

A. Volunteers entering training from September 1, 1962, through June 30, 1963 (1590)

1. *Volunteers fully financed from fiscal year 1963 funds by contract (600).*—It is planned to finance for 2 years with fiscal year 1963 funds some 600 volunteers entering duty during the last 10 months of fiscal year 1963 under contracts with private agencies and universities. The fiscal year 1963 budget charge for these 600 volunteers is $18,000 each or a total of $10.80 million.

2. *Direct administration (990).*—It is planned to have some 990 volunteers enter on board in the last 10 months of fiscal year 1963 in direct administration projects. It is estimated that the volunteers will be on board for a total of 440 man-years, or an average of about 5½ months each. At a cost factor of $9,000 per man-year, this gives a fiscal year 1963 budget charge of $3.96 million.

B. Volunteers entering training in July and August 1963 (3,670)

The President's $63.75 million request makes provision for the entry into service in July and August 1963 of approximately 3,670 volunteers. Of this total, it is anticipated that some 600 will be in contract-administered programs financed from fiscal year 1963 funds and some 3,070 will be in directly administered programs for which training contracts will be financed from fiscal year 1963 funds. The fact that some 400 volunteers will have completed their 2-year terms of service by the end of August 1963 means that the net summer input will be only about 3,270 volunteers.

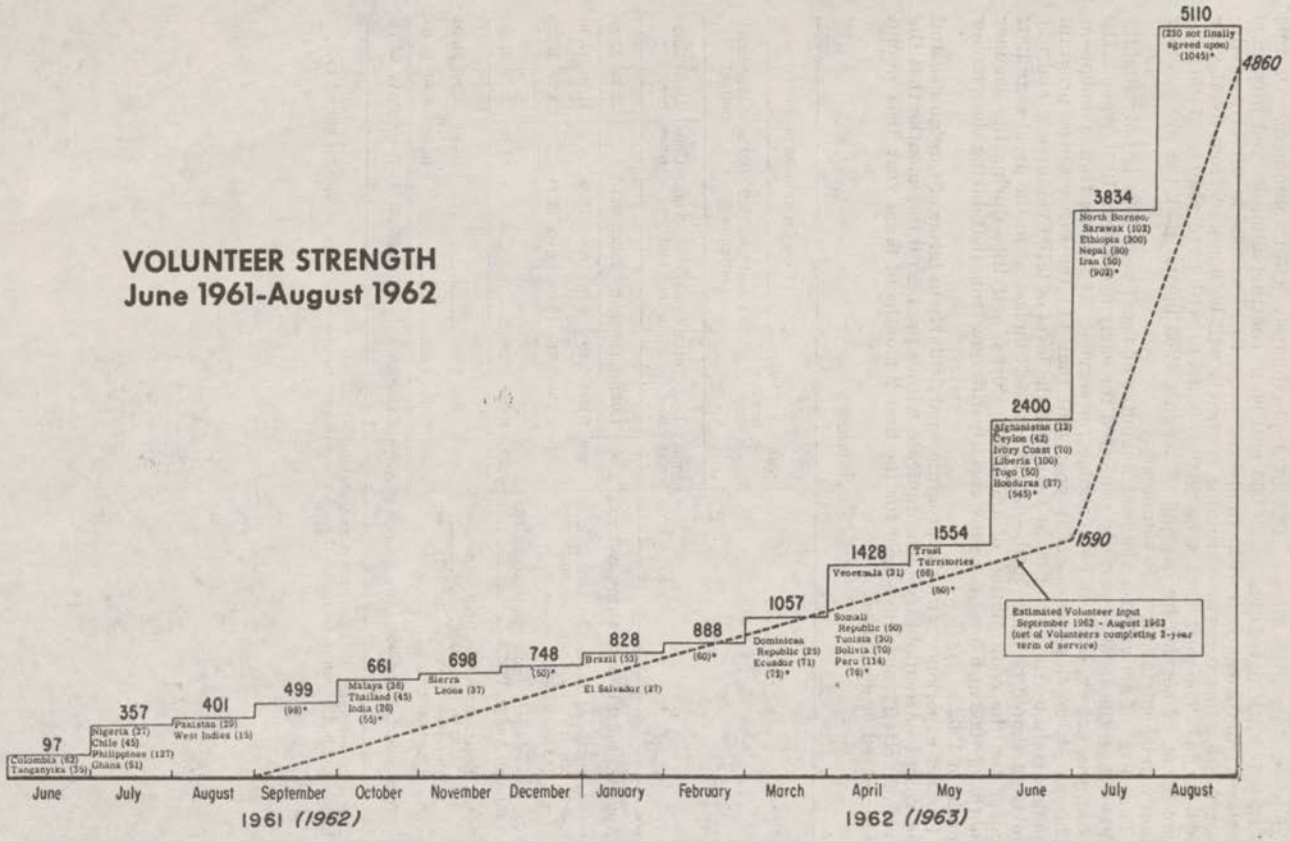
This level of activity for the first 2 months of fiscal year 1964 is only slightly higher than the level of activity projected for early fiscal year 1963, when 2,710 volunteers are expected to be available for service. It follows from a judgment made as of the close of calendar year 1961 that (1) the Peace Corps program should attain by the end of fiscal year 1963 the level of 6,700 volunteers, and (2) provision should be made in the fiscal year 1963 budget as in the fiscal year 1962 budget for the continuation of the Peace Corps' activities during the summer months of 1963 at a level not substantially different from that during the summer months of 1962.

Further experience with the program—particularly in terms of foreign demand and volunteer availability—may indicate within the next 6 to 9 months that the level of activity now envisaged for the first 2 months of fiscal year 1964 should be increased or decreased.

Summary

	Number of volunteers			Cost (in millions of dollars)					
				Fiscal year 1962 estimate			Fiscal year 1963 budget		
	Contract	Direct	Total	Contract	Direct	Total	Contract	Direct	Total
I. Volunteer input through August 1962	1,060	4,050	5,110	19.08	10.92	30.00	------	32.39	32.39
A. On board by June 30, 1962	500	1,900	2,400	9.00	6.86	15.86	------	17.10	17.10
B. Entering training in July and August 1962 [1]	560	2,150	2,710	10.08	4.06	14.14	------	15.29	15.29
II. Volunteer input from September 1962 through August 1963	1,200	4,060	5,260	------	------	------	21.60	9.76	31.36
A. Entering training from September 1962 to June 1963	600	990	1,590	------	------	------	10.80	3.96	14.76
B. Entering training in July and August 1963 [1]	600	3,070	3,670	------	------	------	10.80	5.80	16.60
Total volunteers on duty Aug. 31, 1963	2,260	8,110	[2] 9,970	19.08	10.92	30.00	21.60	42.15	63.75

[1] This is the net figure after attrition during training.
[2] Represents 10,370 volunteers minus the 400 who will have completed 2 years' service by August 1963.


VOLUNTEER STRENGTH
June 1961-August 1962
97
Colombia (62)
Tanganyika (35)
357
Nigeria (37)
Chile (45)
Philippines (127)
Ghana (51)
401
Pakistan (29)
West Indies (15)
499
(98)*
661
Malaya (36)
Thailand (45)
India (28)
(55)*
698
Sierra Leone (37)
748
(50)*
828
Brazil (53)
El Salvador (27)
888
(60)*
1057
Dominican Republic (23)
Ecuador (71)
(73)*
1428
Venezuela (31)
Somali Republic (50)
Tunisia (30)
Bolivia (70)
Peru (114)
(76)*
1554
Trust Territories (66)
(50)*
2400
Afghanistan (13)
Ceylon (42)
Ivory Coast (70)
Liberia (100)
Togo (50)
Honduras (37)
(565)*
3834
North Borneo, Sarawak (102)
Ethiopia (300)
Nepal (80)
Iran (50)
(902)*
5110
(230 not finally agreed upon)
(1045)*
4860
1590
Estimated Volunteer Input September 1962 - August 1963 (net of Volunteers completing 2-year term of service)
June
July
August
September
October
November
December
January
February
March
April
May
June
July
August
1961 (1962)
1962 (1963)
*Additions in countries previously listed

Appendix A.—Basis of Estimate of Annual Cost Per Volunteer

The following summary of volunteer costs is based on an average volunteer who spends 4 weeks at the Puerto Rico Field Training Center, 8 weeks in training in the United States, 1 week's home leave, and 3 weeks in a training program in the host country before being assigned to duty. The sequence of these training phases, and the length of time spent on any one, may vary greatly among projects. Not all volunteers will train at Puerto Rico, for example, and some will spend longer periods in U.S. or host country training. But, overall, this is an accurate description of the preduty training period. Similarly, the other cost components also may vary greatly from project to project, but this analysis presents a fair average or typical situation.

I. PREFINAL SELECTION

A. Medical examination and care in United States		$145
B. Puerto Rico training		610
1. Transportation: Home/Puerto Rico/training center	$250	
2. Training in Puerto Rico, 4 weeks at $90 per week	360	
C. Training in United States		1,725
1. All training costs at $200 per week for 8 weeks	$1,600	
2. Transportation training center/home	125	
D. Termination payment reserve during training at $75 per month		225
E. Training period attrition rate, 18 percent of above [1]		487

II. POST SELECTION [2]

F. Home leave, 10 days at $6 per day		60
G. Transportation to host country		725
1. Home to port of exit	$125	
2. International flight, tourist class	500	
3. Freight costs	100	
H. Volunteer allowances for 21 months		4,463
1. Termination payment at $75 per month	$1,575	
2. Living allowance at $125 per month	2,625	
3. Leave allowance at $12.50 per month	263	
I. Oversea training $90 per week for 3 weeks		270
J. Other expenses overseas		3,260
1. Housing repairs, improvements, and furnishings	$850	
2. In-country travel	250	
3. Vehicles [3]	400	
4. Transportation of vehicles, 20 percent of cost	80	
5. Vehicle maintenance and operation at $5 per month for 20 months	100	
6. Project equipment and materials	800	
7. Transportation of item 6 at 20 percent of cost	160	
8. Clothing ($150 1st year; $50 2d year)	200	
9. Medical care at $15 per month, 20 months	300	
10. Medical evacuation [4]	120	

[1] In late year's congressional presentation, the attrition rate before final selection was estimated to be 50 percent. The high quality of the volunteer applicants and the Peace Corps rigid pretraining selection standards have resulted in a rate during training of approximately 18 percent.

[2] Wherever possible, all foreign currency expenses overseas, including administrative expenses, are paid with currencies purchased from the U.S. Treasury Department.

[3] This factor averages a variety of transportation needs; project vehicles and personal bicycles. It is Peace Corps policy to encourage the use of public transportation whenever feasible; however, many volunteers are supplied bicycles, and a considerable number, particularly volunteer leaders, require motor vehicles to operate effectively.

[4] This is a prorated portion of total medical evacuation costs based on an estimate that about 2 percent of the volunteers will be evacuated annually for medical reasons at an average cost of $3,000 per evacuation.

III. POST DUTY

K. End of duty transportation expenses		$725
1. International trip	$500	
2. Freight costs	100	
3. Port of entry to home	125	
Total 24-month direct project costs		12,695
Annual direct cost per volunteer		6,348
Indirect overhead costs per volunteer (departmental and oversea support costs $18,300,000—see app. B—divided by 6,700 volunteers)		2,731
Total computed costs		9,079
Peace Corps budget estimate		9,000

Mr. PASSMAN. Mr. Shriver, we are glad to have you back before the committee. If you have a general statement to make we shall be pleased to hear from your, sir.

Mr. SHRIVER. Thank you very much, Mr. Chairman.

I am happy to be here.

GENERAL STATEMENT OF THE DIRECTOR

Mr. Chairman and members of the committee, in my earlier appearances here on Capitol Hill this year, I have had an opportunity to discuss the basic purposes of the Peace Corps as set forth by the Congress and the progress we have made during the first year of our existence in fulfilling these purposes.

I am glad to have an opportunity today to discuss before the members of the Appropriations Committee the dollar and cents aspect of the Peace Corps program.

Everyone connected with the Peace Corps is "cost conscious." We have been doing our best to conduct our operations in an efficient and economical manner. For this reason, I was especially gratified when Under Secretary of State Ball testified before the House Committee on Foreign Affairs that—

> We are probably getting more for our money in the Peace Corps than in almost anything we are doing.

This statement is supported by the Los Angeles Times, which stated in a recent editorial entitled "Peace Corps Has Struck the Right Note" that—

> Dollar for dollar, no U.S. foreign-aid program has done more. The whole Peace Corps program will only cost $64 million this year, peanuts in comparison to billions spent in "big think" projects.

AVERAGE COST PER VOLUNTEER

Every aspect of our activities contributes to this economy. I'd like to look for a moment at the average cost of $9,000 per volunteer, because this covers all expenses of the Peace Corps, and because it is a way to compare our predictions of a year ago with our actual performance.

The overall average of $9,000 is still valid. Some of its components have been higher than we expected and some have been lower. But the figure of $9,000 given to Congress last year is still accurate.

The $9,000 includes the cost of informing interested Americans about opportunities for service in the Peace Corps. Although this is an extremely important part of our activities, we maintain only a small staff for this purpose. As an economy measure, every officer in the Peace Corps contributes part of his or her time to speaking at colleges, participating in meetings, and working with numerous other organizations in the recruitment effort.

The $9,000 includes the cost of training Peace Corps volunteers. Last year, we estimated that this would cost about $1,290 for training at a U.S. institution. This estimate, made prior to any volunteers entering training, has proved to be low. Experience has indicated that U.S. training involves an average cost of about $1,600 per volunteer. Our comprehensive training program is necessary to insure that every volunteer who goes overseas representing America is as well qualified as possible for the job he will do.

The $9,000 includes the cost of providing health care for the volunteers. These measures are designed to see that every precaution is taken to safeguard the health of the American men and women serving abroad in the Peace Corps. They include a complete medical and psychiatric examination prior to selection, thorough and comprehensive health instruction during training, the provision of a well-stocked medical kit to every volunteer in the field, inoculations and other preventive measures, and health care when a volunteer becomes ill. We also provide for the medical evacuation of any volunteer whose health requires it, but we have had only one such case so far. Our remarkably good bill of health to date indicates that the money which goes for medical care is well spent.

The $9,000 includes all of the allowances—including the living allowance and the termination payments—which are paid to the volunteer during his term of service. The living allowance enables the volunteer to live overseas at the level of his coworker, and it has turned out to be even lower than our original estimate of $150 a month. In several cases, this allowance has been reduced when experience indicated it was too high; in one case the allowance has been raised.

Furthermore, the Peace Corps is not all "give." In every country where projects have been developed so far, the host country is making a contribution toward the volunteers' support—in some cases amounting to several hundred thousand dollars. These contributions are all the more significant and effective because we do not require them; they are made voluntarily. Not only do they emphasize the host country's involvement in and responsibility for the Peace Corps program, but they help make the American taxpayer's dollar go further.

The $9,000 includes all of the travel costs connected with the Peace Corps. Our travel expenses have been higher than we originally estimated, because they include not only the travel of volunteers, but all of the travel connected with the development of our programs and the recruitment of volunteer applicants. For example, our travel for recruiting has cost about $103,000 so far. All of this travel—by the staff as well as by volunteers—is by tourist class, and the increase here is more than offset by savings in the living costs of volunteers abroad and by savings in other aspects of our administrative budget.

The $9,000 includes all of the Washington and oversea administrative expenses of the Peace Corps.

In terms of administrative personnel, the Peace Corps is an economical operation. It has a small ratio of administrative staff to program personnel. On June 30, 1961, at the very beginning of our operations, we had one Peace Corps volunteer to every staff member. This ratio is now 3 to 1. By June, it will be 6 to 1. By the end of fiscal year 1963, this ratio will be nine volunteers per staff member.

Some of you may remember last year we said we were trying to aim for a 10-to-1 ratio. Well, we haven't got there yet but we are on the way. I think we may get there.

OVERSEA PAY AND ALLOWANCES

Peace Corps oversea staff members do not receive hardship allowances, various cost-of-living allowances, or PX privileges. This policy was established last December, and all staff members were notified in a letter explaining our philosophy.

I have a copy which I would like to insert in the record so that the members of this committee are fully informed about why we did away with those perquisites.

(The document follows:)

PEACE CORPS,
Washington, D.C., December 1, 1961.

To All Peace Corps Representatives:

By congressional action the Peace Corps is now established as an official agency of Government. It is timely, therefore, to pause for a moment and reflect upon the serious mission assigned to all members of the Peace Corps by the President, and now by the Congress.

In Washington we have given much thought to the policies and practices necessary to carry out our unusual program successfully. I wish to share our convictions and decisions with you.

The basic philosophy of the Peace Corps is one of service. This philosophy not only includes the volunteers in the field, but our oversea staff and our Washington organization. Working with the Peace Corps should not be exactly like working with another Government agency. We have a special mission which can only be accomplished if everyone believes in it and works for it in a manner consistent with the ideals of service and volunteerism.

Volunteers are expected to live simply and unostentatiously. We believe it will make their work more productive and effective. They have a 24-hour-a-day job. They receive no pay and accept substantial hazards to their health and even to their safety.

Our oversea staff members are charged with being the leaders of these dedicated volunteers; but no leader can be successful if he lives in a manner grossly different from those he is supposed to lead. Our oversea staff, therefore, should live simply and inconspicuously like the volunteers, maintaining close and continuous contact and identification with the volunteers.

It follows, therefore, that it would be inconsistent for us to compensate our staff personnel upon any basis suggesting that difficult living conditions justify special rewards or privileges. For these reasons we have concluded that our oversea personnel will not receive the post differential or any of the cost-of-living allowances, except the education and educational travel allowances.

While necessary living quarters will be given, we expect our staff members to live in simple housing, and wherever possible, to avoid locating in those areas or compounds where most Americans reside.

PX or commissary privileges will not be available to Peace Corps personnel, except on orders from the Director.

Many host nations voluntarily have relaxed local tax and customs procedures for the Peace Corps. These privileges are not designed for the importation of luxury items, and may be utilized only for necessary nonluxury commodities.

All your responsibilities should be carried out, to the extent practicable and possible, apart from Embassy and other U.S. activities; but it must not be forgotten that the Peace Corps representative and his staff are responsible to the

Ambassador. Courteous and respectful regard for the Ambassador, for his prerogatives, and for his interests must be maintained at all times. Every effort should be made to obtain the Ambassador's advice, counsel, inspiration, and guidance whenever appropriate.

All necessary support services and facilities of the Embassy and other U.S. agencies are to be used within the limits of their capacities. But Peace Corps offices should not be located at the Embassy, and the Peace Corps members should not be used for propaganda purposes. In some countries, the Peace Corps has been invited to have its offices located in government buildings of the host nation. This may be a desirable arrangement in many countries because it gives specific, concrete proof of our desire and willingness to work as closely as possible alongside host country citizens, and in accordance with their wishes. However, this kind of arrangement needs to be carefully evaluated in each country.

I hope that an unusual degree of responsibility will be assumed by Peace Corps representatives, and that they will make many decisions in the field. They must place a substantial amount of responsibility upon the individual volunteer also. Trust and respect will solve more difficult situations than any directive.

The rules may not be uniform for all stations, but it is urgent that everyone not only understand, but fully accept, the basic philosophy of the Peace Corps. There is no place in the Peace Corps for anyone who disagrees with the goals of service.

The Peace Corps is not just a job. There are no 9 to 5 days in our operation. There will be little tolerance of a "tomorrow" philosophy and no acceptance of an "it can't be done because it hasn't been done before" attitude.

We know the American people are behind us. Congress has given us overwhelming support. Individual members of both parties have expressed for the record their deep confidence in the Peace Corps volunteers and staff. So have many other high officials of Government.

I think we can do the job. I think that to do it well, we must adhere to the principles outlined in this letter.

Sincerely,

ROBERT SARGENT SHRIVER, JR., *Director.*

Mr. SHRIVER. We do not follow this policy primarily to save money, but save money it does. In a typical country with a Peace Corps staff of three, this policy saves the American taxpayer approximately $10,000 per year.

OVERSEA ADMINISTRATION AND EXPENSE CONTROLS

Overseas the Peace Corps continues the policy of relying on the U.S. Embassy and AID missions for administrative backstopping and support, and thus we avoid the creation of a large, separate, administrative organization of our own. In addition, we economize by using local employees whenever possible.

Several other items out of our experience to date bear evidence that we are careful of the taxpayer's money:

Congress authorized up to 16 passenger cars for Peace Corps administrative purposes overseas. Only one has been purchased.

Congress authorized up to $5,000 for entertainment in Washington. Only $1,914.80 was obligated as of April 7.

In our budget presentation to the Congress last year, we estimated that we would spend $8,500 for representation expenses overseas. Only $454.81 has been obligated.

In Washington, too, we make every effort to keep our expenses low. Our legal staff consists of only three lawyers, and one of them has done double duty by directing our Puerto Rico field training center. I have already pointed out that every office participates in the recruitment effort. The job of developing programs is also undertaken by any staff member who is qualified. For example, our Associate Di-

rector for Management has recently returned from a program development trip to Africa, where he had had a great deal of previous experience before he came with the Corps.

In other words, our performance has fulfilled our conservative predictions. The Peace Corps has not mushroomed into a high-cost operation. You have my assurance that it will not do so.

1963 BUDGET REQUEST

I am here today to support a request for $63.75 million to carry on the Peace Corps program during fiscal year 1963.

About half of this amount is needed to permit the volunteers who enter service, or who are selected for training this year, to complete the second year of their enlistment. In other words, half of this amount permits us to fulfill our obligations for another year to the men and women now or soon to be overseas. This is the program approved by the Congress last year.

The remaining part of the $63.75 million is to permit approximately the same number of volunteers to enter service during the forthcoming year.

The Peace Corps program next year, therefore, repeats what was done the first year. It permits approximately the same number of new volunteers to join the Corps. A vote for a lower level of activity would be a vote to stultify, and eventually to kill, the Peace Corps.

OBLIGATIONS

With respect to this and next year's fiscal operations, we ask for no carryover authority. As of March 1, the Peace Corps had obligated $10.7 million of its current appropriation. As of March 31, that figure is $13,480,587.84. Our continuing expenses for the remaining months of fiscal year, plus our planned heavy investment in training and other contracts during the months immediately ahead—to permit summer training—will result in the use of all of the $30 million appropriated for this year. If we do not use all of it, it remains in the Treasury.

VALUE OF PEACE CORPS

On our record to date, we believe that the money appropriated for the Peace Corps will be spent wisely, and that the taxpayer will get real values—not only in terms of the help provided other countries, but in terms of what these volunteers will mean to our own society. In a very real sense our investment earns dividends abroad; our capital returns to the United States as each volunteer reenters private life.

There is another factor of critical importance, Mr. Chairman—and that is the oportunity we have to send dedicated, qualified, and patriotic Americans to the outposts of freedom around the world—to work and live with people whose future is intertwined with our own.

When the Peace Corps was announced, it met with some skepticism. The editorial pages of the Trinidad Guardian contained some of the typical criticism.

But the editors of the Guardian, as most of the early skeptics of the Peace Corps, have changed their minds. I would like to close my statement by quoting from a recent editorial in that paper:

> It may well be that, when the history of the next quarter century is written, it will be recorded that the Peace Corps contributed more than any other single factor to the ordered development of many nations.

Thank you.

Mr. PASSMAN. Thank you very much, Mr. Shriver.

Mr. GARY. What was that figure you gave us on page 7; you interpolated a figure with respect to this and next year's fiscal operation:

> * * * we ask for no carryover authority. As of March 1, the Peace Corps had obligated $10.7 million of its current appropriation.

At that point you gave us the present figure.

Mr. SHRIVER. The figure I inserted there was $13,480,587.84. That is the figure obligated as of March 31.

SERVICES OF THE DIRECTOR

Mr. PASSMAN. I think I would be remiss in my duties as chairman of this subcommittee if I did not say, and with deep sincerity, that I recognize Mr. Shriver as a dedicated official of the executive branch. He is experienced and he is forthright. However, this does not mean that I am in accord with all of his views. You have impressed members of this committee very greatly, Mr. Shriver, by your attitude and the fact that you have tried to master your assignment. And may I say that, aside from the fact that I question whether the Peace Corps will accomplish what it is claimed it will, a man with your determination could, in my candid opinion, serve your Government in a capacity that might effectuate billions of dollars in savings. I know of nothing that would please me any more than to see you, or somebody equally as determined, in a position to hold down expenses, and that is no reflection on any of the other personnel.

Yours is a very small part of the $8 or $9 billion program, when we take into account all of the expenses in connection with foreign aid. We find in so many branches of the foreign aid program that people are running wild and uncontrolled.

RELATIONSHIP OF PEACE CORPS TO ALLIANCE FOR PROGRESS PROGRAM

Now, Mr. Shriver, we have the so-called Alliance for Progress program operating in Latin America, and it is a rather broad program. Many of your Peace Corps people are assigned to Latin America. Are they familiar with the objectives of, and how closely do they work with the personnel assigned to the Alliance for Progress program?

Mr. SHRIVER. No. 1, we take pains to make sure that we do not duplicate what the Alliance is doing, or any other program, private or public, of our country, and also that we do not conflict with what they are doing. We do that in two ways, (1) by making sure that any program which we propose is approved by the country team and by the Ambassador in the foreign country. As a matter of fact a large proportion of our programs come to us that way. They come through the country team to us rather than from Washington to the

country team; (2) we make sure in Washington that the AID program people here—for example, the man in charge of Latin America for AID, is approving each step that we take in any particular Latin American country so, philosophically, yes, we work together. We collaborate.

Mr. PASSMAN. I did not intend, at this particular time, to ask a question pertaining to duplication with respect to the familiarity of your people with the Alliance for Progress activities, and the Alliance for Progress people being familiar with yours. I am speaking with reference to all levels, the administrative as well as those who are assigned in the field.

Mr. SHRIVER. Yes.

Well, certainly it is true administratively. Whether every individual Peace Corps volunteer is fully aware of all the Alliance is doing in a given country, I could not vouch for that.

Mr. PASSMAN. I do not mean completely familiar.

We want to contrast what some of the other people are doing in this Alliance for Progress program. It is supposed to be an extremely important program. I know the President thinks it is. It calls for an outlay of money on a very substantial basis.

EXCESS EXPENDITURES OF INTER-AMERICAN DEVELOPMENT BANK

We have run into some things that cannot be placed in the record too often. For instance, we have the Inter-American Development Bank which is a new organization for Latin America, and purely for Latin America. Three of the IDB directors thought that they had business in Europe, and we found that these three men from June 4 to July 9, 1961, spent $12,786.74 for the trip, with this breakdown: Subsistence, $4,876,50; incidentals, $860.67; representation, $1,040.68; and transportation, $6,009.34.

Subsistence per day amounted to $64.54.

Subsistence per person for 35 days, $2,258.90.

Total expenditures per day for 35 days, $4,264.24.

I mention this to be critical, yes; but also I do so in order that you may know about things being done in agencies only two or three blocks from your own. After all, it is the American taxpayer who is carrying out these programs.

I also think it is worthwhile to give you some further idea about that Agency's operations.

In the Inter-American Development Bank there are 20 members of the Board of Governors. Each year they hold an annual meeting. The meeting last year was held in Rio, and it cost $143,358 to meet for a week. This year they estimated $225,000 for the same purpose.

Such expenses cause this committee a lot of concern. We are digging out expense accounts as we go along, so I hope you will take a look at such things, and perhaps caution your people abroad not to become impressed if they run into some person who is supposed to be dealing with Latin America, for example, but is over in Paris maybe attending a good show.

CONFLICTING OPINIONS ON PEACE CORPS CONTRIBUTION

Mr. Director, quoting from your statement:

I was especially gratified when Under Secretary of State Ball testified before the House Committee on Foreign Affairs that "we are probably getting more for our money in the Peace Corps than in anything we are doing."

Perhaps he was in possession of some information that had not been brought to the attention of the Foreign Affairs Committee.

I quote from the Foreign Affairs Committee report 1470:

At the end of the first year of operations it is too soon to evaluate the performance of the Peace Corps in terms of tangible accomplishment.

One statement, to some extent, in my opinion, conflicts with the other.

SPECIAL TRAINING PROGRAM

Page 9 of the Senate Foreign Relations Committee report indicates that you propose to inaugurate a new special training program which is to be in addition to your regular training program in Puerto Rico.

It would appear that the committee is somewhat divided on the wisdom of that program.

Now, from page 2 of your statement:

As an economy measure, every officer in the Peace Corps contributes part of his or her time to speaking at colleges, participating in meetings, and working with numerous other organizations in the recruitment effort.

ADVERTISING CONTRACTS

At page 5884 of the Congressional Record, Mr. Wilson of California made this statement:

I talked to a press agent not long ago who admitted his firm had a contract with the Peace Corps.

Could you give us some information on that phase of your program at the proper time in the record?

Mr. TABER. Why don't we get that information now?

Mr. PASSMAN. You can give it to us now if you have it.

Mr. SHRIVER. May I try to respond to the three points you have brought up, Mr. Chairman?

Mr. PASSMAN. Yes, but we want more than just a brief statement, because there is such contrast in what the Foreign Affairs Committee says and what Mr. Ball says. I do not know which one is right, but one is wrong.

Mr. SHRIVER. I would like to and I would be happy to send in a more complete report later on if you would like it, and the other members of the committee.

Mr. PASSMAN. Send it and the committee will decide whether it should be inserted in the record.

CONFLICTING OPINIONS ON PEACE CORPS CONTRIBUTION

Mr. SHRIVER. As I understand the quotation of the House Foreign Affairs Committee report that it is too early to estimate the tangible results—is that it?

Mr. PASSMAN. That at the end of the first year of operations it is too soon to evaluate the performance of the Peace Corps in terms of tangible accomplishment.

I was contrasting that with what Mr. Ball said. I read again from your statement:

> I was especially gratified when Under Secretary of State Ball testified before the House Committee on Foreign Affairs that we are probably getting more for our money in the Peace Corps than in almost anything we are doing.

Mr. SHRIVER. I think perhaps the crucial word there is "tangible." In other words, there are many results which the Peace Corps is already obtaining and which perhaps Secretary Ball is referring to, results which are intangible. For example, we are not in the business of building dams or highways. Those are things that you can easily see. They can be touched. As I understand what the word "tangible" means, it is concrete, specific, touchable.

Many of our results over the long haul into the future, Mr. Chairman, will be intangible results. For example, how can one estimate in terms of tangibility the effect of a teacher working in a classroom or 5,000 teachers working in classrooms in Africa, influencing the minds, hearts and the development of their attitude toward your country, of the developing nations of the world. It is very difficult to say that that is a tangible result. Yet I am sure many people, certainly educators would agree if we could put a large number of teachers into secondary schools and into the universities of the world who would be patriotic Americans, giving a different image perhaps of our country to the people around the world, that this would be a very important "intangible" result.

Now, many of the things that the Peace Corps is doing will produce tangible but also intangible results. I think maybe that is a part of the explanation for the seeming difference between these two statements.

Mr. PASSMAN. I would like to understand it.

Mr. SHRIVER. I might also call attention to this statement in the report:

> The evidence as to the performance of the Peace Corps so far tends to confirm the soundness of the Peace Corps concept. All experience so far indicates that the volunteers readily adapt to the environments in which they are working.
>
> The Peace Corps has found acceptable solutions to the problems which have been encountered in working with voluntary agencies, church groups, and educational institutions.

ADVISABILITY OF TRAINING PROGRAM IN PUERTO RICO

Mr. PASSMAN. I am wondering if we could limit it to the tangible.

Mr. SHRIVER. The second point you brought up, Mr. Chairman, was the question you said the Senate raised about the advisability of having a training program in Puerto Rico.

I gather you were alluding to interrogations made of us as to the advisability of having a training program in Puerto Rico in addition to the training programs we have in this country.

In Puerto Rico we got the universities of Puerto Rico, there are three of them, to join together for the first time in their history to train Americans going particularly to South American nations. We have

done the same thing right here in Washington, D.C. There are in the immediate environs of Washington seven institutions of higher education. For the first time we got them to join together and pool their physical as well as their faculty resources, to train people to go overseas.

Now all we have done therefore in Puerto Rico is to bring those universities together there for training purposes exactly the same as we have them together here in Washington for training purposes. We use that consortium—we have that word, I don't know that it is the best word but it is the word we use—we have that consortium of universities in Puerto Rico. We have a consortium of universities in Washington, D.C.

What we have planned in Puerto Rico is exactly the same as we are doing here, or hoping to do perhaps in California, and there is no difference. I am sorry the Senator who raised that question—I hope he got an adequate answer but that is it. There is nothing different. It is not in addition to what we are doing here. If a person is trained in the Washington group of universities he would not then subsequently be trained in the Puerto Rican group of universities.

Mr. GARY. If a man is sent to Puerto Rico for training he will get no training in Washington?

Mr. SHRIVER. That is correct.

Mr. GARY. In other words, the two groups of schools are giving the same training. You would send a person to one or the other but not to both?

Mr. SHRIVER. That is correct. In Puerto Rico, Congressman Gary, we have an additional over-training camp, we call it, up in the mountains of Puerto Rico. Now, that is in addition to the Washington training or to the Puerto Rican University training. That has always existed in addition to continental U.S. training just as it now exists in addition to training at Puerto Rican universities.

The reason for choosing the Puerto Rico universities was twofold. No. 1, we thought it was a good idea to immerse our volunteers immediately in a Spanish-speaking situation. Especially those going to South America. No. 2, those universities are able to call upon the resources of the Puerto Rican Commonwealth Government which has had a lot of experience through this Operation Bootstrap in what they call community development work. Going through the villages and raising them up by their own bootstraps. We want our people to learn that so they can carry it out in South America.

Mr. GARY. What is the difference between training in the school and training in the camps?

Mr. SHRIVER. There is a lot of difference. The school training is comparable to the training they get here in Washington, D.C. The training up in the camp actually involves living in a tent, for example, using outdoor facilities for the most part, and physical training. It is more intended to develop the physical resources and the psychological resources of the individual, than it is to teach them community development. For example, we could have chosen Southern Illinois University which has a fine community development division, and we could have trained our community development workers there. Instead of selecting that place we chose to send them to Puerto Rico which has a similar thing but we felt we had the additional advantage

of being, as I said a moment ago, in a Spanish-speaking environment, where you get Spanish books and magazines very easily and we felt it would help to adapt our people for South America more rapidly. That was the principal reason.

PEACE CORPS ADVERTISING PROGRAM

Mr. PASSMAN. Mr. Shriver, I do not know about the other members of the committee—each member usually speaks for himself—but with your ability, and, with respect, may I add, personality and persuasive powers, and with all these many young recruits and with the universities which are looking forward to paid contracts, and the magazine, newspapers, radio and television advertising and promotion, how are you going to separate facts from enthusiasm? We notice that you have 17,000 applications.

Could you give us at this point the amount of money that you have spent for advertising in magazines, newspapers, radio and television?

Mr. SHRIVER. Yes, sir.

We have not spent any money directly for advertising in magazines, newspapers or television.

Mr. PASSMAN. How about indirectly?

Mr. SHRIVER. The only money we spent was in a contract with the Advertising Council.

The Advertising Council is a nonprofit organization established by the advertising agencies of America to work on public service programs which are adopted by the council's board of directors.

Typical examples are the U.S. saving bond program, the U.S. fire prevention program—that little bear, Smokey the Bear, the program to stop accidents, the program for the National Mental Health Association.

Mr. PASSMAN. What cost in involved in that contract?

Mr. SHRIVER. That contract, the estimated cost for the year was $30,000. Of that $30,000 we have paid or obligated $14,872.21. Now, this is not for advertising space in a magazine or newspaper, it is not time on radio nor is it for time on television.

Mr. PASSMAN. Could it be accurately said that this is spent on good salesmanship, to persuade them to give you 10 times that value in free advertising? Is that the way you sum it up?

Mr. SHRIVER. There is no question about it. That is what the Advertising Council does.

Mr. PASSMAN. That is what we thought. In all probability you are getting more coverage than you could buy for $1 million.

Mr. SHRIVER. There is no question about that. That is correct.

Mr. PASSMAN. Then, how do you separate facts from enthusiasm, when you have this kind of coverage and promotion?

Mr. SHRIVER. Because there is no enthusiasm in it. It is purely factual. What those ads say, for example, is "Teachers are wanted to teach in—" and then a country is listed. There is no "enthusiasm." This is factual.

Mr. PASSMAN. You went through that system because you recognized you could get 10 times the coverage for the same amount of dollars?

Mr. SHRIVER. That was one reason. Another reason was that the Advertising Council has won the respect of the immediate past five

Presidents of the United States, all of whom have endorsed it. It has done this work for the Federal Government, for the Department of the Treasury, for the Veterans' Administration and others, so there was no question about it being a "press agent" operation. It is not a press agent operation. It is not looking for space in a newspaper, for example, the way a press agent is employed to do.

Mr. PASSMAN. But it still has a persuasive power and patriotic appeal to get you 10 times as much space or time as you could get for dollars, if you were spending them directly.

Mr. SHRIVER. We would not spend money for advertising or radio or television time.

Mr. PASSMAN. Not if you can get 10 times the coverage for the same amount of money through some other means.

Mr. SHRIVER. I go pointblank: We would not spend it for radio and television time. We have never spent it for radio and television time.

Mr. PASSMAN. Does the Advertising Council spend it getting free time and space?

Mr. SHRIVER. No, sir; they don't.

Mr. PASSMAN. You said a while ago that you did get free coverage and promotion.

Mr. SHRIVER. We get it but they don't spend money to get it.

Mr. PASSMAN. Do they present it on a basis of patriotism?

Mr. SHRIVER. It doesn't even go that far, Mr. Chairman, I believe. Actually, all the advertising agencies and the publication media of the country cooperate with the Advertising Council in any program that the council undertakes.

Mr. PASSMAN. I think we have completed the record, that you may get $1 million worth of free advertising with a $30,000 expenditure through this particular procedure.

Mr. SHRIVER. Could I just add one——

Mr. TABER. May we get the facts now?

Mr. SHRIVER. $14,872 has been spent with the Advertising Council. We do not have any press agents. None.

Mr. PASSMAN. Then evidently Mr. Wilson did not know what he was talking about, and I have profound faith in his integrity. We shall talk to Mr. Wilson and then we shall talk with you some more, because the statements are contradictory.

Mr. SHRIVER. You have asked me, Mr. Chairman, about how we—with all this enthusiasm we get so many volunteers and so on. I think you asked me, well, how was it that so many people applied. Some phraseology like that.

Mr. PASSMAN. Yes.

Mr. SHRIVER. You asked some question to the effect, how was it or why was it so many people applied?

Mr. PASSMAN. That is right.

Mr. SHRIVER. And how do you separate——

Mr. PASSMAN. That is right; but you answered the question when you said you got $1 million worth of coverage in communications media, inviting them to apply, for a $30,000 expenditure.

Mr. SHRIVER. That is not a complete answer, Mr. Chairman. For example, about 10,000 or 12,000 people applied when President Kennedy first announced the program. At that time there was no adver-

tising at all. So those people were obviously well motivated, to apply, and many people are well motivated to apply today. Our advertising is not intended to sell people on applying. What it is intended to do is to give information about the terms of service and where people are needed and so on. In the strict sense it is not really an advertising program. It is an informational program. As you well know we have 180 million people in this country and it is very difficult to get basic factual information to all those people. The Advertising Council program is part of that information program.

ADVERTISING COUNCIL SERVICES

Mr. RHODES. What specifically does the Advertising Council do for you?

Mr. SHRIVER. The Advertising Council provides the creative abilities as they call it of the people in a specific advertising agency which they select to work for us and they write advertisements or radio spots or television spots. They produce them, they make the mats and they send them out to the newspapers or the tapes and send them to the television station. We don't pay anything for creative talents of those people. They donate their services. All we pay for, just like the U.S. Treasury savings bond program, is for the actual out-of-pocket expenses for the mats, or the film to be sent to the television station.

Our expenditures with them are purely for the physical things which they have to produce—the paper and so on.

Mr. RHODES. Then actually the Advertising Council makes no money whatsoever for serving you?

Mr. SHRIVER. That is correct. This is a nonprofit, private, voluntary organization established by the advertising agencies of the United States.

Mr. RHODES. You do not deal through any one particular agency, then?

Mr. SHRIVER. We deal with one agency which they select and assign to us and every agency in the United States who is in this agrees that they will accept assignments if given to them by the group as a whole.

Mr. RHODES. Are most advertising agencies in the United States in this Advertising Council?

Mr. SHRIVER. Yes, sir. All of the best known ones are and I think practically all of the agencies are.

Mr. PASSMAN. I think the record should show—and we are certainly not directing criticism at the Advertising Council—that some of the most expensive activities we have run into in the foreign-aid program have been through the so-called nonprofit organizations. I recall one especially that had to do with Iran. Through that plan, it was costing us $30,000 per person to maintain a certain group for so many months in Iran. It was very excessive.

RECRUITING ACTIVITIES

Now, we find here another item that would tie directly into this interest created all over the country. From your statement, on page 4:

For example, our travel for recruiting has cost about $103,000 so far.

How many States do they cover and with whom do they work?

Mr. SHRIVER. We try to consult with or cover all the States.

Mr. PASSMAN. Who are their contacts when they get into the States?

Mr. SHRIVER. We have worked with all the groups we are able to reach. We have worked with the Junior Chambers of Commerce, with the Federation of Women's Clubs, with colleges, with labor unions, with businessmen's groups, and so forth. Whatever the group is in a particular city or State that is interested in the Peace Corps.

Mr. Chairman, we receive somewhere in the neighborhood of 100 to 250 invitations a week at our office to come and give speeches to all sorts of groups, from the National Association of Manufacturers, and business, to the American Legion and others.

CONTRACTS WITH COLLEGES

Mr. PASSMAN. With the coverage you are getting I am surprised it is not a lot greater than that. How many colleges and universities do you now have in the program under contract?

Mr. SHRIVER. Under contract, 24.

Mr. PASSMAN. In how many States?

Mr. SHRIVER. Fifteen.

Mr. PASSMAN. What costs are involved?

Mr. SHRIVER. In my statement I tried to indicate what the cost was. The cost is about $1,600 per student for the training program.

Mr. PASSMAN. Is that not profitable for the universities and colleges? Is it a nice little windfall for them?

Mr. SHRIVER. They claim it is not a windfall and that they do not make a profit. We have all the records, Mr. Chairman, for your perusal if you want to look at them.

Mr. PASSMAN. Of what duration is the training course?

Mr. SHRIVER. It is about 10 weeks.

Mr. PASSMAN. $1,600 and they do not make a profit?

Mr. SHRIVER. I am not saying they don't.

Mr. PASSMAN. But they say they do not make a profit?

Mr. SHRIVER. I am not saying they don't.

Mr. PASSMAN. It would seem unreasonable for them to disclaim a profit when they get $1,600 for 10 weeks. For half that amount you could maybe put your son in some of these schools for a full year, could you not—that is, for the tuition and fees which are involved?

Mr. SHRIVER. Yes, sir, but I would like to say——

Mr. PASSMAN. If they are making money through this means it would be an incentive for them to help promote the Peace Corps, would it not?

Mr. TABER. Why can't we have a list of those institutions?

Mr. SHRIVER. I have the list right here. It is in 15 different States and 24 colleges.

Mr. PASSMAN. That covers contracts presently in effect?

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. How many do you have planned for the future?

Mr. KELLY. About 27 between now and the end of the year for the summer program.

Mr. PASSMAN. Which would bring it up to a total of 56?

Mr. KELLY. That is right. We haven't selected all of the institutions so I cannot tell you how many States.

Mr. PASSMAN. Would you think the percentage would be about like the number now in effect?

Mr. KELLY. We will be going back to some of the institutions that trained during the course of this year because they did such a——

Mr. PASSMAN. This finally could get into every State in the Union, maybe into every accredited college and university?

Mr. KELLY. It is possible but not probable.

Mr. PASSMAN. But it is possible, if it keeps growing.

Mr. SHRIVER. I do not think it would get that far, ever. There are something like 1,800 colleges and universities in the United States.

Mr. PASSMAN. You started with $10,000 and you are up to nearly $64 million, and I think that is something of a record for only 2 years.

Do you have any other free services publicizing the Peace Corps?

Mr. SHRIVER. There are no free services—do you mean like the Advertising Council?

Mr. PASSMAN. Yes. You are getting a million dollars in promotion for $30,000, and I think that is a splendid accomplishment.

Mr. SHRIVER. You asked me whether there were other things and I was hesitating for a moment to see if there was anything that we haven't brought up. I thought that it was a very favorable thing for the Government and for the taxpayer, the Advertising Council, because as in the case of the Treasury savings bonds, it seemed to be desirable to have that done at the least possible cost to the taxpayer.

"SAVINGS" FROM NOT HAVING OVERSEA ALLOWANCES

Mr. PASSMAN. Mr. Shriver, your statement says the Peace Corps oversea staff members do not receive hardship allowances, various cost-of-living allowances or PX privileges. You say that this policy was established last December and all staff members were notified in a letter explaining your philosophy.

Mr. SHRIVER. I have supplied for the record a copy of that.

Mr. PASSMAN. Is it not true that many people save money for years in order to do just what these youngsters are being given the privilege of doing, going abroad—visiting in a lot of foreign countries, and getting different experiences?

AGE OF PEACE CORPS MEN

Mr. SHRIVER. We have people 67 years old in the Peace Corps, 65, 63, 62, 61.

Mr. PASSMAN. The average age is about 25.

Mr. SHRIVER. The average is 25.

Mr. PASSMAN. It is the exception, when you get some of the older people?

Mr. SHRIVER. We look for exceptional people.

Mr. PASSMAN. You go down to what age?

Mr. SHRIVER. We have a few at 18. That is what the Congress authorized.

Mr. PASSMAN. You say here, on page 5:

> In a typical country with a Peace Corps staff of three this policy saves the American taxpayer approximately $10,000 a year.

You have taken credit for a saving on a program that did not exist until 2 years ago?

Mr. SHRIVER. What I was trying to indicate, Mr. Chairman, is that everybody, so far as I know, who is appointed to what they call the Foreign Service Reserve Schedule, is by law, congressional law, entitled to certain perquisites when they serve overseas. What I was saying is simply that we voluntarily surrendered some of those perquisites and the voluntary surrender of those perquisites saves the taxpayers $10,000 a year.

Mr. PASSMAN. Would it be as easy to say that your program did not call for this outlay of cash?

Mr. SHRIVER. What we could say if we did not have the program we would not spend anything over there.

Mr. PASSMAN. If you do not need something in the program, and you do not use it, I never could refer to that as savings.

DEFICIT SPENDING

I read again from your statement:

Our continuing expenses for the remaining months of the fiscal year, plus our planned heavy investment in training and other contracts during the months immediately ahead—to permit summer training—will result in the use of all of the $30 million appropriated for this year, If we do not use all of it, it remains in the Treasury.

There is no money in the Treasury. We have spent $11 billion more than we have taken in this fiscal year. How could it remain in the Treasury when we are operating on an overdraft right now, having already withdrawn $85 billion this year?

Mr. SHRIVER. What we do not use maybe some others can use.

Mr. PASSMAN. We do not have it to use.

NUMBER AND FUNDING OF PROJECTS WITH PRIVATE AGENCIES AND UNIVERSITIES

Mr. Shriver, last year you estimated you would have 38 projects, with a total of 1,450 volunteers, to be carried out by private agencies and universities.

All 38 projects were to be fully funded for a 2-year period at a cost of $26.1 million. Is that a correct understanding of the item?

Mr. SHRIVER. I do not have it in front of me. I assume that is correct.

Mr. PASSMAN. We have plenty of time for you to check it to see if that is correct.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. That is private agencies and universities?

Mr. SHRIVER. That is correct.

Mr. PASSMAN. How many such projects are in operation now?

Mr. KELLY. Fourteen.

Mr. SHRIVER. In operation now, and let's say by the end of the fiscal year, do you have a projection on what we would conclude?

Mr. KELLY. I think, Mr. Shriver, about eight more is the projection right now. That may change.

Mr. PASSMAN. That would be 26?

Mr. SHRIVER. Closer to 22. Let's say 20 to 25.

Mr. WIGGINS. I think it will run closer to 25 by the end of the year.

Mr. PASSMAN. And you would plan 38?

Mr. SHRIVER. That is correct.

Mr. PASSMAN. Then you are overfunded for this year, are you not, in this particular phase?

Mr. WIGGINS. The 38 was based on a requested appropriation of $40 million.

Mr. PASSMAN. You were reduced 25 percent. What is the reduction in this?

Mr. SHRIVER. 25 versus 38. We reduced, incidentally, the number of volunteers from 1,450, as indicated on the same page, down to 1,060, which is what we have presented to you this year.

What percentage of 38 is 25? It is a reduction of a third.

Mr. PASSMAN. About 70 percent, roughly?

Mr. SHRIVER. Seventy percent.

Mr. PASSMAN. There is a differential of approximately 5 percent?

Mr. SHRIVER. That is right. In terms of volunteers we have projected 1,450, on the $40 million basis. We now project 1,060. We are down four, which is again about 25 percent.

Mr. PASSMAN. I believe that is about a third. You get off with about 8 percent on that one. Again, that is in your favor because you will have some money left over, according to the way this is working out. We always like to see that.

OPERATIONS OF PEACE CORPS AND CARE IN COLOMBIA

What countries and types of projects are included?

Mr. SHRIVER. Let me give you a few examples. In Colombia we have a contract with the private agency, CARE, involving as of now about 110 Peace Corps volunteers who are doing community development work in that country.

Mr. PASSMAN. Describe for the record just what CARE does.

Mr. SHRIVER. CARE is a private, not-for-profit voluntary agency in this country that does oversea work, distribution of food, for example. They have recently merged with a group called Medico, so they are now doing medical work overseas. They also do community development work overseas.

Mr. PASSMAN. Was CARE in operation before the Peace Corps went in?

Mr. SHRIVER. We went into operation almost simultaneously with this program of community development in Colombia. The actual background is that the Colombian Government asked CARE to come down and make a survey of that country, to determine what could be done at the local level; what they would recommend. CARE made this survey. Of course, it was at no cost to our taxpayers. It was by the Colombian Government. As a result of the survey the Colombian Government invited CARE to work with them in the development of a community development program in that country. They had just started this, utilizing only citizens of Colombia. They came to us and said, "This program will be much more effective for our country and for Colombia if we could join our program in Colombia with the Peace Corps program."

Mr. PASSMAN. For many years the CARE program has been rather successful, has it not?

Mr. SHRIVER. I think it is one of the best of the private agencies, yes, sir.

Mr. PASSMAN. If they operated so successfully before there was a Peace Corps, I wonder why they did not continue to operate on their own and leave the Peace Corps alone to do its own work as it had originally planned? What is your connection with the CARE program and the other agency you named in Colombia? Just what do your people do?

Mr. SHRIVER. Our people work as an integral part of the community program of Colombia.

Colombia established a division in its Government called Accion Communal. This is a part of the Colombian Government. They get technical advice, if you will, from CARE.

We have spliced our people or joined our people right in with the Colombian citizens who do this work within the Colombian department.

Mr. PASSMAN. Who supervises, the personnel of CARE or the personnel of the Peace Corps?

Mr. SHRIVER. Personnel of CARE and the Colombian Government does the technical supervision in the field.

Mr. PASSMAN. What does the Peace Corps man do?

Mr. SHRIVER. He does the work. He is out in the field working in the small towns or villages.

Mr. PASSMAN. What kind of work is he doing?

Mr. SHRIVER. He is helping to organize activities such as the new sewerage systems, the drilling of wells, the construction of schools, the provision of recreational facilities, the inauguration of consumers cooperatives, the building of small bridges, the opening up of roads.

Mr. PASSMAN. They are acting as instructors and teachers and supervisors?

Mr. SHRIVER. They are outdoing it, too.

Mr. PASSMAN. They are building bridges and oil well derricks, and all that?

Mr. SHRIVER. Not oil wells, no. We have not found any oil yet.

Mr. PASSMAN. We hope that you do.

Mr. SHRIVER. They are drilling water wells, too.

Mr. PASSMAN. Are they able to do all of these things?

Mr. SHRIVER. They are actually not children.

Mr. PASSMAN. I think of them as 25. Do you acquire experience ence to build bridges and water tanks at that age; do you?

Mr. SHRIVER. We have got about 35 civil engineers overseas, not in Colombia, particularly.

Mr. PASSMAN. The average age is 25?

Mr. SHRIVER. Yes.

Mr. PASSMAN. You have 109 there. How does CARE come in? They distribute food and clothing, do they not? Is that not primarily their assignment?

Mr. SHRIVER. I would not say it was primarily, Mr. Chairman. They have two or three different types of work they do overseas, one of which is the distribution of food. Leaving the distribution of food aside completely, they also do other things that have nothing to do with the distribution of food.

Mr. PASSMAN. What percentage of the time and budget, would you say, would be spent on the distribution of food, medicine, and clothing by CARE?

Mr. SHRIVER. I am sorry. I do not know.

Mr. PASSMAN. Is there a duplication of the work of the Peace Corps in CARE, or vice versa? One of them must supervise the other? Both of them are not doing the work, are they?

Mr. SHRIVER. No, sir. What happens in a community development program, in Colombia at any rate, is this: About 120 Colombians, approximately 25 to 35 years of age, have been chosen by the Colombian Government and by CARE cooperatively to be trained as community development workers and they go out, these Colombians, into the small villages and towns of Colombia to inspire, to invigorate, to get work started at the local level which can be done at the local level, work of the type I tried to describe a minute ago.

Instead of these Colombians going out exclusively by themselves, we have added manpower, Peace Corps volunteers, to that group of 120 Colombians. We have about 110 volunteers, so that the total of Colombians and North Americans amounts to let's say to 230. When we go out with them into a village, there will be, let's say, 1 Colombian and 2 Peace Corps volunteers in a town, let's say, of 4,000 or 5,000, or 400 to 1,000. Their job is to get that village organized to help itself.

They work together. Our people work together with them. The Colombian is in charge. He is the fellow in charge of the operation right there at that point. The Accion Communal, a Government Division of Colombia, also has supervisory people. They do not have many. They are starting new. They have some. They go around to make sure the work is going ahead satisfactorily. CARE has about two or three people in Colombia who also are trying to assist these people to make sure that the work goes ahead properly.

Mr. PASSMAN. They are doing the same thing?

Mr. SHRIVER. They do not do the work, no, sir. We are in, let's say, 65 different towns. Sometimes it takes a week or 10 days to get to one of the towns.

Mr. PASSMAN. Why did you tie in with CARE, if they are not doing the same type of work? I thought you were working more or less independently, on your own, building your own organization.

Mr. SHRIVER. No, sir. We have from the very beginning told Congress that we wanted to work with and to support American private voluntary agencies.

Mr. PASSMAN. According to the record, there are about 173 different Government or private agencies giving aid or technicians in all these countries. How can it be kept separated, so you do not have duplication? That is why I asked the question with relation to CARE.

Mr. SHRIVER. Let's say we did not send anybody down there. There would be 120 Colombians and maybe 1 or 2 people from CARE trying to run a local action program.

Mr. PASSMAN. What do the CARE people do when they are out in the village with the Peace Corps people?

Mr. SHRIVER. They go out occasionally to make sure the work is progressing satisfactorily.

Mr. PASSMAN. Of the Peace Corps?

Mr. SHRIVER. And the Colombians.

Mr. PASSMAN. They are in a supervisory capacity over the Colombians?

Mr. SHRIVER. In an advisory capacity.

Mr. PASSMAN. What is the difference between the two?

Mr. SHRIVER. The actual orders, for example, instructions, given to these people are given by Columbians.

Mr. PASSMAN. Is that going to create a good condition, letting CARE personnel superimpose their views over those of the Peace Corps personnel?

Mr. SHRIVER. It has worked out very well.

PROJECTS ADMINISTERED THROUGH CONTRACTS WITH PRIVATE AGENCIES AND UNIVERSITIES

Mr. PASSMAN. I have already asked for, and I think Mr. Shriver agreed to put in the record the countries and type of projects involved. We have discussed only Colombia, but that gave us a good example of what the overall projects are; is that correct?

Mr. SHRIVER. Yes, sir.

(The information supplied follows:)

Projects administered through contracts with private agencies and universities (volunteers expected to enter training by Aug. 31, 1962)

Country	Type of project	Contractor
Cameroon	Secondary education	Ohio University.
Somali Republic	Education	New York University.
Liberia	Rural education	International Voluntary Services.
Sierra Leone	Rural development	CARE.
Do	Health and sanitation	Medico.
Philippines	Secondary education	San Francisco State College.
Bolivia	Health and sanitation	University of Oklahoma.
Do	Rural development	Heifer.
Brazil	Agricultural extension	4-H Foundation.
Chile	Rural development	Indiana Conference of Higher Education.
Do	Social welfare	YWCA.
Colombia	Rural development	CARE.
Do	Urban development	Do.
Ecuador	Rural development	Heifer.
El Salvador	Agricultural extension	New Mexico State University.
Honduras	Social welfare	St. Louis University.
St. Lucia	Agricultural extension	Heifer.
Venezuela	Social welfare	YMCA.
Do	Agricultural extension	National Farmers Union.
Iran	Agricultural education	Near East Foundation.
Pakistan	Multipurpose	Experiment in International Living.
Do	do	Colorado State University.

Mr. PASSMAN. Could you tell us the total cost of these projects for the 2 years to date and project it through June 30?

Mr. WIGGINS. All private agency and university contracts, sir?

Mr. PASSMAN. Yes.

Mr. SHRIVER. We will have to compute that. They are added together. We will provide that.

(The information follows:)

Estimated cost of contract administered projects (for which contracts expected to be signed by June 30, 1962)

Country	Contractor	Number of Peace Corps volunteers	Estimated cost [1]
Cameroon	Ohio University	55	$990,000
Somali Republic	New York University	50	900,000
Liberia	International Voluntary Service	30	540,000
Sierra Leone	CARE	35	630,000
	Medico	30	540,000
Philippines	San Francisco State College	120	2,160,000
Bolivia	University of Oklahoma	55	990,000
	Heifer	25	450,000
Brazil	4-H Foundation	44	792,000
Chile	Indiana Conference of Higher Education	44	810,000
	YWCA	23	414,000
Colombia	CARE (Rural Development)	111	1,998,000
	CARE (Urban Development)	100	1,800,000
Ecuador	Heifer	64	1,152,000
El Salvador	New Mexico State University	27	486,000
Honduras	St. Louis University	28	504,000
St. Lucia	Heifer	15	270,000
Venezuela	4-H Foundation	42	756,000
	National Farmers Union	30	540,000
Iran	Near East Foundation	47	846,000
Pakistan	Experiment in International Living	29	522,000
	Colorado State University	28	504,000
Total		1,032	18,594,000

[1] As is indicated in footnote 1, page 53, of Peace Corps congressional presentation, this sum is not all obligated in fiscal year 1962. However, that portion which is not obligated is offset in a fiscal sense by other necessary obligations which compensate for that amount.

DIRECT ADMINISTRATIVE COSTS OF VOLUNTEERS

Mr. PASSMAN. Last year you anticipated 1,263 volunteers under your direct administration program at an annual cost of $11.4 million. How many direct administration projects are in operation now?

Mr. WIGGINS. As of today?

Mr. PASSMAN. Yes.

Mr. WIGGINS. We have a total of some 1,227 people in training or overseas.

Mr. PASSMAN. In projecting these, the percentage of saving would be maybe 5 and in another category you would have 7 percent. If these projections should be less it means that there would be additional funds on hand?

Mr. WIGGINS. The rough comparisons with last year——

UNOBLIGATED BALANCES

Mr. SHRIVER. Actually, I think it is wishful thinking if I may say so, Mr. Chairman, to say that we will have a savings of 5 or 7 percent.

As I tried to point out in my opening statement, if we concluded our contracts for training this summer, which we have no reason to doubt that we will, and the supply of volunteers holds up, which we have no reason to doubt because it is very good, the actual operating experience and facts as of June 30 will be that we will have the need for obligating all the $30 million. What I tried to point out was that if the facts did not meet our expectations, we would not obligate the $30 million.

Mr. PASSMAN. Again, I gain encouragement from your statement. I tried to develop it and we started back the other way. You said if we did not, it would be left in the Treasury. I made a point on that.

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. It is just the same as taking that out of your statement, that you do not anticipate you will have it?

Mr. SHRIVER. That is correct. What I was trying to indicate is we do not have the power to deobligate, reobligate, or to carry forward unobligated balances and we do not ask for it.

Mr. PASSMAN. If you do not obligate it, then it will be left unobligated?

Mr. SHRIVER. That is correct. We do not carry it forward.

Mr. PASSMAN. The legislation does not give you that authority.

NUMBER OF DIRECT ADMINISTRATIVE PROJECTS

You did not tell us how many direct administrative projects are in operation now.

Mr. WIGGINS. I do not know exactly as of today. The comparable figures where we will be on June 30——

Mr. PASSMAN. You do not have them as of today?

Mr. WIGGINS. I can calculate them in about 5 minutes.

Mr. PASSMAN. Do you have them in your records?

Mr. WIGGINS. I will separate them out between direct and contract administered.

Mr. PASSMAN. Do you not have to have that information before you compute the cost of the program?

Mr. WIGGINS. We have it month by month, project by project.

Mr. PASSMAN. Could you put it together, to get the total?

Mr. WIGGINS. I can put it together in 5 minutes.

Mr. PASSMAN. All right. What countries and type projects do you have?

Mr. SHRIVER. We are operating now in the following countries. We are operating in Ghana, Nigeria, Malaya, Sierra Leone, Tanganyika, Thailand, the Philippines, Colombia, Brazil, Chile, in the British West Indies, and we have people in training right now for El Salvador, Peru, Ecuador, Bolivia, and Tunisia and we have people soon to be in training for Senegal, the Ivory Coast, Togo, Gabon, Iran, Turkey, and Cyprus, for Jamaica, British Honduras, and Costa Rica.

PROGRAM IN GHANA

Mr. PASSMAN. You mentioned Ghana first. Do the Ghanaians also send personnel out with the Peace Corps personnel, the same as they do in Colombia?

Mr. SHRIVER. No, sir. Their personnel are already out.

Mr. PASSMAN. They are a little ahead of Colombia, then?

Mr. SHRIVER. That is right. For example, in Ghana, we are doing secondary school teaching. The schools are there and the teachers are there. There was and there is a great shortage of such teachers in Ghana. Our people go out into a Ghanaian school and in that school we are just like any other teacher in that school, like a Ghanaian

teacher. The same thing would be true in Nigeria and Sierra Leone where we are doing teaching. In Tanganyika we do not teach and where we go out to survey rural roads or geological work which we are doing or civil engineering which we are doing they do send Tanganyikans along with our people so that we do two things. We actually make the survey for the road, but at the same time we give instructions to the local Tanganyikans in how to do surveying, training them as we go forward so we do not have to stay there forever doing this work. Hopefully soon they will be able to do it for themselves. We do that kind of work. We do medical work, for example, in Pakistan. We have people working in hospitals—nurses whose job it is not only to do straight nursing, but also to train other people to become nurses. They do this as a part of their work in a hospital.

EXPANSION OF PEACE CORP PROGRAM

Mr. PASSMAN. You mentioned Turkey.

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. What kind of program do you have there?

Mr. SHRIVER. We do not have a program in Turkey. I thought you asked me the ones we hoped to go into in the not too distant future.

Mr. PASSMAN. Will it not be a lot easier in a little while to name the ones where you do not have a program than the ones in which you have a program, the way it is spreading?

Mr. SHRIVER. There are many more that we do not have programs.

Mr. PASSMAN. This thing is growing rapidly. Do you anticipate eventually having a program in all underdeveloped countries?

Mr. SHRIVER. No, sir. We have already said we would not be able to go to 12 countries. We have already told them we could not go to these 12 countries. We had to say no to them for a variety of reasons. That list will get longer, probably, in the future.

(Off the record.)

DANGERS CONFRONTED BY PEACE CORPS

Mr. PASSMAN. What are the physical dangers to Peace Corps personnel?

Mr. SHRIVER. Anything can happen. An insurance company made an actuarial study for us. They told us if we brought together 2,500 Americans of approximately this age and kept them here in the United States for a period of 2 years, that in that length of time actuarially 5 of these people would be dead in automobile accidents or from other reasons. It stands to reason if we have 2,500 people and we send them overseas, that some of them are going to die or have accidents, so that they lose their lives overseas.

Mr. PASSMAN. I worry about that the same as you do, but I had reference to some of the other dangers over there.

NUMBER AND COST OF VOLUNTEERS

What is the total number of volunteers involved?

Mr. WIGGINS. As of today we have 1,227 on board, of which 372 are under contract administration.

Mr. PASSMAN. Contract administration?

Mr. WIGGINS. Yes, sir; either private agencies or universities.

The more useful thing will be where we will be at the end of June. Comparing last year's presentation based upon our request for $40 million, we estimated that under both kinds of contract administration we would have 1,450 volunteers. As a consequence of the reduction in funds, we now anticipate that at the end of June, under contract administration, we will have 1,060, contrasted with 1,450.

Mr. PASSMAN. Do the contract administration personnel go abroad? They are volunteers?

Mr. WIGGINS. Yes, sir. We are talking about volunteers.

Mr. SHRIVER. What do we anticipate now—excuse me, may I ask a question?

Mr. PASSMAN. What number do you anticipate on June 30?

Mr. WIGGINS. As of June 30, the funding from the fiscal point of view of direct administration of people is 2,150 for July and August and 1,900 through June.

If you wish to have the summary facts on this, it is page 58 of the presentation. All of the numbers and the corresponding program figures are set forth on page 58. The top line is on board by June 30, 1962.

Mr. PASSMAN. Mr. Director, what is the anticipated cost of this part of your program for fiscal year 1953?

Mr. SHRIVER. It is right on page 58.

Mr. PASSMAN. That is anticipated. We want you to bring us up to date. You have two. You have actual to date and you are anticipating to June 30. We have no intention of putting the books in the record. That is why we have to pick out a few of these things and get a certain amount of it in the record.

Mr. WIGGINS. The anticipated obligation for fiscal year 1962 of direct administered programs is estimated there at $10.92 million on a program basis.

Mr. PASSMAN. If we may back up just a little, we want the statistics we requested earlier.

Mr. WIGGINS. Surely.

(The information requested follows:)

Summary

	Number of volunteers			Cost (in millions of dollars)					
				Fiscal year 1962 estimate			Fiscal year 1963 budget		
	Contract	Direct	Total	Contract	Direct	Total	Contract	Direct	Total
I. Volunteer input through August 1962	1,060	4,050	5,110	19.08	10.92	30.00	----------	32.39	32.39
(a) On board by June 30, 1962	500	1,900	2,400	9.00	6.86	15.86	----------	17.10	17.10
(b) Entering training in July and August 1962 [1]	560	2,150	2,710	10.08	4.06	14.14	----------	15.29	15.29
II. Volunteer input from September 1962 through August 1963	1,200	4,060	5,260	----------	----------	----------	21.60	9.76	31.36
(a) Entering training from September 1962 to June 1963	600	990	1,590	----------	----------	----------	10.80	3.96	14.76
(b) Entering training in July and August 1963 [1]	600	3,070	3,670	----------	----------	----------	10.80	5.80	16.60
Total volunteers on duty Aug. 31, 1963	2,260	8,110	[2] 9,970	19.08	10.92	30.00	21.60	42.15	63.75

[1] This is the net figure after attrition during training.
[2] Represents 10,370 volunteers minus the 400 who will have completed 2 years' service by August 1963.

TRAINING COSTS FOR FISCAL YEAR 1963

Mr. PASSMAN. On pages 11, 12, and 13 you indicate that you propose to place into training status after June 30, 1962, to be exact, in July and August, 2,710 volunteers at a cost of $14,140,000 in fiscal year 1962 funds and a further cost of $15,290,000 in fiscal year 1963 costs; is that correct?

Mr. SHRIVER. That is right, sir.

Mr. PASSMAN. What countries, the number of volunteers, and the type and cost of each project?

Mr. WIGGINS. That will be found on pages 10 and 11 itemized by country in the presentation.

Mr. PASSMAN. If we were going to take the books, read them, and mark up on that basis, you would not have to come down here.

We have certain questions and we want the answers, not to be referred to some voluminous books.

What countries, number of volunteers, and type and cost of each project? That is the question.

Mr. SHRIVER. The number of countries, number of volunteers and type of projects, and perhaps I can give you the cost——

Mr. TABER. Do you mean the number of people in the countries?

Mr. PASSMAN. Yes.

Mr. TABER. Also, tell us why.

CHILEAN SLUM CLEARANCE PROJECT

Mr. SHRIVER. I will do it right now: Chile, 65 volunteers. They are doing rural education work with a group called the Institute for Rural Education in Chile. They are also working with the YWCA in the slum areas of Santiago.

Mr. PASSMAN. The YWCA has been in existence for many years, has it not?

Mr. SHRIVER. Yes, sir. It is a very fine group.

Mr. PASSMAN. We agree with you 100 percent. Why do you get your personnel involved in these other long established agencies?

Mr. SHRIVER. The YWCA came to us to ask us to help them to improve their work in the slums of Santiago. One of the ways in which Congress authorized us to carry out the Peace Corps idea was to cooperate with private agencies like the YWCA or CARE.

We tried to lay this on the record last summer. As a matter of fact, we had two or three projects of this type, for example, the CARE project was already in operation last year. We described it in great detail, both to the House and to the Senate, so I think it was clear on the record what we were intending.

Mr. PASSMAN. If the YWCA is successful, of course you can say the Peace Corps is equally successful, because they are working together?

Mr. SHRIVER. We hope we will be helpful to them. That is one of the purposes.

Mr. PASSMAN. You hope they will be helpful to you, also.

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. You have older personnel in the YWCA.

Mr. SHRIVER. The summer advisory people are; yes, sir.

COLOMBIA RURAL DEVELOPMENT PROGRAM

The next country is Colombia, where we will have 122, as I said, we will probably end up with 115, where we are doing the rural community development work that I talked to you about a minute ago, Mr. Chairman.

Mr. PASSMAN. Where you have the CARE people?

PROGRAM FOR TEACHING IN GHANA

Mr. SHRIVER. Yes. In Ghana we have 51. We propose to add 115, which they have requested, giving us a total of 166 in Ghana that will be doing secondary school teaching and vocational school teaching.

Mr. PASSMAN. What happens in the countries where they request the large increases, if you should explain to them that this is a program which is working out successfully, but it was represented as being the type of program that is on a trial run, and we cannot make available that many, but we will do what we can? You would still have a satisfactory program, would you not?

Mr. SHRIVER. Yes, sir. That is exactly what we do.

PROGRAM FOR INDIA

The next country is India, where we have 26 now. We have been invited to send at least 60 more.

Mr. PASSMAN. Who extends those invitations, our ambassadors?

Mr. SHRIVER. The government of the foreign country usually talks to our embassy people and asks for more people and may sometimes talk to the ambassador himself. Sometimes we get a letter directly from the foreign government. It comes in the mail to the Office here in Washington.

Mr. PASSMAN. It comes actually from the ambassador. You deal through the embassy abroad, do you not?

Mr. SHRIVER. Yes, sir. We do our best to coordinate there.

PROPOSED PEACE CORPS PROGRAM FOR JAPAN

Mr. PASSMAN. We were out in Japan, where we have a very fine Ambassador, and we picked up the paper and saw that he wanted Peace Corps personnel in Japan. Some of the Japanese officials felt that would label them an "underdeveloped country," and on that basis they expected to decline, notwithstanding the fact that the Ambassador felt they should have them.

That was the reason that I asked the question as to where you get these requests. It stands to reason that this originated with the Ambassador, for the Peace Corps personnel in Japan. The final link is the embassy abroad?

Mr. SHRIVER. The final link, but not the original link. In the case of Japan the Prime Minister of Japan came here to this country before that time and asked the Peace Corps to come to the State Department for a meeting and he himself personally asked that we come to that country in a meeting at the State Department. The Prime Minister of Japan asked. We told him we would look into it, but we could make no commitment.

QUESTION OF "UNDERDEVELOPED" COUNTRY

Mr. PASSMAN. You would not call Japan an underdeveloped country, would you?

Mr. SHRIVER. No, sir.

Mr. PASSMAN. What is the purpose of this program primarily, to help underdeveloped nations?

Mr. SHRIVER. The Congress, when it established the Peace Corps, specifically struck out that word. We proposed that it say, "underdeveloped" but Congress changed that.

Our original proposal said the Peace Corps would work in underdeveloped countries and the Congress actually changed that to say that we should respond to interested countries, so I assumed that they had some intention other than "underdeveloped" which might theoretically—I am not saying it should, but it might include a country like Japan.

Mr. PASSMAN. You had Peace Corps personnel in Japan, did you not?

Mr. SHRIVER. After the Prime Minister asked us to send the Peace Corps to Japan we sent a man out there to find out whether this was a feasible program.

Mr. PASSMAN. Was there more than one person in Japan?

Mr. SHRIVER. I do not think we had more than one person there. There may have been. I doubt it.

Mr. PASSMAN. The Japan Times, Tuesday, November 14, 1961, reports that the Education Minister is reportedly taking a lukewarm attitude toward the recent U.S. proposals to send 100 members of the Peace Corps to Japan as English instructors. Did you read that item?

Mr. SHRIVER. Yes, sir; I did. Actually, that article was not accurate, if I may say so.

We never proposed sending 100 teachers to Japan.

Mr. PASSMAN. Maybe the Embassy suggested that. The Embassy indicated to us that was what they wanted.

Mr. SHRIVER. That is correct. Our Ambassador did want that.

Mr. PASSMAN. Maybe if the Ambassador indicated that was the proposal, and he is the head of our Government in that country, if he should feel that way and make that statement, you could not blame the Japanese press for reporting it in those terms.

Developed countries could petition for Peace Corps help, under the legislation?

Mr. SHRIVER. They certainly could petition.

Mr. PASSMAN. They would be eligible under the present law if the Director and adviser should determine it would be in the best interests of this country to send them?

Mr. SHRIVER. I suppose that interpretation is possible, Mr. Chairman. I do not think it is probable.

Mr. PASSMAN. I asked what countries you are in, number of volunteers, type and cost of the projects in each country. We went off on the subject of Japan. Let us return to those items.

SIZE OF INDIAN PROGRAM

Mr. SHRIVER. India was the one I think I left off at, and the total projected for India is 86.

Mr. PASSMAN. You have a much smaller program planned for India than for some of the smaller countries, whereas in other foreign aid programs we find India included for a substantial amount of the total appropriation. We are glad to see this exception. What is the reason?

Mr. SHRIVER. Because India wants money more than they need people.

Mr. PASSMAN. They have been educated before the Peace Corps got there, then?

Mr. SHRIVER. Perhaps.

The next country is Malaya.

Mr. PASSMAN. What kind of project do you have for India?

Mr. SHRIVER. It is primarily an agricultural project in the Punjab state. We are working out there. Ohio State and the Ford Foundation are working in the so-called village blocks, trying to develop food production, or help to develop food production there.

Mr. PASSMAN. Actually, do you think these Peace Corps men could contribute very much to these old, established organizations?

Mr. SHRIVER. Yes, I do.

PROGRAM FOR MALAYA

Mr. Ensminger, head of the Ford Foundation out there, asked us to do this. In Malaya we have 36 people now. They have asked us for an additional 196 people.

Mr. PASSMAN. If you did not give them the total amount, if the ones you have there are doing a creditable job, the program would be satisfactory, as far as it is going?

Mr. SHRIVER. I should make it clear that they asked us for a lot more than we have down here.

Mr. PASSMAN. That certainly would fortify my statement as being accurate, then. If you do make adjustments, as long as whatever program you have is a good program, then there is actually no harm done?

Mr. SHRIVER. No. There is no harm done as long as it is a good program.

NUMBER OF PERSONNEL FOR PROGRAM PERFORMANCE

Mr. TABER. How many do you expect to have by August 31?

Mr. SHRIVER. Actually we expect to have the total that you see, 2,888 in those 12 countries by August 31 or thereabouts.

Mr. TABER. You have given us voluntarily a couple of times as you went along a figure that was lower than the gross. I would like to see that figure as to what you actually now expect carried on all the way through, instead of just one or two spots because for example, you have the Colombia situation, which gets down to 115 and the Ghana proposition gets down—I did not catch what you were going to say on that—but we ought to have those figures so we could have some idea of what it is all about.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Would you give us the difference in all of them?

Mr. SHRIVER. The reason for that is the second group for Colombia has already gone into training and will soon be in Colombia. We have the actual figure in that program. When you get down let's say, to the next one, Malaya, 232, that might end up by being 242 because they have not gone into training yet.

Mr. PASSMAN. Why would you not just accept the number that you needed? You have projected this. If you have less in one country does that necessarily mean that you are going to have more in another?

Mr. SHRIVER. No, sir.

Mr. PASSMAN. Does it work out that way?

Mr. SHRIVER. No, sir.

Mr. PASSMAN. I thought you just said that you would have an increase in this country, the one you just named? It may be 242 rather than 232.

Mr. SHRIVER. That is correct, but what I am trying to indicate is that these figures are made up on the basis, let's say, take the West Indies: They may ask us for 300 people. If we indicate we will try to come up with 128 and in assessing the people we have available to go there it may turn out we have 135 people.

Mr. PASSMAN. Why not keep the seven at home? Why do you send them out? You have already firmed up the program. That points up one of the weaknesses, that you have anticipated that you would have 128 in the West Indies, but if you happen to have 135 in training, then you would send the entire 135 out.

Mr. SHRIVER. One hundred and twenty-eight is an estimate of partial fulfilment of their request as best we can foresee it 2 or 3 months before the people actually are recruited or actually apply to serve. We cannot be certain that it would not be desirable for the U.S. Government to have 130. There is nothing magical about 128. If we find we do not have the qualified people, we do not send 128. We may only send 120.

Mr. PASSMAN. That is an indication that this is a program which can be just as successful so far as what you accomplish, if anything, with half the number?

Mr. SHRIVER. No, sir.

Mr. PASSMAN. Providing they are doing a creditable job?

Mr. SHRIVER. We cannot be just as successful, no, Mr. Chairman.

Mr. PASSMAN. If you had a hundred people out in the West Indies trained to do a specific job, whatever the hundred should do, would it not be just as successful as to the accomplishment per person as if you had 135?

Mr. SHRIVER. No, sir; the program would not be just as successful. Let us say we sent one teacher to Nigeria and he was very successful. It would not be equally successful for the United States as having a thousand teachers out there all of whom were as successful as the one teacher.

Mr. PASSMAN. You are getting away from the point I made. If you had one teacher that you sent out there to teach English in a classroom, and you never sent another teacher, so far as that one teacher is concerned, he is fulfilling his mission with success?

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. That is the point.

Mr. SHRIVER. Shall I go on with this list, Mr. Chairman?

Mr. PASSMAN. I think you can insert the remainder in the record, with an explanation as to the type of program.

Mr. SHRIVER. Yes, sir; that is for the first 12 countries on page 11 and the others are on page 12, additional countries.

Mr. PASSMAN. Give more than just the country. Give an explanation as to their assignment.

Mr. SHRIVER. We will do that.

Mr. PASSMAN. Insert the countries and projects that you anticipate.

(The information requested follows:)

AFGHANISTAN

Project: Multipurpose

Volunteers.—6 teachers, English language; 4 nurses; and 2 mechanics.
Administered by.—Peace Corps.
Start of training.—April 15, 1962.
Estimated 2-year cost.—$216,000.
Description.—A dearth of skilled manpower at all levels exists in Afghanistan. It is the bottleneck that has hampered the increase of productivity, retarded economic development, and kept the living standard low. The first Peace Corps project is designed to furnish volunteers who will both provide needed skills as well as teach Afghans some of the basic subjects necessary for them to acquire advanced skills.

Twelve volunteers have been requested by the Royal Government of Afghanistan. One-half of this number will teach English as a second language in the secondary schools. The other volunteers will work as nurses and as foreman mechanics. The Ministry of Education lacks sufficient native speakers of English for the 360 sections of English as a foreign language it sponsors. The Government has an agreement with Medico for a new health program and needs personnel to help in this program. The recently mechanized transportation system needs help in the development of repair and maintenance facilities. The first volunteers in Afghanistan will constitute an experimental program working in these three activities.

Recruiting and selection of the people for this project will be carried out over the next several weeks and the training program is scheduled to start in April. The training program will include a heavy emphasis on the Farsi language.

During program exploration, various ministries were enthusiastic about the Peace Corps and informally requested substantial numbers of volunteers. The Afghan Foreign Office indicated that with experience and a demonstration of success an expansion will be requested.

BOLIVIA

Project: Health and sanitation

Volunteers.—4 sanitary engineers; 4 civil engineers; 6 plumbers; 12 sanitary inspectors; 4 nurses; 8 midwives; 24 nurses aides; 6 health educators; 2 well drillers; total, 70.
Administered by.—Peace Corps.
Start of training.—April 1, 1962.
Estimated 2-year cost.—$1,260,000.
Description.—The first project to be initiated in Bolivia will require 70 nurses, health educators, and sanitary workers. The Peace Corps nurses and health educators first will work in health centers of the Inter-American Cooperative Public Health Service near La Paz and later will expand to centers elsewhere.

Other volunteers will furnish guidance and help in designing and constructing water wells and sewer systems on a national scale. Local villagers are anxious to cooperate by providing labor and materials, if the Peace Corps will provide guidance and skilled workers. The volunteers will work in mobile teams con-

sisting of civil engineers, sanitary engineers, well diggers, and plumbers. These teams will move from one community to another, locating water supplies, planning, drilling wells, and constructing and installing water systems.

Volunteers for this first project will begin training at the University of Oklahoma April 1, and will begin their duties in Bolivia in August.

Project—Rural development (Cochabamba)

Volunteers.—6 dairy farm assistants; 6 animal husbandrymen; 10 forage crops farmers; 10 irrigation farmers; total, 32.

Administered by.—Heifer, Inc.

Start of training.—July 1, 1962.

Estimated 2-year cost.—$576,000.

Description.—This request from the Bolivian Government is for 32 volunteers to help carry out an integrated development in the Cochabamba Valley. Twelve will work as farm assistants, attached to a milk plant, the rest will work on small neighboring farms, concentrating on forage crops and irrigation work. This program is under direction of the Bolivian Development Corporation.

Project: Rural development (Santa Cruz)

Volunteers.—Three stock farmers; one entomologist; three agronomists; two agricultural machinery maintenance; six co-op aids; eight primary school teachers; one nurse; one doctor; two volunteer leaders.

Administered by.—Peace Corps.

Start of training.—July 1, 1962.

Estimated 2-year cost.—$486,000.

Description.—This project is planned for rural development programs in various rural development centers in the Santa Cruz region. In one of these, the Bolivian Government is settling a colony of Okinawans. Volunteers will assist them in agricultural cooperatives and in primary school teaching. At the other center, volunteers will work with small farmers in the area in an effort to help increase agricultural production and marketing.

CEYLON

Project: Education

Volunteers.—20 science teachers; 14 home economics teachers; 18 physical education teachers.

Administered by.—Peace Corps.

Start of training.—June 16, 1962.

Estimated 2-year cost.—$756,000.

Description.—The first project requested by the Government of Ceylon calls for 42 volunteers to work in high schools and teacher training colleges, assisting in the teaching of science and health and physical education. They will be located in the southwestern part of Ceylon, the Central Province and in the far north.

In addition to their teacher responsibilities, the volunteers will assist in developing local health groups and PTA's. The Ceylon school system grants three vacation periods, each of 1-month duration. During two of the periods the volunteers will be assigned either to teach in the inservice training programs or to work in the National Service Scheme (a voluntary national development organization which coordinates, initiates, and lends assistance to community development projects).

The volunteers are expected to arrive in Ceylon in September 1962, and will receive 3 to 4 weeks of in-country orientation.

Two Ministries of the Government of Ceylon, in addition to the Education Ministry, have indicated a strong interest in obtaining Peace Corps volunteers in the future.

DOMINICAN REPUBLIC

Project: Rural development I

Volunteers.—25 community development aids; 25 community development aids; total 50.
Administered by.—Peace Corps.
Start of training.—March 20, 1962.
Estimated 2-years cost.—$450,000.
Administered by.—Peace Corps.
Starting of training.—July 1962.
Estimated 2-year cost.—$450,000.
Description.—The Dominican Republic probably has the most acute shortage of trained manpower in Latin America. Complicating the post-Trujillo problem is the almost total absence of agricultural extension services, vocational schools, urban development projects, and other institutions essential to the nation's rapid economic and social recovery. Preparations are now being made to create several such institutions.

In the interest of being able to provide trained middle-level manpower to planned programs in both rural and urban development, volunteers will be trained as soon as possible to participate in projects involving aided self-help housing, agricultural extension, rural cooperatives, and forest conservation.

Because all the above-mentioned projects will make heavy use of community development techniques, 25 volunteers will be trained at the Peace Corps Community Action Training Center in Puerto Rico starting March 20, 1962. This group of volunteers will be joined in training by a group of 15 or more young men from the Dominican Republic who will return to their country with the volunteer coworkers upon completion of training. AID has agreed to finance the transportation and training of the Dominicans.

A second group of 25 volunteers, with Dominican coworkers, is scheduled to begin training in July.

ECUADOR—207 VOLUNTEERS

Project: Rural community development

Volunteers.—60 community development workers.
Administered by.—Peace Corps.
Start of training.—March 26, 1962.
Estimated 2-year cost.—$1,080,000.
Description.—60 volunteers for the first Ecuador project will be trained in how to organize communities, get them to recognize and set priorities upon their problems and assist them to take cooperative action to resolve those problems at the Peace Corps Community Action Training Center in Puerto Rico.

Upon completion of training, 32 of the volunteers will be placed with the National Campaign for the Integration of the Campesino, an organization which coordinates the activities of various agencies dealing with the problem of integrating the Andean Indians of Ecuador into modern Ecuadorean life and culture, and getting Indian villagers to cooperate in resolving common problems. Through the national campaign, volunteers will work with its contracting agencies, the Andean mission of the International Labour Organization (U.N.) and the Institute for Colonization.

Another group of 10 volunteers will work with the Center for Economic Reconversion, a semiautonomous agency, supported about three-fourths with Ecuador Government funds, working in the southern Andes to relieve the economic plight created when the Panama hat business dwindled away. These volunteers will work to gain acceptance by Indian communities of the many agricultural and technical innovations being introduced by the center.

Lastly, 18 volunteers will work in the urban slums of the coastal cities of Guayaquil and Manta. They will work in three centers which organize the slum communities to take action in their own behalf to improve their housing, make furniture, acquire vocational education and literacy, improve their health and sanitation, eat more balanced diets, prepare foods better, and conduct small businesses.

Project: Rural development (Andean mission)

Volunteers.—4 agronomists, 4 public health nurses, 2 civil engineers, and 1 forester; total, 11.
Administered by.—Peace Corps.
Start of training.—March 26, 1962.
Estimated 2-year cost.—$198,000.
Description.—This project will send 11 volunteers trained in agricultural extension, nursing, civil engineering, and forestation skills to the National Campaign for Integration of the Campesino. Alongside national coworkers of corresponding skills, these volunteers will help the Indian farmers improve their agricultural methods, assist in the operation of health clinics and health education, participate in the planning and construction of irrigation canals and roads and help conduct a reforestation program vital both for housebuilding and for conservation of the land.

Project: Rural development

Volunteers.—30 agricultural extensionists, 10 engineers, 10 miscellaneous specialists; total, 50.
Administered by.—Peace Corps.
Start of training.—July 1, 1962.
Estimated 2-year cost.—$900,000.
Description.—The Center for Economic Reconversion has requested this project calling for 50 volunteers to arrive in the fall, after the community development volunteers are established. The largest group in this project will be 30 agricultural extension specialists and 10 volunteers in more specialized agricultural fields to assist in upgrading agricultural production. Another 10 volunteers will help in the center's rural electrification and irrigation canal and road construction projects.

Project: Agricultural extension

Volunteers.—31 agriculturalists, 12 home improvement workers, and 15 miscellaneous skills; total, 58.
Administration by.—Heifer, Inc.
Start of training.—July 2, 1962.
Estimated 2-year cost.—$1,044,000.
Description.—This project in agricultural extension and 4–H work, planned for administration by Heifer Project, Inc., is designed to assist the Ecuadorean Department of Agriculture improve land use and augment agricultural production through direct extension work and through assisting organization and operation of 4–H type activities. Volunteers will be assigned to agricultural extension stations maintained to work with extension agents and 4–H club organizers.

Project: Secondary education I

Volunteers.—5 physics teachers, 3 chemistry teachers, and 5 math teachers; total, 13.
Administered by.—Peace Corps.
Start of training.—April 1, 1962.
Estimated 2-year cost.—$234,000.

Project: Secondary education II

Volunteers.—3 physics teachers, 5 chemistry teachers, 5 biology teachers, and 2 math teachers; total, 15.
Administered by.—Peace Corps.
Start of training.—June 1962.
Estimated 2-year cost.—$270,000.
Description.—This project is divided into two parts: One for the coastal schools which start in April (but the volunteers will begin in the second trimester in the middle of June); and one for the sierra schools which start in October. The Ministry of Education will provide work supervision, housing, classrooms, and instructors for incountry training. In addition to their regular teaching duties, the volunteers will participate in adult evening classes, particularly in English. Over half the Ecuadorean secondary schools at present lack teachers of one or more of the specified scientific subjects. This project will expose the teachers and students in those schools to what in most cases will be their first U.S. influence.

EL SALVADOR

Project: Agriculture extension

Volunteers.—27 agricultural extension workers.
Administered by.—Peace Corps.
Start of training.—January 29, 1962.
Description.—Volunteers are now in training at New Mexico State University at Las Cruces, and will arrive in El Salvador on May 3. A total of 27 volunteers, all with specific agricultural skills, will serve Ministry of Agriculture programs in extension, agricultural education, and rural settlement.

Improved agricultural practices are priority needs in El Salvador, where a high density of population, the highest in Central America, and previous concentration on a single crop, coffee, have long kept the national from agricultural self-sufficiency.

The programs in which volunteers will serve are directly aimed at raising productivity through the introduction of modern, diversified agriculture.

Five of the volunteers will be teaching assistants at the National School of Agriculture in San Andres which gives an intensive 3-year course to all of Salvador's qualified rural youth who cannot afford a university education. Eighteen volunteers will serve the Ministry of Agriculture's National Extension Service, which has a network of extension stations covering all important provincial towns. These stations are presently manned in the main by recent graduates of the National School of Agriculture's 3-year course. In order to improve the professional competence of the Service, the Ministry has requested volunteers with various specializations—agronomists, soil conservationists, animal husbandrymen, entomologists—who will circulate among the stations and launch new programs with their coworkers. The remaining volunteers will assist the Institute of Rural Colonization's resettlement program. This program represents the most important single effort in El Salvador to correct archaic land tenure systems and build a class of small farmers by providing landless campesions with leaseholds on government lands. The success of the individual grant holders varies greatly, but all need much more in the way of advice and help on land use, farm management, consumer or marketing cooperatives and the organization of rural youth programs than the Government is presently staffed to offer.

ETHIOPIA—333 VOLUNTEERS (300 IN PRESENTATION)

Project: Secondary education

Volunteers.—79 English teachers, 33 geography, 49 mathematics, 49 science, 18 commercial, 18 industrial arts, 18 vocational agriculture, 18 home economics, 9 physical education, and 9 group guidance and counseling; total 300.
Administered by.—Peace Corps.
Start of training.—June 18, 1962.
Estimated 2-year cost.—$5,400,000.
Description.—The Government of Ethiopia, through the Ministry of Education, has requested the Peace Corps to supply up to 300 volunteers to teach in the secondary schools in Ethiopia. The Government's keen interest in education matters is evidenced by the fact that the Emperor reserves the Portfolio of Minister of Education for himself.

The volunteers are scheduled to arrive in Ethiopia in early September 1962. They will go to Addis Ababa for an additional 4 weeks of intensive training beginning immediately after their arrival. Following this, they will be assigned to secondary schools throughout Ethiopia and where they will teach mathematics, English, geography, home economics, biology, typing, industrial arts, agriculture, and physical education.

General supervision of the volunteers will be provided by the Ministry of Education and direct supervision by the headmaster of the school to which they are assigned.

Other than teaching duties, the volunteers will work with students and adults in such after-school activities as sports, recreation, music, sewing, reading, and painting.

Project: Adult education

Volunteers.—33 adult education teachers.
Administered by.—YWCA.
Start of training.—July 15, 1962.
Estimated 2-year cost.—$594,000.
Description.—The Imperial Ethiopian Government is interested in expanding its female adult education opportunities. To help meet this need, a Peace Corps project is being implemented with the YWCA to begin duty in mid-November. Under this project, 11 adult education service centers will be staffed by Peace Corps volunteers in and near Addis Ababa. Ethiopian women will be brought into the planning of the centers' activities. In the beginning, the program will focus on teaching homemaking and vocational skills especially for nurses, market women, and other working women, and for schoolgirls, and young unattached adults.

HONDURAS

Project: Social welfare

Volunteers.—14 nurses, and 13 social workers; total, 27.
Administered by.—St. Louis University.
Start of training.—June 1, 1962.
Estimated 2-year cost.—$304,000.
Description.—The first project in Honduras will help (1) to improve the general health and health standards of the people of Honduras, and (2) to assist in the improvement of the social services available in Honduras.

Honduras is an agricultural country of 2 million persons. Its per capita income is low; its unemployment ratio is high. Diseases such as tuberculosis, typhoid, typhus, yellow fever, and plague are not uncommon. The National Department of Public Health has developed a comprehensive plan of new health centers throughout the country, but because of the critical shortage of nurses many of the new centers are not properly staffed.

Social service for Honduras, in any professional sense, is a newly recognized need. The government of Honduras' School of Social Welfare has been in operation only 4 years, and there are only 30 trained socal workers serving the country. Consequently, the caseload for each social worker is far in excess of what can be adequately serviced. Slum conditions prevail in the cities; there are no effective child welfare laws.

The Peace Corps project is national in scope. Twenty-seven volunteers—14 registered nurses and 13 social workers—will be assigned to live and work in the health and medical centers in 6 of Honduras' 7 sanitary districts. They will be under the supervision of the directors of the health and medical centers. All the volunteers will work with Honduran counterparts. Volunteers will be reassigned in different sanitary districts after some months of service in order to give them a broader perspective of the variety of problems and to give the sanitary districts benefit of new points of view.

IRAN—47 VOLUNTEERS (50 IN PRESENTATION)

Project: Education

Volunteers.—16 English teachers, 7 physical education teachers, 8 agricultural mechanics, 6 livestock and poultry, 5 horticulturists, 5 agronomists; total, 47.
Administered by.—Near East Foundation.
Start of training.—June 18, 1962.
Estimated 2-year cost.—$846,000.
Description.—The first Peace Corps effort in Iran will be centered on the training of teachers in vocational agriculture schools and in a new agricultural college. The 47 volunteers will concentrate on teaching agricultural mechanics, horticulture, and agronomy. Supplementing this work will be a number of volunteers teaching English in the same schools.

Training in the United States will start in June. In September, the volunteers will have 4 weeks of orientation in a rural setting near Tehran. Courses planned to prepare the volunteers for their assignments include intensive study of Farsi and training in arid area agricultural practices.

If reaction is favorable to this first project, additional requests are anticipated in the fields of health and education.

IVORY COAST—70 VOLUNTEERS

Project: Secondary education

Volunteers.—35 English teachers, 10 physical education teachers, 15 home economics teachers, 10 physical science and mathematics teachers; total, 70.
Administered by.—Peace Corps.
Start of training.—June 15, 1962.
Estimated 2-year cost.—$1,260,000.
Description.—The Ivory Coast wishes to expand and improve the teaching of the following subjects, particularly in the interior: Mathematics, physical sciences, physical education, home economics, and English. Seventy volunteers have been requested by the Government. This project will be one of the first to be undertaken south of the Sahara in a French-speaking African country. It is planned that the volunteers will arrive in the Ivory Coast in early September 1962 for 3 weeks of orientation after having received 8 weeks of intensive training in the United States.

The volunteers will teach primarily in secondary schools in every area of the Ivory Coast. Thirty-five volunteers will teach English. Ten will be instructors in the physical sciences or mathematics. Half of the 15 home economics teachers requested will be teaching adult women's classes: Nutrition, hygiene and sanitation, home medical care, reading, and writing. Several of the 10 physical education instructors, according to their experience and skill, will coach regional and national teams in boxing, swimming, soccer, track events, and basketball.

LIBERIA—130 VOLUNTEERS (120 IN PRESENTATION)

Project: Secondary education

Volunteers.—70 secondary school teachers.
Administered by.—Peace Corps.
Start of training.—June 15, 1962.
Estimated 2-year cost.—$1,760,000.
Description.—With substantial assistance from AID, Liberia is launching an extensive school-building program for senior high schools, and elementary schools. Peace Corps volunteers will help staff the new schools and provide temporary replacements for Liberian teachers who are to receive further training.

Up to 40 volunteers are needed at the junior high school level to teach science, mathematics, language arts, vocational education, French, music, and arts and crafts. Up to 20 volunteers are needed at the senior high school level to teach general science, English, French, and vocational guidance. In addition, up to 10 volunteers have been requested for the teacher training schools in the fields of science, mathematics, English, communication arts, and professional education.

The selection of candidates for this project will begin about the 1st of April and the 2 months' U.S. training program will begin about the middle of June. After home leave, there will be a brief orientation period in Liberia before the volunteers begin their teaching assignments in mid-September.

Project: Rural education

Volunteers.—30 primary school teachers.
Administered by.—IVS.
Start of training.—July 1, 1962.
Estimated 2-year cost.—$540,000.
Description.—In the Webbo area of the eastern province of Liberia there are 14,122 children of school age, yet only 2,712 are currently enrolled in Government, mission, and tribal schools. Eighty-eight of the school-age children are not attending school. There is no senior high school and only two junior high schools. The Webbo Rural Training Institute is currently being established. Thirty volunteers will be assigned to the Webbo Rural Training Institute at Nyaake, and from there to various villages where they will work in existing schools and assist in the construction of new schools. The location of all volunteers will be essentially rural. The 30 volunteers will use demonstration teaching and give other assistance to the teachers of the village schools, assist in the improvement of classroom organization, advise in the procurement of school equipment and in their use, and assist in making the village school a community education center.

Project: Health and sanitation

Volunteers.—30 nurses.
Administered by.—Peace Corps.
Start of training.—June 15, 1962.
Estimated 2-year cost.—$540,000.
Description.—30 nurses will be participating in public health services of Liberia and in general hospital work.

NEPAL—79 VOLUNTEERS (80 IN PRESENTATION)

Project: Vocational education

Volunteers.—13 domestic science teachers, 16 vocational agriculture teachers, 16 shop teachers, total, 45.
Administered by.—Peace Corps.
Start of training.—June 18, 1962.
Estimated 2-year cost.—$810,000.

Project: University education

Volunteers.—23 college teachers.
Estimated 2-year cost.—$378,000.

Project: Agricultural extension

Volunteers.—10 agriculturists, and 1 agriculture equipment mechanic; total, 11.
Estimated 2-year cost.—$198,000.
Description.—Nepal is a country the size of England, with a population of nearly 10 million, located between India and Tibet. As a result of being closed to the outside world for more than a century until 1951, it is economically very underdeveloped, and has a literacy rate of less than 10 percent.

The Government of Nepal has requested up to 77 volunteers for arrival in September 1962. This includes 45 vocational high school teachers, 23 college teachers and 11 agricultural technicians and mechanics. They will be located in six areas of Nepal which are most favorable from health and logistics considerations.

Compulsory, free primary education has not yet been instituted in Nepal. However, there is great popular interest in education and new schools are being started rapidly, often by local initiative with some support by the national government. The great need at the high school level is for courses in vocational subjects which will help the Nepalese to develop practical skills related to the economic opportunities now available to them. Accordingly, the volunteers in the high schools (through 11th grade) will teach industrial shop, primarily carpentry; vocational agriculture; and domestic science.

At the college level (11th grade on), courses are taught in English and teachers are needed in many subjects, primarily in science and other technical fields. Volunteer teachers will be assigned to eight or nine colleges in various parts of Nepal. Most of these are still small and the volunteers will play an important role in their further development.

Finally, the Department of Agriculture has requested volunteers to work in several agricultural experiment stations and to assist Government agricultural extension officers.

PERU—221 VOLUNTEERS (224 IN PRESENTATION)

Project: Rural development (plan nacional)

Volunteers.—10 agriculturists, 14 teachers, 15 manual skill workers, 7 nurses, 6 miscellaneous; 52.
Administered by.—Peace Corps.
Start of training.—June 18, 1962.
Estimated 2-year cost.—$936,000.
Description.—This project will be concerned with integration of the Indian peasants of Peru into national life. It will build on the pioneer anthropological work of Cornell University in Peru which has had remarkable success with a pilot project in the isolated community of Vicos in the northern Peruvian Andes.

Cornell over a period of 10 years has turned a starving, illiterate, feudal community into a thriving, self-governing, and self-sustaining unit.

Based on Cornell's success, the Peruvian Government has created a national coordinating body for integration of the Indian population whose mission it is to multiply the Vicos results. It has created four projects patterned on the Cornell-Vicos project in cooperation with a number of Peruvian universities and the Andean Mission of the International Labor Organization. The volunteers will work with three of these projects plus the Vicos project which is now being converted into a training center for surrounding communities. Cornell will advise and assist the Peace Corps in its operation of this project.

Project: Urban Development I

Volunteers.—10 family educators, 5 social workers, 5 nursing assistants, and 5 sanitation specialists; total, 25.
Administered by.—Peace Corps.
Start of training.—March 26, 1962.
Estimated 2-year cost.—$450,000.

Project: Urban Development II

Volunteers.—4 carpenters, 10 construction expeditors, 10 nursing assistants, 3 metal workers, 4 miscellaneous skills; total, 31.
Administered by.—Peace Corps.
Start of training.—June 12, 1962.
Estimated 2-year cost.—$558,000.
Description.—One of Peru's severest problems is the rapid growth of slums around its coastal cities caused by the mass migration of peasants from the Andes. Volunteers will assist a cooperative project among two Peruvian Government agencies tackling this problem in Peru's second city of Arequipa. In addition, the Peruvian Government has just requested similar help in Lima.

The Peace Corps will provide carpenters, plumbers, and electricians to play a dual role, assisting in construction and teaching apprentices their trades; nurses to assist in clinic operation and teach nutrition and sanitation both through classes and home visits, vocational education teachers; and a social anthropologist to guide the activities, assure that work of the volunteers is responsive to local needs, and direct the social-work aspects of the project.

Project: Credit cooperatives

Volunteers.—Seven credit co-op assistants.
Administered by.—Peace Corps.
Start of training.—June 18, 1962.
Estimated 2-year cost.—$126,000.
Description.—A second project involves seven volunteers with co-op experience and background in accounting or economics. They will assist the understaffed Federation of Credit Cooperatives in setting up new cooperatives and trouble-shooting in administration of existing co-ops.

Project: Urban development (Lima barriadas)

Volunteers.—3 community development workers, 9 social-work aides, 6 nursing assistants, 9 carpenters, 6 electricians, 6 masons, 15 miscellaneous skills; total, 54.
Administered by.—Peace Corps.
Start of training.—October 1962.
Estimated 2-year cost.—$972,000.
Description.—This project is a pilot operation to attempt through a government-administered self-help housing project to alleviate some of the physical and social squalor in which nearly half a million of Lima's residents now live. It will involve 3 Peace Corps teams of 18 volunteers each, working in the 3 most populous barriadas of Lima. Families will borrow, on a long-term basis, funds for building materials only, and the volunteers will work in the social and construction fields in marshaling these and other community resources. The construction workers will assist in setting up common centers for framing, foundations, etc., and the social-work teams will conduct a program of investigation, education, and community organization.

Project: Health and sanitation

Volunteers.—1 assistant coordinator, 6 health program coordinators, 45 health educators; total, 52.

Administered by.—Peace Corps.

Start of training.—April 18, 1962.

Estimated 2-year cost.—$936,000.

Description.—The Ministries of Education and Public Health are embarking upon a program of education in nutrition, sanitation, and home economics through the medium of a self-help school feeding program. The visible purpose is to furnish two hot meals daily to each schoolchild in the country, while organizing committees of parents and teachers and instructing in nutrition, sanitation, and home economics. The 45 volunteers at the provincial level will live either with a teacher or at a nuclear school, will have primary responsibility for organizing and supervising committees of parents and teachers who will prepare the food and will create interest in adult education in and around the school in the above areas. Since the school feeding activity will take only a portion of the school day, these volunteers will be serving thereafter, at the school, a community development purpose.

SOMALI REPUBLIC—80 VOLUNTEERS

Project: Intermediate and secondary teaching

Volunteers.—50 teachers.

Administered by.—University.

Start of training.—April 25, 1962.

Estimated 2-year cost.—$900,000.

Description.—The Prime Minister of Somali, in recognition of the fact that education is the basis from which Somalia will develop socially, politically, and economically, through the Minister of Education, requested the Peace Corps provide 50 volunteers intermediate and secondary school teachers for grades 5–12.

The first group of volunteers is scheduled to arrive in Somali on July 2, 1962, after 8 weeks of training in a U.S. university. Following a brief orientation period in Somalia, 43 of the volunteers will be assigned to teaching duties in the intermediate and secondary schools in the northern region; and 7 volunteers to Mogadiscio, in the south.

The volunteers will be supervised by the headmaster of the schools to which they are assigned. In addition to their teaching duties, the volunteers will work with students and adults in such afterschool activities as sports, recreation, handicrafts, music, reading, painting, etc.

This project will be jointly administered by the Peace Corps and a U.S. university.

Project: Public works (housing)

Volunteers.—10 town planners, 10 construction foremen, and 10 administrative workers; total 30.

Administered by.—Peace Corps (with U.N. Bureau of Technical Assistance).

Start of training.—May 1, 1962.

Estimated 2-year cost.—$540,000.

Description.—This project is part of a program undertaken by the United Nations at the request of the Somali Republic, and it is the foundation of a long-range program of housing and urban development in the area around Mogadiscio, the capital city. Peace Corps volunteers will assist in the planning and construction of low-cost housing designed exclusively for families of the lower income level. The eventual owners will assist in the construction and make periodic small payments so that new housing can be financed.

TOGO—50 VOLUNTEERS

Project: Health and sanitation

Volunteers.—3 physicians, 1 dentist, 1 dental hygienist, 12 nurses, 3 laboratory technicians, 2 vehicle and equipment repairmen, 2 health education aids, and 7 vaccination workers; total, 30.
Administered by.—Peace Corps.
Start of training.—June 15, 1962.
Estimated 2-year cost.—$540,000.
Description.—Togo has requested 23 persons to supplement the staffs of some of the undermanned hospitals in the interior. Each hospital has 15 to 20 satellite clinics which would also receive services from the volunteers. The Peace Corps team would include two or three doctors, a dentist, nurses, medical technicians, public health workers, and dental hygienists.

In addition, seven volunteers have been requested by Togo to work with a UNICEF campaign to vaccinate the entire Togolese population for yaws and smallpox in the next 2 years. One volunteer would be assigned to each of the seven teams under a Togolese director, moving gradually north until the entire country is covered.

Project: Secondary education

Volunteers.—20 English teachers.
Administered by.—University.
Start of training.—June 15, 1962.
Estimated 2-year cost.—$360,000.
Description.—Togo desires to expand and improve the teaching of English. To this end some 20 volunteers are requested to teach conversational English in secondary schools and adult classes.

The volunteers will be trained for 2 months in the United States and upon arrival in Togo, prior to taking up their assigned tasks, will have several weeks, orientation provided by the Government of Togo in conjunction with the Peace Corps.

TUNISIA—128 VOLUNTEERS

Project: Public works

Volunteers.—30 mechanics.
Administered by.—Peace Corps.
Start of training.—April 1, 1962.
Estimated 2-year cost.—$540,000.
Description.—The mechanics in this project are part of the Peace Corps' response to Tunisia's request for technical skill which the country lacks as a result of the departure of French and other Europeans in the past 5 years. They will be located in the major cities of Tunisia, primarily in Tunis, where they will service heavy earthmoving and roadbuilding equipment to reduce costly downtime and to expedite the Government's development program. They will also train Tunisians in preventive maintenance procedures.

Project: Public works

Volunteers.—10 architects and 20 construction foremen; total, 30.
Administered by.—Peace Corps.
Start of training.—June 1, 1962.
Estimated 2-year cost.—$540,000.
Description.—This project is designed to support the Tunisian Government in its high-priority housing program by furnishing architects needed for a wide range of city planning and housing design projects, and by providing people skilled in building construction techniques to assist in the realization of housing projects now underway. These volunteers will be located in the four major cities and areas where public housing developments are in progress.

Project: Physical education

Volunteers.—20 physical education advisers.
Administered by.—Peace Corps.
Start of training.—June 1, 1962.
Estimated 2-year cost.—$360,000.
Description.—These physical education instructors will be assigned to the Bourguiba children's villages to organize athletic activities and to develop among young Tunisians an appreciation of the value of physical conditioning, self-discipline, and sportmanship. They will receive room and full board at the schools where they work.

Project: Agricultural extension I

Volunteers.—6 farmworkers.
Administered by.—Peace Corps (possibly).
Start of training.—June 1, 1962.
Estimated 2-year cost.—$108,000.

Project: Agricultural extension II

Volunteers.—12 farmworkers.
Administered by.—Peace Corps.
Start of training.—August 30, 1962.
Estimated 2-year cost.—$216,000.
Description.—These projects will consist of agricultural workers and demonstrators who will work to improve the techniques and productivity of farming in rural central Tunisia. The group will consist largely of farm mechanics, who will train Tunisians in the repair and upkeep of the farm machinery which is being made available to them through the Government's development efforts. After 2 months of training and in-country orientation, they are expected to begin work in Tunisia in the fall.

Project: Public works

Volunteers: 15 engineers and 15 surveyors; total, 30.
Administered by.—Peace Corps.
Start of training.—August 30, 1962.
Estimated 2-year cost.—$540,000.
Description.—Volunteers in this project will complement the work being done by the mechanics and construction supervisors in the country's public works project. They will work primarily in and near the major cities, assisting in the planning and preparation of activities such as the construction and improvement of public buildings and other facilities. Like other volunteers working in technical fields, they will receive technical training at specialized training institutions before going oversea to begin work.

VENEZUELA—105 VOLUNTEERS

Project: Social welfare

Volunteers.—4 physical education teachers and 21 youth leaders; total, 25.
Administered by.—Venezuela YMCA.
Start of training.—April 1, 1962.
Estimated 2-year cost.—$450,000.
Description.—Despite petroleum and other resources which have produced the highest rate of economic growth and per capital income in Latin America, the high national income is unevenly distributed and a large majority of people are without adequate food, housing and clothing. Several million people live in slums surrounding Caracas and other urban centers. The YMCA project will permit an expansion of the existing recreational and social program directed toward improving slum conditions. It will require 25 volunteers.

Project: Agricultural extension (5–V)

Volunteers.—20 men agriculture or 4–H experience, 20 women home economists, and 2 volunteer leaders; total, 42.
Administered by.—National 4–H Foundation.
Start of training.—May 1, 1962.
Estimated 2-year cost.—$756,000.
Description.—The 5–V project represents one of the many attemps to improve agricultural productivity by stimulating the rural family, dissatisfied with an impoverished rural condition, to reach a higher level of agricultural output and better standard of living. The agricultural output potential of the country is tremendous. Only 5 percent of her arable land is cultivated and she imports substantial amounts of farm produce. The 5–V program gets it impetus from the belief that the future of the country lies in its youth and new agriculture methods and techniques are absorbed more readily by youth than by their parents.

Project: University education I

Volunteers.—6 English teachers.
Administered by.—University.
Start of training.—April 1, 1962.
Estimated 2-year cost.—$108,000.

Project: University education II

Volunteers.—2 agriculturists, 2 zoo technicians, 2 fishery specialists, 2 practicial fishing technicians, 1 general biologist, 1 general zoologist, 1 petroleum geologist, 1 geophysicist, and 10 married couples with agricultural experience; total, 32.
Administered by.—University.
Start of training.—October 1, 1962.
Estimated 2-year cost.—$576,000.
Description.—A teaching project at the University of the East will accelerate higher education for the vast eastern region of the country, which comprises over half of the total land area and where the population is booming. The university was created in 1960 and enjoys the personal support of President Betancourt. The goal is to create a viable and progressive institution of higher learning along the lines of a typical American university, in which control is solidly in the hands of competent university administrators. Emphasis is on education and not outside agitation and distractions, which frequently keep the standards of training at other Latin universities at a lower level. This project will require 38 volunteer English teachers, agriculturists, fishing technician, geologists, and librarians.

AREAS OF ACTIVITIES IN FOREIGN COUNTRIES

Mr. SHRIVER. We are working in four general or big fields.

Mr. PASSMAN. You are dealing with projects there. Now we are thinking about total programs. We had three or four pages listed here a year or two ago. They are teaching them how to build bridges and roads and water tanks, to farm, and, I am sure, fencing, housing, et cetera. Have you envisioned the total number of programs as to types of activities when you carry this to its conclusion?

Mr. SHRIVER. We are in four big areas of work—agriculture, classroom education, health, and then what we call the skilled trades.

Mr. PASSMAN. You mentioned banks. Are you in financing, too?

Mr. SHRIVER. No, sir.

CREDIT CO-OPS

Mr. PASSMAN. You said something about industrial banks. How could they teach them about industrial banks if they do not talk about financing?

Mr. SHRIVER. I did mention co-ops.

Mr. PASSMAN. That is a type of bank, is it not?

Mr. SHRIVER. It is simple training to run the kind of credit co-op they have in South America. It is a very simple thing.

Mr. PASSMAN. You are in the field of banking or financing to some extent, then, through the cooperative banks?

Mr. SHRIVER. We do not have any cooperative banks.

We are sending some people to work in credit co-ops.

Mr. PASSMAN. That is the question I asked. How many are there?

Mr. SHRIVER. As of now I think there are only about eight. They are all in one country, which is Peru. The best breakdown, Mr. Chairman, the quickest one I could give you is this one right here.

Mr. PASSMAN. Is this one page or two?

Mr. SHRIVER. That is one page.

Mr. RHODES. Mr. Chairman, may I ask a question?

Mr. PASSMAN. Yes.

Mr. RHODES. Are these long established credit co-ops?

Mr. SHRIVER. I would not say long established. They have been established in recent years in a number of South American countries as a means of giving the peasants or the campesinos the chance to be independent entrepreneurs to have their own property and to finance themselves so that they do not have to go to these typical banks in many South American countries where the rates are really usurious where they charge 20, 30, 40 percent interest. We are trying to assist in the development of small-scale lending, which will make these people independent financially of the big oligarchal setups.

Mr. RHODES. You haven't established any of these unions yourself?

Mr. SHRIVER. No, sir. We go and work within an existing organization in the foreign country. In Peru they are called the National Association of Credit Co-ops. That is set up as a private, independent, nongovernmental, legally authorized credit co-op system in that country. The people at that lower level in Peruvian society do not know much about how to run these things but they have proved to be very helpful in developing small-scale private capitalistic enterprise in those countries. We are trying to put people in there at the lower level, not to manage it, but the lower level like an accountant or bookkeeper who can assist them in the efficient, economical operation of a small credit co-op.

As we assist them, we teach them and then we can get out of there.

Mr. RHODES. What sort of training does the corpsman have who goes into a co-op like this?

Mr. SHRIVER. Most of them would have some knowledge of accounting or bookkeeping. They would be small businessmen, people out of a Federal savings and loan association in this country. I do not know, they are a hundred dollar a week kind of a fellow, maybe a little bit more.

Mr. PASSMAN. If a man were to leave a building and loan organization, he could take this vacation type of work for 2 years—I see you concur——

Mr. WIGGINS. I am smiling, sir.

CLASSROOM TEACHERS

Mr. PASSMAN. There is some $180 million in the overall aid program, directly and indirectly, for school construction. In referring to your page for occupational skills, Peace Corps volunteers, March 15, 1962, it would appear that about 54 or 55 percent of all of your personnel are teachers; is that correct?

Mr. SHRIVER. As of today, that is correct, sir.

Mr. PASSMAN. We are thinking of teachers as classroom teachers?

Mr. SHRIVER. Yes, sir; primary, secondary, and university teachers.

Mr. PASSMAN. We are thinking of classroom teachers?

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. There is coordination between the aid program and this; is that correct?

Mr. SHRIVER. Yes, sir. I think the $180 million you are talking about was primarily for school construction in South America?

Mr. PASSMAN. That is all over the world.

We are on our way. The road is too narrow to turn back. All we can do is slow down a little. When we finally hit the curve and fall off, maybe it will not be so damaging.

Mr. SHRIVER. I might point out, generally our people do teach in schools that have not been built by American aid. They teach in schools which have been built by others.

Mr. PASSMAN. That is right. Then we can envision the program as being even bigger than maybe we presently anticipate. If you are going to put teachers in schools that have already been built, then put them in this $180 million total program, the number would be even greater.

VOCATIONAL TRAINING

You have vocational training, or manual skills, which is a form of teaching; is it not?

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. Arts and crafts would be a form of teaching?

Mr. SHRIVER. It can be in a schoolroom or not.

Mr. PASSMAN. If they have a schoolroom to teach it in it would be in a schoolroom?

Mr. SHRIVER. Yes. That is true.

Mr. PASSMAN. I can see where you are heading for some high grass.

STAFFING SCHOOLS IN LIBERIA

If we go to page 79 of one of the many books that these agencies are publishing and pick up at the fourth paragraph, it says:

> With substantial assistance from AID, Liberia is launching an extensive school building program for senior high schools, junior high schools, and elementary schools. Peace Corps volunteers will help staff the new schools and provide temporary replacements for Liberian teachers, who are to receive further training.

I believe there is a very close tie-in between the new school buildings and the teachers that we shall assign.

Mr. SHRIVER. In a lot of cases that would be true. We would hope to do that. As I said many times we hope to cooperate with what the U.S. Government is doing through other agencies.

CONTROL OF SCHOOLS HAVING CORPS TEACHERS

Mr. PASSMAN. Are most of these schools controlled or under the supervision of the Government to a different extent than schools in this country?

Mr. SHRIVER. Not always so.

Mr. PASSMAN. In the majority of cases?

Mr. SHRIVER. No, sir. I do not think so. For example, in most of the African countries to which we send most of the teachers the educational system is much more private than in this country. For example, about 80 percent of the elementary schools in Nigeria are not Government schools. They are private schools.

Mr. PASSMAN. I do not think we are narrowminded. We do not mind using the word parochial. That refers to all demoninations. Most of the schools are what we call parochial schools?

Mr. SHRIVER. That is right. They are usually called mission schools.

Mr. PASSMAN. They could just as well be called parochial schools. I believe you stated there were more private than public elementary schools?

Mr. SHRIVER. Yes, sir. There are private. A substantial number of them are private, nonsectarian schools. All I am trying to say is they are not government schools of the type we think of here when we talk about public schools.

Mr. PASSMAN. I was trying to keep the record clear. We think of them as parochial schools.

EXTENDED TRAINING FOR LIBERIAN TEACHERS

On these replacements for Liberian teachers who are to receive further training, where are they to receive that training?

Mr. SHRIVER. We do not have that program. If they get that kind of training, it would be given to them through the AID Agency. We do not know where they would get it. I assume they would get it here.

Mr. PASSMAN. We are leading up to the old Mulligan we discussed last year. It is so interwoven that you get duplication even though your plans call for the opposite.

Mr. SHRIVER. No, sir. We do not get duplication.

Mr. PASSMAN. We are reading, I believe, from your publication, are we not?

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. It says here that you are going to staff these schools, you are going to relieve, or have temporary replacements, for Liberian teachers who are to receive further training. As we are reading out of your own justifications, we would like to know where they are going to receive that training. Who is going to finance it?

Mr. SHRIVER. What I was trying to explain is we are not going to finance it.

Mr. PASSMAN. You mean the Peace Corps?

Mr. SHRIVER. That is right.

Mr. PASSMAN. But it could very well be financed out of some other phase of the foreign-aid program?

Mr. SHRIVER. Yes, sir. It could be. We do not have responsibility for that.

Mr. PASSMAN. No, you do not. Do you see how interwoven this thing is?

Mr. SHRIVER. We always said we wanted to operate cooperatively with our programs of other agencies abroad. Take the USIA.

Mr. PASSMAN. Is this not specific, Mr. Shriver, on page 79?

Mr. SHRIVER. Yes, sir; it is very specific.

Mr. PASSMAN. That you are taking your teachers to the new school buildings that we are building, and you are relieving the Liberian teachers so that they may get additional training. Now, will one of your assistants try to find out where they will be trained, when, how, by whom, and what branch of the Agency will be involved, and at what cost and how many?

(The following information was subsequently supplied:)

SCHOOL CONSTRUCTION AND TRAINING IN LIBERIA

1. What is the estimated cost of school construction to be financed by AID in Liberia?

Answer: (*a*) In fiscal year 1962 AID plans to grant $700,000 for one-half the cost of five elementary schools in Monrovia with GOL supplying an equal amount.

(*b*) Also in fiscal year 1962 AID plans to grant $300,000 for construction of 24 rural elementary schools and GOL is to finance the construction of 25 such schools.

(*c*) AID may loan GOL $3.2 million in fiscal year 1963 for construction of one senior high school and one junior high school, subject to the availability of funds.

2. When will the school buildings be completed?

Answer: The elementary schools are estimated to be completed by December 1963.

The rural schools are estimated to be completed by December 1962.

The junior and senior high schools are estimated to be completed by December 1965.

3. Who will train the Liberian teachers? Where?

Answer: (*a*) AID is financing a contract with Tuskegee Institute in Alabama to establish and develop three teacher training institutes in Zorzor, Kakata, and Webbo, Liberia. The Tuskegee group will train Liberian teachers and develop the staffs of the institutes to continue teacher training after termination of the contract.

(1) Six Tuskegee contract staff are at Zorzor, the first institute.

(2) The second institute is under construction at Kakata.

(3) The third institute will be constructed at Webbo in 1963.

4. When will the teachers return to their schools after their training?

Answer: The first group is scheduled to begin training in September 1962. Teachers will be trained to point of certification, i.e., some could return to school at the end of the first year, June 1963. Others would return for a second year, September 1963 to June 1964.

AFTERNOON SESSION

OCCUPATIONAL SKILLS OF VOLUNTEERS

Mr. PASSMAN. The committee will come to order.

Referring again briefly to the recapitulation sheet captioned "Occupational Skills of Peace Corps Volunteers as of March 15, 1962," first may we indicate that when we refer to the Peace Corps volunteers, we are referring to the personnel employed by the Peace Corps, who are paid certain compensation for their services.

The recapitulation sheet indicates that 211 are in training in the United States and 698 in close countries. That is a total of 909, with

about 65 percent of the personnel being in the category of teachers as such and vocational training or manual skill teachers.

PROPORTION OF VOLUNTEERS WHO ARE TEACHERS

Now projecting the Peace Corps program into the future, and at the point of leveling off as to the number of personnel, may the committee be reasonably safe in assuming that the percentage as illustrated on this list will remain somewhat the same? Would this be anywhere near the projection with regard to the percentage for each location?

Mr. SHRIVER. The teaching component there I think is higher now than it will be a year from now.

Mr. PASSMAN. Why?

Mr. SHRIVER. Because most of the people, those we could put in the field at the very beginning and especially in Africa where the demand was most, were teachers. But in South America the demand for teachers is not as great, for example, as it is in Africa, and we anticipate that our program in South America will increase out of proportion to the existing percentages on a worldwide basis. As a consequence of that I think that a future breakdown would show instead of 65 percent of the people being teachers it would probably be down close to 50 or 55 percent.

Mr. PASSMAN. That is close enough. There would be some variation, but the total of teachers could get down to 50 or 55 percent?

Mr. SHRIVER. Yes, sir; that is a guess.

Mr. PASSMAN. In Latin America there will be a substantial increase in the educational facilities, such as classrooms and so on. Would it not follow, then, that they would need teachers in Latin America as much as they would elsewhere? With the Alliance for Progress calling for more in the field of educational facilities, why would you not need more teachers there?

AVAILABILITY OF TEACHERS

Mr. SHRIVER. The need might exist but our capacity to fill the need might not be as extensive.

Mr. PASSMAN. That would be the reason, then—that the teachers are not available?

Mr. SHRIVER. The teachers who speak Spanish fluently enough to go down and teach in Spanish at the high school level—it is relatively difficult to get a North American who can teach physics at the high school level in Spanish as compared to one who can teach physics in English.

Mr. PASSMAN. It is a question of shortage of personnel rather than the advisability of assigning them if you had them?

Mr. SHRIVER. Possibly that is so, yes. Did you want to say something on that——

Mr. PASSMAN. Do most of the Ghanaians speak English?

Mr. SHRIVER. That is a required language after the third grade in Ghana.

May I ask Mr. Wiggins to make a comment?

Mr. PASSMAN. Surely.

Mr. WIGGINS. I would like to add just a brief note that, working backward from the host country requests and desires, there is a strong difference between Latin America and the other regions in that the Latins are not particularly interested in asking for quantities of teachers. There is this difference also, that the Latins by and large have not asked us to provide teachers the way the Africans have.

PATTERN OF AID FOR INDIA

Mr. PASSMAN. Do they fall in somewhat the same category as India, where they prefer dollars rather than our technical techniques?

Mr. SHRIVER. They have so many people in India, and many of them are college people and even with graduate degrees that they need less of the help which the Peace Corps provides. The latter is not as much needed as our dollars for capital investments.

TYPE OF PERSONNEL REQUESTED FOR INDIA

Mr. WIGGINS. May I add another sentence on Latin America: Our requests are by and large all in the rural area. We have some requests in the urban area in terms of slums, but the distinguishing thing about what Latins want from the Peace Corps is that they request Americans to work out in the rural areas, not particularly in the schools.

ORIGIN OF PEACE CORPS PROJECTS

Mr. PASSMAN. Mr. Shriver, earlier you stated—

A large portion of our program comes from the foreign country "to" District of Columbia, and not District of Columbia to the country—

Is that correct?

Mr. SHRIVER. Yes.

Mr. PASSMAN. What proportion of the programs originate in District of Columbia?

Mr. SHRIVER. In substance none of them originate here in the District of Columbia in terms of what we actually do. Everything that we do we are asked to do by the foreign country.

Mr. PASSMAN. How do you reconcile this statement?

Mr. SHRIVER. I think I made that statement in response to some suggestion that the ambassador or somebody was originating the programs. We have a program development office, Mr. Chairman, but the principal objective of that office is to determine whether we can meet the needs as presented to us or revealed to us by a foreign country, whether it comes directly to us—for example, the ambassador here in Washington from a foreign country coming in, or through our country team.

Mr. PASSMAN. I think I understand. Our top man, who would be the ambassador, sends these programs in after they are firmed up in that country. They move to Washington from the country through our ambassador?

Mr. SHRIVER. That is true most of the time; yes. Not always, sir.

Mr. PASSMAN. Who else is channeling it in, if it is not the ambassador?

Mr. SHRIVER. Perhaps it is extraordinary but for example the Ambassador from Liberia called up the office one day and asked if he could come in for an appointment and that was the first indication that we had in our office that they wanted to have a program.

Mr. PASSMAN. Would you not refer him back to the country level?

Mr. SHRIVER. We do.

Mr. PASSMAN. In essence it would be that all of the programs actually reach Washington through our ambassadors to the various countries?

Mr. SHRIVER. Yes; I was just trying to indicate at the beginning, sometimes, the first indication we get that a specific country wants a Peace Corps program sometimes comes from the ambassador here in this country, the ambassador of that country.

For example, the Indian program: The first we knew India wanted a Peace Corps program came from the former Ambassador here who called up the office and said that he thought there should be a Peace Corps program. Then he invited me to his house and we had a long discussion of it and then he said he was going to write his Government.

Mr. PASSMAN. Was that when the Government decided they would rather have money than Peace Corps men?

I wondered if we have many ambassadors laboring under the same impression as the Ambassador we discussed earlier.

Mr. SHRIVER. Not that I know of. That is one of the purposes of our Public Information Department, is to get out the facts. There have been people laboring under misapprehensions in our country and overseas about what our real job was, but we have done our best to clarify it.

Mr. PASSMAN. That is the way the committee feels about it, that we are taking this thing too fast and too far before people are properly informed concerning its purposes and operations.

PLANS FOR OBLIGATING EXISTING BALANCES

Mr. Director, when do you plan to obligate the $14,140,000 for the 2,710 volunteers?

Mr. SHRIVER. Between now and the 30th of June. As an example, last week we sent out approximately 1,200 invitations inviting people to serve. This week approximately another 900 to a thousand will go out, so in the 2-week period now we are in you might say the big business, the heavy business end of our calendar. We will invite between the 10th of April and the 10th of May probably 2,500, maybe 3,000 people to serve in the Peace Corps. These people will be sent to training sites.

Mr. PASSMAN. In the event that you are not able to recruit and train sufficient personnel to justify the obligation of $14,140,000, then that part of the appropriation would lapse, would it not?

Mr. SHRIVER. Yes, sir; it would remain in the Treasury, is the phrase we use.

Mr. PASSMAN. If you are not able to recruit personnel that would justify obligating the $14,140,000, it simply means that the Treasury would not have to borrow the money to carry on the program, but would merely allow the appropriation to lapse; is that correct, sir?

Mr. SHRIVER. I assume that is correct, sir.

Mr. PASSMAN. I wish you would not assume.
Mr. WIGGINS. It would lapse.
Mr. SHRIVER. That is correct.

PERCENTAGE OF APPLICANTS ACCEPTED

Mr. PASSMAN. What is the experience to date on the acceptance of invitations to serve, percentagewise, out of each hundred applicants? How many are rejected as not qualified? How many turn it down because it is different from what they understood from the publicity, and what would be the total out of 100, according to the present statistics?

Mr. SHRIVER. Well, it is slightly different. Whether you take a hundred who have volunteered——

Mr. PASSMAN. Any figure you want to use.

If you have a thousand applicants, will you give us a breakdown as to the number that you eliminate because of their qualifications; the number that you eliminate because it is not as attractive to them as they thought it would be, and the actual number that you finally put into training?

Mr. SHRIVER. We invite to a training center about one out of every four. But what you wanted to know is, after we invite them, how many show up, after we have invited them and that is a different question.

Mr. PASSMAN. We will ask that question when we get to it, if you do not mind. We are trying first to get some kind of an idea as to how many of these applicants you eliminate as not being qualified out of a thousand. Do you have any figures on that?

Mr. SHRIVER. What I was trying to say a minute ago was that we have so far historically invited about one out of four or one out of five of the total applicants. But that does not mean, Congressman, that all of the others are unqualified. We have only selected the very best and we have not had to select any more than one out of five and invite them to a training program.

Mr. PASSMAN. Is it something like possibly going to a vegetable stand? The farmer comes in and you first get nice fresh vegetables and after it is picked over you have to take what is left or go without food? Would it be the same thing here, that when you finally do all the culling if you do not come up with what is needed you have to take what is left?

Mr. SHRIVER. We never have to take what is left.

Mr. PASSMAN. If these people are never accepted, then so far as the Peace Corps is concerned they are not qualified?

Mr. SHRIVER. So far as the Peace Corps is concerned their services were not needed at this time to fill the programs.

Mr. PASSMAN. They are not needed?

Mr. SHRIVER. Not needed now, but they possibly might be qualified for some work.

Mr. PASSMAN. It is the vegetable stand process, then? And, at present you are taking the cream of the crop.

Mr. SHRIVER. There is no question we are taking the cream of the crop.

Mr. PASSMAN. Give us the formula on that phase of it. How many are you deferring to some subsequent date out of each thousand?

Mr. SHRIVER. Well, the best that I can answer is that we have taken about one out of four, or one out of five applicants.

Mr. PASSMAN. Could we get it down to percentages? You are accepting about 25 percent as meeting the criteria as to qualifications?

Mr. SHRIVER. In the present programs and——

Mr. PASSMAN. And as the program expands into other fields, some of these who may not fit in now would fit into future programs?

Mr. SHRIVER. And be well qualified; that is correct.

Some of them might be overqualified. For example, let us say somebody who is fluent in the Farsi language.

Mr. PASSMAN. What kind of language?

Mr. SHRIVER. That is the language they speak over in the Middle East.

If we didn't happen to need somebody who had that particular qualification we would probably not select that person at this time. Supposing we had a radiologist. Let us say we had not been asked for a radiologist. That man might be exceedingly well qualified but we would not accept him, we would not invite him. So the only thing I didn't want to have any misapprehension about was that the people who have not been invited are therefore unqualified to serve.

TEACHING STANDARDS

Mr. PASSMAN. You are not trying to work out a program that would be superior to that in America are you?

Mr. SHRIVER. Superior to the American teaching profession?

Mr. PASSMAN. Superior to the American system of educating our youth.

Mr. SHRIVER. No, I do not think so.

Mr. PASSMAN. We are estimating that 65 percent of these people are teachers who will be placed in schools already constructed, or which will be constructed, and naturally you want to get the best personnel that you can. But you do not have a standard that is higher than the American standard for the teaching profession, do you?

Mr. SHRIVER. No, I do not think it is higher or lower. We never had a comparison——

Mr. PASSMAN. Although it is desirable to have a master's degree if you are teaching school, because of the shortage of teachers we could not demand that each one has a master's degree?

Mr. SHRIVER. That is right.

Mr. PASSMAN. According to your criteria, you are getting the cream of the crop, but at some subsequent date you are going to have to lower your standards or you will not be able to fill the needs?

Mr. SHRIVER. Not necessarily, Congressman, because we get new applicants all the time.

Mr. PASSMAN. But what if you do not have sufficient——

Mr. SHRIVER. Then we would not send the people.

Mr. PASSMAN. How can you justify later that those you defer now you will go back to and pick up?

Mr. SHRIVER. Sometimes we try to if they are qualified.

I am sorry—I am not trying to make it confusing, I am trying to state it as well as I can.

Mr. PASSMAN. I understand that you are.

Mr. SHRIVER. In other words we are not going at any time to lower the standards below——

Mr. PASSMAN. Well, we do that in our own schools, and you said that you are not setting up a program which is superior to the manner in which we employ teachers in America. We do not have enough teachers with master's degrees to fill all of the teaching positions that are open, so we take them with the lower degrees. I just merely asked whether you were following a system that would call for superior teachers abroad than we have in our own school system in America.

Mr. SHRIVER. The answer to your questions is, we are not. "No."

Mr. PASSMAN. Then, you will have to take your turn. If you cannot get those with master's degrees you will get those with the next degree, and will come down until you fill the requirements, or you will leave them unfilled, one or the other?

Mr. SHRIVER. That is right, we will leave them unfilled.

Mr. PASSMAN. Then you are asking for a superior educational system abroad to that in America.

Mr. SHRIVER. I am sorry, I am confused, Congressman.

Mr. PASSMAN. Let us not confuse each other.

Mr. SHRIVER. Actually, we have relatively few people with a master's degree that we are sending overseas to teach. We have some but relatively few, as compared to the American system.

Mr. PASSMAN. But you are not going to lower your standards to fill the requirements?

Mr. SHRIVER. That is right.

Mr. PASSMAN. But we have to do so in America.

4–S CLUBS IN BRAZIL

I note that your project in Brazil is to stimulate the expansion of world youth clubs—4–S Clubs.

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. Would you know how much the ICA or the many former agency names of the present AID program have spent in the past for this purpose?

Mr. SHRIVER. No, sir.

Mr. PASSMAN. What was ICA's success in establishing such clubs?

Mr. SHRIVER. In Brazil I do not think there are many 4–S Clubs.

Mr. PASSMAN. Let us take it as a whole.

Mr. SHRIVER. Do you mean worldwide?

Mr. PASSMAN. Yes.

Mr. SHRIVER. I do not know what their success was.

Mr. PASSMAN. In Brazil you say it was not a success.

Mr. SHRIVER. No, sir; I did not say that. I said that I think in Brazil they have about 4,000, if I remember correctly, 4–S Clubs. The people in that movement think that 4,000 clubs in Brazil is too few for that country and therefore the 4–H Foundation here is eager to increase the number of such clubs down there and we are working with them to do that.

Mr. PASSMAN. In your program you are going to have 4–S Clubs, and you are going to cooperate with them in establishing these clubs?

Mr. SHRIVER. Yes, sir; that is what we are going to do. This particular project is being operated with the 4–H Foundation in this country.

Mr. PASSMAN. ICA had over 2,000 such clubs, according to the 1961 justifications.

Mr. SHRIVER. In Brazil 2,000, yes. That is very few of those clubs.

Mr. PASSMAN. I know, but how are you going to keep from duplication if you are setting up 4–S Clubs and the AID is setting up 4–S Clubs? In this field there is bound to be duplication if you are setting up 4–S Clubs.

Mr. SHRIVER. Well, I do not think so, Mr. Chairman. I do not know how many they have had but let's say they have had six or a dozen people down there, helping the Brazilians, advising them on how to start 4–H or 4–S Clubs.

QUESTION OF DUPLICATION

Mr. PASSMAN. Do you have an assigned territory so that you will not get mixed up and duplicate each other?

Mr. SHRIVER. No, sir; it is not a duplication. As I explained——

Mr. PASSMAN. How do you keep from duplication, when the objectives are the same and they are the same 4–S Clubs? How do you separate it?

Mr. SHRIVER. Let me give you an analogy: In India, Ohio State has a contract with AID at an agricultural college. They have four very highly qualified professors there. We have——

Mr. PASSMAN. Would that be a fair example, since the record indicates they want dollars and not technicians?

How about going back to Brazil?

Mr. SHRIVER. Let me finish this, if I may.

Mr. PASSMAN. All right.

Mr. SHRIVER. We will put 30-some people into that same area of India who benefit actually from the presence there of these four high-level agricultural professors. But we do not duplicate what those professors are doing. As a matter of fact we implement, we help to carry out the objectives of their instructional program.

Now in Brazil let us say AID has 4, 5, or 6, I don't know but——

Mr. PASSMAN. Mr. Shriver, I am afraid I do not follow you, mixing the professors up with the boys' clubs. If you stick strictly to the 4–S Clubs as such, we have established that you are going to have many 4–S Clubs in Brazil. The ICA program had 2,000 such clubs in Brazil. You are doing identically the same thing, and I believe there is another branch operating 4–S Clubs. How are you going to keep out of duplication?

Mr. SHRIVER. It is very simple.

ICA has been working down there for 10 years developing a 4–S movement in Brazil. There are now, let us say, 2,000 clubs and maybe a hundred Brazilians——

Mr. PASSMAN. Staffed with AID personnel?

PROCEDURE FOR ORGANIZING 4–S CLUBS

Mr. SHRIVER. No, sir. Excuse me. These are Brazilian 4–S Clubs that the Brazilians have organized with Brazilian people under guidance and supervision from let us say—just a second——

Mr. PASSMAN. If these are strictly Brazilian 4–S Clubs, why are we getting them mixed up in our hearings, if we have nothing to do with it?

Mr. SHRIVER. What we do, Congressman, we go down there and work with two Brazilians. We have two people who are Brazilian 4–H Club workers, alongside two Americans and we go out and organize additional clubs so that at the end of let's say 3 years instead of there being 2,000 4–H Clubs in Brazil there would be 4,000, or 8,000.

Now, this——

Mr. PASSMAN. With that many clubs, would they not be running over each other?

Mr. SHRIVER. It is carried forward by the additional workers carrying the program forward.

AID 4–S CLUBS IN BRAZIL

Mr. PASSMAN. Would ICA 4–S programs in Brazil have been successful?

Mr. SHRIVER. The ones that are there I assume have been reasonably successful. I do not know how successful.

Mr. PASSMAN. You assume?

Mr. SHRIVER. I assume——

Mr. PASSMAN. Would you say the ICA program of 4–S Clubs in Brazil would be termed a successful venture?

Mr. SHRIVER. I do not know about the ICA 4–S Clubs. What I am saying is that I assume they have done well.

Mr. PASSMAN. Would you be able to establish that they have not been a success?

Mr. SHRIVER. No, sir; I am not trying to say——

Mr. PASSMAN. Well, how will you go in there and start the same kind of a program without knowing whether or not ICA 4–S Clubs have been a success?

Would you like to comment on that?

Mr. SHRIVER. No.

EVALUATION OF COLOMBIAN PROGRAM BY NEW YORK UNIVERSITY

Mr. PASSMAN. In connection with your Colombia project, P–71, what is the amount of the contract with the Research Center for Human Relations?

Mr. KELLY. Is that the Columbia University?

Mr. SHRIVER. The Research Institute for the Study of Man. What is the total of the contract?

Mr. PASSMAN. That appears at page 71 of the justifications.

Mr. KELLY. That is $95,069.

Is that the Research Institute for the Study of Man contract? PC-(W)–58.

Mr. PASSMAN. Yes.

We would like to have you tell us what it is.

Mr. KELLY. That is the amount of the contract, sir. You have asked for the Research Institute for the Study of Man.

Mr. PASSMAN. For the study of man?

Mr. KELLY. Yes.

Mr. PASSMAN. What part of man do you study?

Mr. SHRIVER. Wait a minute. I think there is a difference. You are talking about a program for Colombia, did you say? Is it Columbia University or Colombia in South America?

Mr. PASSMAN. In connection with your Colombia plan, project as shown at page 71, what is the amount of the contract with the Research Center for Human Relations?

Mr. SHRIVER. This is a different thing. That is an evaluation contract.

Mr. KELLY. That is the one with New York University. The estimated cost on that is $59,544.

Mr. PASSMAN. What do they do in particular?

Mr. KELLY. It is PC–(W)–54.

Mr. PASSMAN. Who cooked this one up?

Mr. KELLY. Well, this is a research program on the Colombian Peace Corps program.

Mr. PASSMAN. Research on what?

Mr. KELLY. To evaluate the effectiveness of Peace Corps volunteers.

Mr. PASSMAN. In Colombia?

Mr. KELLY. In Colombia.

Mr. PASSMAN. You are employing New York University to observe the Peace Corps personnel in Colombia and to evaluate their accomplishments?

Mr. KELLY. Well, to evaluate the success of the program.

Mr. PASSMAN. The program is the individual who is going to be working, so you are dealing with individuals.

Mr. KELLY. That is right, sir.

Mr. PASSMAN. So let me restate it: To evaluate the effectiveness of the individual that you have assigned to Colombia?

Mr. KELLY. That is right, and to evaluate——

Mr. PASSMAN. Do they report to you?

Mr. KELLY. They report to us.

Mr. PASSMAN. They do not go back through New York University?

Mr. KELLY. Yes; they do.

Mr. PASSMAN. Then it comes to you?

Mr. KELLY. That is right.

Mr. PASSMAN. Are you not going to get that thing so complicated you, yourself, will not know what is going on?

Mr. KELLY. No; I don't think so.

Mr. PASSMAN. But there would be some doubt in your mind if we had to pin it down?

Mr. KELLY. No, sir.

Mr. PASSMAN. I thought that you people, yourselves, after you finished this training and assigned these corpsmen, had personnel, through the American Ambassador and others, to evaluate the results.

Mr. KELLY. This is a research study to evaluate not only the volunteer but our method of selection, our method of training——

Mr. PASSMAN. I thought you determined that before you ever sent them out.

Mr. KELLY. Well, we do but we would like to get independent professional appraisal.

New York University has on its staff an outstanding psychologist. This man is doing an evaluation study for us and we hope that as a result of his study we will be able to improve our selection procedure, we will be able to improve our teaching procedures and that we will be able to improve the overall administration of our program in the field.

Mr. PASSMAN. Let me see if this is correct: You first select the people, you train them and assign them.

Mr. KELLY. That is right.

Mr. PASSMAN. Then you go and employ the New York University, through its human relations division, to go out and evaluate these people so that you may determine, when you finally get a report, whether or not you originally selected them on the proper basis? Is that the way it is?

Mr. KELLY. That is one of the things we are interested in.

Mr. PASSMAN. At least that part of it is correct?

Mr. KELLY. We are trying to put a feedback into our system——

Mr. PASSMAN. I am not arguing with you. Is that correct, the way I have said it?

Mr. KELLY. It is generally correct; yes, sir.

Mr. PASSMAN. Do you have other similar contracts?

DIRECTOR'S JUSTIFICATION FOR PROGRAM EVALUATION

Mr. SHRIVER. Could I explain—yes; we do.

We have a Division of Research in the Peace Corps, the purpose of which is to try to improve our program in all of its facets which means the training, it means the criteria on the basis of which we select people, their performance in the field, the impact they have on the country, what happens to them after they get back here——

Mr. PASSMAN. Why do you need a contract to go out and do that? Do you see how complicated it gets?

Mr. SHRIVER. I will tell you why you need it. If you ask your own people to do it, all you get is your own comment on your own work, and that is sometimes self-serving.

Mr. PASSMAN. The university is not doing this as a complimentary service?

Mr. SHRIVER. No.

Mr. PASSMAN. You are paying them?

Mr. SHRIVER. Yes.

Mr. PASSMAN. If you withdraw the contract they lose a profitable arrangement?

Mr. SHRIVER. Not at all. They can probably get another one.

Mr. PASSMAN. The way this thing has been run for 15 years I can say that is a statement of fact.

Mr. SHRIVER. This has been running for 15 months.

Mr. PASSMAN. I am talking about the overall program. It is following the same pattern as the foreign aid program, Mr. Shriver.

Do you have any other universities with similar projects?

Mr. SHRIVER. Yes; we do.

Mr. PASSMAN. Let us take the next one.

CONTRACT WITH INSTITUTE FOR THE STUDY OF MAN

You have one here, $59,000—while you are looking that up—you have $95,060 for the Institute for the Study of Man.

Mr. SHRIVER. That is a training program to prepare Peace Corps volunteers just as, let us say, Rutgers University or Ohio State University or any other university would do it. This is an institution which is training our people to go down to Jamaica, here in the Caribbean. They are experts on that particular country and this is an organization affiliated with Columbia University.

Mr. PASSMAN. Now, are they actually going out there training your people or supervising them?

Mr. SHRIVER. They are training our people in this country, preparing them before they work, before they go overseas and that is just like using——

Mr. PASSMAN. What country is that?

Mr. SHRIVER. Jamaica.

Mr. PASSMAN. I thought most of this was either in this country or else down in Puerto Rico.

Mr. SHRIVER. The training is done here. They are training them for Jamaica and this is being done in New York City. Just like New York University. Instead of it being with New York University or Harvard or California, the training program is being carried on by an organization with this title, which is affiliated with Columbia University and it is training our people to go to Jamaica.

CONTRACT FOR EXPERIMENT IN INTERNATIONAL LIVING

For example, we have another program, experiment in international living. It is up in Vermont. It trained our people to go out to Pakistan. It is now training a second group, some of whom are going to Venezuela and some of whom are going to Chile. This is not a university like the University of Massachusetts. It is the experiment in international living and it is conducting a training program in this country for our people.

Mr. PASSMAN. In one part of the bill some agency had $2 million to try to determine the difference between infatuation and love. That is not this one?

Mr. SHRIVER. No. Will you recommend that we do that?

Mr. PASSMAN. No; this is a legitimate question, and I am trying to find out what program it is in. It is not in your program?

Mr. KELLY. No, sir.

Mr. PASSMAN. Then there is another program. The distinguished gentleman from Virginia, Senator Harry F. Byrd, "reported with fiscal indignation today that the Government plans to spend $1,250,295 to see why baby monkeys love their mothers."

This is not in your program?

Mr. SHRIVER. No, sir; that is a National Institutes of Health program carried on at what they call the Primate Laboratory at the University of Wisconsin.

Mr. PASSMAN. I wanted to be sure that it is not in your program.

Mr. SHRIVER. That is the National Institute of Mental Health. Dr. Shannon runs that.

The man who proposed it is a biologist at the University of Wisconsin.

Did you read about the other one where they are studying the fish who eat those snails?

Mr. PASSMAN. No; I did not read that one.

Mr. SHRIVER. There is one that they have studying the capacity of a certain type of fish to eat a certain snail which is very numerous down in Puerto Rico. This snail carries a disease.

Mr. PASSMAN. That is interesting, but let us proceed.

What other contracts do you have that are not related specifically to training of volunteers for specific projects?

CONTRACT FOR EVALUATION OF PROGRAM IN GHANA

Mr. SHRIVER. There is one, PC–(W)–55 which we have with the University of California at Berkeley, the purpose of which is to evaluate the performance of the Peace Corps volunteers in Ghana. This is being run by a man named Dr. Brewster Smith.

Mr. PASSMAN. The same as the other one to which we referred?

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. How much is that contract?

Mr. SHRIVER. This one is $46,412.

Mr. PASSMAN. These people evaluate the effectiveness of the Peace Corpsmen, the report comes back to the university, then the university gives you a report?

Mr. SHRIVER. Actually the report comes to us. It is a report——

Mr. PASSMAN. Earlier you said it first goes back to the university and then to you.

Mr. SHRIVER. These people are on a contract whereby they report directly to us.

Mr. PASSMAN. To whom do you pay your money?

Mr. SHRIVER. I assume we pay it to the University of California at Berkeley. I am sure we do.

Mr. PASSMAN. For sure you pay it to the university?

Mr. SHRIVER. That is right. Under the terms of the contract. The terms of the contract are that the reports are given to us and we determine——

Mr. PASSMAN. What is the cost? We want to know the value of the study, and how you determine that. Have you any reports back yet?

Mr. SHRIVER. No, sir; these have just been underway for——

Mr. PASSMAN. Who thought this one up?

Mr. SHRIVER. A very fine psychologist named Dr. Nicholas Hobbs who worked with us as head of the Selection Department at the Peace Corps, who testified last year and you will remember, I am sure.

Mr. PASSMAN. You see how complicated you are getting on this thing? Now you are entering into numerous contracts with universi-

ties and colleges, to go out and evaluate the activities and the effectiveness and the value of these people, and that is just another layer on top of the others.

VALUE OF EVALUATION RESULTS

Mr. SHRIVER. Could I explain, Congressman: An Ambassador does not know the basic data about each person who is with the Peace Corps overseas. We can get that basic information about him, his IQ, his capacity on the exams, his physical capacity, his emotional stability, and so on before he leaves this country.

Now when we do that we can evaluate his performance overseas in terms of where he started from. The Ambassador cannot do that.

Mr. PASSMAN. On account of having too much work to do?

Mr. SCHRIVER. No, he doesn't know where he started from. He does not have the basic data.

Mr. PASSMAN. You do not send that to him?

What kind of Ambassadors do we have who cannot understand just a few things that are going on under the staff out in a nation? Do you mean the Ambassador could not decide whether or not this man is doing an effective job?

Mr. SHRIVER. Well, let us say——

Mr. PASSMAN. Could the Ambassador not pick up at the point where you leave off? You do the interviewing, the selecting, the assigning, and when you assign this individual to the country would the personnel under the Ambassador not be able to evaluate the good or bad that is being accomplished by these individuals? And you also have Peace Corps representatives out there, do you not, to evaluate?

Mr. SHRIVER. You see these people could say, for example, Mr. Congressman, that a specific individual was doing very well. That isn't where our interest stops. We would like to find out how to be able to determine in advance which individuals are going to do well overseas.

Mr. PASSMAN. How can you tell that until they have been assigned and have gotten into action?

Mr. SHRIVER. That is the point. When they get into action we evaluate their performance overseas against the criteria we used to select them and if we find that a fellow does well, then we say, "This man did well," and we go back and say——

Mr. PASSMAN. Not when you find out.

Mr. SHRIVER. Wait.

Mr. PASSMAN. When the personnel under the universities finds out for you?

Mr. SHRIVER. No. Plus what the Ambassador and our people say. When we—when a person is indicated as doing well or poorly we then trace back to find out whether we can determine what were the causes of the success or failure. In this way we hope to improve the processes of selection.

Right today there is nobody in this country who can go out and say, "Well, this man is going to be a success overseas and this other man is going to be a failure." Now this is an effort to make it more possible to eliminate failures in advance——

Mr. PASSMAN. Do these institutions evaluate the effectiveness of our Foreign Service personnel, or is this something new that has just been brought out?

Mr. SHRIVER. I do not know whether they evaluate Foreign Service personnel.

Mr. PASSMAN. You do not check with these institutions to find out whether or not they are evaluating the Foreign Service personnel who have been sent abroad?

Mr. SHRIVER. It is my understanding, from what I know, that they are not doing so.

Mr. PASSMAN. They are not doing so?

Mr. SHRIVER. But that is not a factor——

HISTORY OF EVALUATION PROGRAM

Mr. PASSMAN. How old is your program?

Mr. SHRIVER. Our program?

Mr. PASSMAN. The program with the universities?

Mr. SHRIVER. This program was started, this one in March of—not very old—March 27, 1962.

Mr. PASSMAN. Did you know about this last year, that you would have such a program?

Mr. SHRIVER. Yes, we did.

Mr. PASSMAN. Did your presentation to the committee show you would be obligating funds for it?

Mr. SHRIVER. Yes.

We tried to give as much information as we could.

Mr. PASSMAN. This may not alarm the other members, but it is alarming to me—just putting one layer on top of the other, and I do not see how you are ever going to keep it straight.

PROGRAM EVALUATION REPORTS

When are you expecting your first report?

Mr. SHRIVER. This one with the University of California from March 27, 1962, to July 1, 1964.

Mr. PASSMAN. When do you get your first report?

Mr. KELLY. We get quarterly reports.

Mr. PASSMAN. Have you received one yet?

Mr. KELLY. No, neither one of the programs are far enough——

Mr. PASSMAN. Have you determined what your ultimate cost will be?

Mr. KELLY. It will not be more than $59,544 in the case of New York University.

EXPENSES FOR PROGRAM IMPROVEMENT

Mr. SHRIVER. He means the whole cost for research. I have forgotten what the figure was. I think it was about $1 million. As an administrative matter, I personally figured that it was worthwhile to expend on a $60 million program approximately $1 million to substantiate—we have not committed this, now, this is just a thought of mine—to substantiate the success or failure of our selection process, and so forth, so our performance in the future could be even better than it has been in the past. In other words, to improve the program. Just like the Ford automobile company produces a car and they have a

research division that goes out to try to improve the product so next year it is an even better car.

We have a research division. Now, we could go out and hire a lot of people and put them on the Government payroll and build it all up at the expense of the taxpayer. Instead of doing that, we decided to contract for this so that it would not go to the Federal payroll and build up the bureaucracy.

AID EVALUATION TECHNIQUES

Mr. PASSMAN. Do you know whether or not ICA has ever employed colleges or universities or their psychologists to go out and evaluate the activities of the ICA personnel assigned all over the world?

Mr. WIGGINS. I have been with ICA. I am unaware of ICA using this particular technique. By and large in the past they have used other techniques for evaluation.

Mr. PASSMAN. What kind of techniques?

Mr. WIGGINS. The standard techniques employed in the past by ICA that I am aware of has been to create a Division for Evaluation.

Mr. PASSMAN. In their own organization?

Mr. WIGGINS. That was the ICA technique.

Mr. PASSMAN. You have your own Research Division too, do you not?

Mr. SHRIVER. There is a distinction between the Evaluation Division of the Peace Corps and this section devoted to research.

Mr. PASSMAN. Mr. Shriver, we follow each other very closely on this.

ACCEPTANCE OF NEGATIVE EVALUATION RESULTS

What would you do if these people gave you a verdict that this thing might turn into a fizzle, and they should recommended that you bring these Peace Corpsmen home? In what position would you then find yourself? Would you probably take the word of your own evaluation team or would you follow the recommendations of the paid personnel under the university?

Mr. SHRIVER. Our own evaluation team might say it is a fizzle, too.

Mr. PASSMAN. I question that.

Mr. SHRIVER. Well, I don't.

Mr. PASSMAN. But if they should—do you say they may?

Mr. SHRIVER. Sure they would. Why not?

Mr. PASSMAN. Perhaps we should hold this thing up, then, until we determine whether it will be a fizzle, if you fear they are going to make such a report.

Mr. SHRIVER. I didn't say they were going to. You said, "if they did." If they did we would stop it.

Mr. PASSMAN. You do not see a duplication in this?

Are you not going to get it too complicated?

Mr. SHRIVER. I don't think so.

NUMBER OF UNIVERSITIES IN EVALUATION PROGRAM

Mr. PASSMAN. Could you project it and tell us how many universities you might get into one of these contracts?

Mr. SHRIVER. We thought we might have about eight.

Mr. PASSMAN. And $1 million may be the cost?

Mr. SHRIVER. That was a rule of thumb.

SELECTION OF EVALUATION

Mr. PASSMAN. Who selects these people to go out and evaluate?

Mr. SHRIVER. The Division of Research of the Peace Corps, which consists of one man, and the Director and the Deputy Director.

Mr. PASSMAN. You have your own personnel going out to evaluate the effectiveness of these youngsters. Where do you get the personnel that you use in your evaluation team?

WORK OF EVALUATORS UNDER CONTRACT

And do you think that the college, simply because you have to pay them a fee over and above what you pay your others, could do a better job than your own people?

Mr. SHRIVER. They are not doing the same job at all.

Mr. PASSMAN. They are not?

Mr. SHRIVER. No, sir.

Mr. PASSMAN. Then you do not have an evaluation team as such?

Mr. SHRIVER. Yes; we do.

Mr. PASSMAN. What do these contract people do that your evaluation team is not doing?

Mr. SHRIVER. These people, for example, study the success or the failure of the performance of an individual overseas and the success or failure of the tests that we give. Now these tests are designed by experts in the testing business and it takes a person in that business to evaluate whether the test is proving to be a good barometer of oversea success and what parts of it are successful in indicating that success and which parts are not and in this way we could even improve the kind of tests. For example we might be using and others might be using certain yardsticks today for trying to predict success overseas. And some of these yardsticks may be effective and some of them may not be. But so far as we know no one has undertaken a concerted effort to determine which ones are the most reliable. That is what we are doing.

Mr. PASSMAN. In effect, this is a new concept?

EVALUATION PROGRAMS FOR OTHER AGENCIES

Mr. WIGGINS. I would like to answer that question——

Mr. PASSMAN. You haven't used the Foreign Service personnel; you haven't used the ICA.

Mr. WIGGINS. Mr. Congressman, I am not really competent to answer "Yes" or "No" to that, having left AID some time ago, but I understand they have a considerable research program under consideration——

Mr. PASSMAN. But not in effect as of this time that you know of?

Mr. WIGGINS. I would just like to make clear my own ignorance of the recent developments in AID.

Mr. PASSMAN. It was only authorized last year. Prior to that do you know of any evaluation team research they used?

Mr. WIGGINS. Prior to last year I am unaware, personally——

Mr. PASSMAN. Do you think that maybe you could impart this information to the State Department and they would use the same process in evaluating personnel they send abroad?

Mr. WIGGINS. There is a considerable interest shown by the State Department by AID in some of the techniques employed by the Peace Corps and the Director of our Research Unit, Dr. Nicholas Hobbs, has been in touch and coordinating with them and they have been quite interested in the work of the Peace Corps.

PEACE CORPS MEN ASSIGNED AS EVALUATORS

Mr. PASSMAN. How many men do you have in the Peace Corps assigned to the evaluation team, or teams, that you employ?

Mr. SHRIVER. Five.

Mr. PASSMAN. Total number of personnel?

Mr. SHRIVER. Yes.

Mr. PASSMAN. But you envision a $1 million contract program with the universities for the purpose of evaluation?

Are you going to be able to place your evaluators in some other employment, as you have the university doing this for you?

Mr. SHRIVER. They are not doing the same work, Congressman, as I tried——

FUNCTION OF EVALUATION TEAM

Mr. PASSMAN. What does your evaluation team do, specifically?

Mr. SHRIVER. Specifically they are trying to give us immediate, on-the-spot reports as to the current conditions which we are facing in our operations overseas. As we said many times last year—and I repeat it this year—nobody has ever run this type of an operation before with people out in small villages and in medium-sized towns all over the world. The experience of our diplomats working in diplomacy for which they are trained, in political operations in foreign countries—by that I mean in contact with foreign governments—is not a good precedent for determining who would be successful at this grass-roots type of work on farms and in villages around the world.

Mr. PASSMAN. I am sure you want to correct the record. You have had similar programs under ICA, such as the tube wells in the villages. There were literally thousands of them in Pakistan and India. They were out on the village level, visiting with these people and training them.

Mr. SHRIVER. These evaluators we send out there are trying to give us on-the-spot, quick estimates of the performance of our people as individuals. They are most of them former journalists, whose whole experience has been that of professional observers but more like a reporter does it, not an analysis based on scientific studies but on on-the-spot journalistic type of reporting.

Mr. PASSMAN. What kind?

Mr. SHRIVER. The kind that a journalist makes, such as a reporter who goes to a country and writes a series of stories about a country.

Mr. PASSMAN. Is that going to be what these college psychologists will do?

Mr. SHRIVER. No; that is what these five people we have will do. The college people are actual scientists, full professors of psychology, et cetera, social sciences, whose business is scientific evaluation or scientific analysis. That is what they are trying to do for us.

Mr. PASSMAN. If these specialists under these various colleges and universities are going to evaluate the effect of your personnel, would you care to anticipate what kind of a report you will get?

Mr. SHRIVER. No, sir. I think it is well worth it.

Mr. PASSMAN. What would you say if this is recommended to be abandoned?

Mr. SHRIVER. If we all agree on it, sure.

Mr. PASSMAN. There is nothing everybody agrees on.

EVALUATION REPORT

Would you mind the committee seeing one of the reports after you get the first ones?

Mr. SHRIVER. Not at all.

Mr. PASSMAN. When do you expect the first one?

Mr. SHRIVER. I think 6 months.

Mr. KELLY. It is quarterly, Mr. Chairman.

Mr. PASSMAN. Who is responsible for this, since you are not familiar with it?

Mr. SHRIVER. The Director of Research, Dr. Nicholas Hobbs, who was Director of this project from the very beginning.

Mr. PASSMAN. He worked this out?

Mr. SHRIVER. Yes.

Mr. PASSMAN. If you pin down the amount of money the colleges are getting out of this aid program it is fantastic. I thought that maybe other than paying for training we could leave them out of the supervisory end of it. I hope you will watch it closely.

Mr. SHRIVER. We will. If the Congress wants us not to do it, we will not do it.

REQUEST FOR ADVISORY TEAM IN 1962

Mr. PASSMAN. If you will, refer us to the page number of the justifications last year where you requested this item. Do you have the amount for research?

Mr. SHRIVER. I do not know that we had an amount.

Mr. PASSMAN. Let us see if we can find where you had the program.

Mr. SHRIVER. Could we send it in later? This is last year's material. We did not come here supplied with everything we had last year, I am sorry to say. If you will permit me to send you in something later on the Division of Research, I will be happy to do so.

Mr. PASSMAN. It appears there are new programs springing up, programs within programs, duplication. It appears this may go the way of other foreign aid programs if we do not work together on it.

Did you find that information?

Mr. CORCORAN. No, sir.

We will supply it.

Mr. PASSMAN. It may well be that it was not in there?

Mr. CORCORAN. It could be.

Mr. PASSMAN. You do not recall it?

Mr. CORCORAN. I recall a discussion on research.

Mr. PASSMAN. You do not recall anything in your justifications last year?

Mr. CORCORAN. Obviously not.

INDIA'S NEEDS

Mr. PASSMAN. Would you expand on your statement that India's greatest need in the foreseeable future is more food, notwithstanding the fact the record will show it is money that they want?

Mr. SHRIVER. It is my understanding that one of the great unsolved problems of India is its tremendous population and the lack of adequate food production to feed the population. I cannot expand further on that. I do not have an economist or agronomist analysis of it.

Mr. PASSMAN. I am not referring to that. I am referring to the fact that you do have personnel assigned in India and whether or not you are using any of that personnel in the agricultural field.

Mr. SHRIVER. We are doing that now.

Mr. PASSMAN. I wonder if we could prevail on them to get dollars out of their mind and think in terms of technicians? It would appear that if you had technicians there it might eventually save some dollars. I do not think you would disagree with that statement.

Mr. SHRIVER. No, sir.

IVORY COAST PROJECT

Mr. PASSMAN. Let's go to the Ivory Coast projects, page 78. Can you do without the 10 physical education instructors and possibly utilize that money for maybe a more advantageous program?

Mr. SHRIVER. All of these programs, Mr. Chairman, are developed first by the host country, in cooperation with our country team and if they in their judgment have thought that this was a good thing and we in ours think it is addressing one of the important problems in this country, I would say that I think it is important to keep that component in.

Mr. PASSMAN. What are they going to do with physical education? Will they take boxing lessons?

Mr. SHRIVER. They would do all of that. There are many universities where this country is concerned about the student riots and their over interest in political action, where some of the important leaders in that country and those countries favorable to us have suggested that if we get those people interested in track and field and boxing, perhaps they would not be spending all their time in political activity against our country.

Mr. PASSMAN. Why would you not train them to be farmers, since they need food over there? According to your own justifications, several of the physical instructors will coach regional and national teams in boxing, swimming, soccer, track events, and basketball.

If that is what they are going to do, all right, but I wonder if farming would not be better.

VALUE OF AMERICAN ATHLETIC PROGRAM

Mr. GARY. Mr. Chairman, may I say in that connection that I personally feel that our athletic program in this country has done more to keep our students occupied and keep them out of trouble than anything we have done. I think that has been one of the main factors, that we have not had the uprisings and riots among our students in this country that they have had in other lands because we have kept them interested in athletics, which permits them to let off steam and use up some of their excess energy.

I think our athletic program has made a great contribution in this country toward the development of our youth.

Mr. PASSMAN. The gentleman is an old track man. I certainly yield to him on that score. I would think, however, that possibly empty bellies should be filled before you start training them, maybe, in boxing.

AID ASSISTANCE FOR LIBERIAN SCHOOL BUILDING

Would you submit for the record an estimate of how much the AID Agency is supplying for the extensive school building programs in Liberia? I refer to page 79.

Mr. SHRIVER. You would like us to submit what they are expending in Liberia?

Mr. PASSMAN. Your justification prompted the question. If you will refer to page 79, I think it will clear itself up as to why I asked the question.

Mr. SHRIVER. I understand what is on page 79.

Mr. PASSMAN. I quote:

Through substantial assistance from AID, Liberia is launching an extensive school building program for senior high schools, junior high schools, elementary schools. Peace Corps volunteers will help staff the new schools and provide temporary replacements for Liberian teachers who are to receive further training.

That subject came up before our recess for lunch. You were going to tell us who was going to pay for the training of these teachers, where they would be trained, and when they would be returned to the schools. My question now is would you submit for the record an estimate of how much money the AID Agency is supplying for the extensive school building programs in Liberia?

You recall the colloquy between us?

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. Did you get the information for us?

Mr. WIGGINS. I did not get it over the noon hour; no, sir.

Mr. SHRIVER. I am sorry, I did not understand and he did not either that you wanted it over lunch. While we are doing it, maybe we could get it.

Mr. PASSMAN. You may submit it for the record. It is my understanding it is $180 million in the overall program for schools and school facilities. Those schools will have to be staffed, and as we found this one item here, that we are staffing these new schools with teachers, it could be quite an extensive and expensive program. This is one country of many. Where are you going to train the teachers that you are pulling out of the schools and who will pay for the training? Will you get that for us?

Mr. SHRIVER. He is going to get it now.

Mr. PASSMAN. Could you also find out when these new schools will be completed? You are requesting funds for the teachers that you are going to put in the schools. You may find that the buildings will not be completed, and you will not need the teachers; therefore, you would need less money for the program. It all ties in.

Mr. SHRIVER. We are delighted to find out.

MALAYAN TEACHER SHORTAGE

Mr. PASSMAN. Malaya is referred to at page 80, the statement being that Malaya has a shortage of nearly 2,000 secondary schoolteachers. We went into that briefly this morning, but we did not pin it down. Is it your understanding that there is a shortage of approximately 2,000 teachers in the secondary schools?

Mr. SHRIVER. Yes, sir.

SHORTAGE OF TEACHERS IN THE UNITED STATES

Mr. PASSMAN. What is the estimate of the teacher shortage in the United States this year for the same type of schools?

Mr. SHRIVER. I do not have that figure.

Mr. PASSMAN. Do you not think it would be well for us to know that, because if our shortage in American schools is such that we are having to deprive our own youth of this training, so as to make available these teachers for foreign schools, you might wish to have another look at that part of the program.

Mr. SHRIVER. We are not depriving our own youth of education.

Mr. PASSMAN. How could you answer that question as you are answering it now if you do not know what the shortage is? Would you not have to know about the shortage before you could make a statement of fact that we are not depriving them, because we do have a shortage?

QUALIFICATIONS OF PEACE CORPS TEACHERS

Mr. SHRIVER. That is right, but I do not have to know the exact size of the shortage in order to answer the question. The reason I do not have to is because the people that we are sending overseas are not certificated teachers such as teach in the public schools of Louisiana. We are sending over a large number of people who have——

Mr. PASSMAN. First, I might say as to Louisiana, our school system ranks well. You meant to refer to the United States, not Louisiana.

Mr. SHRIVER. What I meant was in this country we usually have standards for teachers which are very high and as a rule they are required to have a State certification to teach. This would be true in New York, Illinois, Louisiana, or Virginia. What I am saying is that the teachers that we are sending overseas are generally college graduates or B.A.'s or B.S.'s who do not hold a teacher's certificate. Therefore, they would not be permitted to teach in Virginia schools or in Illinois schools.

Most of the States have certification laws which require you to have a minimum of 22 hours of pedagogical courses in order to teach in secondary schools.

Mr. PASSMAN. Are you creating the desired image if you are sending second-rate people abroad?

Mr. SHRIVER. They are not second rate. Many educators in our country think that people with bachelor's degrees should be permitted to teach in public schools in the country. They are, as of this time, not permitted to do so. The National Education Association, which is the organization that supplies the figures on the teacher shortage in this country, that same organization has endorsed our program.

Mr. GARY. My son has been trying to get a job teaching overseas for 2 years and they turned him down because he only has nine educational units. They require 18, I think it is.

Mr. SHRIVER. That is exactly it.

Mr. GARY. He has his master of fine arts degree from Columbia University.

Mr. SHRIVER. That is the point I am trying to make.

TEACHER SHORTAGE IN UNITED STATES

Mr. PASSMAN. What is the estimate of the teacher shortage in the United States this year?

Mr. SHRIVER. I do not know precisely.

Mr. TABER. You will never find out. There are too many twists and turns in connection with that problem for anybody to have any intelligent approach to it.

Mr. PASSMAN. I do not know but what possibly we do have a shortage of teachers at just about every level.

Mr. SHRIVER. There is no question that there is a shortage of teachers in this country.

Mr. PASSMAN. I understand there is somewhat of a shortage in the District of Columbia.

Mr. SHRIVER. There is no question about the shortage of teachers in this country. What I was trying to point out is that the National Education Association, which generally speaking supplies those figures that you are asking me for, namely, the shortage of teachers, that same organization has endorsed our program, because, No. 1, we do not contribute to the shortage. They think that we may even contribute to the production of teachers who will be qualified to go into the classrooms of this country. We are not adding to our national problem here. We may be even helping it.

Mr. PASSMAN. If we have a worldwide program, through which we are going to spend $180 million this year for educational facilities abroad, and of the total number of personnel presently assigned to the Peace Corps, 65 percent are in the teaching profession, and in the future, projecting it, from 50 to 55 will be classroom teachers, then in all probability this is going to have its effect on our own teacher shortage.

Mr. SHRIVER. It is going to have a beneficial effect on the teacher shortage.

Mr. PASSMAN. That is your evaluation of it. I do not see it that way. Let us hope it works out that way. It will have to work out to the point of attracting more teachers into the profession for this to have a favorable effect, rather than unfavorable.

Mr. SHRIVER. That is one of the phases. For example, today 27 percent of the people in this country who graduate from a teacher's training institute with a bachelor of education degree never teach a class in this country.

Mr. PASSMAN. Many of those in the profession are leaving it because they get higher pay in other fields.

Mr. SHRIVER. That is right.

Mr. PASSMAN. I hope that maybe we can attract them back to the classrooms. I think there is a shortage in almost every category.

MALAYAN SOCIAL OVERHEAD PROJECT

What is this Malayan project, page 80:

There is an equivalent need and desire for increasing the need and availability of social overhead facilities, particularly medicine?

Mr. SHRIVER. I think what it is saying or trying to say, is that as there is a need for teachers there is also a need for doctors, nurses, laboratory technicians, and other people in the general area of health education or health services.

Mr. PASSMAN. Is it not true in this country, that there is a shortage of medical people?

Mr. SHRIVER. That is correct; yes, sir.

Mr. PASSMAN. Unless you attract more people into it, if you divide it, would that not increase our shortage?

Mr. SHRIVER. I think we will attract more people into it.

Mr. PASSMAN. Would the trend not actually be in the opposite direction?

Mr. SHRIVER. Not according to——

Mr. PASSMAN. There is a possibility of medical aid under social security. If we finally go into outright socialized medicine that would be a step in that direction, in my opinion. We could finally wind up with a program maybe like they have in Great Britain, where a large percentage of their doctors are leaving the country. About 65 percent of surgery there is performed by doctors from India or other countries.

The young men in England are not going into the medical profession. They are turning to other endeavors.

Additional projects planned for Malaya will involve school construction, in addition to health and rural development.

PEACE CORPS DOCTORS FOR MALAYA

I suppose that would be the medical program to which I referred. Does that mean we will take doctors out of this country into Malaya?

Mr. SHRIVER. We might send doctors to Malaya. We already have a number of doctors, Mr. Chairman, who have volunteered to serve in the Peace Corps, just as the way a lawyer would serve in the Peace Corps or a professor. There have been a number of doctors. I think certainly by this time next year we ought to have half a dozen or maybe a dozen, maybe more than a dozen doctors who have volunteered.

Mr. PASSMAN. I hope we keep them home until we are able to fill our own shortage. I think that charity begins at home.

ADDITIONAL PROJECTS FOR MALAYA

Before we move to the next country, still on page 81:

Additional projects planned for Malaya will involve school construction, in addition to teaching, health, and rural development.

How much do you have in your bill for school construction?

Mr. SHRIVER. We do not supply the money for school construction. If we work on school construction at all, it is to supply services but not money.

Mr. PASSMAN. Help us to understand what you mean by the language in paragraph 3.

Mr. SHRIVER. If we are involved in school construction, for example, it would be, perhaps, to supply architectural services for the design of a school. We do not supply the money for the construction of a school building or any public building.

Mr. PASSMAN. I do not necessarily associate your answer to what I find, because you said it would involve school construction. Will you tell the committee that it is limited entirely to possibly Peace Corps activities or are you going to be architects now, to plan buildings?

Mr. SHRIVER. We have architects in the Peace Corps already who are volunteering their services as architects.

Mr. PASSMAN. When you go out and draw the plans for school construction, then does some other branch of the aid program do the building of the schools?

Mr. SHRIVER. Not necessarily. The Malayan Government might build them themselves.

Mr. PASSMAN. It might come out of the aid program also, as there is about $180 million throughout the entire bill for that purpose.

Mr. WIGGINS. I do not think we have a Malaya aid program.

Mr. PASSMAN. I do not know what you have out there. You say "Additional projects planned for Malaya will involve school construction" in addition to teaching, health, and rural development. That brings up the question whether you will get money out of the aid program.

Mr. WIGGINS. I am trying to answer the question. As far as I am concerned AID has never been in Malaya and therefore in part the answer to your question is they are not building from AID funds schools in Malaya.

Mr. PASSMAN. What do you mean by the third paragraph, since you are familiar with it? What if the Peace Corpsmen go out and draw up a lot of plans for schools in Malaya. They do not have the money. Would this not be a step toward it being an AID program?

Mr. WIGGINS. I would doubt it.

Mr. PASSMAN. Could you tell us? This is the way we get involved in these programs. You could say next year, "We mentioned this to you on page 3," and if we do not have it out you certainly would have a right to say, "We started it because we so stated." This is just hanging loose. Of course, the AID program says they are going to get into Malaya. I thought there was a high degree of coordination and understanding between your agency and AID. Let us go to page 64, other countries, paragraph 3. Did you give a little thought to that?

Mr. WIGGINS. This is in the AID presentation.

Mr. PASSMAN. I quote:

Proposals are now being made to initiate new country programs in the Far East. However, there is a possibility that in the future by limiting amounts to technical assistance grants may prove to be in the U.S. interest in Malaya, Singapore, et cetera.

Mr. SHRIVER. It says there may be some program in the future.

Mr. PASSMAN. This is a planned program.

Mr. SHRIVER. We have people in Malaya right now.

Mr. PASSMAN. Do you see where one ties into the other? It is contemplated in the AID program that they will have a program there.

Mr. SHRIVER. Is that what that says?

Mr. PASSMAN. We will find it for you again.

Mr. SHRIVER. The question we asked was whether the AID program was there and as I understand the question we were asked was whether the AID program was there involved in school construction. My answer was that so far as we knew the AID did not now have a school construction program in Malaya.

Mr. PASSMAN. Neither do you have any specific plans for which you contemplate having funds out of the 1963 request?

We are dealing with fiscal year 1963, are we not?

Mr. SHRIVER. Yes, sir.

Mr. PASSMAN. You do not yet have the funds. If you get the funds then you probably will have architects who will draw plans for schools in Malaya.

Mr. SHRIVER. We have architects right there today.

Mr. PASSMAN. Would you please read what the AID people say on page 64?

Mr. SHRIVER. I haven't got a copy of that.

Mr. PASSMAN. I shall read it to you:

Malaya. Proposals are being made at this time to initiate new country programs in the Far East. However, there is a possibility that in the future some development lending and limited amounts of technical assistance may prove to be in the interest of Malaya, Singapore, and British territories in Borneo.

Mr. SHRIVER. What it says there is there is a possibility that sometime in the future they might like to do something in Malaya.

Mr. PASSMAN. The future could be tomorrow or a year from now. Yours is going to apply, some of it, out of 1963 funds.

Mr. SHRIVER. We are already there now. That is correct. We are talking about continuing in 1963.

Mr. PASSMAN. And the AID people figure some kind of a program for the country, too:

The U.S. Government has received through the United Kingdom a number of requests for grant aid from the countries which will form Malasia.

Mr. SHRIVER. That country has not even been organized yet.

Mr. PASSMAN. They bring them in. You do not have to form a country to get aid. Just indicate you are going to form one and our people will get there on the fastest jets. I think the record will back me up in that statement.

EXPANSION OF NIGERIAN PROGRAM

Are we committed to a sizable expansion of the projects in Nigeria? Specifically, I refer to page 82:

> The Government of Nigeria has asked for a sizable expansion of Peace Corps projects. This will include 352 secondary school teachers, 25 volunteers in industrial management projects, and 25 university assistants at the new University of IFA.

Could you give us a little information on just how much this may expand the present program?

Mr. SHRIVER. The Nigerian Government has asked us to expand it very greatly. This is the country, Congressman, you will probably be interested to know, where that girl wrote that famous postal card and there was quite a talk about it at one time. You may remember that some people at that time said that this was going to sound the death knell for the Peace Corps and that Nigeria was going to ask the Peace Corps to get out altogether, et cetera. When that incident occurred we had 36 people in that country. Since then, that country has asked us to supply substantial additional numbers, so as of today, I think we have 108 or 109 people out there, upon request from that country.

They have been well satisfied with the performance of these 109.

Mr. PASSMAN. Someone may have predicted that would be the end of it, but I fail to be one of those enthusiasts.

Mr. SHRIVER. There were quite a few enthusiasts who felt that way.

Mr. PASSMAN. You are expanding greatly there; are you not?

Mr. SHRIVER. They have since asked us to expand the program over what we have even now in that country.

The specific number, as it says there, 350, has been asked for but again, as I have said to you before, Congressman, that does not mean simply because they asked us for a certain specified number we are going to give them. When this was written we tried to give the Congress all the information we had available at that time.

The figures change from time to time.

Mr. PASSMAN. I am glad to hear you say that.

Mr. SHRIVER. We may very well not send that number of secondary school teachers or precisely 25 volunteers in industrial management or specifically 25 university assistants.

Mr. PASSMAN. What do they mean by university assistants?

Mr. SHRIVER. It is like an instructor in colleges in this country. In the freshman year they have fellows who graduated the last 2 or 3 years to teach the freshman and sophomore.

Mr. PASSMAN. You take them out of U.S. colleges and assign them to these colleges?

Mr. SHRIVER. Let's say some fellow graduates with good marks this year from an American university. He might go on to be a teaching assistant or instructor in one of our colleges. He might prefer to go out and do this.

Mr. GARY. They use them a good deal in the science laboratories too, do they not?

Mr. SHRIVER. Yes.

Mr. GARY. They use instructors to supervise the work in the science laboratories.

Mr. SHRIVER. That is correct.

Mr. PASSMAN. Would they be under the Peace Corps?

Mr. SHRIVER. They are under the Peace Corps. They are volunteers.

Mr. PASSMAN. They are paid volunteers?

Mr. SHRIVER. Volunteers.

Mr. PASSMAN. They do not get any pay?

Mr. SHRIVER. They get a living allowance.

Mr. PASSMAN. They get the same pay other corpsmen get.

Mr. SHRIVER. They get a living allowance while overseas. They get $75 a month separation allowance when they come home.

Mr. PASSMAN. I still want to be sure that the record is not confused. The Peace Corpsmen are volunteers. You refer to them as volunteers. I refer to them as employees of the Peace Corps. There are certain fringe benefits that are very attractive.

The indication would be, then, that you may give them 350 additional?

Mr. SHRIVER. We anticipate there will be a substantial increase in the total number of volunteers in Nigeria; yes, sir.

TOTAL REQUESTS FOR PEACE CORPSMEN

Mr. PASSMAN. Have you ever made a spread of the total request from nations and the total number of personnel that they requested?

Mr. SHRIVER. The spread between what?

Mr. PASSMAN. You receive requests either direct or through the ambassadors or your own personnel from these nations for a certain number of personnel. You cannot in every instance give them the number that they request. Have you ever added up the total number of the requests from all countries?

Mr. SHRIVER. I do not think we have a mathematical total nor arithmetical. All I can say is that the total request——

Mr. PASSMAN. Could you get one, and say, project it out to June 30, or maybe take your last request and total it? In many instances the country may request three or four times as many people as you will be able to provide. I wondered if you would not like to know the total number of personnel requested from the countries.

Mr. SHRIVER. We know for a fact that the number of requests is vastly in excess of anything that we have proposed to send.

Mr. PASSMAN. I want to know how many. There was one Far Eastern nation that wanted $1 billion in military aid. We gave $111 million, and that was more than was justified, but they were satisfied. I wondered possibly if we could not evaluate this on a similar basis, if you should justify your request on the basis of the number requested, it may be completely out of proportion to reality and what we are able to do. We do not know how we will repay the money we borrow. The less we borrow, I think, the better. Would you try to give us information on the total number requested?

Mr. SHRIVER. Yes, sir; we are not giving the services of the Peace Corps volunteers away. They give their own services.

(The information supplied follows:)

REQUESTS FOR PEACE CORPS ASSISTANCE

Most of the projects undertaken by the Peace Corps originally request a larger number of volunteers than the Peace Corps finally agrees to or supplies. In some cases, the original request has been cut in half. More frequently, some of the volunteers requested are not provided because their proposed assignments do not conform to Peace Corps programing criteria.

In addition, projects for a number of countries have been postponed indefinitely or turned down entirely. Examples of this are the programs requested by Japan, Korea, the Ryukyus, and the Pacific Trust Territory. Few requests postponed or turned down by the Peace Corps ever reach that degree of formality at which they are stated in numerical terms.

Thus, requests for Peace Corps participation do not lend themselves to numerical comparison or totaling. But the total requests which have come in to the Peace Corps in any form represent a number of volunteers at least two or three times as great as the number actually planned.

COST OF PEACE CORPS IN 1963

Mr. PASSMAN. Why do you need $63.75 million?

Mr. SHRIVER. In order to transport, feed them, and house them.

Mr. PASSMAN. You are taking that out of the tax till. Let us keep that in proper perspective. The $63.75 million will have to be borrowed before it can be made available. If we can keep it down to less the public debt would be lower at the end of this fiscal year.

EAST PAKISTAN PROJECT

Would you comment on the East Pakistan project, which seems to include an audiovisual team making educational films, physical education instructors, a psychologist, and even a junior town planner?

Mr. SHRIVER. The East Pakistan project has got three or four facets to it. Some of them are described there. One of our group, for example, is working out of a place called the Comilla Academy of Rural Development, very much like the rural development programs we have in South America. We have one very fine bricklayer who is out there teaching in a trade school the mason's business. They had never seen a man who could lay bricks the way this fellow could. Even the trowel that he used for this purpose was something unusual, at least in East Pakistan. He is a very effective member of the Peace Corps working out there. The same thing would be true of librarians or youth workers or any other groups listed in that page.

JUNIOR TOWN PLANNERS

Mr. PASSMAN. What is a junior town planner?

Mr. SHRIVER. A junior town planner would be a person who had a degree from a college in this country in town planning, but who was not, let's say, a Ph. D. or very advanced high level expert. He would be a man who graduated, let us say, last year from a school of city planning.

Mr. PASSMAN. What is he going to plan?

Mr. SHRIVER. He is going to plan villiage or city development. You have a development outside of Karachi. The Vice President was over there. There is a huge slum outside of Karachi, which de-

veloped without any plan at all where people live in squalor and a very bad situation. This man would be helpful in trying to plan the orderly development of new suburban areas or developments outside of a city like Karachi or outside of a city like Dacca or Camilla, or Mirapur.

Mr. PASSMAN. He would be planning railroads, bridges, buildings?

Mr. SHRIVER. Any one or all of those; yes, sir.

EFFECT OF PLANNING ACTIVITIES

Mr. PASSMAN. So, in effect, the more you undertake in this field the greater will be the demand for funds to carry out the recommendations, whether it be from U.S. funds or funds of other countries?

Mr. SHRIVER. One of the purposes of these projects is to increase the per capita income in that country so they can afford to do things by themselves.

Mr. PASSMAN. Will they wait a while to do some of these things? Some of these matters we are moving fast on—school construction, for example. Now we get into a junior town planner. You do not know what he will plan.

Mr. SHRIVER. He does not go in and plan this by himself. He goes in within the department planning of that country and that city.

PLANNING MODEL CITY IN VENEZUELA

For example, in Venezuela, they are planning a city of 450,000 people where today there is only a city of 20,000 people.

Mr. PASSMAN. The minute they get this plan they will have to have money to carry it out or else do without it.

Mr. SHRIVER. Actually, in this case they have got a lot of income coming in from new oil and iron ore discoveries up at the head of the Orinoco River.

Mr. PASSMAN. They have a lot coming in from the AID program, too.

Mr. SHRIVER. I did not say they didn't. You asked about this particular city. In that case they are expecting to utilize the income from these discoveries.

In such a case it might be desirable for us to have a person there.

Mr. PASSMAN. Who went out and developed the oil wells from which they receive the revenue?

Mr. SHRIVER. I do not know.

Mr. PASSMAN. It is perfectly obvious that practically every bit of this is leading into the future to where it will require probably billions of dollars to carry out these projects. You are positively frank about it. You put it in the hearings. A person would not have to be smart to know that this program could lead to demands for billions and billions of dollars of American money, because merely planning them is not going to help those people. They are going to want to see some of them put into effect. In most of these countries, as the justifications indicate, they are not going to be able to get the money to carry out these programs without coming to us.

You want a social anthropologist for the Peru project. What is that?

Mr. SHRIVER. For Peru?

Mr. PASSMAN. It is on page 86.

Mr. SHRIVER. What is a social anthropologist?

Mr. PASSMAN. Yes. What does he do?

Mr. SHRIVER. They are supposed to be experts, sir, in knowing how to organize communities, based on the community patterns that have existed in a particular culture for a long time. Take the Peruvian culture. You have got a lot of Indians there up in the Andean Mountains who have a culture of their own. You can make a lot of mistakes if you go in and try to ask them to do things they are not accustomed to do.

Mr. PASSMAN. Are we urging a continuation of their culture?

Mr. SHRIVER. I think the objective is to help them to improve their own situation in ways which they find satisfactory to them.

Mr. PASSMAN. I would think you would get them away from their culture of the past if it has not been successful.

Mr. SHRIVER. If you do that in a way to produce results it generally requires that you know enough about their attitude so you can do it in a way that they will accept. For example, if a Yankee goes down into the South of our own country——

Mr. PASSMAN. Goes where?

Mr. SHRIVER. Goes into one of our Southern States and attempts to try and do something without knowing how the people act and believe and think in this rural community, he probably wouldn't get anywhere at all.

Mr. PASSMAN. You come south and see if you do not meet very fine people, just about as intelligent as you meet in Illinois, or in any other State, and when you get through with the South, go west and see if you do not find the same situation out there.

Mr. SHRIVER. If a southerner went up to New Hampshire and tried to get some fellow up there to do something, if he did not understand the community and the background he might have difficulty doing it.

Mr. PASSMAN. So far as the intelligence and soundness of the southern people are concerned, it is something of which I am very proud. I think you would be, too. You come south.

Mr. SHRIVER. I am proud of it. I had eight uncles and a grandfather who fought in the Confederate Army. I am proud of that, too. The city folks do not understand the country folks sometimes and vice versa.

Mr. PASSMAN. I am not indicating the people in the other sections of our country are not fine folk. I have never had trouble getting along with them.

I was out in Japan once, and was invited to address a group. I thought it would be well to report on rice production in Louisiana, something we are proud of. They asked me how many yields we got per year, and I said one. They said they got three there. So, I could not say too much about rice. I was in Formosa, where we are teaching the people how to farm, only to find that those people some-

times get five crops per year, and usually about all we get in addition to a regular crop is a turnip patch. Some of these people could teach us a lot of things.

In connection with the proposed project for Togo—is that a new nation?

Mr. SHRIVER. That is a new nation.

DOCTOR AND DENTIST VOLUNTEERS

Mr. PASSMAN. How many doctors and dentists have volunteered for Peace Corps duty?

Mr. SHRIVER. There are somewhere between 5 and 10. I do not know the exact number of persons who volunteered but I know that in the project for Togo that there are four doctors who have volunteered. This is a difficult one because in order to be effective they have to be fluent in French. They have to be a medical doctor and know the French language.

Mr. PASSMAN. Are all of these young people, before they are sent out, given training in the language of the country to which you assign them?

Mr. SHRIVER. That is correct. In this particular case because they are doctors we have to give them French before they are sent out. The language is technical. We prefer to have them know that in advance.

ESTIMATED COST OF TUNISIAN PROJECTS

Mr. PASSMAN. What is the anticipated cost of the Tunisian projects, which includes 20 physical educators, 10 architects, and 20 construction building supervisors?

Mr. SHRIVER. I will get that figure for you right away.

Mr. WIGGINS. The agricultural extension projects are estimated at $216,000 for a 2-year cost and the public works project that we are thinking about there—more than thinking about—a 2-year cost, $540,000.

Mr. PASSMAN. Is that going to be paid out of the Peace Corps appropriation?

Mr. WIGGINS. Yes.

Mr. PASSMAN. Tunisia is not a very wealthy country, is it?

Mr. WIGGINS. As underdeveloped countries go, I suspect it would be in the medium bracket.

Mr. PASSMAN. But you do have 10 architects and 20 building construction supervisors. On what kind of building construction will you use these supervisors?

Mr. WIGGINS. They are public buildings and other facilities, small sorts of construction.

Mr. PASSMAN. They are presently under construction?

Mr. WIGGINS. I cannot precisely answer whether they are under construction or will be. There is a lot of construction that is going on there. They will work with the Tunisians in the ongoing construction program under their supervision.

Mr. PASSMAN. You would not need building construction supervisors unless you had buildings being built, would you?

Mr. WIGGINS. Buildings are being built.

Mr. PASSMAN. What kind of buildings are being built?

Mr. SHRIVER. He said being built or to be built.

Mr. PASSMAN. That is what I said, it is one or the other. If the ones to be built are not built you would not need the building supervisor, would you?

Mr. SHRIVER. Yes, sir. These are foremen.

Mr. PASSMAN. You do not need a foreman if you are not constructing a building. I really do not mean to be facetious. I am trying to understand. Does the country presently have a building program underway that would require the architects and building construction supervisors?

Mr. WIGGINS. The program is presently underway and the additional people provided by the Peace Corps will make it more effective.

CONSTRUCTION UNDERWAY IN TUNISIA

Mr. PASSMAN. What kind of construction is now underway?

Mr. WIGGINS. Cooperative housing, middle income housing.

Mr. PASSMAN. Why do you need architects if they are already under construction? You cannot plan something if it has already been planned and is under construction?

Mr. WIGGINS. There will be new ones planned. This is an ongoing continuous program. It is their program.

Mr. PASSMAN. Where will they get the money to build the houses? Do you know whether it comes out of the AID program?

Mr. WIGGINS. I do not know the answer to that.

Mr. PASSMAN. Will you try to find out?

Mr. WIGGINS. Surely.

Mr. PASSMAN. I believe one of these expenditures leads to another.

(The following was subsequently submitted for the record.)

HOUSING CONSTRUCTION IN TUNISIA

In its 10-year perspective of development, the Government of Tunisia envisages committing sizable resources to low-cost housing and pledges itself to the construction of some 250,000 units. It is estimated that about $3 million was committed by the Government of Tunisia from its own resources in fiscal year 1961. It is anticipated that more than $5 million will be allocated by the Tunisian Government for low-cost housing projects in fiscal year 1962 and fiscal year 1963, respectively.

During fiscal years 1959–61, ICA provided about $2.5 million in local currency to be used in the construction of housing for the resettlement of urban slum dwellers. During the same period, teams of Tunisian housing officials were sent to the United States to study low-cost housing programs. In addition, counterpart funds were allocated for use by the Tunisian National Building Agency to finance housing loans to workers' cooperatives and to the Tunisian National Bank to provide individual mortgages for middle-income housing.

The Agency for International Development plans to obligate no money for housing during fiscal year 1963.

AID EXPENDITURES FOR 5–V PROGRAM IN VENEZUELA

Mr. PASSMAN. How much money did the ICA spend on developing a 5–V program in Venezuela?

Mr. WIGGINS. I do not know the answer to that question.

Mr. PASSMAN. Could you find out for us?

Mr. WIGGINS. Yes.

(The information requested follows:)

PEACE CORPS—AID RELATIONSHIP WITH REGARD TO VENEZUELAN 5–V ORGANIZATION

AID is at present giving no assistance to the Venezuelan 5–V organization.—The Peace Corps program is coordinated with that of AID through the Venezuelan Planning Council (Cordiplan), as well as through consultation between AID and Peace Corps officials in Washington and in Venezuela.

AGRICULTURE PROGRAM IN ST. LUCIA, WEST INDIES

Mr. PASSMAN. How much money is the AID Agency spending in St. Lucia to diversify agriculture?

Do you know?

Mr. WIGGINS. No, sir.

Mr. PASSMAN. Can you find out for us?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. Do you have people assigned to this field of endeavor?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. The AID has people assigned to the same endeavor.

Mr. WIGGINS. A different sort of people.

(The following was subsequently submitted for the record:)

PEACE CORPS-AID RELATIONSHIPS WITH REGARD TO AGRICULTURE ON ST. LUCIA

The Agency for International Development currently has but one resident technician, a trade and industrial education adviser, on St. Lucia. An AID agricultural extension technician, serving the entire eastern Caribbean region, visits the island periodically, as does a public health technician.

AID's contribution to the development of St. Lucia's agriculture, as well as the provision of shop equipment to a vocational school, totals approximately $500,000 since the program began in this fiscal year.

AID and Peace Corps objectives in St. Lucia are closely linked. Today, Peace Corps volunteers are supplementing AID efforts in the field of agriculture as follows:

A volunteer horticulturist is running the sprinkler irrigation trial plots. Since his arrival an improved drainage system has been built and several vegetable varieties are being tested to determine their suitability for truck cropping. He expects to test 39 varieties in the course of his first year.

A volunteer forester is helping the soil conservation program by conducting silvicultural research, organizing new pine plantings, and controlling the regeneration of forest lands to small farms.

A volunteer animal husbandryman is instructing small farmers on the care and maintenance of 125 swine, donated by the Heifer Project, Inc., the private agency which is administering the Peace Corps project in St. Lucia.

Two volunteer extensionists and soil specialists are helping with the AID irrigation and watershed development project in a demonstration area at the southern end of the island. They have already enlisted the cooperation of 34 small farm families and helped them to build a flood irrigation system, with terraces, grass and concrete waterways, and contour deep ripping. The irrigation system is designed to control runoff water during the rainy season and to act as irrigation ditches during the dry season. New citrus and vegetable plantings have already been launched in the affected area.

In addition to these agricultural positions, Peace Corps volunteers engaged in rural teacher training, organization of 4–H Clubs and public health generally support AID objectives in these fields.

Mr. PASSMAN. One of them supervises corn and the other cotton, maybe? I am trying to find out. The AID program has agricultural technicians. You will have them. You have agricultural technicians under the expanded AID program to the U.N. There are technical aid, agricultural specialists under the OAS.

How are you going to keep it all separated?

Mr. WIGGINS. What you might say is that the ideal program would not separate it all but would correctly use them all in the totally well-designed and balanced package.

Mr. PASSMAN. What if you found out there are sufficient personnel there to do a good job? Why do you want to get the Peace Corps in there?

Mr. SHRIVER. We wouldn't send them if there were sufficient people.

Mr. PASSMAN. Would your people reeducate other personnel already sent there from the AID program, the OAS, from the U.N. Technical Aid program?

Mr. WIGGINS. By and large I think an important distinction is that the AID provides a very high-level technician, an adviser.

Mr. PASSMAN. Yours can get in under?

Mr. WIGGINS. Ours are middle-level people, middle-level skills for the large part.

Mr. PASSMAN. You are still dealing with agriculture?

Mr. WIGGINS. Yes.

Mr. PASSMAN. I do not think we misunderstand each other. If you have five programs under five different agencies for which the U.S. Government is contributing money, I do not see how you can possibly carry on without some duplication. You could not have five different people telling people how to raise sweetpotatoes in the same field. We are trying to find out what your people do, what the AID people do, what the U.N. people do, what the OAS people do.

STATUS OF JAMAICA PROJECT

What is the status of the Jamaica project, and is it still a British colony?

Mr. SHRIVER. Jamaica has already gotten its independence. I cannot remember the exact date. Does anybody know the date? Does anybody know the exact date when Jamaica became independent?

I am sorry, I do not know.

Mr. PASSMAN. There is a record for this statement, that before a country is actually organized it looks like we are trying to beat somebody there.

Mr SHRIVER. The Prime Minister of Jamaica, Mr. Manley, came to Washington twice.

Mr. ROONEY. He was just beaten in the elections.

Mr. SHRIVER. That is right. He came up here twice to ask us to come to Jamaica. You are correct, what was beaten was that Jamaica would not be a part of the Federation of the British West Indies, the proposed new Federation, but that it would become independent by itself.

Mr. PASSMAN. They are not independent yet?

Mr. SHRIVER. I do not know the exact date. It is like the case in Tanganyika.

Mr. PASSMAN. How old is Jamaica? How long have they had a civilization there, I wonder?

Mr. SHRIVER. I do not know. It must be several hundred years.

Mr. PASSMAN. Why could we not wait until they finally became organized and move in an orderly fashion? I wonder why we have

to rush out into these countries before we know actually what form of government they are going to have?

Mr. SHRIVER. For example, in the case of Tanganyika it became independent, I think, on the 1st of December, last fall, but it was well known that they were going to become independent on that date and the Prime Minister and Government of that country asked us to come in in the summer and we did.

Mr. PASSMAN. This official did not wait for the country to get its independence.

Mr. SHRIVER. It was well understood that this country or island was to become independent.

Mr. PASSMAN. They have not gotten their independence yet?

Mr. SHRIVER. As I said, I am not sure whether they have actually gotten it or will get it in the next 3 or 4 months.

Mr. PASSMAN. It is scheduled for August 6. At this time they do not have their independence.

Mr. SHRIVER. That is fine, sir.

Mr. PASSMAN. We do have an AID program being planned for Jamaica?

Mr. SHRIVER. I think our group would arrive after they became independent if the schedule is August 6.

OBLIGATIONS FOR JAMAICAN PROGRAM

Mr. PASSMAN. You have proposals for direct administration projects under negotiation now?

Mr. SHRIVER. We have people in training.

Mr. PASSMAN. This makes it rather difficult for this side of the table, when we are discussing the possibility that Jamaica will not be independent until August, yet it is shown for the record that we shall enter into obligations before June 30 of this year with the government that is to be at some future date.

Mr. SHRIVER. We put people in training; that is correct. They are in training right now in preparation to go there. What I was trying to indicate was they might not arrive there. The training program would take enough time so they do not arrive until after August 6. The exact date of arrival I do not know. We can find out.

Mr. PASSMAN. We are really getting in a hurry.

Mr. SHRIVER. In a lot of these places the Communists do not wait for the government to be declared.

Mr. PASSMAN. I thought we were told that we are not in competition with the Communists, that we went in on the basis of merit and justifications, et cetera. Now, today, so many of them say if we do not, the Communists will.

Do you have any proposals under negotiation now that will result in a commitment for a project prior to June 30?

Mr. SHRIVER. I did not understand. I was listening but I could not understand.

Mr. PASSMAN. Do you have any proposed contract for projects or proposals for direct administrative projects under negotiation now that will result in a firm commitment for projects in Jamaica prior to June 30?

Mr. SHRIVER. Yes.

Mr. PASSMAN. And the same type of situation would be true worldwide, would it not?

TIMING OF PROJECT NEGOTIATION

Mr. SHRIVER. We do have project proposals under consideration, yes, for projects that will become firm before June 30.

Mr. PASSMAN. I think the record is clear that most of these negotiations are considered as a commitment, not legally, of course, but technically. I am just wondering why you could not wait until after you get your appropriation before getting us committed to a project. Actually, you are obligating funds prior to legal authorization and prior to an appropriation.

Mr. SHRIVER. What we are using is the money from the appropriation which has already been given to us. In other words, what we are doing is making contracts on the basis of the $30 million.

Mr. PASSMAN. It will not require a fiscal year 1963 appropriation?

Mr. SHRIVER. If you are going to carry them on into the future, yes, because we come every year. If we waited until the next year before we committed the money you have already given us, then we would not have done anything this year.

Mr. PASSMAN. My point is that it is all right to study the proposals, but I am questioning the practice of entering into a firm commitment for a country that is to be before it comes into being—and that certainly is the case with Jamaica, and you stated that you have other countries in similar status all over the world, no doubt many of them in the area of tropical Africa.

Mr. Shriver, have you assigned any volunteers to any other U.S. Government agency overseas?

Mr. SHRIVER. Not if I understand the question correctly. Our people all work on the Peace Corps, but not—you mean have we assigned them for example, to USIA? No, we have not.

Mr. PASSMAN. Yes.

Mr. SHRIVER. No.

PAYMENT TO OTHER AGENCIES FOR SERVICES

Mr. PASSMAN. How much do you pay other agencies for part-time personnel or services which they may perform for the Peace Corps?

Mr. SHRIVER. We get service assistance from AID and from U.S. embassies overseas. We have a long breakdown on that, which Mr. Corcoran could provide you.

Mr. PASSMAN. Could you give us the total you paid to the State Department for services to the Peace Corps?

Mr. CORCORAN. Both AID and State——

Mr. PASSMAN. State first.

Mr. CORCORAN. $226,998.

Mr. PASSMAN. What do they do for that $226,998?

Mr. CORORAN. They provide administrative backstopping in the embassies. It includes cable costs, general services, in each country.

Mr. PASSMAN. Let us be more specific.

REIMBURSEMENT TO STATE DEPARTMENT

Mr. CORCORAN. In each country there is a determination made as to whether State or AID will provide these services for us. We have a very specific breakdown.

Mr. PASSMAN. That is for State?

Mr. CORCORAN. Yes, sir.

Mr. PASSMAN. Let us see what it represents as to items.

Mr. CORCORAN. Mail service.

Mr. PASSMAN. What country is that?

Mr. CORCORAN. I have this on a worldwide basis. I can give it to you by country.

Mr. PASSMAN. How much do you have for mail services worldwide?

Mr. CORCORAN. In Washington——

Mr. PASSMAN. For the State Department.

Mr. CORCORAN. $44,400.

Mr. PASSMAN. What kind of mail services?

Mr. CORCORAN. This includes couriers, courier travel, air pouch, service pouch and telegraph.

Mr. PASSMAN. How much is telegraph?

Mr. COCORAN. Telegraph is $5,400.

Mr. PASSMAN. How much for the couriers?

Mr. CORCORAN. $4,660.

Mr. PASSMAN. I thought possibly regular mail would be used. This is in addition to regular mailings under the Peace Corps?

Mr. CORCORAN. Yes, sir. He carries our classified documents.

Mr. PASSMAN. Let us go down the list.

Mr. CORCORAN. Courier travel.

Mr. PASSMAN. The courier has to travel whether there is a Peace Corps or not?

Mr. CORCORAN. That is right. We share in that cost.

Mr. PASSMAN. How much for travel?

Mr. CORCORAN. $5,340.

Mr. PASSMAN. That is for 1 year.

Mr. CORCORAN. That is right.

Mr. PASSMAN. Next?

POUCH AND TELEGRAPH SERVICE REIMBURSEMENTS

Mr. CORCORAN. The air pouch and service pouch and telegraph.

Mr. PASSMAN. The pouch?

Mr. CORCORAN. $8,400. This is sharing the cost of the pouch service which the State Department uses.

Mr. PASSMAN. Courier is one thing. The pouch is something else. Are you dealing specifically with the pouches?

Mr. CORCORAN. Yes.

Mr. PASSMAN. $8,000 wear and tear on pouches?

Mr. CORCORAN. No.

Mr. PASSMAN. What is it?

Mr. CORCORAN. They take the total cost of the pouch service and then they actually do a cost-accounting job on the proportion of service represented by the Peace Corps and then we agree to share in that total cost.

Mr. PASSMAN. It simply means you take the purchase price and upkeep of the pouches, because we have already explained away the

courier costs. Now you are dealing with the pouches, the pouch that carries the classified material?

Mr. CORCORAN. That is right.

Mr. TABER. Is that for pouches only, or for transportation?

Mr. SHRIVER. The whole thing.

Mr. PASSMAN. That is not personnel service. He said you are dealing with pouches. Let us not get it in the record two ways.

You are dealing specifically with the expense accounts now. What is the next item?

Mr. CORCORAN. Telegraph.

Mr. PASSMAN. How much?

Mr. CORCORAN. $5,400.

Mr. PASSMAN. You have your own telegraph service in the Peace Corps?

Mr. ROONEY. Mr. Chairman, if I understand this correctly, this is all for reimbursement to the State Department.

Mr. PASSMAN. That is correct. We are breaking it down. We want to see what service the State Department renders for this sum—$226,000.

Do you have to send all of your telegrams through the State Department?

Mr. SHRIVER. That is correct.

REPRESENTATION ALLOWANCE

Mr. PASSMAN. How about representation allowance? How much do you reimburse them on that?

Mr. CORCORAN. We do not reimburse them for representation.

Mr. PASSMAN. Do the items you explained to us total $226,000?

Mr. CORCORAN. No, sir.

Mr. PASSMAN. Let us get the rest of them.

REIMBURSEMENTS FOR ADMINISTRATIVE SERVICES

Mr. CORCORAN. First of all, may I make the distinction that there are costs for administrative services rendered in Washington?

Mr. PASSMAN. How much is that, sir?

Mr. CORCORAN. $54,000.

Mr. PASSMAN. They make a charge if they answer a telephone call for you?

Is that part of it, or another service? We want to find out what service they render for the $54,000.

Mr. CORCORAN. I can recite the whole outline of agreement.

Mr. PASSMAN. I am not talking about the agreement.

Mr. SHRIVER. This covers the services rendered. Why don't you give some examples?

Mr. CORCORAN. The medical program, for example. Peace Corps employees and their dependents will receive medical and related services. These services will include present employment medical examination, immunization, medical service similar to that provided other foreign services personnel, and medical evacuation.

Mr. PASSMAN. Will you go back over to your expense accounts now?

Mr. SHRIVER. This is one part of the expense for which we reimburse State.

Mr. PASSMAN. You have got some specific accounts there in your breakdown sheet?

Mr. CORCORAN. Yes. I have only those that relate to the Washington part of that here.

Mr. PASSMAN. Let us stay on this sheet, if you do not mind. I am trying to understand it.

OVERSEA SECURITY CLEARANCES

Mr. CORCORAN. We have got certain personnel services from the State Department.

Mr. PASSMAN. What kind?

Mr. CORCORAN. The oversea security clearances of personnel, for example.

Mr. SHRIVER. If we employ a person in our country to work for us who has had a long residence abroad, we have to have a field check on him that has to be made overseas. The State Department makes it. We have to pay for it.

Mr. PASSMAN. You may employ for the Corps people who are already overseas?

Mr. SHRIVER. No. Let's say Mr. Corcoran lived 4 years overseas. He is back in the United States. We want to employ him. We make a full check before we employ him. For the 4 years he lived overseas somebody has to check what he did while overseas.

Mr. PASSMAN. Do you take military personnel who served overseas and get the same kind of clearance before you employ them here?

Mr. SHRIVER. We get full clearance for everybody employed by the Peace Corps.

Mr. PASSMAN. I am talking about overseas. We are dealing specifically with what you pay for oversea security checks. If you had a man who served 2 years in some branch of the service during World War II overseas——

Mr. SHRIVER. I do not think that is covered. It might be.

Mr. PASSMAN. It would be just as important if you were working toward a security check, would it not?

Mr. SHRIVER. They decide that.

Mr. PASSMAN. How much do you pay for that service?

Mr. CORCORAN. That is a reimbursement service, sir.

I do not have that figure handy.

Mr. PASSMAN. The total then is——

Mr. CORCORAN. The total for the Department of State is $226,998.

Mr. PASSMAN. Now, as to representation allowance?

Mr. CORCORAN. Yes.

Mr. PASSMAN. How much are you reimbursing them for representation allowance?

Mr. CORCORAN. Nothing.

REIMBURSEMENTS TO AID

Mr. PASSMAN. How much are you reimbursing AID for its services?

Mr. CORCORAN. AID, $700,404.

Mr. PASSMAN. What are the items?

Mr. CORCORAN. These, again, are for administrative support, mostly overseas. I have a breakdown by countries. Overseas the total for AID is $121,200.

Mr. PASSMAN. How much do you have in there for representation allowance?

Mr. CORCORAN. Nothing there. We have our own.

Mr. PASSMAN. Nothing you can identify as such.

Mr. CORCORAN. We have our own representation allowance for our Peace Corps representatives.

Mr. PASSMAN. There is nothing for such purpose in AID or State Department that you can identify as such?

Mr. CORCORAN. I would not pay it even if I could identify it.

Mr. PASSMAN. Are you with the State Department or Peace Corps?

Mr. CORCORAN. Peace Corps.

Mr. SHRIVER. May I ask a question?

Mr. PASSMAN. Yes.

Mr. SHRIVER. I thought Congressman Rooney could tell me something as to whether or not——

Mr. PASSMAN. His time will come. Every member will have all the time he wants.

Now, that actually adds up to almost a million dollars?

Mr. CORCORAN. Yes.

TOTAL REIMBURSEMENTS

Mr. PASSMAN. Do you reimburse any other agencies?

Mr. CORCORAN. Yes. we reimburse the Civil Service Commission, for example.

Mr. PASSMAN. Could you tell us how much the total amount is you reimburse other agencies?

Mr. CORCORAN. It would be approximately $2 million. I think we have a figure here.

(The following was subsequently supplied for the record:)

The reimbursements total approximately $1.6 million which included approximately $1.2 million for AID and State Department support and approximately $0.4 million for other agencies.

Mr. PASSMAN. We are dealing with two different expenditures, one in the United States and one overseas. You have only accounted for about $946,404, whereas the total for fiscal year 1962 is almost $2 million. Could you give us a breakdown of the others to make up the total of approximately $2 million?

Mr. CORCORAN. Yes. The reimbursement to the Civil Service Commission to conduct full field investigations——

Mr. PASSMAN. You are dealing with State and ICA, these figures I just mentioned, where you accounted for only $936,000.

Mr. ROONEY. My figure is $927,304.

Mr. PASSMAN. We get $700,404.

Mr. ROONEY. And $226,900.

Mr. PASSMAN. For State and AID, you have given us the figure of $926,404. Yet the total amount is almost $2 million. For what does the other go?

Mr. CORCORAN. Sir, we plan an additional $272,598 for State and ICA for new programs.

Mr. PASSMAN. You are up to $1.2 million?

Mr. CORCORAN. That would be $1.2 million. This is all we are planning on at the present time.

AVAILABILITY OF EXCESS FUNDS

Mr. PASSMAN. Then, as in other cases, you will have a substantial amount left over unobligated that you actually do not need?

Mr. CORCORAN. In this particular item.

Mr. PASSMAN. The reference is not only to this one item. We shall pick them as we come to them. But, in this item you have a 40-percent overage?

Mr. CORCORAN. We will have some overage.

Mr. PASSMAN. I made a statement of 40-percent overage. I am either close or far off. How far off am I?

Mr. CORCORAN. I am not that rapid in arithmetic.

Mr. SHRIVER. It is $1.2 million versus $2 million so you have got $800,000 it looks as it we may not need in that account.

Mr. PASSMAN. Would that be about 40 percent of the total?

Mr. SHRIVER. It looks like it to me.

ARMY AUDITS

Mr. PASSMAN. How much do you reimburse the Army?

Mr. CORCORAN. The Army we are only reimbursing in a very minor way for some audit of our university contracts.

Mr. SHRIVER. $105,000 for civil service investigations.

Mr. PASSMAN. The Army audits your university contracts?

Mr. CORCORAN. We are using existing governmental agencies which have field auditing forces.

Mr. KELLY. The Army, Navy, and Air Force are providing us audit service at the universities where they are ordinarily in residence anyway.

Mr. PASSMAN. But they charge for it, even though they are in residence?

Mr. KELLY. In some instances. The Air Force has not charged us anything.

Mr. SHRIVER. It saves us the business of employing a lot of other people and getting a swollen bureaucracy.

Mr. PASSMAN. How many different layers do you have before you finally come up with the answer?

Mr. SHRIVER. That is no layer at all.

Mr. PASSMAN. What do they do?

Mr. SHRIVER. They audit. If they do not audit we would have it and then we would have a layer of employees.

Mr. PASSMAN. At least it is complicated.

When you break this thing out, it is bound to cost a lot of money to keep all this paperwork going.

Thank you very much, gentlemen.

WEDNESDAY, APRIL 18, 1962.

Mr. PASSMAN. The committee will come to order.

I understand that Mr. Shriver is suffering from laryngitis and finds it difficult to talk.

It is perfectly all right, Mr. Shriver, if you wish to have one of your associates answer questions.

Mr. SHRIVER. Mr. Wiggins will speak for us.

TEACHER SHORTAGE

Mr. PASSMAN. You will recall the discussion we had yesterday relative to the number of teachers proposed for assignment to projects overseas. It was estimated that at present approximately 65 percent of the paid employees (volunteers) are teachers, and the projection for the future was approximately 50 to 55 percent to be teachers.

Feeling I could perform some small service for the committee, I called three superintendents of education in my district last evening, and I was told that there is a greater shortage in the elementary schools than in the high schools. The elementary schools is the place where the pinch is.

In most States a teacher needs a certification but not a master's degree?

Mr. WIGGINS. I think that is correct.

Mr. PASSMAN. It is true that in most States if a teacher has a master's degree he, or she, receives a higher salary?

Mr. WIGGINS. Yes.

PEACE CORPS TEACHERS

Mr. PASSMAN. I should think that most of your girls would be teaching in elementary schools?

Mr. WIGGINS. Most of the teachers in the Peace Corps will be teaching in the secondary schools.

Mr. PASSMAN. They could, with certification, teach in the elementary schools back here?

Mr. WIGGINS. Yes; if they had certification.

Mr. PASSMAN. We have a tremendous shortage in that field, and we should not draw too heavily upon the ranks of the teaching profession until we can finally fill out the program here in America?

Mr. WIGGINS. Yes. I would like to state, Mr. Chairman, that most of our people who go into teaching abroad in the Peace Corps are not drawn from the ranks of teachers or potential teachers.

Mr. PASSMAN. They would be potential teachers?

Mr. WIGGINS. Very well.

DEFICIT SPENDING

Mr. PASSMAN. Gentlemen, let me quote at this point a few pertinent observations:

I place economy among the first and most important virtues, and public debt as the greatest of dangers to be feared * * * To preserve our independence, we must not let our rulers load us with perpetual debt * * * We must make our choice between economy and liberty or profusion and servitude * * * If we run into such debts, we must be taxed in our meat and drink, in our necessities and our comforts, in our labors and in our amusements * * * If we can prevent the Government from wasting the labors of the people, under the pretense of caring for them, they will be happy.—*Thomas Jefferson.*

The history of liberty is a history of the limitation of governmental power, not the increase of it.—*Woodrow Wilson.*

Nothing is easier than the expenditure of public money. It does not appear to belong to anybody. The temptation is overwhelming to bestow it on somebody.—*Calvin Coolidge.*

I favor the policy of economy, not because I wish to save money, but because I wish to save people. The men and women of this country who toil are the ones who bear the cost of the Government. Every dollar that we carelessly waste means that their life will be so much the more meager * * * Economy is idealism in its most practical form.—*Calvin Coolidge.*

NUMBER OF VOLUNTEERS AND TYPE OF PROJECTS BY COUNTRY

Mr. PASSMAN. Mr. Wiggins, what is the amount of money required in fiscal year 1963 to finance all projects and the 2,400 paid employees, or volunteers, anticipated to be on board by June 30?

Mr. WIGGINS. The total funds required to finance the 2,400 volunteers estimated to be on board June 30, 1962, from the fiscal year 1963 budget is $17.1 million.

Mr. PASSMAN. Can you tell us what countries, the type of project, and the number of volunteers involved in each project?

Mr. WIGGINS. Yes, I can.

Mr. PASSMAN. You might submit that information for the record.

(The information requested follows:)

PROJECTS PLANNED FOR INITIATION PRIOR TO JUNE 30, 1962

It is currently anticipated that volunteers for the following projects will enter training by the end of fiscal year 1962:

Country	Type of project	Number of volunteers
Bolivia	Health and sanitation [1]	55
Brazil	Agricultural extension [1]	43
Chile	Rural development [1]	45
	Social welfare [1]	20
Colombia	Rural development [1]	111
Dominican Republic	do [1]	21
Ecuador	do [1]	71
	Secondary education	15
El Salvador	Agricultural education and extension [1]	25
Honduras	Social welfare	28
Jamaica	Education [1]	41
Peru	Urban development [1]	27
	Health and sanitation [1]	51
	Rural development	59
	Urban development	31
St. Lucia	Agricultural extension [1]	15
Venezuela	Social welfare [1]	22
	University education [1]	7
	Agricultural extension	42
Malaya	Rural development [1]	7
	Health [1]	40
	Education [1]	22
Philippines	Elementary education [1]	285
	Secondary education	120
	University education	50
	Rural development	30
North Borneo/Sarawak	Health	14
	Education	31
	Rural development	56
Thailand	Education [1]	37
	Health and sanitation [1]	8
	Education	50
	Health	24
India	Agricultural extension [1]	26
	do	35
	University education [1]	25
Pakistan	Multipurpose [1]	57
Afghanistan	do	12
Ceylon	Education	42
Iran	Agricultural education	47
Nepal	Education and agricultural extension	79
Ghana	Secondary education [1]	51
Nigeria	do [1]	84
	University education [1]	24
Sierra Leone	Secondary education [1]	37
	do	70
Somali Republic	Education [1]	50
Tunisia	Public works [1]	30
	do	30
	Physical education	20
Cameroon	Secondary education	50
Ghana	Education	115
Liberia	Secondary education	70
Total		2,457

[1] Projects now in service or in training.

PROPOSED OBLIGATIONS FOR TRAINING

Mr. PASSMAN. In addition to this cost, you plan to obligate $14,140,000 of fiscal 1962 funds to finance the training of 2,710 Peace Corps personnel in July and August?

Mr. WIGGINS. That is correct, based upon our programing assumptions.

Mr. PASSMAN. What will be the cost for these 2,710 Peace Corps personnel in fiscal 1963?

Mr. WIGGINS. We estimate they will cost $15.29 million.

FUNDS FOR PEACE CORPS EXPANSION

Mr. PASSMAN. In addition to the $32,390,000 in the 1963 budget to finance Peace Corps personnel selected and funded during fiscal 1962, you are requesting $31,360,000 for expansion of the Peace Corps?

Mr. WIGGINS. That is correct, sir.

Mr. PASSMAN. Of the $31.36 million requested for expansion, you propose to obligate $16,600,000 for training of Peace Corps personnel and for projects that will require an appropriation in fiscal 1965?

Mr. WIGGINS. No, sir, that is not correct. We propose $16.6 million to obligate in fiscal 1963 for volunteers entering and training in July and August of 1963.

Mr. PASSMAN. What is the length of those projects?

Mr. WIGGINS. The length of those projects varies somewhat. The length of service of the volunteers is roughly 24 months.

Mr. PASSMAN. That makes it fiscal 1965, does it not?

Mr. WIGGINS. They would enter in July and August of 1963 and they would serve until July and August of 1965, yes.

COST OF FUNDING VOLUNTEERS IN FISCAL YEAR 1965

Mr. PASSMAN. Then what will be the requirement to fund the personnel for 1965, if you put that number in training and in service?

Mr. WIGGINS. In fiscal 1965?

Mr. PASSMAN. Yes.

Mr. WIGGINS. This is a fairly complicated calculation, but by and large they cost $9,000 a year.

Mr. PASSMAN. How many do we have from 1963 which you will have to fund for 1965?

Mr. WIGGINS. There will be in fiscal 1963 the 3,670 who will continue until July and August of 1965.

Mr. PASSMAN. Will you work that out and give us a total?

Mr. WIGGINS. Yes.

Mr. PASSMAN. Put it in the record. That will be satisfactory.

(The information requested follows:)

FISCAL YEAR 1965 COSTS OF VOLUNTEERS ENTERING TRAINING IN JULY AND AUGUST 1963

At an average annual cost of $9,000 per volunteer, the 3,670 volunteers expected to enter training in July and August 1963 would involve a cost of approximately $33,030,000 in fiscal year 1965.

COST OF CORPS AT PROJECTED STRENGTH

Mr. PASSMAN. On page 56 of the justifications, you indicate that you propose a Peace Corps of approximately 6,700?

Mr. WIGGINS. 6,700—I am not sure what line you are reading from—at the end of fiscal 1963, 6,700 on board by June 30. That is correct, sir.

Mr. PASSMAN. Would you multiply that by $9,000 and give us the total?

Mr. WIGGINS. Yes, sir. My multiplication shows $70,300,000.

Mr. PASSMAN. $70,300,000. Would you mind checking your figures carefully? It is important.

Mr. WIGGINS. I believe I made a mistake originally. It seems to be $60 million which would be the annual cost on the average of that number of volunteers. That is, 9,000 times 6,700 is $60,300,000.

Mr. PASSMAN. Then some adjustments could be in order if that is the maximum? That does not balance out with the money request.

Mr. WIGGINS. Mr. Chairman, in addition to those which would be on board by June 30, 1963, we have 3,670 entering in July and August of 1963. We are proposing to you——

Mr. PASSMAN. But you are projecting it now into the new fiscal year. You are requesting funds for fiscal 1963.

Mr. WIGGINS. We are proposing to obligate it in——

Mr. PASSMAN. I know, but in your legislation you have 1-year funds.

Mr. WIGGINS. One-year funds for obligation purposes.

Mr. PASSMAN. Your total personnel will be 6,700?

Mr. WIGGINS. On board as of June 30, 1963.

Mr. PASSMAN. You are requesting an appropriation to fund the entire program for 6,700 for 1963.

If you multiply this by 9,000 then you come up with a total of $60 million, do you not?

Mr. WIGGINS. No. We are proposing to obligate in fiscal 1963 $16 million for expenditure at a later point on those volunteers to enter in July and August 1963.

This, Mr. Chairman, I would like to add——

Mr. PASSMAN. What you are doing is putting the two together, which would require an appropriation for fiscal 1963 and fiscal 1964, and it would also include 1965?

Mr. WIGGINS. The program presented to you is on a year by year basis. We try to forward fund as little as possible.

Mr. PASSMAN. Do you have continuing authorization or is this a 1-year authorization?

Mr. WIGGINS. We come before the committees for an annual authorization. It is fully understood in our presentation that the volunteers will be on board for 2 years, but we ask only that amount of money necessary to obligate in the coming year.

EFFECT OF REDUCTION IN FUNDS FOR 1963

Mr. PASSMAN. Let us move out into next year, where you ask for $16,600,000. If that should be reduced it would not really hurt your program, would it?

Mr. WIGGINS. It would.

Mr. PASSMAN. In what way?

Mr. WIGGINS. We would not be able to fund those volunteers that we say need to enter in July and August of 1963. This would be a drastic reduction in the program.

Mr. PASSMAN. You say that you may need to enter?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. But this is not in keeping with the authorization and the manner in which we appropriate money, which is on a 1-year basis.

Mr. WIGGINS. Sir, if I may answer that: I believe it is fully consistent with the way the Peace Corps was presented last year, the way the appropriation was made last year, and our presentation this year. We need funds to obligate for the training which occurs in July and August because we must let the contracts in the prior fiscal year.

For example, right now our training division is very busy letting contracts with fiscal 1962 money which you appropriated last year.

Mr. PASSMAN. But the Committee on Appropriations reserves the right to correct any error it may have made in the previous year.

Mr. WIGGINS. May I speak to the substance rather than the procedure?

Mr. PASSMAN. I want to stick to what you need, how many you have in, and with the 1-year appropriation. You may speak to whatever you want.

Mr. WIGGINS. We need the 1-year appropriation for fiscal 1963 to cover the volunteers who will enter in July and August of 1963 because the contracts need to be let in the early spring for that summer's training.

I might add that the reason why we have to have a very heavy summer input is this: First of all, a large percentage of our volunteers are graduating seniors.

Secondly, many of the institutions where we need to train have campus facilities available only during the summer.

Thirdly, with the large proportion of teachers, 50 to 55 percent, we are providing, by and large they enter their work in the fall of our year in the other countries and thus in the natural cycle of the program we do have a very heavy summer input.

Mr. PASSMAN. Again, we are getting ahead of the program. That is the trouble with the foreign aid program, all phases of it. Too much is taken for granted.

Before these bills get to Congress for consideration you have not made any legal obligation, but you have certainly made what in most instances has to be accepted as a binding obligation. It is done in all phases of the program.

Mr. WIGGINS. These are not only binding but we are proposing they be legal obligations.

Mr. PASSMAN. I suppose they are legal when you sign the contract.

If you should go back to the record now with the number of personnel, it would amount to $60 million. At least that part of it is correct?

Mr. WIGGINS. Sir, I cannot exactly say yes to that because the calculation of minimum needs of funds for obligation must take into account the forward funding that occurs on contract administration. It is not just $9,000 times the number on board at the end of the year.

Mr. PASSMAN. If we read the presentation would we not gain the impression you are basing your request on the cost of $9,000 per individual?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. Then when you multiply this thing out you find it is several million dollars over that.

Mr. WIGGINS. Mr. Chairman, our presentation is based upon asking for funds for not 6,700 volunteers but it is based upon asking funds for 9,970 volunteers.

PROJECTED COST FOR TRAINING VOLUNTEERS

Mr. PASSMAN. What is the amount of money required to finance the Peace Corps personnel who will enter training in July and August of 1963? Can you project that for us?

Mr. WIGGINS. Yes, it is a fairly complicated thing. I can provide it for the record if you like.

Mr. PASSMAN. Could you give us some indication?

Mr. WIGGINS. There are 3,670 volunteers who enter in July and August, 1963. In the ensuing 24 months they will cost the U.S. Government $9,000 apiece. Thus, in the ensuing 24 months they will cost—let me check my arithmetic to be sure—$33 million in all for the 2 years that they will be in service with the Peace Corps.

Mr. PASSMAN. How much are you requesting for this item in 1963?

Mr. WIGGINS. We are requesting in fiscal 1963 for the people entering in July and August——

Mr. PASSMAN. Covering those you mentioned?

Mr. WIGGINS (continuing). Covering those 3,670, we are requesting $16.6 million.

Mr. PASSMAN. It simply means that we are committed on about $16 million into fiscal 1964?

Mr. WIGGINS. I would like to agree with you absolutely.

Mr. PASSMAN. If you are going to have a 2-year program, we want the facts in the record.

Mr. WIGGINS. I would like to agree with you, you are absolutely right, and this program is not designed to put money aside into a pipeline; it is designed to ask you for only that minimum amount we need to obligate this year, in contrast with other programs. It does mean on this basis when we ask you for less for those volunteers, if they stay in 2 years, as we plan they would do, there is a presumptive obligation for the coming year.

Mr. PASSMAN. We are just trying to put in the record the facts of the matter.

Mr. WIGGINS. Fine.

Mr. PASSMAN. You are obligating beyond fiscal 1963?

Mr. WIGGINS. Not in a technical sense of obligation of funds.

Mr. PASSMAN. In a moral sense you are?

Mr. WIGGINS. We are anticipating fully that these volunteers would serve 2 years.

Mr. PASSMAN. I think we both understand the same thing, that you are obligating, at least indirectly, $16.6 million into fiscal 1964.

Mr. WIGGINS. I think that is a fair way to put it.

Mr. PASSMAN. That is the only way.

ADMINISTRATIVE EXPENSES

Last year you requested the Congress not to place any limitation on your administrative expenses, which were estimated at $8,769,790?

Mr. WIGGINS. Mr. Corcoran.

Mr. CORCORAN. Last year administrative expenses were estimated at $5,272,000.

Mr. PASSMAN. Shall I restate the question to clear up the confusion?

Mr. CORCORAN. Go ahead.

Mr. PASSMAN. Last year you requested Congress not to place any limitation on the administrative expenses, which were estimated to be $8,769,790. Is that correct or not?

Mr. CORCORAN. That is correct.

Mr. PASSMAN. Where do you get this $5 million figure you were getting ready to give us? Is that something else to be added to it?

Mr. CORCORAN. This $8,769,000 was administrative and program support.

PROGRAM SUPPORT

Mr. PASSMAN. What is program support?

Mr. CORCORAN. Program support is those expenses directly related to a particular project as against the overhead or administrative expense.

(The following clarification was subsequently submitted for the record:)

Program support is an indirect supporting activity such as educational testing service, medical examinations, the operations of the contract office, the medical staff, operations related to the recruitment, selection, and training of Peace Corps volunteers and volunteer leaders, and similar indirect supporting functions.

Mr. PASSMAN. Then it is actually administrative?

Mr. CORCORAN. Yes.

Mr. PASSMAN. You were going to give us the five, and if I had not followed up on it we would never have gotten a "Yes" to the eight; is that about the way it figures out? This figure of $8,769,000 is correct?

Mr. CORCORAN. Yes, sir.

1963 ADMINISTRATIVE EXPENSE ESTIMATE

Mr. PASSMAN. What is your estimate for fiscal year 1963 for the same purpose?

Mr. CORCORAN. $18.3 million.

Mr. PASSMAN. What is your total estimate?

Mr. CORCORAN. $63.75 million.

Mr. PASSMAN. What percentage, then, would your administrative expense be of the total request for fiscal 1963?

Mr. CORCORAN. Roughly 30 percent.

Mr. PASSMAN. About 30 percent of your total funds is for administrative purposes?

Mr. WIGGINS. Yes, sir.

ADMINISTRATIVE STAFF

Mr. PASSMAN. Last year you requested a total of 369 administrative positions, 281 for administration and 88 for program support, to handle a program with 2,700 personnel overseas or in training. What is your current staff?

Mr. CORCORAN. The permanent positions in the United States today, 254; overseas, 53.

Mr. PASSMAN. You will have some unobligated funds in this category at the end of this fiscal year, will you not?

Mr. CORCORAN. We requested funds for 269 permanent positions in Washington. That corresponds to the 254 permanent positions we now have.

Mr. PASSMAN. Did you fit that into the reduction the Congress made in the appropriation request last year?

Mr. CORCORAN. No, we did not.

Mr. PASSMAN. Then if you had originally allocated funds for 369 and you are only going to have aboard 307, you should have available the funds you had originally allocated for the other 62; is that right?

Mr. CORCORAN. That is right.

JUSTIFICATION FOR INCREASED STAFF

Mr. PASSMAN. Why do you need an increase of 428 new positions in fiscal year 1963?

Mr. CORCORAN. Primarily because of the increase in workload, greater number of volunteers.

Mr. PASSMAN. That would give you a total of how many in the category that we were discussing applicable to fiscal 1962?

Mr. CORCORAN. 895, sir.

Mr. PASSMAN. So you would be increasing, if you take it on the basis of the number actually employed, about 250 percent?

But your total appropriation request is not on that same proportion.

Mr. CORCORAN. That is right.

TOTAL ADMINISTRATIVE COSTS

Mr. PASSMAN. Which means your administrative expense will continue increasing its percentage of the total appropriation?

Mr. CORCORAN. Yes, sir.

Mr. WIGGINS. I would like to add that our workload, by and large, is a reflection of the volunteers we have on board and the number of countries where we will be and our projected volunteer strength is going up to 9,900 volunteers.

Mr. PASSMAN. We are dealing only with the percentage you are going to spend for overhead. You are already spending 30 percent, and by his admission, it could go on up, and you could reach 50 percent.

Mr. WIGGINS. Our present estimate, in contrast to the original estimate we made, for total administrative and program support or, as you have defined it, the administrative, is presently $10.3 million out of the $30 million available. Next year——

Mr. PASSMAN. That is over 30 percent, is it not?

Mr. WIGGINS. For the fiscal 1962, yes, it is over 30 percent. Next year our best estimates are that of the $63.75 million we will need $18.3 million for the same category.

Mr. PASSMAN. Are we not going to have to wait and see? You have two parts to put together. Let us add the two together. You have local administrative expense and you have oversea administrative expense.

Mr. WIGGINS. Yes.

Mr. PASSMAN. Are you putting both together?

Mr. WIGGINS. Yes, sir, and I would like to say that it is right and reasonable to expect that this proportion would drop as we move forward into the larger number of volunteers and the larger countries.

Mr. PASSMAN. But you are dealing with the future, are you not?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. We will have to wait and let the record speak for itself.

Mr. WIGGINS. I would like to say we made the original estimates, which were printed on June 1, when we had been in existence with the Peace Corps with about 2 months' experience. It is true that our present estimate is a couple million dollars higher than that made and printed in June. I believe you will find our present estimate, based upon 15 months' experience, is quite reliable and much more so than that we made when we only had 2 months' experience.

Mr. PASSMAN. Let us go to the actual figures outlined in your justifications. For fiscal 1962 it will be slightly over 30 percent of the total for administrative expenses.

Mr. WIGGINS. That is right, sir.

Mr. PASSMAN. If you want to project it to 1963, then it is 29 percent plus.

Mr. WIGGINS. Dropping, yes.

Mr. PASSMAN. I would not call it dropping very much. You underestimated before.

Mr. WIGGINS. That is right.

Mr. PASSMAN. Do you not think, as the fiscal 1963 and fiscal 1962 percentages are so close together, that we had better wait until fiscal 1964 to see whether or not the percentage would be 18 percent or 28 percent?

Mr. WIGGINS. Yes.

LOCAL EMPLOYEES OVERSEAS

Mr. PASSMAN. Why do you need 160 local employees overseas?

Mr. CORCORAN. We find that for many of the chores we have overseas it is much cheaper to use local employees than it is to hire Americans and send them overseas.

Mr. PASSMAN. What kind of chores?

Mr. CORCORAN. These are sometimes clerical, typing, payroll clerks, this sort of thing.

Mr. WIGGINS. We are trying to keep our oversea American staff to a minimum since a local employee costs roughly a fourth or a fifth of what an American employee costs. We find in a number of countries we are able to even dispense with American secretaries and only have in some places an officer without any secretarial complement, and we hire a local secretary.

Mr. PASSMAN. You find them to be competent?

Mr. WIGGINS. Those we hired so far, we find them so.

Mr. PASSMAN. I am talking only about the ones you have hired. Are they competent?

Mr. WIGGINS. Yes. What I was trying to say by implication is that we have problems hiring in all cases competent local secretaries, and in some cases we have to send out Americans. The ones we have hired are very good. Our Peace Corps representatives have been pleased with them.

Mr. PASSMAN. It is a wonder those people had not thought about some of these things and put their own efficient personnel out in the field doing the same things your Peace Corps personnel are going to do. I had been led to believe that these people were so primitive they would not have had this type of skilled personnel available.

What do 160 local employees cost?

Mr. CORCORAN. We can roughly assume they cost about $1,000 a year.

Mr. PASSMAN. Could we not have a little more accurate information? You have been meeting those payrolls. I would not know why you would not be able to tell us.

Mr. WIGGINS. If we are not able to tell you this morning, we can tell you this afternoon.

Mr. PASSMAN. While he is figuring that up, let me ask this question: Does the wage scale vary depending on the country?

Mr. WIGGINS. Of the local employees?

Mr. PASSMAN. Yes.

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. In how many countries are you using local employees?

Mr. WIGGINS. We are using local employees in practically all of the countries where we are operating, a minimum of one; sometimes we have more than one, of course.

Mr. PASSMAN. In some countries you may have seven or eight?

Mr. WIGGINS. Yes.

Mr. PASSMAN. How many local employees did you have during fiscal 1962?

Mr. WIGGINS. Forty-four is our present estimate as of March 1 of the number of local employees that we have.

Mr. PASSMAN. Can you project that beyond fiscal 1963? This is the way these programs get very expensive.

Mr. WIGGINS. We have no projection of local employees beyond fiscal 1963. We can make it for you, but we have not done so.

Mr. PASSMAN. If you will, please.

(The information follows:)

OVERSEA LOCAL EMPLOYEES

It is currently estimated that there will be up to 98 local employees serving on the oversea staffs of the Peace Corps by June 30, 1962, and that this number will be increased to approximately 160 by the end of fiscal year 1963. There are no estimates beyond that date, but the number of local employees in all likelihood will remain in the same or a declining ratio to the number of volunteers.

Mr. CORCORAN. Local employees, 160; $302,000 for 1963. $2,122 total salary.

Mr. PASSMAN. We have to have the facts. You see how easy it is to ask a question and to run through it. We had an answer of a thousand dollars, and now, with the arithmetic, it is what figure?

Mr. CORCORAN. $302,000.

Mr. PASSMAN. Per employee?

Mr. CORCORAN. $2,122.

Mr. PASSMAN. How does that amount compare with other local employees of the AID program?

Mr. WIGGINS. Our local employees are at the lowest bracket, by and large, of these employed by the AID program.

Mr. PASSMAN. Give us the amount, if you will. You are going to hire employees that you need?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. You need about the same type of employees, with the same qualifications that AID uses?

Mr. WIGGINS. No, sir. The point I want to make is the opposite, that by and large we do not need the same quality of employees that the AID program uses abroad for locals. We are employing at the lower range of the scale.

Mr. PASSMAN. We are now dealing with the money. What does AID pay for their local employees in the same category?

Mr. WIGGINS. We use the same pay scale, which by and large is used by AID and the Embassy for local employees, the same classification of the same jobs.

Mr. PASSMAN. How about the pay per person?

Mr. WIGGINS. That would mean that a secretary employed by the Peace Corps, classified as a secretary, would be paid the same in the Embassies, in the AID program, in USIA, or Peace Corps.

Mr. PASSMAN. Do you know that or are you guessing? We have been given figures in the past that some of the locals had a very low salary, going down as low as $600.

Mr. WIGGINS. We are using the same classification system abroad.

BENEFITS GIVEN LOCAL EMPLOYEES

Mr. PASSMAN. Maybe the classification, but we are dealing entirely in dollars now. We are going to verify it, so you will not be mistaken and we shall not either. What other benefits are they given in addition to the $2,122?

Mr. WIGGINS. I do not believe there are any. In some foreign countries I think there are certain kinds of social security. We treat them in the way the rest of the U.S. Government does abroad. I really cannot answer your question as to whether there are none or there may be some slight things.

Mr. PASSMAN. Do they come under some retirement system or some form of civil service?

Mr. BOGARDUS. Not normally.

Mr. PASSMAN. In other cases than normally?

Mr. BOGARDUS. It depends on local laws. In a country, if they are required to be given a severance pay when fired, all U.S. agencies in the country give them the same severance pay. We would be no different from State, AID, USIA, or the rest. We treat them just the same as all the rest of the agencies.

Mr. PASSMAN. That does not answer the question, telling us that you treat them like all the other agencies; we want to know how you do it. We do not want to have to examine all the other agencies.

Mr. BOGARDUS. It depends on local laws.

Mr. PASSMAN. Are they getting any other benefits besides their salary?

Mr. WIGGINS. I believe they are getting a few. We can provide for the record an answer. I regret we cannot answer it by country.

Mr. PASSMAN. All right.

(The information follows:)

The local employee compensation plans used in the various foreign countries by the Peace Corps to remunerate its non-American personnel are those developed and approved for that locality by the Secretary of State under the authority extended him in section 444 of the Foreign Service Act of 1946, as amended. These compensation plans are also used pursuant to inter-agency agreements, by the Departments of Defense and Agriculture, by the U.S. Information Agency and by the Agency for International Development. By using a single wage scale, and by following identical compensation practices, all U.S. Government agencies in a given locality are able to treat their respective local employees in a like manner. Thus, the U.S. Government as an employer is able to accord fair and equal treatment to all of its non-American personnel regardless of their agency affiliation.

As required by section 444, these compensation plans are based "upon prevailing wage rates and compensation practices for corresponding types of positions in the locality, to the extent consistent with the public interest." These plans are geared to the labor situation which exists in a given area to the end that the U.S. Government will be in a competitive position to obtain the services of competent personnel. In return for their services they are paid, insofar as possible, in keeping with local wage rates and custom.

These employees are given a single lump-sum salary payment, usually on an every-other-week basis. No additional payments are made for bonuses or other fringe benefits. Also, our local employees do not participate, except on a voluntary basis, in the host governments' social security systems. The Peace Corps does not make any contribution as such to the social security system. However, offsets are included in the employees' wages which reflect the amount which might otherwise have been paid to the system. In line with the policy established by the Department of State, severance payments as such have not been made by the Peace Corps. Similarly, offsets representing a reasonable estimate of potential severance pay have been included in the employees' wage rate.

While the so-called permanent local employees of the Department of State and other agencies which follow their system can under certain conditions be permitted to participate in the U.S. civil service retirement system, none of the Peace Corps' local employees have yet been given such benefits and no plans have yet been devised to do so.

The Peace Corps' local employees do receive annual and sick leave benefits in keeping with the prevailing practice in the area concerned. These leave privileges, however, do not exceed in any instance the leave benefits granted by other U.S. Government entities operating in the area, and they do not in any instance exceed the leave privileges accorded American citizen personnel.

Mr. PASSMAN. You are talking about the equivalent of U.S. dollars now?

Mr. WIGGINS. Yes, sir, paid in local currency.

BASIS FOR SALARY DETERMINATION

Mr. PASSMAN. What if you were operating in a country with a per capita income of $70 or $80 or $105?

Mr. WIGGINS. In this instance we, like the other agencies, base our pay scale upon studies primarily made by the Department of State that try to relate the pay scales for secretaries to the local economy to save the maximum amount of funds.

Mr. PASSMAN. If you were paying $2,100 a year in a country where they have a low GNP—that is the most misunderstood thing we have to deal with—if you have a per capita income of say, $185, that secretary back in this country would have to get something like $12,000 or $14,000 in order to be comparable; is that correct?

Mr. WIGGINS. If I understood it on the basis on which you propose it, the answer is "Yes." The guiding principle is to pay the lowest competitive wage rate in the country to get the service. In other words, the guiding principle in establishing the secretarial scale is

that the embassy, as I understand it, makes a survey and determines what comparable secretaries get both in Government and private enterprise in that country.

Mr. PASSMAN. This becomes an international agency when you operate in that country, and they do not pay any income tax, do they?

PAYMENT OF TAXES BY LOCAL EMPLOYEES

Mr. WIGGINS. I believe in all our countries the local employees of embassies pay full income tax.

Mr. PASSMAN. I am not talking about our embassies, I am talking about the Peace Corps employees.

Mr. WIGGINS. Our local employees pay income taxes in their own country to their own country.

Mr. PASSMAN. But that is not true in our country. If you are an employee of an international organization, such as the Inter-American Development Bank—for example, a secretary worked in my office and then went to the Inter-American Bank and received a pay increase of 25 percent—she does not pay any income tax; is that right?

Mr. WIGGINS. Yes. International agencies are usually excluded, but we are a bilateral agency.

Mr. CONTE. Mr. Chairman.

Mr. PASSMAN. Mr. Conte?

TOTAL LOCAL EMPLOYEE COST

Mr. CONTE. What is the total amount you paid for local help?

Mr. CORCORAN. $302,000.

Mr. WIGGINS. That is our budget projection for 1963.

Mr. CONTE. 160 employees. That comes to $1,800, not $2,100. You better check that out.

Mr. ROONEY. So the record is straight, what is the difference?

Mr. CORCORAN. Total positions are 160. We take that out into a man-year figure. We lapse it, which is 142.3 man-years times $2,122, making $302,000.

Mr. PASSMAN. I assume that you want it correct. You certainly have the right when you figure this out, if your figures are wrong, to correct them in the record.

Mr. WIGGINS. Is is clear the 160 is the buildup at the end of the year and that on the average you would not have that many?

Mr. PASSMAN. I am speaking now of the salary of an employee for a full year. I think, if you will have it checked, in some of these countries, that is, go down to the jewelry store or the shoestore or the dry goods store, and you will find many of the employees are getting as low as $40 per month.

If you have a person working downtown for $40 a month and another person working for you at $160, does that create a bad impression?

Mr. WIGGINS. If this were true, yes.

Mr. PASSMAN. Check it. I am not going to make a statement for the record without knowing what I am talking about.

You do recruit personnel in the Peace Corps with the same qualifications, do you not, or equal or superior qualifications, to those that you employ abroad, that is, the local personnel?

Mr. WIGGINS. We have volunteers as well as staff employees who are equally or better qualified.

Could I ask a question, Mr. Chairman?

Mr. PASSMAN. Yes.

USE OF VOLUNTEERS ON SECRETARIAL POSITIONS

Mr. WIGGINS. Would it be agreeable to this committee for us to use volunteers in secretarial staff positions?

Mr. PASSMAN. I do not think the committee has very much to say as to what you do. Let me be completely honest with you. You told us that was what you were going to do last year. At page 70, of last year's hearings, Mr. Shriver said:

> He will have a secretary, probably; yes, sir. We are trying to get volunteers to do that work so we do not even have to hire a secretary. There is some question, however, as to whether Congress will let us do it.

We did not register any objection.

Mr. WIGGINS. The Congress in its totality did.

Mr. PASSMAN. In this specific legislation?

Mr. MOYERS. Yes, sir. We proposed this, and the Senate Foreign Relations Committee knocked it out against our protest.

Mr. PASSMAN. I am certainly glad to stand corrected.

Mr. WIGGINS. We wanted to do this. This was our proposal. We were denied the opportunity.

Mr. PASSMAN. You can use no——

Mr. WIGGINS. Volunteers as secretaries.

Mr. PASSMAN. When you speak of volunteers, you are speaking of Peace Corps personnel?

Mr. WIGGINS. Yes, sir.

Mr. MOYERS. We would like to use them as secretaries but permission was denied.

Mr. GARY. A volunteer costs you $9,000 as against $2,000 for local help.

Mr. WIGGINS. We would never substitute volunteers for local help. We would hope to substitute a volunteer for an American secretary brought from the States.

Mr. PASSMAN. In many instances these people would be acting as instructors, too, because you do not have a requirement for a large staff abroad. I am wondering if the Congress should not reconsider that prohibition, because 65 percent of these people are going over as teachers. In all probability in the secondary schools there could be a course in typing and stenographic work.

Mr. WIGGINS. Yes. We have some proposals in Africa for commercial teaching.

Mr. PASSMAN. Had you approached it on that basis in justifying it to the legislative committee, that these people could serve a dual purpose, maybe as instructors? It is worthy of thought, is it not?

Mr. WIGGINS. It is worthy of thought, and we would be delighted to take that into account.

PEACE CORPS SALARIES AND GRADES

Mr. PASSMAN. What is the average grade and salary of positions established by the Director?

Mr. WIGGINS. In Washington?

Mr. PASSMAN. Yes, and the same thing for overseas. You have 88 American employees overseas, and you have a program in country X, where you have some high-priced personnel, and it is necessary for them to get their reports back in to Washington, but you cannot find a competent local secretary who speaks English and can take dictation. Does it simply mean that such a man just could not make those reports?

If you have five people, we will say, out in Cambodia and you have a Peace Corps project there, you expect certain reports to come in from your higher echelon employees there, do you not?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. If this man is not able to employ a competent local secretary, it simply means he cannot get the reports in; is that right?

Mr. WIGGINS. No; we are sending out competent American secretaries in the cases where we cannot get adequate local employees.

Mr. PASSMAN. So you do have a way out in situations such as that?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. So the law is not so airtight that you cannot send secretaries out.

Mr. WIGGINS. No; we have them out today and we will be sending more out.

COST PER VOLUNTEER

Mr. PASSMAN. When you were speaking of $9,000 per Peace Corps personnel, that includes, of course, the training and the overhead and every other expense?

Mr. WIGGINS. Everything.

Mr. PASSMAN. So far as the actual amount going to the individual——

Mr. WIGGINS. It would be far less.

Mr. PASSMAN. It would be far less than what you actually paid the secretary abroad?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. Again you have a point there, I should think, in getting this legislation adjusted.

Mr. WIGGINS. We would like to.

Mr. PASSMAN. Do you have that answer?

PEACE CORPS GS GRADES

Mr. CORCORAN. The average grade throughout the Peace Corps is 9.7, GS grade.

Mr. PASSMAN. That would be as we refer to it——

Mr. CORCORAN. GS–9.

Mr. PASSMAN. You are going to get off on those figures. It almost averages out to a GS–10, does it not?

Mr. CORCORAN. Yes, sir.

Mr. PASSMAN. What is the average salary?

Mr. CORCORAN. $8,050.

Mr. PASSMAN. What is the lowest paid?

Mr. CORCORAN. Lowest paid would be GS–2.

Mr. PASSMAN. What is the highest?

Mr. CORCORAN. We have statutory grades and we have GS–18 grades.

Mr. PASSMAN. How many statutory positions?

Mr. CORCORAN. Four.

Mr. PASSMAN. And the supergrades?

Mr. CORCORAN. GS–18. Three.

Mr. PASSMAN. Give us a breakdown for the record of all of them. You do not have many GS–2's, do you?

Mr. CORCORAN. Yes, sir.

Mr. PASSMAN. Did you say yes?

Mr. CORCORAN. I think we have three GS–2's.

Mr. PASSMAN. I almost guessed it out, did I not?

(The requested information follows:)

The number of permanent Peace Corps employees by Classification Act and Foreign Service grade in the continental United States as of Apr. 20, 1962

GS–1	0	ES–13 [1]	1
GS–2	6	GS–14	18
GS–3	11	GS–15	14
GS–4	14	ES–15 [1]	7
GS–5	34	Statutory (authorized $20,000)	1
GS–6	31	Statutory ($19,500)	1
GS–7	29	Statutory ($19,000)	2
GS–8	2	ES–16 [1]	6
GS–9	25	ES–17 [1]	6
ES–9 [1]	1	ES–18 [1]	3
GS–10	1	FSR–1	1
GS–11	9	FSR–2	4
GS–12	19	FSR–4	1
GS–13	15		

[1] Positions compensated without regard to the Classification Act under authority of sec. 7(b), Public Law 87–293.

ADDITIONAL POSITIONS REQUESTED

Mr. PASSMAN. On page 63 it indicates you want 321 positions, an increase of 200, for program expense; is that correct?

Mr. CORCORAN. Yes, sir.

Mr. PASSMAN. Where are these people located?

Mr. WIGGINS. There are 241 that are departmental, and overseas there are 80 of which 50 are Americans and 30 are locals.

Mr. PASSMAN. Is that in addition to the 160 locals we discussed earlier?

Mr. WIGGINS. That is included in the 160.

ADDITIONAL TEMPORARY EMPLOYEES

Mr. PASSMAN. What was the basis for the very substantial increase over your original estimate for "Positions other than permanent," and why is a further increase from $450,000 up to $486,000 necessary?

Mr. WIGGINS. The increase is from the original estimate of $171,600. Our present estimate is $450,000 for fiscal 1962. The increase goes from $450,000, our present estimate, to $486,000 for next year. Our experience has been that we need a tremendous volume—tremendous may be a bad word—a large volume of people other than permanent.

Mr. PASSMAN. You can leave "tremendous" in. It will be that way in the future if not now.

Mr. WIGGINS. Mr. Shriver objects. Leave the word as "large." Our work in the Peace Corps has a tremendous seasonality to it, as I have pointed out. We have the big bulge of people who necessarily must come on in the summer, and rather than hiring permanent people employed the year around, it is advantageous to all of us to have temporary help rather than permanent to process the big bulk of volunteers who come on in the summer.

PROCESSING APPLICATIONS

The processing of the volunteers involves not only taking them into training but the processing during selection. For example, we are receiving over 500 new applications every week since January 15. This means that in each one of these cases of new volunteers we send out 12 letters for each one.

Mr. PASSMAN. How many are you receiving?

Mr. WIGGINS. Over 500 additional Americans have been volunteering for the Peace Corps each week since January 15.

Mr. PASSMAN. That is brought about, no doubt, by what we discussed yesterday, the million dollars worth of free coverage in the newspapers and magazines and over radio and television.

Mr. WIGGINS. In part it is brought about by the information available. I think in part it is brought about by the genuine desire to serve and the opportunities there now are.

The point I wanted to make is in each case we need to send out 12 letters for every man who volunteers to check on his references.

Mr. PASSMAN. You check on them whether or not you are going to employ them?

Mr. WIGGINS. Yes, as volunteers.

Mr. PASSMAN. Have you not just recently contracted out this service to which you are referring?

Mr. CORCORAN. We only contracted out for $3,000 some typing services, typing the assessment sheets.

Mr. PASSMAN. Is that not part of the workload we are discussing now?

Mr. WIGGINS. Yes. We have found it necessary to do this in addition. For example, Mr. Chairman, over this last weekend we have had to forward about 1,250 invitations in the last 7 days for the summer input for June, July, and August. This kind of a bulge in our processing requires nonpermanent positions, and we have even found it necessary to move to contractors to complete our work.

As the Director points out, this is a cheaper way to get the Government's business done than by regular full-time civil service employees.

Mr. PASSMAN. I wish we would contract more of it out. This is the first time I ever heard an employee of the Government make that admission.

INCREASE FOR ADMINISTRATIVE TRAVEL

What amount did you have for administrative travel in fiscal 1962?

Mr. WIGGINS. Our estimate for fiscal 1962 for administrative travel and transportation is $654,000.

Mr. PASSMAN. For administrative travel?

Mr. WIGGINS. Yes, sir; departmental and overseas.

Mr. PASSMAN. What amount are you asking for administrative travel for fiscal 1963?

Mr. WIGGINS. $1,112,000.

Mr. PASSMAN. Administrative travel?

Mr. WIGGINS. Yes, sir; departmental and overseas.

Mr. PASSMAN. Last year you overestimated your costs for transportation of things by almost $200,000, but your 1963 estimate is $301,000 above your current estimate for this purpose; is that correct?

Mr. WIGGINS Yes, sir.

Mr. PASSMAN. Why such an increase?

Mr. CORCORAN. This year we were dealing in terms of about 100 people going overseas during fiscal 1962. We will have a staff of 250 overseas next year.

Mr. PASSMAN. That is the top echelon personnel you are talking about, and not the regular Peace Corps employees?

Mr. CORCORAN. No, sir.

EMPLOYMENT OF MR. JOHN C. CORT

Mr. PASSMAN. Did we read in the paper that a man and his wife and 12 children were loading aboard ship in San Francisco, going overseas?

Mr. WIGGINS. Nine children, sir.

Mr. PASSMAN. How old are the children?

Mr. WIGGINS. I believe they range from about 3 years to 14. I do not know precisely, but I think it stretches from about 3 to 14.

Mr. PASSMAN. For what purpose are you going to use this man?

Mr. WIGGINS. He is to work in the Philippine program.

Mr. PASSMAN. Does he possess some kind of rare qualification?

Mr. WIGGINS. I guess the answer, I do not want to guess, but as far as I am aware, I do not believe his qualification would be called rare, although he was the best man we could find for the job.

Mr. PASSMAN. What does he do?

Mr. WIGGINS. He will be involved in the general staff work in Manila for the administration of our largest program to date.

Mr. PASSMAN. What was the cost of transportation for this man, his wife, and nine children and their things to the Philippines?

Mr. WIGGINS. I would have to supply that for the record. I do not have it at my fingertips. We could provide it this afternoon.

Mr. PASSMAN. Did you consider at the time you employed him that you were going to have a rather high transportation bill to get him over there?

Mr. WIGGINS. We were aware there would be a higher transportation cost for this family than normal.

Mr. PASSMAN. Would you tell us what his special qualifications are?

Mr. WIGGINS. This is a man who—I believe I am correct—receives a salary of about $10,000. He does not have any PX or commissary

privileges. He does have his family and something like a couple thousand pounds of things transported.

Mr. PASSMAN. You have to provide allowance for each of those nine children, do you not?

Mr. WIGGINS. For the children who are eligible there is an education allowance.

Mr. PASSMAN. Do you know of any of them not eligible?

Mr. WIGGINS. I just do not know the precise answer to that, whether they are all eligible or not.

Mr. PASSMAN. The cost of getting this man and his family over there could be two or three times his annual salary, could it not?

Mr. WIGGINS. I would doubt——

Mr. PASSMAN. We want it for the record, but I think it is ridiculous that you have hired this man. In the Philippines he drops down to about the middle salary range. He gets $10,645. You have one representative out there getting $17,250.

Mr. WIGGINS. That is right.

Mr. PASSMAN. You have not told us for what work you are employing him.

Mr. WIGGINS. This gentleman will be one of something like three people or four people who will be stationed in Manila in a staff capacity for the volunteers who will be there to give them support in an administrative Peace Corps representative sense. He will not be teaching.

Mr. PASSMAN. In the salary bracket he is almost down to the average, is he not?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. So he could not possess unusual qualifications or he would not be getting this salary.

Mr. WIGGINS. I would say unusual in the sense that he was the best man we could find for that job. I would like just to make——

Mr. PASSMAN. Let us have his biography.

Mr. WIGGINS. In the opinion of all of those who interviewed him, including Mr. Shriver, we think this is an excellent person.

Mr. PASSMAN. I imagine the man is an excellent person. The point is that you have picked a man with nine children, and you have to take them all the way to the Philippines, pay their expenses, maintain them, give them a doctor, and pay their way back.

Mr. WIGGINS. We have a physician but——

Mr. PASSMAN. Yes.

Mr. WIGGINS. The physician has nothing to do with the children, sir.

Mr. PASSMAN. He would treat the children, would he not?

Mr. WIGGINS. No, sir; the physician is only for our volunteers.

Mr. PASSMAN. Then, if some of these nine children get sick while there——

Mr. WIGGINS. He will go to a local Philippine doctor at his own expense.

Mr. PASSMAN. What if no doctors are available?

Mr. WIGGINS. There are many available in Manila.

Mr. PASSMAN. We want to know for the record what it is going to cost to get this man and his wife and nine children transported to the Philippines, the cost of maintaining them, and bringing them back. Please put that information in the record.

Mr. WIGGINS. Yes, sir.

(Information on Mr. Cort may be found on pp. 783, 840, and 841.)

Mr. ROONEY. These will be nine fine ambassadors, these children. They will learn the foreign language in no time. They will probably do better than their dad insofar as favorable relations for this country.

Mr. PASSMAN. You say ambassadors?

Mr. ROONEY. Nine ambassadors.

Mr. PASSMAN. I do not think it is right to take a man in a low-grade echelon, send him all the way to the Philippines with a wife and nine children, with all the transportation to and from, and all the other things that it costs to maintain the family there.

Mr. SHRIVER. Shall we make a limit that nobody with more than one child can go overseas?

Mr. PASSMAN. No. It is just not commonsense to build up an expenditure of $35,000 in order to get a mediocre person, so far as his special qualifications are concerned, to go abroad.

Mr. SHRIVER. He is not mediocre.

Mr. PASSMAN. So far as his special qualifications.

Mr. SHRIVER. No, sir.

Mr. PASSMAN. You are paying him only $10,000.

Mr. SHRIVER. A lot of people are willing to work for $10,000 who could earn more sometimes.

Mr. WIGGINS. I would like to make the record clear that this appointee is not mediocre. He is the very best.

Mr. PASSMAN. I do not mean mediocre so far as the individual is concerned. I am talking about his salary position.

Mr. SHRIVER. I am working for a buck a year, which makes me very mediocre.

Mr. PASSMAN. If you want some substitution, I am not talking about the individual. There is no personal reflection.

RENTS, COMMUNICATIONS AND UTILITIES

Why do you need an increase of $435,000 for "Rent, communications and utilities"? Does that tie in with the man, his wife, and nine children, because one calls for another.

Mr. CORCORAN. First of all, the man with nine children gets the same rent allowance as he would with one child.

Mr. PASSMAN. You have a $435,000 increase for "Rent, communications and utilities."

Mr. CORCORAN. We expect to be operating in more countries and have a larger staff here.

Mr. PASSMAN. Does this cover local rent?

Mr. CORCORAN. No, only oversea rent.

Mr. PASSMAN. Give us a breakdown. What is the total rent you are paying for fiscal year 1962?

Mr. WIGGINS. Do we have the total rent?

Mr. BOGARDUS. "Rents, communications, and utilities" for 1962, oversea program support——

Mr. PASSMAN. The total, please.

Mr. WIGGINS. $611,000 is the total current estimate for the category "Rent, communications, and utilities" for fiscal 1962.

Mr. PASSMAN. And what amount are you requesting for fiscal 1963?

Mr. WIGGINS. We are requesting for these items for fiscal 1963 $1,046,000.

Mr. PASSMAN. There is an increase of $435,000?

Mr. WIGGINS. Yes.

Mr. PASSMAN. What will be the amount of the increase for local rent?

Mr. WIGGINS. For Washington alone?

Mr. PASSMAN. You have only commercial space here?

Mr. WIGGINS. That is correct.

Mr. BOGARDUS. "Rents, communications, and utilities" combined, $407,000 is projected in 1963 for Washington.

Mr. PASSMAN. Supply that information for the record.

(The following was submitted for the record:)

Rents, communications, and utilities

	Estimated fiscal year 1962			Estimated fiscal year 1963			Estimated increase		
	Washington	Overseas	Total	Washington	Overseas	Total	Washington	Overseas	Total
Local telephone	$30,000	$3,000	$33,000	$41,000	$12,000	$53,000	$11,000	$9,000	$20,000
Long distance	65,000	6,000	71,000	98,000	7,000	105,000	33,000	1,000	34,000
Cable, telegraph and teletype	135,000	6,000	141,000	215,000	12,000	227,000	80,000	6,000	86,000
Other communication charges	20,000	1,000	21,000	53,000	3,000	56,000	33,000	2,000	35,000
Rents and utilities:									
Office, etc		150,000	150,000		173,000	173,000		23,000	23,000
Residential		195,000	195,000		432,000	432,000		237,000	237,000
Total	250,000	361,000	611,000	407,000	639,000	1,046,000	157,000	278,000	435,000

NOTE.—The above figures do not include the cost of rent for housing the Washington staff. This amount is included in the Peace Corps-AID administrative support agreement. For fiscal year 1963 the estimate is $572,000. (110,000 square feet at $5.20 per square foot.) The fiscal year 1962 estimate is $265,905. (51,552 average square feet at $5.158 per square foot.)

INCREASE FOR EQUIPMENT

Mr. PASSMAN. Why is an increase of $142,000 above the revised 1962 estimate necessary for equipment in the administrative account?

Mr. CORCORAN. This will cover furniture, typewriters, office equipment of various kinds, both in Washington and overseas. This is related to staff requirements. More secretaries and more countries take more typewriters.

Mr. PASSMAN. More secretaries call for more typewriters, and more typewriters and more secretaries call for more space?

Mr. WIGGINS. Yes.

Mr. PASSMAN. Do you have any electronic equipment on a rental basis?

Mr. CORCORAN. We have the 1401 computer.

Mr. PASSMAN. Do you also share this with AID?

Mr. CORCORAN. I am sorry, I do not understand the question.

Mr. PASSMAN. Are you sharing the cost of the computer?

Mr. CORCORAN. Yes.

Mr. PASSMAN. You are asking for an increase of $142,000 to buy new equipment. Will any of that be used jointly by AID and the Peace Corps?

Mr. WIGGINS. No, sir.

Mr. PASSMAN. Just the one machine, the computer, is used jointly?

Mr. CORCORAN. Yes, sir.

BREAKDOWN OF ADMINISTRATIVE AND PROGRAM SUPPORT EXPENSES

Mr. PASSMAN. How much of the total estimate of $18,300,000 is for the expenses of the Peace Corps operations in the District of Columbia?

You do have an estimate of $18,300,000?

Mr. WIGGINS. Yes.

Mr. PASSMAN. And you will give us a breakdown showing the amount for the District of Columbia and the amount for overseas?

Mr. WIGGINS. Yes, sir.

(The following was submitted for the record:)

Summary of obligations by object class, departmental and overseas, administrative and program support expenses

		Departmental	Overseas	Total
	OBJECT CLASSIFICATION			
11	Personnel compensation:			
	Permanent positions	3,258,000	2,024,000	5,282,000
	Positions other than permanent	972,000		972,000
	Other personnel compensation	301,000	47,000	348,000
	Total personnel compensation	4,531,000	2,071,000	6,602,000
12	Personnel benefits	273,000	458,000	731,000
21	Travel and transportation of persons	1,353,000	723,000	2,076,000
22	Transportation of things	29,000	619,000	648,000
23	Rent, communication, and utilities	659,000	811,000	1,470,000
4	Printing and reproduction	389,000	8,000	397,000
25	Other services	242,000	23,000	265,000
	Services of other agencies	944,000		944,000
	State and AID administrative support	875,000	2,900,000	3,775,000
26	Supplies and materials	312,000	161,000	473,000
1	Equipment	272,000	647,000	919,000
	Total	9,879,000	8,421,000	18,300,000

PROGRAM SUPPORT INCREASE

Mr. PASSMAN. I note also an increase of $4,307,000 above the estimate for 1962 for program support expenses.

Mr. WIGGINS. Yes, sir. Included in that $18.3 million is the category of program, yes.

Mr. PASSMAN. But you do have this increase of $4,307,000 above the current estimate?

Mr. WIGGINS. Yes.

Mr. PASSMAN. And in that particular category the percentage increase is higher?

Mr. WIGGINS. Yes.

Mr. PASSMAN. Why?

Mr. WIGGINS. The program support as a category goes more in proportion to the increase in volunteers than the administrative. As our program gets larger we are able to reduce the administrative proportion more sharply than we are to reduce that category that is called program.

Mr. PASSMAN. Since every category of expense contains an increase very substantially above the 1962 estimate would you go down the list and give us an explanation and outline the necessity for each item of increase?

Mr. CORCORAN. I will start off with the general statement that we are dealing in 1963 with a considerably larger program, going from 2,400 volunteers by the end of June 30, 1962, to 6,700 by the end of June 30, 1963.

These, first of all, relate to staff requirements, personnel requirements. Those we have spelled out in groups. The administrative positions, for example, go to 485 for Washington permanent positions. Those we can distribute by offices within the Peace Corps.

INCREASED COSTS FOR PERSONNEL BENEFIT

All other costs are related, then, to the increased requirements for personnel. For example, take item 12, personnel benefits. This is a calculated item.

Mr. PASSMAN. That is increasing from $268,000 to $527,000?

Mr. CORCORAN. That is right.

TRAVEL AND TRANSPORTATION OF THINGS

Travel and transportation of things, item 21.

Mr. PASSMAN. That went from $654,000 to $1,112,000?

Mr. WIGGINS. We have twice as many people, roughly, going abroad.

Mr. PASSMAN. Does this include all the personnel we discussed earlier?

Mr. WIGGINS. Yes. This excludes the volunteers.

Mr. PASSMAN. This is strictly administrative?

Mr. WIGGINS. Yes.

Mr. PASSMAN. You have increased your administrative personnel, fiscal 1963 over 1962, by what number?

Mr. WIGGINS. 574 over 346.

Mr. PASSMAN. And for transportation of things?

Mr. WIGGINS. 509 over 208.

Mr. PASSMAN. For fiscal 1963 travel and transportation of persons goes to $1,112,000 from $654,000. Persons who meet the criteria established by the Director in compliance with the law may travel with the personnel when they go abroad?

Mr. WIGGINS. Yes, with staff members.

Mr. PASSMAN. What is the lowest paid staff member you have abroad?

Mr. WIGGINS. I would guess a secretary, who would make approximately $4,000 to $5,000. I would have to check that for the lowest one; $4,010 is one example for a secretary.

Mr. PASSMAN. What about the lowest supervisory personnel? Would that be around $10,000 or $10,500?

Mr. WIGGINS. No. We have some that are considerably less than $10,000 or $10,500.

EMPLOYMENT OF MR. JOHN C. CORT

Mr. PASSMAN. Will you please tell us what this "ambassador" is going to do out there? Can you find out what his special qualifications are?

Mr. WIGGINS. You are speaking of Mr. John Cort, I believe?

Mr. PASSMAN. I am speaking of the gentleman with the nine children.

Mr. ROONEY. Mr. Chairman, here is his fine background.

Mr. PASSMAN. We shall insert it in the record.

CORT APPOINTMENT

John C. Cort, executive secretary of the Newspaper Guild of Greater Boston for the past 12 years, has been appointed an associate Peace Corps representative in the Philippines.

Cort, 48, a cum laude graduate of Harvard in the class of 1935, will leave Boston with his wife and nine children on February 8. After the 4-day flight to Manila, he will take up his new duties as an executive and liaison officer for the 182 Peace Corps volunteers now working as teachers in the Philippines.

He will also help lay the groundwork for additional groups of volunteers who will arrive in the Philippines later this year.

Cort, a founder and first executive secretary of the Association of Catholic Trade Unionists, is a member of the executive committee of the Greater Boston Labor Council. Two years ago he served as vice president of the Massachusetts Labor Council.

He is a distinguished writer on labor topics and has served as associate editor of the Commonweal and managing editor of the Labor Leader. His articles have also appeared in the Catholic Worker, the Catholic Digest, the Sign, and other magazines. He was sent last year as a delegate of the Catholic Labor Guild of Boston to the World Meeting of Christian Workers in Rome.

Cort's interest in the Peace Corps and the Philippines was aroused through discussions with a Boston friend, Dr. Lawrence E. Fuchs, dean of the faculty at Brandeis University and now chief Peace Corps representative in the islands.

He is married to the former Helen Haye. They and their nine children, aged 3 to 14, reside at 64 North Crescent Circuit, Brighton, Mass.

Mr. PASSMAN. Please tell us what his special qualifications are.

Mr. WIGGINS. The qualifications for people abroad are in terms of their general administrative abilities in terms of working with our volunteers.

Mr. PASSMAN. I am speaking about this one individual.

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. If he has any special qualifications, will you please put the information in the record.

Mr. WIGGINS. Yes, sir.

NUMBER OF AUTOMOBILES

Mr. PASSMAN. How many automobiles do you want to purchase in fiscal 1963?

Mr. WIGGINS. Twenty in fiscal 1963.

Mr. PASSMAN. You had 16 in fiscal 1962?

Mr. CORCORAN. Yes.

Mr. PASSMAN. And you are asking for 20 in fiscal 1963?

Mr. CORCORAN. Yes.

Mr. PASSMAN. I think we authorized 16 last year and you have bought 1?

Mr. CORCORAN. Yes. We have procured one as of March 22.

Mr. PASSMAN. How many do you propose to buy out of fiscal 1963 funds?

Mr. CORCORAN. We are asking for authority for 20.

Mr. PASSMAN. You asked for 16 last year and bought 1?

Mr. CORCORAN. Yes.

Mr. PASSMAN. That is another case where you will have unobligated funds?

Mr. CORCORAN. We have one passenger carrying automobile—that is the way the legislation reads—for administrative purposes elsewhere. We have other vehicles that are not passenger carrying.

Mr. WIGGINS. It is our policy to keep to an absolute minimum.

Mr. PASSMAN. You purchased one?

Mr. CORCORAN. One passenger carrying automobile for administrative purposes overseas.

Mr. PASSMAN. But you allocated funds for how many?

Mr. CORCORAN. Sixteen.

Mr. PASSMAN. Then you will have an unobligated balance. How many do you want to purchase for fiscal 1963?

Mr. CORCORAN. The point we want to make is that we have used this money to buy utility type vehicles.

Mr. PASSMAN. How many?

Mr. CORCORAN. We have 27 administrative vehicles of all types.

Mr. PASSMAN. How many do you want to purchase in 1963?

Mr. CORCORAN. We are asking for authority to purchase 20 passenger-carrying vehicles. We may not use that.

Mr. PASSMAN. You just want to be sure you have all the funds necessary, in case you want to buy them?

Mr. WIGGINS. This is not a request for funds but for authority to spend funds in this particular way.

Mr. PASSMAN. Are you not asking for funds to purchase 20 automobiles?

Mr. WIGGINS. I would not express it that way.

Mr. ROONEY. Page 87.

Mr. PASSMAN. You are asking for authority?

Mr. WIGGINS. Yes.

Mr. PASSMAN. And if you get the authority and you get the appropriation you ask for, then you will have money in there for 20 automobiles; is that correct?

Mr. CORCORAN. Yes.

Mr. PASSMAN. But you may not buy 20?

Mr. CORCORAN. Yes, sir.

Mr. PASSMAN. And if you did not buy 20 automobiles you would have an inflated request?

Mr. CORCORAN. We are asking for authority to purchase 20 passenger carrying automobiles.

Mr. PASSMAN. But you may not buy that many?

Mr. CORCORAN. But we may buy that many utility-type vehicles.

Mr. WIGGINS. We do not need specific authority for both passenger-carrying vehicles and utility type vehicles, and wherever possible we purchase jeeps and other utility vehicles.

Mr. ROONEY. Will the distinguished chairman yield?

Mr. PASSMAN. I yield, and I thank the gentleman for his complimentary designation.

Mr. ROONEY. At page 87 of the committee print we find this statement: "All vehicles still to be used, 16." How do you jibe this statement?

Mr. WIGGINS. We bought surplus jeeps in Japan. I am not sure whether the 16 refers to those or not. I am not able to answer that question.

Mr. PASSMAN. It says "passenger motor vehicles."

Mr. SHRIVER. We do not have 16 passenger carrying vehicles.

Mr. ROONEY. Then the figure must be wrong.

Mr. WIGGINS. We have a special compilation on vehicles. That is every vehicle we own of every kind anywhere in the world.

Mr. PASSMAN. You have some Japanese jeeps.

LEGISLATIVE AUTHORIZATION

H.R. 10700, as passed by the House and Senate, did not amend your basic authorization in any significant manner. Therefore, do you propose to abide by all the limitations and legislative provisions contained in Public Law 87-293 during fiscal year 1963?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. Those are your plans?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. Gentlemen, we shall recess until 1:30 o'clock.

EMPLOYMENT OF MR. JOHN C. CORT

Mr. PASSMAN. I should like the record to be clear that my comments this morning with respect to Mr. John C. Cort were not of a personal nature. I was questioning the wisdom of employing a man in the Peace Corps whereby the expense involved in moving his family to and from his post would go into the thousands of dollars.

I am a little dollar conscious, so please accept my comment on that basis, rather than on a personal basis.

RESEARCH CONTRACTS

Does the Peace Corps make any research grants?

Mr. SHRIVER. No, sir.

Mr. WIGGINS. We do not make any grants for research.

Mr. SHRIVER. There are contracts but no grants.

Mr. WIGGINS. I would like to touch on research briefly because of the question you asked yesterday as to whether or not we had mentioned in our last year's presentation that we anticipated having a research program.

Yesterday I was unable to find the page in our presentation of last year. I would like to call attention to page 49 of last year's presentation, dated June 1, where we anticipated the research program with particular reference to validating our selection procedures.

Mr. PASSMAN. Research program?

Mr. WIGGINS. Yes, sir.

Also, in addition to calling attention to page 49, where this was mentioned, I would like to refer also to the organization chart which was reprinted in the hearings on page 28 where our research organization was separated out with the Director of Research.

Mr. PASSMAN. I am no less confused. You said you had no money for research. According to this you did have.

Mr. WIGGINS. In the presentation we anticipated having a research program——

Mr. PASSMAN. If you did not have it, then the presentation means nothing.

Mr. WIGGINS. We have had the research in accordance with the presentation, both.

Mr. PASSMAN. But you are not going to have research in fiscal 1963?

Mr. WIGGINS. Yes, we will have research in fiscal 1963.

Mr. PASSMAN. But not research grants, as such?

Mr. WIGGINS. Not grants. We let contracts for our research.

DIFFERENCES BETWEEN GRANTS AND CONTRACTS

Mr. PASSMAN. What is the difference between a research contract and a grant?

Mr. KELLY. A grant is a gift. A grant is an advance of funds to the grantee.

A contract is an agreement which is more specific in nature. We do not advance funds to universities. They use their own moneys and then come to us for reimbursement. That is fundamentally the difference between a grant and a contract.

Mr. PASSMAN. But the end objective is the same?

Mr. KELLY. A contract generally is more specific as to what the university must do.

Mr. PASSMAN. Since you are dealing with a program where no money comes directly back to the Treasury, it is an outgo and no income.

Mr. WIGGINS. That is right.

Mr. PASSMAN. That is why we should discuss it in terms of being a grant, at least indirectly. However, it is a contract.

Mr. KELLY. It is a contract but not a grant.

Mr. WIGGINS. It pays for service performed as specified in the contract.

Mr. PASSMAN. Mr. Gary?

TYPE OF RESEARCH CONDUCTED

Mr. GARY. What kind of research do you do?

Mr. WIGGINS. We do research to have an independent unit take a look at various critical parts of our Peace Corps operations, such as selection, to help us evaluate whether our system is designed correctly and to improve it. This is one of the things that our research program does.

In other words, this is going outside or an independent highly professional judgment after examination as to whether or not, for example, our selection procedures are designed to produce the right people to go abroad for America.

Mr. GARY. Does all of your research relate to your own program of operations?

Mr. WIGGINS. 100 percent.

Mr. GARY. You do not have any contracts for any research that is not entirely related to your own operation?

Mr. WIGGINS. We are interested only in the Peace Corps, and it is 100 percent related to the Peace Corps.

We have looked at some non-Peace Corps experience to improve the Peace Corps with some of our research but we are having research for only the end product to be used in the Peace Corps for Peace Corps purposes.

IDENTIFICATION AND PAY OF RESEARCHERS

Mr. GARY. Who do you employ for this research?

Mr. WIGGINS. We employ through contracts normally speaking social scientists in universities.

Mr. GARY. How much do you pay them?

Mr. WIGGINS. Mr. Kelly?

Mr. KELLY. It depends upon their rank in terms of what the university pays them. We do no pay them any more than they get if they are not working on a Government contract.

In other words, if a man is a full professor of psychology, let us say, and his university salary is $14,000 a year, and he is assigned as a principal researcher on our project, we would reimburse that portion of his $14,000 a year salary that is allocable to our project.

CONSULTANT FEES

Mr. GARY. Do you have any consultant fees or anything of that kind?

Mr. WIGGINS. We have Dr. Nicholas Hobbs as a consultant to the Peace Corps at the moment consulting with Mr. Shriver on the Peace Corps program and in the selection of the variety of people in universities to engage with us in research.

Mr. GARY. How much do you pay him?

Mr. WIGGINS. When actually employed, $75 a day.

Mr. SHRIVER. When we started the selection nobody ever had had a process exactly like the one we tried to inaugurate. We felt it was important to determine who got in and who did not. We wanted to be sure only the best possible people got in. A long, detailed selection program was set up. Nobody ever had done this before so far as we know.

The purpose of the research is to determine which parts of this program are most effective and successful.

You could say that the whole school was essential but then you would like to know which degree is most important and what should be emphasized. This can be done only by scientifically trying to calculate the performance of a person who is a success or a failure. The various yardsticks you use determine whether there is any progress being made. That is one of the fundamental purposes of the research program.

Mr. WIGGINS. I am informed Dr. Nicholas Hobbs' salary at his university is $19,500 a year. This is one of the very finest research social scientists in America.

Mr. SHRIVER. The head of the department at George Peabody Teachers College at Nashville, Tenn.

Mr. GARY. You pay him $75 a day when he is actually working for the Peace Corps?

Mr. WIGGINS. Which is about an average of 2 days a week in the last 3 or 4 months.

EXTENT OF TEACHING PROGRAM

Mr. GARY. What is the extent of your teaching program?

Mr. WIGGINS. With the volunteers?

Mr. GARY. Yes.

Mr. WIGGINS. The extent of our teaching program with the volunteers is about 60 to 65 percent. We anticipate in fiscal 1963 that percentage would drop to something like 50 to 55 percent of our volunteers engaged in classroom teaching.

Mr. GARY. Sixty-five percent are engaged in classroom teaching at the present time?

Mr. WIGGINS. Approximately; yes, sir. As of today, in the Peace Corps, as of April 15, we have a total of 1,225 volunteers with the Peace Corps—teachers we have 597. These statistics were compiled since our testimony yesterday, and they are as of April 15, which is a somewhat later date of compilation than our testimony yesterday, but the percentage would remain about the same.

Mr. GARY. Where are they employed?

Mr. WIGGINS. The teachers are employed in a wide variety of programs in Ghana, Nigeria, Sierra Leone, they will be in Somalia, there are a few in Malaya, we have teachers aids in the Philippines, we have some teachers in Thailand, and in Venezuela we will have some teachers. Some of the people in India are doing work related to teaching.

SUBJECT MATTER TAUGHT

Mr. GARY. What are they teaching?

Mr. WIGGINS. They are teaching a wide variety of subjects. In Africa they are teaching mathematics, physics, chemistry, biology, English, French. Some of them are vocational teachers as in the Jamaica project. The teach history.

There are in the Philippines some elementary teachers aids in the elementary system teaching English as a second language, and demonstrating general science in a very elementary way.

PLACEMENT OF TEACHERS

Mr. GARY. Are they scattered through various schools or do you operate schools of your own?

Mr. WIGGINS. They, generally speaking, are scattered so that we are what you might call integrated with the school system, working with another headmaster of the country, teaching alongside those teachers, occasionally two or three teaching in the same school, quite often teaching alone. In no case do we have a total responsibility for a school.

Mr. GARY. In other words, you do not operate any schools as Peace Corps schools?

Mr. WIGGINS. That is absolutely correct.

TEACHING PROGRAM IN LIBERIA

Mr. PASSMAN. Would the gentleman yield?

Mr. GARY. Yes.

Mr. PASSMAN. Yesterday you testified that in Liberia you were actually taking your teachers and placing them in the schools and taking out local teachers and sending them off to take a postgraduate course. You were to tell us where you sent them and the total cost. You are taking in a complete new group and taking the others out?

Mr. SHRIVER. No, sir.

Mr. PASSMAN. Let us go to the justifications:

With substantial assistance from AID, Liberia is launching an extensive schoolbuilding program for senior high schools, junior high schools, and elementary schools. Peace Corps volunteers will help staff the new schools and provide temporary replacements for Liberian teachers who are to receive further training.

These teachers are manning the school while the Liberian teachers are sent somewhere to take advanced courses?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. Would that not be manned by Peace Corps personnel?

Mr. WIGGINS. They are not in any instance manning the school 100 percent. Our people are scattered and move in behind a teacher, but they will be alongside the Liberian teachers.

Mr. PASSMAN. You said you were going to ascertain for us where these people would get the training and the total cost.

Mr. WIGGINS. Yes.

Mr. PASSMAN. Did you get that information?

Mr. WIGGINS. Yes. We passed in the information we were able to obtain last night. I believe it will be complete.

PERCENTAGE OF VOLUNTEER TEACHERS

May I say this? We calculated the percentages. This 597 classroom teachers turns out to be 48 percent as of now. There is a rather rapid change because of the large input in the Latin programs, which are not teaching programs, although we are getting into university teaching in Chile and Peru and Venezuela.

RESEARCH ASSISTANTS

Mr. GARY. Are any of the volunteers conducting research programs?

Mr. WIGGINS. No, sir. There are no volunteers conducting research programs. There may possibly in the future be a survey of forest resources but not research in any sense that we have been using it here. No volunteers are engaged in research on the Peace Corps. Mr. Moyers just informs me that three of them are research assistants in the Nigerian University. It has nothing to do with Peace Corps research.

Mr. GARY. Are those three teaching in addition?

Mr. WIGGINS. Yes, sir, they are teaching assistants.

CORPSMEN IN COLLEGE TEACHING

Mr. GARY. How many of them do you have in college teaching?

Mr. WIGGINS. I would have to calculate it. Thirty-some.

Mr. GARY. Including the assistants, instructors, and laboratories, et cetera?

Mr. WIGGINS. I would guess it would be about 50 abroad or in training as of today who are engaged at the university and college level, about 30-some in Nigeria, 10 in Bangkok would be 40, we have 7 in training for Venezuela and will have a few in Chile and Peru. About 50, sir, in colleges and universities. We anticipate it will go up especially in Latin America. We are beginning to get requests in particular for Latin-American university teaching.

CLASSIFICATION OF EDUCATIONAL SKILLS

Mr. GARY. How much of that is vocational education?

Mr. WIGGINS. What we have been talking about, I think there is none of it vocational to date, except for Jamaica. It tends to be in other subjects not at the university level. We have vocational teach-

ers but not at the university level. Here is our breakdown as of April 15 on the variety of skills. Some of them are a little hard to classify between classroom and nonclassroom. All of them have some educational aspects.

Mr. GARY. Has this been inserted in the record?

Mr. WIGGINS. Yes, I believe it was put in yesterday.

Mr. PASSMAN. It has been furnished to the committee.

Mr. GARY. Had we not better substitute this one? This is a later tabulation, I believe.

Mr. WIGGINS. I got it this morning.

Mr. GARY. It purports to show the same figures but they are different because this is a later tabulation. It would seem to me we would want the latest figures in the record.

Mr. SHRIVER. We get one of these every month to try to keep it up to date.

Mr. PASSMAN. Would you continue and let me look this over? A similar tabulation dated March 15 has been put in the record. We have to rest on one or the other.

Mr. GARY. What is the difference?

Mr. WIGGINS. The difference is 30 days. Quite a bit has happened in the Peace Corps in 30 days. This is a later statement I received this morning from my secretary.

Mr. GARY. This brings it up to date?

Mr. WIGGINS. Yes, to April 15.

Mr. PASSMAN. It is quite all right to bring this data up to date, but there are so many things related to this program. If you bring one up through April 15, and not all the other information dated a month earlier, will that confuse the situation?

Mr. SHRIVER. No.

Mr. PASSMAN. The obligations will change, everything pertaining to your program will change in 30 days. You have testified, using a date of March 15. It is all right, though, as long as we indicate it is one item we are changing.

PROGRAM IN JAPAN

Mr. GARY. There was some talk yesterday about Japan. What is the situation with reference to Japan?

Mr. WIGGINS. We are no longer considering any program for Japan. At their request, we were considering a program. We have decided against that and have informed the Japanese Government we are not going to have a program in Japan.

Mr. GARY. You do not have one now?

Mr. WIGGINS. We do not have one now.

RATE OF OBLIGATION OF FUNDS

Mr. GARY. Mr. Shriver, we appropriated $30 million for the Peace Corps last year. In your original statement you told us that as of March 30 you had only obligated $13,480,587.84. That is after 9 months of operations. Does that mean that you expect to have a substantial balance at the end of this year?

Mr. WIGGINS. No, it does not mean that. As far as we can tell, as of today, we will use every penny appropriated. This is largely be-

cause we are entering the obligation phase now for the training contracts that will be for volunteers entering in July and August and for the contracts with the contracting agencies for projects that they will help administer.

In other words, the natural program year involves a heavy input of volunteers in July and August, and we will obligate the remaining unobligated balances for contracts, in large part.

Mr. GARY. That will mean you will obligate more than 50 percent of your appropriation during the last 3 months of the year?

Mr. WIGGINS. Yes. This is because we need to let the contracts in April, May, and June for the large volume of training in June, July, and August, and thus the obligation phase follows, or rather precedes a little bit, the very large input of volunteers that occurs.

One of the reasons for this is we have this very big input from about June 15 forward because so many people come out of their senior year and join the Peace Corps, so many of those who are under contract but who are not in school, such as nurses, doctors, and those teachers we do get become available in the summer; secondly, because the facilities of the campuses are available in the summer; and, thirdly, because 50 percent of our people are teachers abroad, and they need to enter in the fall and thus must be trained in the summer.

PEAK SEASON FOR ENLISTMENTS

Mr. GARY. You show here a very large jump in enlistments during July and August.

Mr. WIGGINS. Yes, sir.

Mr. GARY. Will you be able to contract for those people in April, May, or June?

Mr. WIGGINS. Yes; that is exactly what we are doing now.

Mr. GARY. You will be contracting for these additional persons?

Mr. WIGGINS. Yes, sir.

Mr. GARY. Do you already have applications from these people?

Mr. WIGGINS. Yes.

Mr. GARY. These people who will be admitted in July and August?

Mr. WIGGINS. Yes; in the last 7 days we have sent out over 1,200 invitations for entry in June, July, and August, and we are in the business of processing their entry into the Peace Corps as well as processing the contracts for their training, as well as the contracts under the contract administered program, the same as we did last year, sir.

COST AND LEVEL OF OPERATIONS

Mr. GARY. As I understand it, you have set up this program largely on a 2-year basis.

Mr. WIGGINS. From the volunteer's point of view, yes.

Mr. GARY. That is what I mean. To me the volunteer is the Peace Corps.

Mr. WIGGINS. Yes, nothing else, sir; you are right.

Mr. GARY. It has been set up on a 2-year basis. You are asking for a little more than double your last year's appropriation for 1963.

Mr. WIGGINS. Yes, sir.

Mr. GARY. Does that mean if we allow this full amount for this year that your request for the following year will probably be $120 million?

Mr. WIGGINS. No.

Mr. GARY. Why not?

Mr. WIGGINS. I say "No" very strongly to your word "probably." We have now just had 15 months' experience with the Peace Corps. We have been able to program through July and August 1963. We are not able now to answer your question of what will fiscal 1964 or fiscal 1965 look like or to give you an estimate of where in the total balance of the budget and the program the President will come out in terms of his fiscal 1964 or 1965 request.

The reason why it adds up to 10,000, approximately, by August 1963 is that in the first natural program-year of the Peace Corps, through August of this summer, we are putting on 5,000. That you might call our freshman class.

In the second year we are suggesting that we have the same relative magnitude as we had the first year, to put on another 5,000, as the freshman class moves up to the sophomore class in a 2-year junior college we will then have another 5,000 that will come in.

In the third year, if the Peace Corps were to level off at exactly 10,000, the third year's input would be 5,000 as the first group moved out. If we did not put anybody in in the third year, as 5,000 completed their 2-year service, the Peace Corps magnitude would drop from 10,000 to 5,000.

In other words, this is a program where the Congress looks each year and has, I think, more than in any other program in the foreign field the power to lower it at its discretion or to raise it.

Mr. GARY. What I am getting at is this: The appropriation you are requesting for 1963 is necessary to make it a 2-year program; is that correct?

Mr. WIGGINS. Yes.

Mr. GARY. The terms of those already enlisted will expire at the end of 1963. If you do not enlist a similar number in 1963, your program will not continue beyond 1963.

Mr. WIGGINS. That is right.

Mr. GARY. The group you have in now——

Mr. WIGGINS. Will phase out.

Mr. GARY. The amount you are requesting will put the program on a 2-year basis?

Mr. SHRIVER. Yes.

Mr. PASSMAN. But there is room for expansion, and you so stated yesterday. The record will show just the opposite on some of your present testimony.

Mr. WIGGINS. Of our $63 million requested for fiscal 1963, $32 million is for the 12-month obligation for those who will be on board with us by August, $32 million of what we are asking for is for 12 months of the 5,100 on board by August. The other $31 million that we are asking for for fiscal 1963 is for the obligation in fiscal 1963, only 12 months, for those who enter after August of 1962.

Thus, we are covering two 12-month costs. We are trying not to forward funds, we are trying only to obligate that amount necessary in the 12 months of a fiscal year, half of it roughly for those on board before August and half of it roughly for those on board after August, but they are not funded for 2 years. It is two 12-month periods we are funding in the 1963 request.

Mr. GARY. The point I am making is that those on board——

Mr. WIGGINS. We will fund the second year.

Mr. GARY. But they will phase out at the end of the second year?

Mr. WIGGINS. That is right.

Mr. GARY. Unless you take on these additional people for the third year, then your whole program would phase out at the end of the second year; is that right?

Mr. WIGGINS. You are absolutely right.

Mr. GARY. This group you are taking on in 1963 is to continue your program after the first group phases out?

Mr. WIGGINS. Yes.

Mr. GARY. Then you will ask for money to take on another group?

Mr. WIGGINS. Yes.

Mr. GARY. So that the $63 million appropriation ought to stabilize your program at the planned level. Then it will increase or decrease as the level may increase or decrease; is that correct?

Mr. WIGGINS. Yes. $63 million will enable us to have a program of 10,000 volunteers by August 1963.

Mr. GARY. That amount is necessary to stabilize it at the presently planned level.

EXPANSION OF PEACE CORPS STRENGTH

Mr. PASSMAN. If the gentleman will yield. You said yesterday that you had money in the budget for expanding the program. Now you say it is a stationary program. Will you try to reconcile your answer to Mr. Gary with the answer you gave yesterday that you had money in the budget for expanding the program?

Mr. WIGGINS. We have money here, we have $32 million for the second year's cost of the first 5,100 volunteers.

Mr. PASSMAN. I do not like to interfere with Mr. Gary's questioning, but your response on yesterday was that you are requesting funds for expanding the program. I want you to reconcile your answer to his question with the answer you gave me yesterday as to the expansion of the program.

Mr. WIGGINS. There is $32 million for the first 5,000, and there is $31 million for an additional 5,000. The Peace Corps will grow, according to the proposal, from a 5,000 level of August 1962 to a 9,970 level by August 1963.

Mr. PASSMAN. You would not abolish the program if you did not get all the money, you would merely curtail it; is that right?

Mr. WIGGINS. If we did not get any money, the program would be abolished.

Mr. PASSMAN. The program would continue in 1963 if you did not get a dime; is that correct?

Mr. WIGGINS. No, sir, we would have to close it down.

Mr. PASSMAN. On June 30 this year?

Mr. WIGGINS. There are certain parts of the program, such as contract administration, that is in part forward funded, but not in all. By and large, with a couple of minor modifications——

Mr. PASSMAN. It would run into 1963.

Mr. WIGGINS. With a couple of minor modifications, without any money for fiscal year 1963, we would be closing the Peace Corps down on June 30, 1962.

EFFECT OF REDUCED APPROPRIATIONS

Mr. PASSMAN. If we make a reduction in your request, you are not going to abolish the Peace Corps; you merely are going to build it up more slowly, are you not, or stabilize it at a different level, either 6,000 or 8,000 or 9,000 volunteers?

Mr. WIGGINS. We need $32 million for——

Mr. PASSMAN. That is, if you are going to fund the program that you have envisioned here, but you could stabilize at a lower figure without abolishing the program.

Mr. WIGGINS. Yes.

Mr. SHRIVER. The 5,000 people we have on board now will take up $32 million next year. If we only received $32 million for fiscal year 1963, our program would go out of existence 18 months from now.

Mr. PASSMAN. All during these hearings we have pinned down the fact that you have overallocated funds and that there will be unobligated funds in certain categories.

Mr. SHRIVER. No.

Mr. PASSMAN. Such statements are in the record.

Mr. SHRIVER. That is not correct, sir.

Mr. PASSMAN. You had better get some different witnesses because the answer was "Yes." I just want to know: Is this true?

Mr. SHRIVER. No, sir.

Mr. PASSMAN. If the Congress in its wisdom only gave you $40 million, you would not go out of business, would you?

Mr. SHRIVER. Of the $40 million——

Mr. PASSMAN. Could you not stabilize at a lower figure than 10,000?

Mr. SHRIVER. $32 million would take the 5,000 people. Then we would have $8 million left, which would enable us to bring in maybe——

Mr. PASSMAN. These progressive programs can be complicated.

Mr. SHRIVER. It is very simple.

Mr. PASSMAN. It would be just as easy for you to stabilize at 8,000 or 6,000 as at 10,000 or 5,000. The size of the Peace Corps is determined by the amount of the annual appropriation?

Mr. SHRIVER. Congressman Gary expressed it better than I can, and it was accurate.

Mr. GARY. That is my understanding of it, that this amount you are requesting will stabilize it on the 2-year basis at approximately the planned level; is that correct?

Mr. SHRIVER. Yes; $63 million will enable us to have a program of 10,000 volunteers by August 1963.

PROGRAM SUPPORT

Mr. GARY. On the administrative request you had program support. Will you tell us what that is.

Mr. WIGGINS. Program support is that part of the program which supports the volunteers but it is not an integral part of the expenditure on the volunteers. The best example of program support is the provision of a Peace Corps doctor abroad. He is a staff member but he is directly related to the volunteers. This kind of expenditure that is not a part of the volunteer's training or his equipment or his allowances but is to support the volunteer and for nothing else. That we call program support.

Mr. GARY. How about your training expense? Is that part of your administrative expense?

Mr. WIGGINS. No, that is part of just ordinary program expenditures.

Mr. GARY. I assume you have a great number of supervisors.

Mr. WIGGINS. They are administrative expenditures.

Mr. GARY. Your supervisors abroad?

Mr. WIGGINS. They are administrative.

Mr. GARY. Is that what you call program support, your supervisors?

Mr. WIGGINS. Supervisors are administrative. The terminology may be unfortunate, but we have categorized it administrative and program support, and then straight program. The administrative people, the supervisors are called administration.

Mr. GARY. You gave me one example in the program support, you gave the physician. What else do you have in program support?

Mr. WIGGINS. The office of the contractor, Bill Kelly, letting contracts directly related to volunteers, that is entered under program support. Operations related to recruitment of volunteers are entered under program support. The selection is entered under program support.

Mr. GARY. But not the training?

Mr. WIGGINS. Perhaps I had better check.

Mr. BOGARDUS. Training would be except where you have a training contract related to a specific project. Puerto Rico, for example, would be program support.

Mr. WIGGINS. Generalized training not related to a particular project is program support. Training to go to Nigeria is a program expenditure.

Mr. GARY. But the general training they get in this country at the schools here——

Mr. WIGGINS. That is allocated to a project under the expenditures program. This is part of the big bulk that is program.

DIVISION OF PROGRAM SUPPORT AND ADMINISTRATIVE EXPENSE

Mr. GARY. What part of your administrative expense is administration and what part program support?

Mr. WIGGINS. The figures for fiscal 1963, the administrative is $8.9 million for administrative, and program support is $9.4 million, a total of $18.3 million. That is program support and administration.

Mr. GARY. The two together are what percentage of your total expense?

Mr. WIGGINS. That would be $18.3 million out of $63 million, 29 percent of the total.

Mr. PASSMAN. Would the gentleman yield?

Mr. GARY. Yes.

Mr. PASSMAN. The same people who participate in the program administrative expenses are also downtown in the Peace Corps building? You told us when we questioned you this morning that it was all administrative. Did you answer the question directly that it was all administrative and the percentage was approximately 30 percent?

Mr. WIGGINS. As I understand, Mr. Passman, the discussion this morning, you wanted to classify both of these two categories under the general heading "Administrative."

Mr. PASSMAN. When I asked the question, you said, yes, they are all administrative but you do separate them, one group are those who may be promoting the enlargement of the program and one group who are actually programing, but they are all downtown in the same building and are listed as administrative personnel?

Mr. WIGGINS. Yes.

Mr. PASSMAN. There are minor exceptions, but the percentage remains the same and they are still in the administrative capacity?

Mr. WIGGINS. Yes.

Mr. PASSMAN. Thank you.

Mr. GARY. But for $8 million of it, that is for those engaged in supervisory and line administration. The others are engaged in program support?

Mr. WIGGINS. Yes.

Mr. GARY. Could you give me a little bit more information as to what that program support consist of.

Mr. WIGGINS. This is the indirect supporting of the volunteer, his testing, the contracts office, the medical program, operations related to recruitment, to the selection, to similar indirect supporting operations that are not what you might call kind of physically attached to project accounting that we can call program in the kind of direct oversea sense of his allowances.

For example, one of our problems is, a medical doctor in a country may be serving a number of projects. He is supporting all the volunteers. As we rack up our program expenditures, we can rack up the project expenditures rather clearly on all items except the doctor, but he is supporting a number of projects.

This is a matter of definition. You could call the doctor program instead of program support. This is a definitional problem. I do not think there is a very easy way out of this. It has troubled foreign aid for a decade as to just how to classify it into the most meaningful categories.

Mr. GARY. Can you tell me how many technicians you have among the volunteers?

Mr. WIGGINS. This is a hard problem because I am not sure what you mean by "technician." This list we handed in perhaps is the best indicator of the level of skill. By and large, we are not recruiting highly trained technicians such as AID does. We are looking for the middle-level worker, the ordinary nurse, the ordinary teacher, not the adviser on curriculum, not the person to redo the hospital, but rather the person to work in it. We say we do not have what you would call technicians in the AID sense of the word who are giving adivice. We have the regular worker to help do the work. Some of them have a high degree of skill, of course.

CATEGORIES OF PEACE CORPS VOLUNTEERS

Mr. GARY. I notice on this list you have 103 agricultural and forestry technicians. Are they working in that field in the countries in which they are?

Mr. WIGGINS. They are working in agriculture and forestry.

Mr. GARY. They are trying to improve the skills of the local people?

Mr. WIGGINS. By directly working with them in particular jobs.

Mr. GARY. And the same is true of the artists and craftsmen?

Mr. WIGGINS. Yes.

Mr. GARY. And each of the other categories. When you list these volunteers for those categories, it means they are serving in those categories in the foreign country?

Mr. WIGGINS. That is right.

Mr. GARY. And that they are trained especially for those particular categories and are actually operating in them?

Mr. WIGGINS. Yes, sir.

Mr. GARY. That is all I have, Mr. Chairman.

APPARENT DISCREPANCIES IN CLASSIFICATION OF VOLUNTEERS

Mr. PASSMAN. On yesterday we spent considerable time establishing the number of teachers that you had and in what category and the percentage. We even moved it from 65 to 66 percent so as to be accurate.

If we are going to come up with a different formula every day, then none of us will ever understand what we are doing.

You gave us a list on yesterday dated March 15. Most all the other testimony dealt with this cutoff period, so that you could have your presentation. We find on your list of yesterday that you had "Vocational training in manual skills," a total of 64 individuals. You have omitted that altogether from the list that you handed in today.

Then, if you get under "General skills," you had 16 as of yesterday, and you omitted that altogether from the list you handed in today.

You have added two new categories of employees, "Community development workers" and "Manual laborers," and also "Public health

workers," substantial numbers in all three of the categories. This had to be copied from somewhere. You do not just pull these things out of the air.

We get into the number of agricultural workers. There is a large discrepancy there, 58, which is almost one-third. So we shall get this thing confused to the point where none of us will understand it, inasmuch as the percentages have changed, because you have omitted some of your classroom workers from the list as of yesterday. I hope our line of questioning did not prompt that—I just said I hope it did not.

Mr. WIGGINS. It did not, sir.

Mr. PASSMAN. I am wondering if your case will not be just as well explained if we stick to the one we spent an hour on yesterday. Is it acceptable?

Mr. SHRIVER. The answer is that between March 15 and April 15 we started, for example, in Puerto Rico, you asked me about that yesterday, a lot of training for community development workers.

Mr. PASSMAN. Did you fire all your vocational training people during that time, in just 1 month?

Mr. SHRIVER. If you will permit me to continue——

Mr. PASSMAN. Did you eliminate the program?

Mr. SHRIVER. If you will permit me to continue, I will explain. When we have on this new sheet that Congressman Gary had some 300 people, I think it is, there in community development work, it is because those people have just been brought in in the last month and put into training in Puerto Rico that you asked us about.

Mr. PASSMAN. How about those you dropped? You have eliminated two important categories from your March 15 sheet that we spent an hour on yesterday nailing down to where you understood it, and the committee understood it. We had a specified percentage of the volunteers as teachers.

Mr. SHRIVER. We added some who were not there.

Mr. PASSMAN. You have eliminated some altogether.

Mr. SHRIVER. We added some that were not there because there were no such people in the Peace Corps on March 15.

Mr. PASSMAN. Did you give us a list yesterday saying they were there?

Mr. SHRIVER. We like to give you the most up-to-date information we have.

Mr. PASSMAN. You did not have these people there when you prepared this list?

Mr. SHRIVER. Yes.

Mr. PASSMAN. Where are they now?

Mr. WIGGINS. I take it, although I do not have the figures——

PERCENTAGE OF TEACHERS IN PEACE CORPS

Mr. PASSMAN. You take the sheets, both of them are yours. You you have eliminated two complete categories of volunteers, and by this procedure you have reduced the percentage of teachers that are abroad.

Mr. SHRIVER. There is no intention of doing that.

Mr. PASSMAN. Regardless of how messed up these two sheets are, we can say that teachers in classrooms are approximately 66 percent of the volunteers, as the record will show from yesterday.

Mr. SHRIVER. Yesterday I said that each month the proportion of teachers would go down.

Mr. PASSMAN. You said they would go down to 50 to 55 percent next year.

Mr. SHRIVER. No, sir; I said it would go down to 50 to 55. Actually, it has gotten down to about 50. Next month it might go up to 53 or 54.

Mr. PASSMAN. Your supporting witness said, in answer to Mr. Gary's questions, you had not changed the percentage, that it was approximately 66 percent. You will remember you said earlier it was approximately the same percentage of teachers.

Mr. WIGGINS. This morning?

Mr. PASSMAN. Yes.

Mr. WIGGINS. Yes.

Mr. PASSMAN. You certainly could not have changed it from this morning. You look at those and tell us whether or not you have done so.

Mr. WIGGINS. Fine.

RECLASSIFICATION OF VOLUNTEERS

Mr. PASSMAN. You have eliminated two categories of very important personnel that you were using only yesterday to justify the appropriation. We want to know why you dropped out all of your vocational training volunteers.

Mr. WIGGINS. I was not the person who reclassified the categories. I am not sure I can fully satisfy you here. Arts and craftsmen are now called arts and crafts.

Mr. PASSMAN. What are you calling the vocational people? Let us get down to the ones you eliminated as of yesterday. You discussed two complete categories as of yesterday. Agriculture changed. You added some new ones.

Mr. WIGGINS. That is right.

Mr. PASSMAN. You dropped vocational training.

Mr. SHRIVER. That has gone into teachers at the bottom.

Mr. PASSMAN. Is it satisfactory that we use the one dated March 15, since it was the basis of your testimony?

Mr. SHRIVER. I would think you would like to use the one that is up to date.

Mr. ROONEY. Mr. Chairman.

Mr. PASSMAN. Mr. Rooney?

Mr. ROONEY. I would think that since we have had this colloquy with regard to the two sheets, that both should be in the record.

Mr. GARY. Mr. Chairman, I do think that those categories that were dropped need some explanation. We ought to have the information as to what other categories they were put into. I think we should have that right away.

Mr. WIGGINS. I would like to supply a reconciliation.

Mr. PASSMAN. Of course, by changing the categories you change the percentage of teachers.

Mr. WIGGINS. The percentage of teachers I think changed principally because during this month we added a large number going to Latin America that were not teachers and the percentage dropped.

Mr. PASSMAN. We spent over one hour on this subject yesterday, pinning it down, and there was such a repetition of the answers there is no way to change it. Today you told Mr. Gary the percentage of teachers remained about the same. We need more than an explanation.

Mr. GARY. I think that needs explanation, but as far as teachers are concerned, they show more teachers in the list produced today than in the old list. The teachers have increased from 502 to 597.

Mr. PASSMAN. You had about a 25-percent increase in the total, and as we are dealing with all the personnel I think we need an explanation as to all the categories.

Mr. GARY. I agree with that. Some of the categories have been changed and you ought to explain it.

Mr. WIGGINS. Certainly.

Mr. PASSMAN. Mr. Rooney?

Mr. ROONEY. Mr. Shriver, as one member of the committee I would like to commend you and your associates on a straightforward presentation of your budget. I have listened very carefully since yesterday morning. I have inspected the 96 pages of the justifications and find plenty of backup material with regard to programs in the various countries.

JUSTIFICATION OF THE ESTIMATE

Mr. Chairman, I made inquiry as to whether the 96 pages of justifications were in the record of these hearings.

Mr. PASSMAN. Mr. Rooney, I do not think we have ever put in 96 pages of justifications. Do you think that we should?

Mr. ROONEY. I think so because they shed light upon the request before us and indicate the backup of the various projects in the various countries. You have summaries which refer to figures that have been discussed at length in the last 2 days. I think in fairness these justifications should be in the record.

Mr. PASSMAN. We are operating in the same manner as we have operated since I have been on the committee; that is, prior to the time the principal witness presents his testimony we request that pertinent information be placed in the record. We have never yet left out of the record anything that would be pertinent, but I do not think there is any case where such a voluminous document has been placed in the record. We shall make a note of it and when we have a full committee meeting, if the gentleman will defer his request, we shall discuss it at length.

Mr. ROONEY. I assure you that this is not the procedure before the subcommittee that I have the honor to head. If anyone wants something in the record it is put in the record, because it is for the information of our colleagues in the House of Representatives.

Mr. PASSMAN. Many times such voluminous information is sent to the committee for our information. I assure the gentleman that I always respect his views, but I am asking that we not decide this at this time. I ask that he defer his request.

Off the record.

(Discussion off the record.)

Mr. ROONEY. I am sorry that my bill is not bigger but it is big enough to cause a lot of work and I have never refused to let them put whatever they wanted in the record, and I see no reason why this entire set of justifications should not be in the record because they reflect upon the request before us.

Mr. PASSMAN. It may be that you would not want it all in. What book are you referring to, Mr. Rooney?

Mr. ROONEY. I am referring to the justifications.

Mr. PASSMAN. We have so many books here. We have the red book——

Mr. ROONEY. The red book is the committee print. I am talking about the justifications.

Mr. PASSMAN. The request is certainly in order. I am asking the gentleman if he will defer his request and see whether or not we can save some money by making some deletions.

Mr. ROONEY. There are some things in here that might be deleted. I will agree to that. But the bulk of these justifications of the Peace Corps should be in the record because they shed light on the budget before the committee.

(Portion of the Peace Corps justifications follow:)

VII. PEACE CORPS PROJECTS

As reported in chapter II, although a larger number of countries have expressed interest in the Peace Corps, projects now underway or firmly scheduled are limited to 32 countries. The following chapter provides a brief description of the projects in each of the following countries:

Afghanistan
Bolivia
Brazil
Ceylon
Chile
Colombia
Dominican Republic
Ecuador
El Salvador
Ethiopia
Ghana
Honduras
India
Iran
Ivory Coast
Liberia
Malaya
Nepal
Nigeria
North Borneo/Sarawak
Pacific Trust Territory
Pakistan
Peru
Philippines
Sierra Leone
Somali Republic
Tanganyika
Thailand
Togo
Tunisia
Venezuela
West Indies

AFGHANISTAN

A dearth of skilled manpower at all levels exists in Afghanistan. It is the bottleneck that has hampered the increase of productivity, retarded economic development, and kept the living standard low. The first Peace Corps project is designed to furnish volunteers who will both provide needed skills as well as teach Afghans some of the basic subjects necessary for them to acquire advanced skills.

Twelve volunteers have been requested by the Royal Government of Afghanistan. One half of this number will teach English as a second language in the secondary schools. The other volunteers will work as nurses and as foreman mechanics. The Ministry of Education lacks sufficient native speakers of English for the 360 sections of English as a foreign language it sponsors. The Government has an agreement with Medico for a new health program and needs personnel to help in this program. The recently mechanized transportation system needs help in the development of repair and maintenance facilities. The first volunteers in Afghanistan will constitute an experimental program working in these three activities.

Recruiting and selection of the people for this project will be carried out over the next several weeks and the training program is scheduled to start in April. The training program will include a heavy emphasis on the Farsi language.

During program exploration, various ministries were enthusiastic about the Peace Corps and informally requested substantial numbers of volunteers. The Afghan Foreign Office indicated that with experience and a demonstration of success an expansion will be requested.

BOLIVIA

The first project to be initiated in Bolivia will require up to 50 nurses, health educators, and sanitary workers. The Peace Corps nurses and health educators first will work in health centers of the Inter-American Cooperative Public Health Service near La Paz and later will expand to centers elsewhere.

Other volunteers will furnish guidance and help in designing and constructing water wells and sewer systems on a national scale. Local villagers are anxious to cooperate by providing labor and materials, if the Peace Corps will provide guidance and skilled workers. The volunteers will work in mobile teams consisting of civil engineers, sanitary engineers, well diggers, and plumbers. These teams will move from one community to another, locating water supplies, planning, drilling wells and constructing and installing water systems.

Volunteers for this first project will begin training at the University of Oklahoma about the end of March and will begin their duties in Bolivia in August.

Another request from the Bolivian Government is for 25 volunteers to help carry out an integrated development in the Cochabamba Valley. Eight will work as farm assistants, attached to a milk plant, the rest will work on small neighboring farms, concentrating on irrigation work. This program is under direction of the Bolivian Development Corporation.

Other projects are planned for rural development programs in various rural development centers. In one of these, in the Santa Cruz region, the Bolivian Government is settling a colony of Okinawans. Volunteers will assist them in agrciultural cooperatives and in primary school teaching. Training for these projects will begin in July.

BRAZIL

The first project now being implemented for Brazil is to stimulate the expansion of the rural youth clubs (4–S Clubs) by sending teams of home economists and agricultural extension workers to work directly with Brazilian coworkers on the staffs of state departments of agricultural extension. They will work in collaboration with the Brazilian Association for Rural Credit and Assistance (ABCAR), which requested the Peace Corps Volunteers.

The 4–S Club system is an important part of the rural education campaign which has been established as a priority program by Brazilian planners to increase farm productivity through the introduction of better methods of agriculture and homemaking. The addition of Peace Corps volunteers to the Brazilian rural youth worker staff will more than double the total personnel available in Brazil for this type of work.

The group consists of 53 Peace Corps volunteers—both men and women be assigned in teams consisting of a home economist and an agricultural extension worker, together with Brazilian coworkers. They were trained at the National 4–H Club Foundation in Washington, D.C., from January 3 to February 14, 1962.

During field conditioning at the Puerto Rico Field Training Center, February 25 to March 23, they will observe and assist with 4–H work of the Puerto Rico Extension Service. Finally, they will spend 9 weeks in training at the *Universidad Rural*, outside Rio de Janeiro, with particular emphasis on language instruction.

The work teams will be under the general supervision of state directors of agricultural extension in 8 to 10 States of Brazil. The teams will work at a township level covering a large rural area. They will recruit and train local 4–S Club leaders, visit club member projects to provide technical assistance; develop demonstration projects in agriculture and home economics; prepare audio-visual materials and other teaching aids; and assist with club organization, training, and recreation activities.

The National 4–H Club Foundation, a nonprofit educational corporation closely related to the United States 4–H Club movement, is responsible for project administration under contract to the Peace Corps.

Later projects scheduled for Brazil will include adult education teachers in various crafts and trades to work with illiterate inhabitants of Rio's slum areas, and agricultural extension and community action workers for work in the State of Rio Grande do Norte.

CEYLON

The first project requested by the Government of Ceylon calls for 42 volunteers to work in high schools and teacher training colleges, assisting in the teaching of science and health and physical education. They will be located in the southwestern part of Ceylon, the Central Province and in the far north.

In addition to their teacher responsibilities, the volunteers will assist in developing local health groups and PTA's. The Ceylon school system grants three vacation periods, each of 1 month duration. During two of the periods the volunteers will be assigned either to teach in the inservice training programs or to work in the National Service Scheme (a voluntary national development organization which coordinates, initiates, and lends assistance to community development projects.)

The volunteers are expected to arrive in Ceylon in September 1962 and will receive 3 to 4 weeks of incountry orientation.

Two ministries of the Government of Ceylon, in addition to the education ministry, have indicated a strong interest in obtaining Peace Corps volunteers in the future.

CHILE

This was one of the first Peace Corps projects to be sent to the field and the second in Latin America. There are 45 volunteers in the field of whom two are volunteer leaders. After nearly 8 weeks of training at the University of Notre Dame, the volunteers arrived in Chile October 9, 1961. They went immediately to the Institute of Rural Education Training Center in Los Casquez, about 40 miles outside of Santiago, for 5 weeks of classroom training, followed by on-the-job training at various institute centers of operation.

Peace Corps volunteers are assisting in programs of community action and rural education as members of development teams of Chile's Institute of Rural Education. The institute is a nongovernmental, private foundation established in 1955 to increase agricultural production and to better living conditions in rural areas. Some volunteers give practical demonstrations in general farming methods, fruit tree culture, care and vaccination of livestock. Others teach carpentry, home economics, first aid, child care, public health or personal hygiene. An important part of their job is to stimulate the growth of small cottage industries. And for better health and physical conditioning, organized sports, and recreation are being introduced into communities by Peace Corps volunteers.

In addition, volunteers are working with teachers in rural public schools and with campesinos in villages to help make maximum use of the 15-minute educational radio programs broadcast daily over half of Chile's radio stations. Broadcasts cover crop and livestock raising, child care, and preventive medicine. Some with special training aptitudes also serve as assistants in the Institute's training centers, conducting classes for young campesinos, teaching them how to carry on their own community projects.

In 1960, earthquakes, tidal waves, and floods brought hardship and ruin to hundreds of communities in southern Chile, disrupting village life and driving great numbers of small farmers and villagers to the already overcrowded cities. The majority of Peace Corps volunteers in Chile have been assigned to areas where damage and suffering were greatest.

This project is administered by the Indiana Conference on Higher Education, an organization of 34 Indiana colleges and universities, both public and private, with the University of Notre Dame acting as the administering agent. Volunteers are under the joint supervision of the project director and members of the staff of the Institute of Rural Education.

A second project for which training will begin in April will be administered by the YWCA. It will require 20 volunteers to teach various skills to families in a public housing project of San Gregorio, outside Santiago and an urban renewal area, near Valparaiso, and to work in a nearby YWCA mountain camp.

COLOMBIA

Increasing farm productivity, improving village health and education, raising rural living standards, and helping Colombia achieve economic and social stability in its rural areas are the goals of this Peace Corps project. It was the second Peace Corps project to become operational and is the first in Latin America. The volunteers, 62 in number, arrived in Colombia on September 7, 1961, after 9 weeks of training at Rutgers University. They went immediately to the Rockefeller Foundation's Tibaitata Institute, near Bogotá, for 5 weeks intensive training, beginning October 9, 1961. Based upon initial favorable reactions, the Government of Colombia has requested that the number of volunteers be doubled. Accordingly, 60 additional volunteers are now in training at Arizona State University and will begin work in Colombia in May.

The volunteers are assigned singly or in pairs with Colombian coworkers to rural towns and villages in a dozen different provinces. As part of their community action activities, volunteers are performing such varied tasks as well drilling, laying water and sewer pipelines, planning vegetable gardens and playgrounds, working with local crews on building access roads and schools, organizing youth clubs, demonstrating the use of farm implements, caring for livestock, stocking ponds with freshwater food fish, showing slides that relate to health and increased farm production. Volunteers not only provide some of the advice needed to accomplish these missions but also participate directly in the work. Their main task, however, is to mobilize communities to act to resolve their own problems in these and other respects.

This project is under the supervision and guidance of CARE, Inc., a private voluntary agency, in cooperation with the Division of Community Action of the Government of Colombia.

An advisory board comprising representatives of business, labor, foundations, the Peace Corps, CARE, and the Colombian Government, regularly reviews and evaluates the project. In addition, a contract has been entered with the Research Center for Human Relations, New York University, to perform a 2-year evaluation of all aspects of the program.

DOMINICAN REPUBLIC

The Dominican Republic probably has the most acute shortage of trained manpower in Latin America. Complicating the post-Trujillo problem is the almost total absence of agricultural extension services, vocational schools, urban development projects, and other institutions essential to the nation's rapid economic and social recovery. Preparations are now being made to create several such institutions.

In the interest of being able to provide trained middle-level manpower to planned programs in both rural and urban development, volunteers will be trained as soon as possible to participate in projects involving aided self-help housing, agricultural extension, rural cooperatives, and forest conservation.

Because all the above-mentioned projects will make heavy use of community development techniques, up to 50 volunteers will be trained at the Peace Corps Community Action Training Center in Puerto Rico starting March 20, 1962. This group of volunteers will be joined in training by a group of 15 or more young men from the Dominican Republic who will return to their country with the volunteer coworkers upon completion of training. AID has agreed to finance the transportation and training of the Dominicans.

ECUADOR

Sixty volunteers for the first Ecuador projects will be trained in how to organize communities, get them to recognize and set priorities upon their problems and assist them to take cooperative action to resolve those problems at the Peace Corps Community Action Training Center in Puerto Rico.

Upon completion of training, 32 of the volunteers will be placed with the National Campaign for the Integration of the Campesino, an organization which coordinates the activities of various agencies dealing with the problem of integrating the Andean Indians of Ecuador into modern Ecuadorean life and culture, and getting Indian villagers to cooperate in resolving common problems. Through the national campaign, volunteers wil work with its contracting agencies, the Andean Mission of the International Labor Organization (U.N.) and the Institute for Colonization.

Another group of 10 volunteers will work with the Center for Economic Reconversion, a semiautonomous agency, supported about three-fourths with Ecuador Government funds, working in the southern Andes to relieve the economic plight created when the Panama hat business dwindled away. These volunteers will work to gain acceptance by Indian communities of the many agricultural and technical innovations being introduced by the center.

Lastly, 18 volunteers will work in the urban slums of the coastal cities of Guayaquil and Manta. They will work there in three centers which organize the slum communities to take action in their own behalf to improve their housing, make furniture, acquire vocational education and literacy, improve their health and sanitation, eat more balanced diets, prepare foods better, and conduct small businesses.

A separate project will send 11 volunteers trained in agricultural extension, nursing, civil engineering, and forestation skills to the National Campaign for Integration of the Campesino. Alongside national coworkers of corresponding skills, these volunteers will help the Indian farmers improve their agricultural methods, assist in the operation of health clinics and health education, participate in the planning and construction of irrigation canals and roads and help conduct a reforestation program vital both for house building and for conservation of the land.

The Center for Economic Reconversion has requested another project calling for 50 volunteers in other specialties to arrive in the fall, after the community development volunteers are established. The largest group in this project will be 30 agricultural extension specialists and 10 volunteers in more specialized agricultural fields to assist in upgrading agricultural production. Another 10 volunteers will help in the center's rural electrification and irrigation canal and road construction projects.

Another project for some 60 volunteers in agricultural extension and 4–H work is planned for administration by Heifer Project, Inc. This project is designed to assist the Ecuadorean Department of Agriculture improve land use and augment agricultural production through direct extension work and through assisting organization and operation of 4–H type activities. Volunteers will be assigned to agricultural extension stations maintained to work with extension agents and 4–H Club organizers.

Finally, some 28 volunteers have been requested by the Minister of Education to teach science in secondary schools.

EL SALVADOR

The Peace Corps project for El Salvador is the first in Central America. Volunteers are now in training at New Mexico State University at Las Cruces, and will arrive in El Salvador on May 3. A total of 27 volunteers, all with specific agricultural skills, will serve Ministry of Agriculture programs in extension, agricultural education and rural resettlement.

Improved agricultural practices are priority needs in El Salvador, where a high density of population, the highest in Central America, and previous concentration on a single crop, coffee, have long kept the nation from agricultural self-sufficiency.

The programs in which volunteers will serve are directly aimed at raising productivity through the introduction of modern, diversified agriculture.

Five of the volunteers will be teaching assistants at the National School of Agriculture in San Andres which gives an intensive 3-year course to all of Salvador's qualified rural youth who cannot afford a university education. Eighteen volunteers will serve the Ministry of Agriculture's National Extension Service, which has a network of extension stations covering all important provincial towns. These stations are presently manned in the main by recent graduates of the National School of Agriculture's 3-year course. In order to improve the professional competence of the service, the Ministry has requested volunteers with various specializations—agronomists, soil conservationists, animal husbandrymen, entomologists—who will circulate among the stations and launch new programs with their coworkers. The remaining volunteers will assist the Institute of Rural Colonization's resettlement program. This program represents the most important single effort in El Salvador to correct archaic land tenure systems and build a class of small farmers by providing landless campesinos with leaseholds on Government lands. The success of the individual grant holders varies greatly, but all need much more in the way of advice and help

on land use, farm management, consumer or marketing cooperatives and the organization of rural youth programs than the Government is presently staffed to offer.

ETHIOPIA

The Government of Ethiopia, through the Ministry of Education, has requested the Peace Corps to supply up to 300 volunteers to teach in the secondary schools in Ethiopia. The Government's keen interest in education matters is evidenced by the fact that the Emperor reserves the Portfolio of Minister of Education for himself.

The volunteers are scheduled to arrive in Ethiopia in early September 1962. They will go to Addis Ababa for an additional 4 weeks of intensive training beginning immediately after their arrival. Following this, they will be assigned to secondary schools throughout Ethiopia and where they will teach mathematics, English, geography, home economics, biology, typing, industrial arts, agriculture, and physical education.

General supervision of the volunteers will be provided by the Ministry of Education and direct supervision by the headmaster of the scohol to which they are assigned.

Other than teaching duties, the volunteers will work with students and adults in such after-school activities as sports, recreation, music, sewing, reading, and painting.

GHANA

On August 30, 1961, 50 young men and women arrived in Accra, Ghana, to teach one of the following subjects in Ghana's secondary schools: physics, chemistry, math, history, geography, Latin, French, or English. They introduced themselves to their students for the first time in their classrooms throughout Ghana on September 15, 1961.

President Kwame Nkrumah said in July of 1961, "We must concentrate all our efforts on education. It is only through universal education that we can give our people the full opportunity to develop their latent abilities and intelligence." The shortage of secondary school teachers is a limiting factor not only on Ghana's education program but also on her economic and social programs and it was to this need that the Peace Corps responded. The success of the program so far is indicated by the Government of Ghana's request for 100 more secondary school teachers and 35 technical and vocational teachers to start in September 1962 and an additional 50 adult education teachers to arrive soon thereafter. The technical and vocational teachers are scheduled to teach geology, carpentry, auto mechanics, and similar subjects.

The first group of volunteers trained for 8 weeks at the University of California at Berkeley. In Ghana, they trained at Legon for 2 weeks before going to their assigned posts. Twenty-eight schools are involved—some have as many as five volunteers and seventeen have just one—with the volunteers under the direction of their respective school principals as to their substantive work. They teach a full schedule of courses and participate, as needed, in after-school activities. One volunteer is a wrestling coach, some are "junior games masters" and all take active part in school and community life.

HONDURAS

The first project in Honduras will help (1) to improve the general health and health standards of the people of Honduras, and (2) to assist in the improvement of the social services available in Honduras.

Honduras is an agricultural country of 2 million persons. Its per capita income is low; its unemployment ratio is high. Diseases such as tuberculosis, typhoid, typhus, yellow fever, and plague are not uncommon. The National Department of Public Health has developed a comprehensive plan of new health centers throughout the country, but because of the critical shortage of nurses many of the new centers are not properly staffed.

Social service for Honduras, in any professional sense, is a newly recognized need. The Government of Honduras' School of Social Welfare has been in operation only 4 years, and there are only 30 trained social workers serving the country. Consequently, the caseload for each social worker is far in excess of what can be adequately serviced. Slum conditions prevail in the cities; there are no effective child welfare laws.

The Peace Corps project is national in scope; 27 volunteers—14 registered nurses and 13 social workers—will be assigned to live and work in the health and medical centers in 6 of Honduras' 7 sanitary districts. They will be under the supervision of the directors of the health and medical centers. All the volunteers will work with Honduran counterparts. Volunteers will be reassigned in different sanitary districts after some months of service in order to give them a broader perspective of the variety of problems and to give the sanitary districts benefit of new points of view.

INDIA

After a 10-week training period at Ohio State University and an additional 3 weeks' training at Ludhiana Agricultural College in India, a group of 26 volunteers began work in India in January 1962.

India is the world's second most populous country, and its population expands each year by some 10 million people. India's greatest need in the foreseeable future is more food. This Peace Corps project is designed primarily to help meet that need.

Volunteers assigned to India are located in the Punjab State in northern India. Most of them are working in an experimental intensive agricultural district program or at agricultural training centers. Several volunteers are working in the complementary fields of rural housing, craftsman training, and development of small industries.

In the intensive district agricultural program, conducted in Ludhiana by the agricultural college, volunteers are working at the college, in the neighboring villages, and as engineers specializing in the production and operation of agricultural implements. At two village-level workers' training centers, volunteers are demonstrating and teaching the care of poultry, dairy-farming methods, farm management, and the design and operation of agricultural tools. Other volunteers are assigned in the planning and construction of model villages. Finally, volunteers with experience as machinists, electricians, and sheet metal workers are giving practical training to workers in these trades, as well as assisting in helping to solve problems common to small-scale village industries.

The Government of India has indicated an interest in an additional 60 volunteers; 30 in the field of agriculture in Uttar Pradesh, and 30 in Gujerat State, Andra Pradesh, and Maharestra teaching in secondary schools and universities.

IRAN

The first Peace Corps effort in Iran will be centered on the training of teachers in voluntary agriculture schools and in a new agricultural college. The 50 volunteers will concentrate on teaching agricultural mechanics, horticulture, and agronomy. Supplementing this work will be a number of volunteers teaching English in the same schools.

Training in the United States will start in June. In September, the volunteers will have 4 weeks of orientation in a rural setting near Teheran. Courses planned to prepare the volunteers for their assignments include intensive study of Farsi and training in arid area agricultural practices.

If reaction is favorable to this first project, additional requests are anticipated in the fields of health and education.

IVORY COAST

The Ivory Coast wishes to expand to expand and improve the teaching of the following subjects, particularly in the interior: mathematics, physical sciences, physical education, home economics and English. Seventy volunteers have been requested by the Government. This project will be one of the first to be undertaken south of the Sahara in a French-speaking African country. It is planned that the volunteers will arrive in the Ivory Coast in early September 1962 for 3 weeks of orientation after having received 8 weeks of intensive training in the United States.

The volunteers will teach primarily in secondary schools in every area of the Ivory Coast. Thirty-five volunteers will teach English. Ten will be instructors in the physical sciences or mathematics. Half of the 15 home economics teachers requested will be teaching adult women's classes: nutrition, hygiene and sanitation, home medical care, reading and writing. Several of the 10 physical education instructors, according to their experience and skill, will

coach regional and national teams in boxing, swimming, soccer, track events and basketball.

LIBERIA

In response to a request from President William V. S. Tubman of Liberia, up to 70 Peace Corps volunteers are scheduled to begin teaching in Liberian secondary schools in September.

With substantial assistance from AID, Liberia is launching an extensive school building program for senior high schools, junior high schools, and elementary schools. Peace Corps volunteers will help staff the new schools and provide temporary replacements for Liberian teachers who are to receive further training.

Up to 40 volunteers are needed at the junior high school level to teach science, mathematics, language arts, vocational education, French, music, and arts and crafts. Up to 20 volunteers are needed at the senior high school level to teach general science, English, French, and vocational guidance. In addition, up to 10 volunteers have been requested for the teacher training schools in the fields of science, mathematics, English, communication arts, and professional education.

The selection of candidates for this project will begin about the 1st of April and the 2-month U.S. training program will begin about the middle of June. After home leave, there will be a brief orientation period in Liberia before the volunteers begin their teaching assignments in mid-September.

In addition, a rural development project to be administered by International Voluntary Services, slated for early implementation, will require 50 volunteers.

MALAYA

The first Malaya project consists of three elements—education, health, and rural development—all directed toward providing human resource assistance to the Government of Malaya in meeting the objectives of its 5-year development plan.

This project consists of 20 secondary science teachers, 5 technical college instructors, 2 apprenticeship instructors, 30 nurses, 17 hospital laboratory technicians, 2 business skills teachers, 2 road surveyors, and 1 soil surveyor. These volunteers are being trained in two groups. The first group began training at Northern Illinois University, October 14, 1961, spent a month at the University of Malaya, and began work on February 10, 1962. The second group begins U.S. training on February 28.

Malaya faces a critical situation in its educational system with a shortage of nearly 2,000 teachers in secondary schools alone. A similar teacher shortage exists in the technical and trades schools of the country. The volunteer teachers will help alleviate this shortage while additional teachers are being trained. They will also contribute toward increasing the supply of future teachers because in a number of schools they will be teaching college entrance subjects, not currently being taught because of a lack of teachers.

Along with other aspects of development, there is an equivalent need and desire for increasing the availability of social overhead facilities, particularly medical. Other projects will assist in improving and expanding the coverage of medical services in the country, particularly in rural areas, by providing nurse and laboratory technician volunteers. In addition to their regular duties, they will assist in on-the-job training of Malayan hospital personnel, who will eventually form the nucleus of personnel for expanded hospital and medical care.

The Government of Malaya also emphasizes rural improvement and has requested Peace Corps assistance in road surveying, soil surveying, and teaching at the Rural Industrial Development Authority Institute.

All volunteers are assigned within the organizational framework of the Government organization for whom they are working. They receive technical direction and supervision in the normal Government of Malaya manner.

Additional projects planned for Malaya will involve school construction in addition to teaching, health, and rural development.

NEPAL

Nepal is a country the size of England, with a population of nearly 10 million, located between India and Tibet. As a result of being closed to the outside world for more than a century until 1951, it is economically very underdeveloped and has a literacy rate of less than 10 percent.

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The Government of Nepal has requested up to 80 volunteers for arrival in September 1962. This includes 45 vocational high school teachers, 23 college teachers, and 12 agricultural technicians and mechanics. They will be located in six areas of Nepal which are most favorable from health and logistics considerations.

Compulsory, free primary education has not yet been instituted in Nepal. However, there is great popular interest in education and new schools are being started rapidly, often by local initiative with some support by the National Government. The great need at the high school level is for courses in vocational subjects which will help the Nepalese to develop practical skills related to the economic opportunities now available to them. Accordingly, the volunteers in the high schools (through 10th grade) will teach industrial shop, primarily carpentry, vocational agriculture, and domestic science.

At the college level (11th grade on), courses are taught in English and teachers are needed in many subjects, primarily in science and other technical fields. Volunteer teachers will be assigned to eight or nine colleges in various parts of Nepal. Most of these are still small and the volunteers will play an important role in their further development.

Finally, the Department of Agriculture has requested volunteers to work in several agricultural experiment stations and to assist Government agricultural extension officers.

NIGERIA

There are 107 Peace Corps volunteers in Nigeria teaching in both secondary schools and the University of Nigeria. These Americans represent the response the Peace Corps make to Nigeria's request for teachers to help educate their 35 million people. Since gaining their independence, the Nigerians have established development programs but they are handicapped by a shortage of trained personnel, whose technical and professional growth has been retarded by the lack of teachers. Seventy-six of the volunteers, serving as secondary schoolteachers, were trained in two groups—one at Harvard and one at the University of California at Los Angeles. The rest, serving as faculty assistants at the University of Nigeria, were trained at Michigan State.

In the secondary schools the subjects taught range from English to math. Besides the academic responsibilities, the volunteers participate in the extracurricular activities of their respective schools and in community activities.

The volunteers at the University of Nigeria are assistant lecturers and research assistants in math, teacher training, vocational education, history, and other subjects.

These projects are administered by the Peace Corps in cooperation with the respective universities.

The Government of Nigeria has asked for a sizable expansion of Peace Corps projects there. This will include 350 secondary school teachers, 25 volunteers in an industrial management project, and 25 university assistants at the new University of Ife.

NORTH BORNEO/SARAWAK

Both North Borneo and Sarawak are rapidly approaching the time in which they will evolve into some form of federated or independent noncolonial status. In the meantime, both governments are vitally concerned with accelerating development as rapidly as resources and circumstances will permit. Trained human resources are limited and so long as they are, development will be retarded.

Accordingly, this project asists the governments of North Borneo and Sarawak in their efforts to improve the quality and availability of educational, agricultural, and health facilities, and to accelerate adoption by the rural population of modern farming techniques that will contribute to higher quality farm products, increased productivity, and a higher level of general well-being.

Large areas of North Borneo and Sarawak are sparsely inhibited, uncultivated, and relatively inaccessible to the more settled areas due to lack of even simple roads and lack of land surveys which would make new lands available for agricultural uses. Volunteer land surveyors and road surveyors will make a positive contribution to these efforts.

Much of the harnessing of human resource potential lies in higher education being available through a common language medium. Since practically no higher education will be available in the near future in North Borneo and English is the language of instruction through which higher education is most

readily available elsewhere, the government has requested Peace Corps assistance in improving the quality and quantity of English language instruction in North Borneo high schools.

The governments recognize the need for better utilization of rather limited agriculture resources, particularly in the more remote areas where the farmers employ outmoded techniques. They feel that the best approach is through new, young farmers and that they can be best reached by other young farmers or young persons from farm backgrounds engaging in general extension work and 4–H Club-type activities. Volunteers will also be instrumental in making the rural householders aware of means of improving immediate physical surroundings, thereby making a contribution to better health.

Training for this project involving 31 secondary teachers, 22 4–H Club workers, 9 agricultural extension workers, 8 nurses, 2 hospital laboratory technicians, 2 malaria eradication workers, 2 health workers, 8 land surveyors, 14 road surveyors, 1 hydrological surveyor, 1 rural development economist, 1 rural development nurse-midwife, and 1 rural development fieldworker, is expected to begin in June. Incountry training will take place at Sabah College in Jesselton (for the North Borneo element) and Batu Lintang Teacher Training College (for the Sarawak element). The incountry training will be devoted primarily to intensive language training, incountry orientation, and skills orientation (i.e., familiarization with the systems used by the governments in English language teaching, agricultural extension, etc.).

PACIFIC TRUST TERRITORY

The upgrading of the use of the English language will be a goal of one group of volunteers in the Pacific Trust Territory. Under a second project, three island development teams will concentrate on the economic and social development of three of the larger islands in the Truk, Ponape, and Palau Districts.

The U.N. Trusteeship Council, the High Commissioner for the Trust Territory, and the local Micronesian Legislative Councils in the seven districts of the Territory have urged a more intensive training in the English language in the elementary schools and accelerated economic and social advancement of the islands. The Peace Corps program in the Trust Territory is intended not only to further the objectives envisaged in the Peace Corps Act, but also to fulfill the responsibilities of preparation for independence (or other status) implicit in the terms of the U.S. trusteeship. Initially, 30 volunteers are required for teaching English, elementary science, and mathematics; 33 volunteers plus 3 volunteer leaders will constitute 3 island development teams. The team members will be comprised of a range of volunteers having such skills as civil engineering, surveying, vocational training, public health, agriculture, construction, and experience in the organization of cooperatives.

The training program will extend from May to September 1962. Training in the United States will include Micronesian area and language studies; teaching English as a foreign language; and physical conditioning.

Volunteers engaged in teaching will be assigned to seven districts. They will teach in the established elementary schools under the supervision of the Micronesian school officials. In most instances, more than one volunteer will be assigned to each location. The island development teams will work under the direction of Micronesian officials, one team each assigned to the islands of Tol, Ponape, and Babelthuap.

PAKISTAN

In December and early January, volunteers began work in agriculture, health education, and community action programs in both the east and west wings of Pakistan.

In East Pakistan, 29 volunteers are assigned to government ministries, a village development academy, and university faculties. One group is serving as an audio-visual team, planning and producing educational films for Pakistani audiences. Others are serving as physical education instructors, a mechanic, youth workers for organizing rural youth clubs, and a librarian. At the University of Rajshahi, volunteers are serving as instructors in a number of subjects, including American history, political science, sociology, economics, American literature, and international relations. Two nurses and one medical assistant are working at the University of Rajshahi Medical College Hospital. Finally, a team of volunteers is helping in the construction of the "satellite town" of Mirpur, 6 miles north of Dacca. The team includes a junior town planner,

a sociologist, skilled workmen, mechanics, and a sanitary engineer. This project is administered by the Experiment in International Living, and the volunteers were trained at experiment headquarters in Putney, Vt.

The project in West Pakistan is administered by Colorado State University, where the volunteers began their training. Twenty-eight volunteers are stationed in Lahore and Lyallpur, working on hospital staffs, on college faculties and staffs, and as members of agricultural extension teams. Assignments include service as an assistant librarian, junior instructors in biochemistry and histology, a dairy equipment mechanic, and faculty assistants and demonstrators in masonry and brickwork, internal combustion engines and electrical engineering. In addition, volunteers are serving as staff nurses teaching village classes in midwifery, child care and first aid, as agricultural extension workers, and as farm mechanics.

Institutional requests have been made for a large number of teachers at various colleges in east Pakistan. A governmental request is anticipated for at least another hundred volunteers to train in the summer for arrival next fall.

PERU

The present Peace Corps program for Peru consists of three projects to which volunteers will be assigned in 1962.

One of Peru's severest problems is the rapid growth of slums around its coastal cities caused by the mass migration of peasants from the Andes. Volunteers will assist a cooperative project among two Peruvian Government agencies tackling this problem in Peru's second city of Arequipa. In addition, the Peruvian Government has just requested similar help in Lima.

The Peace Corps will provide carpenters, plumbers, and electricians to play a dual role, assisting in construction and teaching apprentices their trades; nurses to assist in clinic operation and teach nutrition and sanitation both through classes and home visits, vocational education teachers; and a social anthropologist to guide the activities, assure that the work of the volunteers is responsive to local needs, and direct the social work aspects of the project.

A second project involves seven volunteers with co-op experience and background in accounting or economics. They will assist the understaffed Federation of Credit Cooperatives in setting up new cooperatives and trouble-shooting in administration of existing co-ops.

The third project will be concerned with integration of the Indian peasants of Peru into national life. It will build on the pioneer anthropological work of Cornell University in Peru which has had remarkable success with a pilot project in the isolated community of Vicos in the northern Peruvian Andes. Cornell over a period of 10 years has turned a starving, illiterate, feudal community into a thriving, self-governing and self-sustaining unit.

Based on Cornell's success, the Peruvian Government has created a national coordinating body for integration of the Indian population whose mission it is to multiply the Vicos results. It has created four projects patterned on the Cornell-Vicos project in cooperation with a number of Peruvian universities and the Andean mission of the International Labor Organization. The volunteers will work with three of these projects plus the Vicos project which is now being converted into a training center for surrounding communities. Cornell will advise and assist the Peace Corps in its operation of this project.

PHILIPPINES

The Philippine Government is urging a general, rapid, and comprehensive upgrading of education, especially in rural schools where teaching of English, mathematics, and science is not yet of a sufficiently high standard to prepare pupils for technical study. In the Philippines, English is the language of technology, trade, commerce, and culture, but during the last five decades the influence of local languages and dialects has led to deterioration of spoken English. The Philippine Government feels that the work of Peace Corps volunteers will help reverse this trend.

It is expected that by December 1962 up to 900 Peace Corps volunteers will be serving as educational aids in the rural public elementary and secondary schools and 50 volunteers will be serving as remedial English language instructors for freshman classes in selected universities. Currently, 182 volunteers are in the Philippines and another group of 50 volunteers who began their U.S. training in

Puerto Rico in December will be arriving in the Philippines in late March. A fourth group of 70 will begin Puerto Rico training in March and the remainder will start during the summer.

U.S. training for the first groups has been at Pennsylvania State University. Host country training at the University of the Philippines, College of Agriculture, Los Banos, includes intensive Tagalog and local dialect study, further country orientation, field trips to rural schools, and study in the methodology of teaching English and general science and mathematics to Filipino students.

In the field, the volunteers live in groups of two to four in provincial towns where convenient groupings of barrio schools make possible their serving a broad area. Their schools are generally within commuting distance of their residences. The six major areas in which volunteers live and work are Panay-Negros, Bohol-Cebu, Bicol and Leyte-Samar; the Llano area of Mindanao; and Ilocas Norte Province in northern Luzon.

The principal resources of the volunteers bring to the school situation in the Philippines as elementary school educational aids is their command of English as native speakers and their general background in the field of science and mathematics, augmented by a period of intensive skill training under Peace Corps auspices in the teaching of English as a second language and in the teaching of elementary mathematics and general science. To offer these resources most effectively, their role is that of educational aids to the Filipino teacher. They serve as models for spoken English, guides for pronunciation, resources for vocabularly development, aids in checking and improving English composition and other written expression in English. They work with small groups, with individual pupils, and help teachers improve their mastery of English. After school, they participate in community activities such as scouting, recreation programs, and PTA meetings.

The high school aids will assist the science and mathematics teachers in their high schools by setting up laboratory demonstrations giving special attention to individual students' problems, and guiding more advanced students in special projects; giving and grading quizzes and examinations; and encouraging science and mathematics clubs and contests, to promote extracurricular activity in these subjects.

The university-level remedial English instructors will work with university freshman classes and individual students to improve mastery of English grammar, pronunciation, understanding of spoken English, reading comprehension and fluency in writing.

A small community action project is also planned under direction of the Philippines Agency for Community Development.

SIERRA LEONE

Sierra Leone recognizes that education is essential to her national development and her most apparent shortage is in the field of secondary school teachers. A look at Sierra Leone's statistics on education point out this need very graphically: Over 74,000 children graduated from her primary schools but over 91 percent could not continue their education because of the lack of secondary schools and teachers. To overcome this critical shortage, the Sierra Leone Government has established the highest priority for her secondary education program and has asked for Peace Corps help.

There are now 37 volunteers, including 1 volunteer leader, working in the country. They arrived January 2, 1962, in Freetown, spent 1 week at Forah Bay University for orientation, and then went to their respective teaching assignments in schools all over the country. Their training in the United States took place at the Teachers College, Columbia University, and at the Peace Corps Field Training Center at Arecibo, P.R.

The volunteers have been assigned according to their specialties, which include history, geography, general science, mathematics, chemistry, biology, French, English, home economics, music, arts and crafts, physical education, commercial subjects, and domestic science. On top of a full schedule of courses, the volunteers participate in the after-school activities of the schools to which they are assigned.

A second contingent of 70 volunteer secondary school teachers is scheduled to start training this summer for arrival in Sierra Leone about September 1, 1962. In addition, 35 volunteers for a CARE rural development project and 30 volunteers for a Medico health and sanitation project are planned.

SOMALI REPUBLIC

The Prime Minister of Somali, in recognition of the fact that education is the basis from which Somalia will develop socially, politically, and economically, through the Minister of Education, requested the Peace Corps provide 50 volunteer intermediate and secondary school teachers for grades 5–12.

The first group of volunteers is scheduled to arrive in Somalia on July 2, 1962, after 8 weeks of training in a U.S. university. Following a brief orientation period in Somalia, 43 of the volunteers will be assigned to teaching duties in the intermediate and secondary schools in the northern region; and 7 volunteers to Mogadiscio, in the south.

The volunteers will be supervised by the headmasters of the schools to which they are assigned. In addition to their teaching duties, the volunteers will work with students and adults in such afterschool activities as sports, recreation, handicrafts, music, reading, painting, etc.

This project will be jointly administered by the Peace Corps and a U.S. university.

In addition, 30 volunteers, scheduled for arrival in Somalia in September, have been requested by the U.N. to work on a public works housing construction project.

TANGANYIKA

Tanganyika needs to build a network of small farm-to-market roads to develop a system of main territorial roads passable in all kinds of weather. This will also aid the country in the exploration of its other unexplored resources. The Peace Corps volunteers are surveying for feeder roads and helping in their construction, helping in the maintenance, grading, and surfacing of main roads, helping to construct small bridges and culverts, and conducting basic geological mapping. These activities are essential to Tanganyika in carrying out its programs designed to expand and diversify her economy.

In response to the request of the Government of Tanganyika, 4 civil engineers, 6 geolgists, and 20 road surveyors have been assigned. The volunteers arrived in Tanganyika in early September 1961 after training at Texas Western College in El Paso, Tex. Their in-country training was for 7 weeks and included extensive language study plus technical training and country orientation.

Immediately after training, the volunteers began working on Tanganyikan assignments. Road surveyors work with Tanganyikan apprentice surveyors and the engineers assist in the maintenance, grading, and surveying of main territorial arteries. Geologists conduct basic geological mapping. When field work is not feasible, the engineers and surveyors teach Tanganyikan students in their fields of study and the geologists are assigned responsibilities at district geological offices.

In recognition of the useful role that Peace Corps volunteers will play in the growth of the new nation, the Government of Tanganyika recently redrafted its current 3-year development plan to incorporate Peace Corps assistance. A further project in health and sanitation, requiring 30 registered nurses, has been requested.

THAILAND

On October 9, 1961, training began at the University of Michigan for the first Peace Corps program in Thailand. The 45 volunteers who were selected will begin work on February 21, 1962.

One group of volunteers will serve as English language teachers in Thailand's teacher training colleges, where they will enable future Thai teachers to have daily contact with spoken English and thus to acquire the facility necessary to teach English in the country's schools. Another group of volunteers will teach carpentry, mathematics, industrial arts, auto mechanics, electricity, home economics in trade and technical schools; and still another will teach English and other subjects at Chulalongkorn University. A final group of eight volunteers will serve as entomologists and laboratory technicians in the regional headquarters of Thailand's malaria-eradication program.

Another 74 volunteers are planned to be sent to Thailand later this year. They will begin training at the University of Michigan in June.

TOGO

President Olympio has requested some 50 volunteers to help Togo in the fields of health and teaching as described below:

Togo desires 23 persons to supplement the staffs of some of the undermanned hospitals in the interior. Each hospital has 15–20 satellite clinics which would also receive services from the volunteers. The Peace Corps team would include 2–3 doctors, a dentist, nurses, medical technicians, public health workers, and dental hygienists.

Seven volunteers are requested by Togo to work with a UNICEF campaign to vaccinate the entire Togolese population for yaws and smallpox in the next 2 years. One volunteer would be assigned to each of the seven teams under a Togolese director, moving gradually north until the entire country is covered.

Togo desires to expand and improve the teaching of English. To this end some 20 volunteers are requested to teach conversational English in secondary school and adult classes.

The volunteers will be trained for 2 months in the United States and upon arrival in Togo, prior to taking up their assigned tasks, will have several weeks' orientation provided by the Government of Togo in conjunction with the Peace Corps.

TUNISIA

The Peace Corps program in Tunisia is a response to a need for technical and middle-level skills which the country lacks as a result of the departure of French and other Europeans over the past 5 years. It is expected that 86 volunteers will arrive in Tunisia during the summer of 1962 to work as mechanics of road building and maintenance machinery; architectural draftsmen and building construction supervisors, physical education instructors, and agricultural engineers.

The 20 physical education instructors will be assigned to the Bourguiba Children's Villages to organize athletic activities and they will live at the schools where they will receive full board. The 30 mechanics will be located in the major cities of Tunisia and primarily in Tunis. The 10 architects and 20 building construction supervisors will be located in the 4 major cities and areas where public housing developments are in progress. The six agricultural engineers will be located in central Tunisia.

Training in the United States will consist of area and American studies; language instruction, plus technical training at specialized training institutions in the various fields. This will be followed by further training in Tunisia upon arrival.

Later projects will utilize 12 agricultural extension workers and 30 engineers and surveyors.

VENEZUELA

The first three Peace Corps projects planned for Venezuela reflect the diversity with which the country is attempting to improve its social and economic condition. The initial projects will be: (1) YMCA recreational and social program in the slums, (2) a 4–H-type program which in Venezuela is called 5–V, and (3) a university teaching assistance program. Despite petroleum and other resources which have produced the highest rate of economic growth and per capita income in Latin America, the high national income is unevenly distributed and a large majority of people are without adequate food, housing, and clothing. Several million people live in slums surrounding Caracas and other urban centers. The YMCA project will permit an expansion of the existing recreational and social program directed toward improving slum conditions. It will require 25 volunteers.

The 5–V project represents one of the many attempts to improve agricultural productivity by stimulating the rural family, dissatisfied with an impoverished rural condition, to reach a higher level of agricultural output and better standard of living. The agricultural output potential of the country is tremendous. Only 5 percent of her arable land is cultivated and she imports substantial amounts of farm produce. The 5–V program gets its impetus from the belief that the future of the country lies in its youth and new agriculture methods and techniques are absorbed more readily by youth than by their parents. Some 42 volunteers will be required.

A teaching project at the University of the East will accelerate higher education for the vast eastern region of the country, which comprises over half of

the total land area and where the population is booming. The university was created in 1960 and enjoys the personal support of President Betancourt. The goal is to create a viable and progressive institution of higher learning along the lines of a typical American university, in which control is solidly in the hands of competent university administrators. Emphasis is on education and not outside agitation and distractions, which frequently keep the standards of training at other Latin universities at a lower level. This project will require 33–43 volunteer English teachers, agriculturists, fishing technicians, geologists, and librarians.

Volunteers for these projects will begin work at varying times between April and October 1962.

WEST INDIES

A. St. Lucia

The first Peace Corps project in the West Indies is located on the island of St. Lucia.

Fifteen volunteers are helping to increase livestock and vegetable production, establish modern irrigation systems, introduce modern soil conservation practices and improve the island's teacher training and public health systems.

The program is designed to serve as a pilot project for other islands in the West Indies which have similar economic and social conditions.

Heifer Project, Inc., a voluntary U.S. organization that distributes livestock and poultry to needy farmers, is assisting the Peace Corps on St. Lucia. Heifer donated poultry and swine to St. Lucian farmers; Peace Corps volunteers are supervising the feeding, care and management of the animals.

Four teacher volunteers are based near Castries, the island's capital, where they are working with St. Lucia's Office of Education, conducting workshops and home study courses.

Most of the volunteers with agricultural assignments are in southern St. Lucia where the Peace Corps is working with the Government of St. Lucia and AID to diversify the agriculture of the island.

B. Jamaica

The second project in the West Indies will be in Jamaica.

In Jamaica, tremendous social and economic problems are present. The Jamaican government is acutely aware of these and is making an all-out effort to improve conditions on the island. Two of the areas with which the government is most concerned—and those in which Peace Corps assistance has been requested—are education and agriculture.

There are more than 700 primary schools in Jamaica but only about 40 high schools. Only 6 percent of the island's high school-age population actually attends a secondary school. This means that there are large numbers of idle teenage youth who have left school between ages 11 and 15. To ameliorate this situation and help meet the urgent demand for more skilled labor for the island's rapid industrial growth, six technical high schools and two technical institutes have been opened in the past 2 years. The technical high schools are 4-year institutions designed to give academic training, with emphasis on science and shopwork. The technical institutes are 1-year schools which give intensive training in the trades.

A second approach is taking the idle teenagers into camps where they can learn skills. This is now being done for 1,000 boys every year in the Jamaica Youth Corps Camps.

In the field of agriculture, the Government is determined to raise the level of efficiency of Jamaica's farmers. The present low level is largely a result of two factors: (1) outdated techniques, and (2) farms which are too small to operate efficiently. The first problem is being attacked through the Coordinated Extension Services, a group of 10 governmental and quasi-governmental organizations which give the individual farmer information as to better farming techniques. The problem of small holdings is being approached in part through the vehicle of cooperatives.

Forty Peace Corps volunteers are requested to help Jamaica in the areas outlined above.

Training for these 40 volunteers will be conducted at the Research Institute for the Study of Man, affiliated with Columbia University, New York. Two weeks' training will also be given at the University College of the West Indies in suburban Kingston, Jamaica, before the volunteers begin their assignments.

Another 40 volunteers are planned for agricultural extension work and teacher training programs elsewhere in the English-speaking West Indies.

ENLISTMENT TERM OF VOLUNTEERS

Mr. ROONEY. Some reference was made to the fact that at the end of 2 years a member of the Peace Corps would be brought home. That is his contract, is it, 2 years?

Mr. WIGGINS. Yes.

Mr. ROONEY. Have you yet considered the situation at the end of 2 years where the Peace Corps volunteer wants to stay on in the country or would like to go to another country?

Mr. WIGGINS. We have considered that.

Mr. ROONEY. Have you made a decision on it?

Mr. WIGGINS. We have not made a decision on it. We feel that we should try to restrict reenlistment in the Peace Corps. We do not want people to make a career out of the Peace Corps. We would rather have two American serve a 2-year hitch, by and large, than one American serve 4 years.

REPRESENTATION ALLOWANCE

Mr. ROONEY. With reference to entertainment, at page 6 of your statement, Mr. Shriver, you indicate you were allowed $5,000 by this committee for entertainment in Washington for the current fiscal year but you spent only $1,914.80 as of April 7, 1962.

Mr. WIGGINS. That is correct.

Mr. ROONEY. Was any other money spent, either in Washington or abroad, other than the $1,914.80 as of April 7?

Mr. WIGGINS. There was representation overseas.

Mr. ROONEY. How much?

Mr. WIGGINS. $454.81.

Mr. ROONEY. What was that for?

Mr. WIGGINS. That was for representation expenses overseas out of the $8,500 provided in our budget.

Mr. ROONEY. Out of the $8,500 provided for representation expenses overseas, you spent $454.81, and out of the $5,000 provided for entertainment in Washington, you spent only $1,914.80?

Mr. WIGGINS. Yes.

Mr. ROONEY. Did you spend any funds or obligate yourself to any other agencies to spend funds for these purposes other than the $1,914.80 and the $454.81?

Mr. WIGGINS. No, sir.

TRANSFERS TO OTHER AGENCIES

Mr. ROONEY. Much has been said with regard to transfers to other agencies, the State Department and AID, for backstopping, and I believe you told us yesterday that the transfers to State were in the amount $226,900, and the transfers to AID were in the amount $700,404. Is that correct?

Mr. WIGGINS. Yes.

Mr. ROONEY. Included in this backstopping are services such as the courier service to carry your classified documents to the field—and of course you do use classified documents, do you not, in dealing with foreign governments and foreign peoples?

Mr. WIGGINS. Yes.

Mr. ROONEY. The backstopping would also include medical care for your personnel other than the volunteers?

Mr. WIGGINS. Other than the volunteers, yes.

Mr. ROONEY. The backstopping would include your investigations of not only your personnel but of the volunteers; is that right?

Mr. WIGGINS. Investigations of personnel who have been abroad.

Mr. ROONEY. Who investigates the volunteers? They would be investigated too?

Mr. WIGGINS. Yes; the Civil Service Commission and the FBI.

Mr. ROONEY. If the Peace Corps were to set up its own facilities and personnel to perform these obligations, would that cost more or less than the amount you transferred to AID and State for these backstopping facilities?

Mr. WIGGINS. Far more, sir.

Mr. ROONEY. Far more?

Mr. WIGGINS. Yes, sir.

HEIFER PROJECT, INC., ST. LUCIA, WEST INDIES

Mr. ROONEY. At page 95 of these justifications I find an interesting paragraph in connection with St. Lucia in the West Indies. At paragraph 3 of that page you say:

> Heifer Project, Inc., a voluntary U.S. organization that distributes livestock and poultry to needy farmers, is assisting the Peace Corps on St. Lucia. Heifer donated poultry and swine to St. Lucian farmers; Peace Corps volunteers are supervising the feeding, care, and management of the animals.

Would you be so kind as to give us some further information with regard to this voluntary organization known as Heifer Project, Inc., and in further detail describe the relationship of the Peace Corps to this organization in the West Indies?

Mr. WIGGINS. Heifer Project, Inc., is composed of a variety of units, a large number of which are religously motivated and of all faiths. Heifer Project, Inc., is under contract to the Peace Corps to assist us in our oversea administration in St. Lucia and to provide a contractor's representative on St. Lucia to assist with the supervision in a staff capacity to our volunteers.

Mr. ROONEY. What is the cost of their project in St. Lucia?

Mr. WIGGINS. The cost of the total project?

Mr. ROONEY. The total project of Heifer Project, Inc.

Mr. KELLY. I can answer that. Congressman Rooney, they have one man on the island who is remunerated at $4,800 per annum. That is his salary. That is what we reimburse them for. He works with the volunteers in terms of trying to improve the strain of livestock on the island through having introduced both swine and geese on the island.

Mr. ROONEY. Does Heifer, Inc. get any remuneration in any way from this operation on St. Lucia?

Mr. KELLY. Do they get a profit, you mean?

Mr. ROONEY. Yes.

Mr. KELLY. No. They are a nonprofit organization organized in Indiana and get no profit.

Mr. ROONEY. Mr. Chairman, I would like them to list in the record at this point the names of the officials of Heifer, Inc.

Mr. PASSMAN. That information will be inserted in the record at this point.

(The information requested follows:)

HEIFER PROJECT, INC., NORTH MANCHESTER, IND.; UPPER DARBY, PA.

BOARD OF DIRECTORS

American Baptist Convention: Dr. Clayton Pepper, Director of County Work, Post Office Box 516, Gradville, Ohio.
Brethren Service Commission:
Mr. Ray Kyle, Director of Material Aid, Post Office Box 188, New Windsor, Md.
Dr. Raymond R. Peters, chairman, 3663 Nolan Road, Dayton, Ohio.
Dr. W. Harold Row, executive secretary, 1451 Dundee Avenue, Elgin, Ohio.
Congregational Christian Service Committee:
Rev. Robert Mayhew, Box 103, Bridgewater, Mass.
Rev. Walter Tong, 475 Riverside Drive, New York, N.Y.
Evangelical and Reformed Church:
Dr. Reginald H. Helfferich, executive director of World Service, 17 Chouteau Avenue, St. Louis, Mo.
Dr. Carl W. Klein, Director of United Promotion, 17 Chouteau Avenue, St. Louis, Mo.
Dr. Franklin D. Slifer, 36 East Smith Street, Topton, Pa.
Evangelical and United Brethren Church:
Rev. C. W. Swartz, West Main Street, Star Route, Valley View, Pa.
Rev. Parker C. Young, Department of World Missions, 2306 Logan Street, Camp Hill, Pa.
Fellowship of Reconciliation:
Mr. Lawrence Stahl, 74441 Boonville High, Evansville, Ind.
International convention:
Dr. Spencer P. Austin, executive secretary, Post Office Box 19036, Indianapolis, Ind.
Dr. Barton Hunter, director of social education, 22 South Downey Avenue, Indianapolis, Ind.
Dr. Virgil A. Sly, executive director of Latin America, 22 South Downey Avenue, Indianapolis, Ind.
Koinonia Foundation:
Mr. Richard G. Creedon, Pikesville, Box 5744, Baltimore, Md.
Mr. M. Glenn Harding, executive director, Box 5744, Baltimore, Md.
Menonite Central Committee:
Mr. John Hostetler, Akron, Pa.
Mr. Robert Miller, director of Foreign Relief Service, Akron, Pa.
Dr. Harold Huff, Town and Country Work, 1701 Arch Street, Philadelphia 3, Pa.
Dr. Gaither P. Warfield, general secretary, 475 Riverside Drive, New York, N.Y.
Mr. Francis Brockman, 475 Riverside Drive, New York, N.Y.
National Farmers Union:
Mr. Joseph Fichter, Ohio National Farmers Union, Oxford, Ohio.
Mr. Wayne Jenkins, Route 1, South Whitney, Ind.
Mr. Davis T. Warren, Route 1, Leland, Ill.
The Rural Life Association:
Mr. Virgil Deeter, Route 3, Greenville, Ohio.
Mr. Stanley Hamilton, 2104 Chester Pike, Richmond, Ind.

DIRECTORS AT LARGE

Mr. Dick Carlson, 1615 Loma Street, Santa Barbara, Calif.
Bishop J. Gordon Howard, 1900 East End Avenue, Pittsburgh, Pa.
Rev. Paul W. Kinsel, 214 East Main Street, Trotwood, Ohio.
Rev. Clarence H. Moatz, 2445 Walnut Street, Allentown, Pa.
Dr. Ira Momaw, 475 Riverside Drive, New York, N.Y.
Mr. George H. Norris, R.F.D. 3, Box 26, Virginia, Ill.
Bishop Glenn R. Phillips, 2200 South University, Denver, Colo.

Mr. Nicholas Rahn, 1903 Center Street, Jim Thorpe, Pa.
Mr. John C. Macfarland, 180 Longwood Avenue, Boston, Mass.
Mr. Allan Grant, 10424 Avenue 320, Visalia, Calif.
Rev. Theodore Van Dyke, 1720 Chouteau Avenue, St. Louis, Mo.
Dr. Melvin Myers, material aid, Church World Service, 475 Riverside Drive, New York, N. Y.

EXECUTIVE COMMITTEE, 1962

Walter C. Tong, chairman	Virgil Deeter
Gaither Warfield, vice chairman	Robert Miller
Clayton Pepper, secretary	Barton Hunter
Theodore Van Dyke, treasurer	Raymond Peters

EXECUTIVE OFFICERS

Honorary chairman: Dan West, Route 2, Box 208, Goshen, Ind.
Executive director: Thurl Metzger, Post Office Box 125, North Manchester, Ind.
Director of operations: Dale Barnard, Post Office Box 278, Upper Darby, Pa.
Director of member relations: Rev. LeRoy M. Kutz, Post Office Box 278, Upper Darby, Pa.
Treasurer: Theodore Van Dyke, 1720 Chouteau Avenue, St. Louis, Mo.
Assistant treasurer: Mrs. Doris Spann, Post Office Box 125, North Manchester, Ind.
Director of the western division: Dillon W. Throchmorton, 919 Emerald Avenue, Modesto, Calif.
New England committee: Rev. Robert Mayhew, 14 Beacon Street, Boston, Mass.

AGENCIES SPONSORING HPI

(Do not have representation on the board but permit HPI to work with their constituent agencies for Heifer Project, Inc.)

General Federation of Women's Clubs.
Kiwanis Club.
Rotary International.
Sears, Roebuck Foundation.

PROGRAM IN TUNISIA

Mr. ROONEY. At page 93 of the justifications we find reference to your program in Tunisia and you say—

The 30 mechanics will be located in the major cities of Tunisia and primarily in Tunis. The 10 architects and 20 building construction supervisors will be located in the 4 major cities and areas where public housing developments are in progress.

These sentences, as well as others which I find in this set of justifications, lead me to ask this question: Is there any money in this budget of $63 million for construction as such or for any construction materials whatever?

Mr. WIGGINS. The answer is "No," there is not any.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. WIGGINS. If I may add to my answer, some very minor amounts of funds may be spent in the remodeling of, or building a place for a volunteer to live. I said no money for construtcion, but occasionally, in terms of volunteers, we may spend a small amount to insure minimum health standards in a place for a volunteer to live.

Mr. ROONEY. I see.

DIFFICULTIES IN THE PHILIPPINES PROJECT

By the way, have the bugs with regard to administration in the Philippines finally been worked out? When I was there the end of November or early December last year there was some difficulty between the Embassy administrative personnel and Peace Corps people. Are you familiar with that?

Mr. WIGGINS. I am not thoroughly familiar with what you are talking about.

Mr. ROONEY. I think Mr. Shriver is.

Mr. WIGGINS. We did have some back and forths there.

Mr. ROONEY. You descended on them too fast, as I recall?

Mr. WIGGINS. The volunteers? This was our largest program, and in launching it I think there were some difficulties of a fractional nature. A couple of people went from Washington to work it out, and I believe it has been worked out to everybody's satisfaction as of now. Mr. Shriver's deputy, Paul Geren, and Mr. William Hadded went out there to do this. Paul Geren had the fortunate background of having been a Foreign Service officer and he and Mr. Hadded went out to work on whatever difficulties there were between the Embassy and USOM and the Peace Corps and, as far as I am aware, all the difficulties have been worked out.

SCHOOL CONSTRUCTION IN MALAYA

Mr. ROONEY. A while ago I made reference to your submission of details in regard to the AID program in Liberia. I find at page 81 of the justifications, in regard to Malaya, this in the third paragraph:

Additional projects planned for Malaya will involve school construction in addition to teaching, health, and rural development.

Will you please furnish at this point in the record the same information concerning school construction in Malaya that you give us in regard to Liberia.

Mr. WIGGINS. Yes, sir.

Mr. ROONEY. And, of course, in the event there is no AID money planned for school construction in Malaya, your submission will indicate that?

Mr. WIGGINS. Yes. The assumption, I think—and I will have to check this and submit it for the record—when we speak of school construction in Malaya we are talking about providing Peace Corps volunteers to assist them in planning buildings which will be built with their funds.

Mr. ROONEY. Very well.

(The following information was submitted for the record:)

SCHOOL CONSTRUCTION IN MALAYA

Malaya's second 5-year plan (1961–65) has as its primary goal the improvement of living standards in rural areas. As a part of this effort the Government of Malaya intends to provide a place in a primary school for every school age child in the rural areas.

A presently insurmountable obstacle to this plan is the absence of skilled personnel to plan, organize, and carry out the building program. Accordingly, the Peace Corps program for Malaya includes 10 architects and 1 cost accountant. The architects will draw plans for school buildings and make modifications in

standard plans to suit particular sites. They will also supervise some of the construction, under the auspices of the Ministry of Education. The cost accountant will calculate the costs of the material and equipment required in construction of the new school buildings.

All of the costs of construction will be met by the Government of Malaya. During the first 5-year plan (1955–60), $60.9 million were spent on school construction. The second 5-year plan allocates more than four times that amount, or $260 million, from the Malayan budget for that purpose. To date, some $22 million has been spent and $24 million is budgeted for school construction next year.

The Agency for International Development has no program in Malaya, and is contributing no funds toward the construction of the schools designed by Peace Corps volunteer architects.

TRAINING COSTS

Mr. ROONEY. Now on yesterday I heard reference made to $1,600 for 10 weeks of training in the United States. Did I hear correctly?

Mr. WIGGINS. Yes.

Mr. ROONEY. If you will look at page 59 of these justifications we find that training is for a period of 8 weeks at $200 a week with the same total figure of $1,600. Which is correct?

Mr. WIGGINS. On the average we figure our training cost as $1,600. With a washout rate of 20 percent we budget $1,888 for training costs.

RATIO BETWEEN VOLUNTEERS AND STAFF MEMBERS

Mr. ROONEY. What is the latest figure with regard to the ratio between Peace Corps volunteers and staff members? In Mr. Shriver's statement yesterday he stated it is now 3 to 1 and by June it will be 6 to 1. So I am wondering what it is as of the latest available date?

Mr. MOYERS. Three to one.

Mr. ROONEY. Still three to one?

Mr. MOYERS. Yes.

Mr. ROONEY. In the two exhibits we made reference to a while ago you have a difference between the first one and the second one. The first one indicated the occupational skills of Peace Corps volunteers as of March 15, 1962, showing a total of 909 volunteers; and the second sheet indicates occupational skills of Peace Corps volunteers as of April 15, 1962, showing 1,225 volunteers. That is a difference between 909 and 1,225 of your number of volunteers, so your number of volunteers has gone up.

Mr. WIGGINS. Yes, sir.

Mr. ROONEY. In this past month has your employment of personnel gone up in comparison with this?

Mr. WIGGINS. No, sir.

Mr. ROONEY. Then Mr. Moyers' answer must be wrong?

Mr. MOYERS. I was thinking of the people you mentioned earlier.

Mr. ROONEY. Thank you, Mr. Chairman.

Mr. PASSMAN. Mr. Natcher?

SIZE OF PROGRAMS IN INDIVIDUAL COUNTRIES

Mr. NATCHER. I want to direct your attention to that portion of the justifications relating to program development. On page 41 you state:

The selection and careful development of individual projects—and the resulting totality which is the Peace Corps program are essential to the success of the Peace Corps.

And further you state:

To be eligible for Peace Corps participation a project must make a contribution to the economic, social, cultural, or political development of the host country, and the government of that country must have requested the project.

Now, going back to page 11 of the justifications, I see where in the Philippines at the present time you have 182 volunteers and you are proposing a program which on August 31 of this year will have 817 additional volunteers in the Philippines, making a total of 999 in that country.

In this program generally, are you sending too many people to the Philippines and not enough to India? I notice here that in India at the present time you have 26 volunteers, and this is a country which needs a lot of help at the present time. In Nigeria you have 107 and you anticipate a total of 507 on August 31, 1962.

As to the countries that you show on this page, do you feel that you are carrying out the purpose of the Peace Corps to the extent that underdeveloped countries are receiving volunteers and the recognition and assistance that they should have at this time?

Mr. WIGGINS Yes, sir; we do. The issues of balance, of course, are difficult ones and people can easily disagree about them. We start fundamentally with the desire of the other countries. You might say the India program is small, although the Indians do not feel that way about it. They say by and large they have this thing, this middle level manpower, and this is not what they need. They are interested in expanding the Peace Corps but they are not interested nearly as much as Nigeria is. We start with their desire and thus the balance we have is based on their desire. We do eliminate a lot of programs we feel do not fit from a U.S. point of view. It starts with their desire and then our examination to see if it makes sense. So the end result is something both they and we are satisfied with.

Mr. NATCHER. Do you feel that a country such as Argentina would be entitled to as many volunteers as a country such as Pakistan?

Mr. WIGGINS. I do not know of a good quick answer to that. I would think it would depend on the kind of program wanted. Argentina, by and large, has not shown interest in the Peace Corps. I think Argentina does not need middle-level assistance as much as some other countries do. I would say the program is more valuable to them and to us in Pakistan than in Argentina.

Mr. NATCHER. Generally do you feel the Peace Corps should be of more assistance in an underdeveloped country than one which is not in that category?

Mr. WIGGINS. Yes.

Mr. NATCHER. That is good. Your answer to that is "Yes." Can you justify it in these countries that you set out on page 11 with the number of volunteers?

Mr. WIGGINS. In terms of relative proportions, sir?

Mr. NATCHER. Yes.

Mr. WIGGINS. I would say the relative proportions do not match relative levels of development for all underdeveloped countries.

Mr. NATCHER. In Nigeria, with 107 volunteers now and with the antcipation there will be 400 more on August 31 of this year, making a total of 507, I can see that, and in my own mind I can justify that portion of the justifications; but I cannot justify 999 in the Philippines on August 31 of this year and 65 in Chile, for instance.

JUSTIFICATION FOR SIZE OF PHILIPPINE PROGRAM

In the beginning of the justifications you have certain examples of letters from one of your volunteers. The first six or seven pages, I believe, pertain to letters pertaining, I believe, to Chile.

Mr. WIGGINS. Yes.

Mr. NATCHER. That is the part that I am a little confused about in the starting of the program, why you have picked the Philippines to have 999 volunteers on August 31. How do you account for it? Is it because they are willing to receive that many volunteers? Is it a country that requires this type of a program to that extent?

Mr. WIGGINS. I think there are a number of factors that account for what you might call the discrepancy between the size of the program in the two countries. I believe you have named one. The Philippines, very early, were anxious to try the program—and in quantity. Generally, the desires of the Latin American countries tended, in terms of the Peace Corps, to be small.

Secondly, the Philippines, using as it does the unifying language of the United States, English, was a desirable country for the Peace Corps program. The Philippines needed teachers aids who could speak English as the native language and thus the Philippines offered a particularly good opportunity for the kind of people in the Peace Corps.

Next, the Philippines is a large country. I think there are 24 million people there now, and they knew the kind of value the Peace Corps offered.

Lastly, we wanted to see what kind—not only wanted to see but wanted to have a rather large impact in terms of upgrading the English-speaking ability of the whole nation.

To undertake this we needed to enter a fairly large endeavor there, the nature of the project being a large project.

LIMITATION ON VOLUNTEERS PER COUNTRY

Speaking personally and looking ahead, I will say that the Philippine program in the future will be a lesser percentage than projected here. This is the way it got off the ground.

We have informally agreed with the Senate Foreign Relations Committee to limit the total in any one country, as a matter of policy, to 15 percent by the end of fiscal year 1963, and thereafter. The committee raised a series of questions with us comparable to those you raised today.

Mr. NATCHER. On page 11 you show a total of 2,888 for August 31, 1962.

Of this total 1,506 of the volunteers would be in two countries, Nigeria and the Philippines.

Do you not think that is a mistake for the Peace Corps program?

Mr. WIGGINS. I would like to say that this ought to be taken into account together with page 12 where we have another 20 countries at the same time. As you compare what we are doing in the Philippines and Nigeria it is against a total projected Peace Corps force of about 5,100 people on board for training by August.

ASSIGNMENT OF ADDITIONAL VOLUNTEERS

Mr. NATCHER. On page 12, as I understand it, the countries and the number of volunteers are not definitely agreed upon at this time.

Mr. WIGGINS. These are as firm as the add-ons in the first 12. Yes, they are definite and agreed upon and we are inviting people for training for the people on page 12 as well as those on page 11.

If I may explain why we have two lists. On page 11 we had our first 12 countries where our volunteers are now working where they had been seen, the sorts of requests that come from the countries where the volunteers are working. The additional 20 countries on page 12, are where they have not seen them at work but they have the same status in terms of firmness.

PROJECTED PROGRAM LEVEL

Mr. NATCHER. On August 31, 1962, do you anticipate having 2,888 volunteers plus the 1,991?

Mr. WIGGINS. Yes, sir, and a few more. We anticipate having a total of about 5,100 overseas or in training by the end of August this year.

The one exception since this book was printed is that we have decided against going ahead with our plans in the Pacific Trust Territories.

Mr. NATCHER. The Philippine figure of 999 will not violate the agreement that you have in the Senate on the 15 percent?

Mr. WIGGINS. That is right.

Mr. NATCHER. Using the total of 5,100?

Mr. WIGGINS. Yes.

VALUE OF PEACE CORPS IN UNDERDEVELOPED COUNTRIES

Mr. NATCHER. I believe in answer to my question concerning the Peace Corps in underdeveloped countries you feel that the work to be performed by this organization can be of more benefit in those countries than it would be in countries such as Argentina and a number of other Latin American countries that I could name, and others in Europe? Do you feel that way generally?

Mr. WIGGINS. Generally speaking I think there is a higher value. I would like to be frank and clear. I would not say this would mean we would not go into Argentina if asked, I would say the program perhaps would be smaller and perhaps would be less valuable, say, than the program in Nigeria.

We have no intention of going into Western Europe. The executive branch proposed we go into "underdeveloped countries." Congress changed that to "interested countries."

We shall examine on a case-by-case basis requests that come to us from interested countries but we have no anticipation whatsoever of going into Western Europe.

82714—62—pt. 1——53

PUBLIC WORKS PROJECTS

Mr. NATCHER. Nowhere in the justifications do you have any request for money to be used in the construction of any public works projects. Is that correct?

Mr. WIGGINS. That is absolutely correct.

May I add that we have a rule of thumb that we can supply up to $1,000 worth of tools and equipment to make the volunteer effective.

We may have some volunteers who would be working on a public works project and a carpenter would have his tools of the trade, but we would not provide cement for construction material or anything else. We would only provide materials up to $1,000 for a 2-year period for a volunteer.

REPAIRS FOR HOUSING

Mr. PASSMAN. You can do certain repairs out of this appropriation?

Mr. WIGGINS. For volunteer housing, yes, sir.

Mr. PASSMAN. How about teaching facilities, school buildings, where you need repairs before you can occupy them?

Mr. WIGGINS. No, sir.

Mr. PASSMAN. Strictly for housing?

Mr. WIGGINS. For housing. We have absolutely no desire nor permission to spend Peace Corps money in terms of supplying construction for the other countries' construction effort.

Mr. PASSMAN. Even if the houses are already built in the other country you do not take them over?

If you are building a house for a Peace Corps man, or repairing one, it has to be in a country where the Peace Corps men are domiciled, or living, at the time.

Mr. WIGGINS. Yes, sir.

EFFECT OF PEACE CORPS WORK

Mr. PASSMAN. Actually we are teaching these people something about America, our economy, and what democracy can do. Is that part of what we teach them?

Do you impart any knowledge to them of how things are in America?

Mr. WIGGINS. We certainly do.

Mr. PASSMAN. Which means that if you show the advantage of a bridge going over some river, or perhaps a paved street, or of some other facility, that would create a desire, would it not, for those people to have those facilities?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. And we do have this worldwide aid program which covers just about every type of project the mind of man could ever think up in about 97 of the 110 nations. Therefore, by the Peace Corps people training these other people it could easily create a demand for untold billions of dollars in subsequent years so that these people may also have some of the things that we told them we have in America. Can you see where it would create that desire?

Mr. SHRIVER. Create a desire for a better standard of living. There is no question about that, and markets for our products.

Mr. PASSMAN. It is understood it would be a better standard of living.

It could create a tremendous demand for dollars in subsequent years to carry out some of these things you have explained to them and trained them for. Is that correct?

Mr. WIGGINS. I hesitate giving a yes or no answer.

Mr. PASSMAN. I know that you do.

Mr. WIGGINS. I know you want me to say yes, sir.

Mr. PASSMAN. Say what you want to. It does or it does not.

If you show the advantage of a bridge here, a paved road here, a brick school here, air conditioning here, and they do not have the money, but they know about the aid program in those nations, would it not be some indication they may then request money to carry it out?

Mr. WIGGINS. The answer I would like to give you, sir, is that our program is quite often directly slanted, designed, and tailored to fit the self-help concept.

I am certain to agree with you that as education standards go up it affects a lot of things and there may be some foreign aid requests which ultimately would be affected. However, our purpose of our program in Chile and Colombia, up in the rural regions——

Mr. PASSMAN. Something like the Alliance for Progress in Latin America. Where do you think that is going?

Mr. WIGGINS. I would be going beyond my field on that.

Mr. PASSMAN. You know that if you go out here and stimulate their appetities for these improvements, and they know we have a worldwide aid program, it is only natural those people will be applying to us for funds to carry out those projects.

Mr. SHRIVER. What we do, though, is to go out and show them how to do these things for themselves, to build their own bridges. We do not take out the concrete and the steel and give it to them. We do not build a bridge for them.

Mr. PASSMAN. Certainly not. You have a counterpart in this worldwide giveaway program that will do those things.

Mr. SHRIVER. We do not do them.

Mr. PASSMAN. You are not going to admit that it creates a demand, a desire, an appetite, but I think if we were off the record perhaps we could laugh this thing off and say, "Yes, it is bound to." It could not do otherwise, because they do not have the wherewithal to provide these things themselves.

You have created the appetite and a desire, and they know very well we are the most generous nation on the face of the earth. Otherwise we would not have built a public debt of about $300 billion.

We have the aid program and it is only natural they would come and say, "You have indicated this would be very good for us. We haven't the money. We will get it out of the aid program."

CONTRIBUTIONS BY HOST COUNTRIES

Mr. NATCHER. In the justifications you further state that contributions by the host country government and institutions to the project are encouraged.

At this point I would like to have you place in the record a short statement pertaining to the contributions that are being made in this program at the present time by the Philippines, Nigeria, Ghana, Thailand, Ecuador, and the Ivory Coast.

Mr. WIGGINS. Yes, sir.

(The information requested follows:)

HOST COUNTRY CONTRIBUTIONS TO PEACE CORPS PROGRAM

The contribution made by certain countries, together with the dollar value of such contributions where this is available, is as follows:

GHANA

Volunteers' living allowance, $206,000.
Housing and hard furnishings, $90,000.
Incountry training program, local official transportation, $2,000.
Certain medical and dental support, $2,000.

NIGERIA

Incountry training program, $6,735.
Housing and hard furnishings, $137,674.
Local official transportation, $2,680.
Full medical support at university college hospital, Ibadan.
In addition, the University of Ife has proposed to pay half the living allowances of volunteers working there.

PHILIPPINES

Incountry training facilities and faculty.
Office space for Peace Corps personnel in the provincial capitals.
Bus transportation in certain provinces.

THAILAND

Incountry training facilities and faculty.
Housing for volunteers at no charge in some instances and nominal rent in others.

ECUADOR

Incountry training program.
Housing for majority of the volunteers.

IVORY COAST

Incountry training facilities and faculty.
Housing for majority of the volunteers.
Certain medical and dental support.
In every other country in which the Peace Corps has a program, a contribution is being made by the host country on a voluntary basis.

Mr. NATCHER. Thank you, Mr. Chairman.

NUMBER OF TEACHERS ESTIMATED AS OF AUGUST 1962 STRENGTH

Mr. ROONEY. I have another question or two, Mr. Chairman.

I do not find the page readily, but what is the estimated strength of the volunteers for the Peace Corps as of August 31? On what page is that?

Mr. WIGGINS. The chart between 58 and 59, sir.

Mr. ROONEY. The total would be——

Mr. SHRIVER. The sum of 5,110.

Mr. ROONEY. As of August 31, 1962?

Mr. WIGGINS. That is right.

Mr. ROONEY. With regard to that figure of 5,110 how many of these would be teachers? Can you project that figure for us?

Mr. WIGGINS. I would estimate—we could run a calculation on that, sir, and I would estimate—it would come out at about 50 percent.

Mr. ROONEY. Not more than that?

Mr. WIGGINS. I think it would be 50 percent plus or minus 3 or 4 percent.

Mr. ROONEY. It would be approximately 50 percent of the 5,110?

Mr. WIGGINS. That would be my offhand estimate. I think it would turn out to be right. We can calculate it for you but it would take us a little while.

CONTRACTS WITH UNIVERSITIES

Mr. ROONEY. Yesterday reference was made to these contracts with colleges and universities. How does your agency carry on the matter of these contracts? Would you describe that for us briefly?

Mr. KELLY. We have a number of kinds of contracts. We have contracts purely for training, and we have contracts with universities and voluntary agencies for training and oversea administration.

We hit on one a few moments ago when we talked about the Heifer project in St. Lucia.

We select the institutions upon the basis of their qualifications to train. We trained our Thailand contingent at the University of Michigan. The reason we trained it there was because of the fact that the University of Michigan has an excellent department of Thai language, and this was the difficult part of the curriculum.

We invite the institution to submit a proposal to us, a dollars and cents proposal.

We go over the proposal and then invite the institution to come in and sit down at the table and negotiate with us.

At that time we agree upon the training program. We agree on the details of the training program.

We agree on the staffing of the program, that is how many instructors they are to have in the program——

Mr. ROONEY. And you enter into a contract?

Mr. KELLY. That is right.

Mr. ROONEY. When you enter into that contract do you furnish them with cash for their carrying on of the program or do they bill you when the program is concluded?

Mr. KELLY. We have not advanced 1 penny to anyone. We expect every institution to have its own working capital. They expend the money and then come to us with a voucher.

They come to us with a voucher and we reimburse them if the expenditure is in keeping with the contract.

All the contracts are subject to audit.

Mr. ROONEY. Subject to further negotiation, too?

Mr. KELLY. That is right.

ADJUSTMENTS IN CONTRACTS

Mr. ROONEY. Have there been instances where upon further negotiation the amounts of the contracts were reduced?

Mr. KELLY. There have been a number of instances where we have had adjustments in overhead rates, where we have had situations

where the professorial staff upon further review was not needed for the program in the amounts we originally anticipated.

I might point out that in nearly every instance where we have sat down with a university that the proposal which we have walked away from the table with is much less than the proposal that the university originally presented to us.

In some instances we have saved hundreds of thousands of dollars.

Mr. ROONEY. This is very refreshing. We have quite a bit of research work done by colleges and universities for the State Department and the Commerce Department. This is very refreshing.

Thank you, Mr. Kelly.

Mr. KELLY. You are quite welcome, sir.

CONFLICTING PERSONNEL CLASSIFICATION DOCUMENTS

Mr. PASSMAN. On yesterday we must have discussed personnel, dollars, items, statistics which would involve some 100 or more different pages and excerpts of the different justifications.

Mr. WIGGINS. That is right.

Mr. PASSMAN. Along the way we requested quite a bit of information. It is necessary that you do a certain amount of research work before you can actually insert the answers in the record.

Mr. WIGGINS. That is right. I think most of it will be done tomorrow.

Mr. PASSMAN. Is that correct, however?

Mr. WIGGINS. Yes.

Mr. PASSMAN. Then it strikes one member of this committee that it is rather strange that after we discussed at length your personnel program on yesterday, as to the number in the teaching profession, pinned it down, glued it down, nailed it down, wrapped it up and sealed it, and both of us signed it, that you had 66 percent in the teaching profession and it would remain so during this year, and in subsequent years it would drop to 50 or 55 percent—that you should bring this information we did not need, information we did not request, information we did not expect.

What prompted such good service on this, when we did not ask for it, and you did not do it on anything else in the bill?

Mr. WIGGINS. I would like to explicitly and very clearly reply.

Mr. PASSMAN. Talking about the total recapitulation.

Mr. WIGGINS. I would like to clearly say this is a regular report which comes out regularly. It is issued regularly. As a matter of form my secretary put it in my book this morning because every 15th of every month we update our figures. This is the explanation.

Mr. PASSMAN. You either did not know what you were talking about yesterday or you do not know what you are talking about today. I can afford to say that because you are amply recorded as taking two different positions.

Mr. WIGGINS. May I speak to that?

Mr. PASSMAN. When I get these questions in you certainly may.

CHANGE IN REPORTED NUMBER OF VOCATIONAL TRAINING PERSONNEL

How many vocational training personnel do you have on your April 15 statement?

Mr. WIGGINS. Vocational training personnel are not broken out on the April 15 statement.

Mr. PASSMAN. Did the same person prepare the sheet of March 15 and the one of April 15?

Mr. WIGGINS. I am not sure whether Hodnik is a man or woman but it is the same person.

Mr. PASSMAN. Then why would he prepare one sheet listing personnel by categories, specifically, and then completely ignore them from a report dated a month later?

Mr. MOYERS. The people who do this were classifying according to the skill which our division of selection assigns to each individual.

CHANGE IN CLASSIFICATION

Since March 15 there has been a change in classification.

Mr. PASSMAN. The designation classification?

Mr. MOYERS. Now they are designated according to the definition of the country where they are serving.

Mr. PASSMAN. You have changed their classification. You changed the designation of those you listed on the 15th of March report as vocational training teachers, as being a total of 64. How many are in that category now under the new classification?

Mr. MOYERS. They are called community development workers under the new classification.

Mr. PASSMAN. How many do you have?

Mr. MOYERS. 265.

Mr. PASSMAN. Is it not true that on yesterday you stated for the record that a vocational training teacher would be considered a classroom teacher and would do that kind of work?

Mr. SHRIVER. The problem is that the host country assigns these people to the kind of work they want them to do.

The original list was made up on the basis of what we considered them, but when they get there they do a particular type of work.

They will not be doing classroom work when they get overseas.

Mr. PASSMAN. Let the gentleman who testified do this. You may put the trimming on it for us.

Mr. SHRIVER. Excuse me.

Mr. PASSMAN. Now you have how many?

Mr. MOYERS. 265.

Mr. PASSMAN. How many teachers do you have as such?

Mr. MOYERS. On the April 15 category we have 597 called teachers.

Mr. PASSMAN. Let us get that total. I show 862. That is 862 in the vocational category under the new classification. What percentage of the 862 would that be of the 1,225?

Mr. SHRIVER. They are not teaching in a classroom.

Mr. PASSMAN. You said one thing yesterday and another today. You get all the traffic you can out of your statement today and I will get all I can out of your statement of yesterday.

That is about 75 percent, is it not?

You were positive yesterday it was 66 percent. You put the vocational teachers in with the regular teachers, and it came to 66 percent.

Now by putting the two together a month later it comes up to 75 percent of the total.

Mr. WIGGINS. I take it the percentage is correct. I would like to comment on the sentence.

COMMUNITY DEVELOPMENT WORKER CLASSIFICATION

The community development workers as of the April 15 classification is a far broader category and includes other things.

Mr. PASSMAN. How many do you have, net?

These are all mixed up now. Let us see if we can break them apart.

Mr. MOYERS. 597 are teachers.

Mr. PASSMAN. You had them in a different category yesterday. Give us the answer.

Mr. MOYERS. We now have as of April 15, 265 community development workers.

Mr. PASSMAN. How many of those would be vocational teachers?

Mr. MOYERS. According to the March 15 description, 64 vocational teachers, and in this April 15 designation of community development worker it also includes 58 people who were counted in the March 15 category as agricultural and forestry technicians.

Mr. PASSMAN. You are actually getting them mixed up to the point where the new titles, or classifications, are such than in the future you would not be able to separate the vocational teachers from the agricultural workers and the community workers, would you?

Mr. SHRIVER. No, sir. The point is that the work they are going to do overseas is controlling the classification we give them on April 15.

We may have called them bricklayers, but if the man goes overseas and is not laying bricks, he is there doing something else.

Mr. PASSMAN. He may be in classrooms?

Mr. SHRIVER. No.

Mr. MOYERS. One has a carpenter's shop. He is not a classroom teacher but he is teaching that.

Mr. PASSMAN. Some of them may be in classrooms teaching?

Mr. MOYERS. No, sir.

Mr. PASSMAN. Why did you say they would be yesterday?

Mr. MOYERS. I don't believe we said yesterday they would be in a classroom. I said we could classify them as teachers.

Mr. PASSMAN. As classroom teachers. The record will speak for itself.

Mr. SHRIVER. Not classroom teachers.

Mr. PASSMAN. That is not the only one you changed. You mixed up many of the others.

You have deleted two and you have added about three.

SIZE OF PROGRAM IN 1962 AND 1963

Last year you requested $40 million. Congress, in its wisdom, gave you $30 million.

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. Had you been given only $20 million, then you would have had your program fit into a $20 million operation?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. Had you been given $40 million, then you would have built a program based on $40 million, would you not?

Mr. WIGGINS. Yes, sir.

Mr. SHRIVER. Excuse me. We have always maintained that we would run only those programs up to an amount of money for which we could find qualified people and for which we actually have programs developed overseas.

If that turned out to be $40 million, yes. If it turned out to be $31 million, yes. If it turned out to be $32 million or $28 million that is it.

We would not have automatically spent $40 million if $40 million had been appropriated. That is my basic point.

Mr. PASSMAN. You would have built it according to the appropriation.

Mr. SHRIVER. According to the number of people qualified to serve and the programs they can intelligently serve overseas.

Mr. PASSMAN. On what basis did you ask for $40 million to start with?

Mr. SHRIVER. On the basis we could do that.

Mr. PASSMAN. But you did not get $40 million. Congress, in its wisdom, said, and I paraphrase, "We don't want this to go wild. We will give you $30 million."

Then you built a program around $30 million.

Mr. SHRIVER. We built a program which easily could have gone beyond $30 million in terms of the qualified people available.

Mr. PASSMAN. Are you saying you ignored the limitation Congress placed?

Mr. SHRIVER. Of course we didn't.

Mr. PASSMAN. Then you had to build a program around the money Congress appropriated, did you not?

Mr. SHRIVER. We obviously cannot go beyond.

Mr. PASSMAN. Since you were given only $30 million then you had to do your planning within the framework of $30 million. Is that correct?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. If Congress, in its wisdom, this year should decide it does not want this program to continue to expand, until we have had more experience, and it should provide a lesser sum, it is only natural that you would fit your program into the appropriation that the Congress finally makes. Is that correct?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. There is nothing magic about this figure, other than that you would like to build a program. You have a goal.

You have a goal and you would like to reach that goal.

You would not destroy the Peace Corps if Congress decided you should operate on a lower total basis? You would have to fit your program into the money provided. Is that right?

Mr. SHRIVER. True with this exception—if the Congress decided to give us $31 million, for example, that would enable us to keep only the people who are already signed up and approximately 18 to 19 months from now the program would go out of existence because that would use up the money which now is available.

Mr. PASSMAN. Except we would be considering an appropriation next year at the same time we are sitting here this year.

Mr. SHRIVER. That year would have been lost.

Mr. PASSMAN. You are not putting in the record an indication that if Congress said, in effect, "Mr. Shriver, we are going to give the Peace Corps $30 million every year from here on in way off into the future," you could not build a program within the $30 million. It may not be what you want but you could round the program out.

Mr. WIGGINS. We could not put on any more volunteers next year.

Mr. SHRIVER. That would stop the program.

Mr. PASSMAN. That is all I am asking.

If Congress should say they want to give you $30 million every year from here on in to the unknown future, you could build a program around $30 million. Is that right?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. And you could build one around $40 million?

Mr. WIGGINS. That is right.

Mr. PASSMAN. Or you could build one around $50 million, or one around $60 million?

Mr. WIGGINS. That is right.

Mr. PASSMAN. So this is no magic program. It is no infallible program. It is like all other appropriation requests.

It is only another request from another bureau and Congress must work its will and appropriate what we think we should.

Mr. SHRIVER. We agree it is not magic but it is not just another request from another bureau.

CONSEQUENCE OF FAILURE TO APPROPRIATE REQUESTED AMOUNT

Mr. ROONEY. What would be the consequence of the failure of the Congress to appropriate $63 million for 1963?

Mr. SHRIVER. If the Congress appropriated $31 million, we would bring nobody into the Peace Corps of all those applying to get in.

Mr. ROONEY. What would be the result, a monetary loss insofar as your recruiting activities are concerned?

Mr. SHRIVER. We never would get them again. They would do other things.

NUMBER OF PERSONNEL AT VARIOUS APPROPRIATION LEVELS

Mr. PASSMAN. If you received $40 million, what would be the total number of personnel you would have in the program?

Mr. WIGGINS. I would need a few minutes to calculate that.

Mr. PASSMAN. Take all the time you need.

Mr. WIGGINS. Do you want it for the record or do you want it now?

Mr. PASSMAN. We would like to have it now.

Mr. WIGGINS. I am not dodging this. It is a fairly complex calculation.

Mr. PASSMAN. We want the same information on $40, $50, $60, and $70 million.

Mr. SHRIVER. Could we supply it for the record?

Mr. PASSMAN. This is serious business. There is too much discrepancy between the answers of yesterday and the answers today. I am afraid this thing may change overnight, and it would not answer my question. That is why we want it now. Off the record.

(Discussion off the record.)

ORIGINAL PROGRAM ESTIMATE

Mr. PASSMAN. At one time, Mr. Shriver, I understand that your staff put together figures that would require $77 million for fiscal 1963.

Mr. SHRIVER. Many members of the staff thought, and still do think, that our budget request of Congress should be much larger because of the demand overseas, the supply here, and the possibilities of mounting the program.

Mr. PASSMAN. Am I using an erroneous figure? You said much larger. Did I use the correct figure?

Mr. SHRIVER. It is OK.

Mr. PASSMAN. I said $77 million. How far did I miss it?

Mr. SHRIVER. It is a fine figure.

LEVEL OF OPERATIONS IN 1963

In my own decision in making this absolutely a rockbottom presentation to this committee and to the Congress, and in view of all the considerations you have been talking about so very eloquently from time to time, I thought when we asked Congress to give us enough money for next year to do what we have done this year that we would be doing two or three things.

No. 1, we would be fulfilling the congressional intent. I felt if Congress said to bring in 5,000 people the first year, they would not come back to us next year and say that you have done a good job bringing in 5,000 people, now we only want you to bring in 2,000 this year. I thought if Congress saw us doing a satisfactory level one year, they would say do the same thing next year.

Mr. PASSMAN. Congress has a little persuasion from downtown to establish these figures.

Mr. SHRIVER. None at all.

Mr. PASSMAN. None at all?

Mr. SHRIVER. As far as I am concerned.

Mr. PASSMAN. You mean Members of Congress did not have any persuasion from people downtown?

Mr. SHRIVER. I have the highest regard for the independence of Congress and its capacity to make up its own mind.

Mr. PASSMAN. I want to compliment you. So far as I know, you are the only man from downtown who went to every office in the Capitol to explain this program to the Members.

Mr. SHRIVER. Especially with respect to a new program.

Mr. PASSMAN. Let us say educational instructions from downtown, rather than persuasion. There has never been a bill, so far as I know, ever presented to Congress since I have been here, or that I ever read about in prior years, that had as much persuasion or encouragement from downtown as the Peace Corps bill.

Maybe that is the way you are supposed to do it.

We have gotten completely away from these figures.

It was $77 million. You cut it to $63.7 million.

Mr. SHRIVER. Because I thought what Congress had told us to do the first year; namely, bring in a group of 5,000 people for $30 million, that the Congress would like us to do it the second year, particularly if in the first year it proved to be reasonably successful.

Mr. PASSMAN. But it was on a lower program the first year, because Congress did reduce your program last year.

Mr. SHRIVER. Yes.

Mr. PASSMAN. You planned a larger program last year and the Congress, in its wisdom, reduced it.

Mr. SHRIVER. Yes.

Mr. PASSMAN. If the Congress again, in its wisdom, should make a reduction, it would only be following out the normal procedures of the Congress to work its will.

Mr. SHRIVER. Of course, there is no question about it. What we are proposing, therefore, is that we do the second year exactly what we did the first year with congressional approval.

Mr. PASSMAN. Provided we can find some place to borrow the money. I am not so sure that is going to be easy.

PEACE CORPS STRENGTH AT VARIOUS APPROPRIATION LEVELS

Do you have the figures now?

Mr. WIGGINS. Here they are, sir.

Mr. PASSMAN. Let me see if I am putting this in the record correctly. If the Congress should give you $45.78 million, you would have a Peace Corps program of 6,970 people.

Mr. WIGGINS. Yes, sir.

Mr. SHRIVER. May I make one comment, sir?

Mr. PASSMAN. If I can get this in, you certainly may. I want to keep this in line.

If the Congress, in its wisdom, gives you $51.7 million, you would have a Peace Corps of 7,970.

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. If the Congress should give you $57.64 million, you would have a Peace Corps of 8,970.

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. If the Congress should give you $63.75 million, you would have a Peace Corps of 9,970.

Mr. WIGGINS. Yes.

Mr. PASSMAN. It is a question then of the Congress working its will. The Peace Corps would not crack up if you should operate in any of these various categories of appropriations, would it? You would not have what you think you should have, but you would have a continuing Peace Corps program.

Mr. SHRIVER. On the basis of this——

Mr. PASSMAN. This would be the size Peace Corps you would have with the money we have suggested here.

Mr. SHRIVER. What I am trying to say——

Mr. PASSMAN. Could you give us an answer, and then point out anything you want?

Mr. SHRIVER. It would not be that size Peace Corps 18 months from now.

Mr. PASSMAN. We will be back here 12 months from now considering an appropriation. Can I leave those figures in the record or do you yield to Mr. Shriver to refute what you said?

Mr. WIGGINS. I do not need to yield to him.

Mr. PASSMAN. I know you do not need to yield to him, but you will end up with three positions. I do not want this item presented as an infallible, magic program.

Mr. ROONEY. May I interpolate an innocent question?

Mr. PASSMAN. Surely.

EFFECT OF APPROPRIATION REDUCTION ON FOREIGN RELATIONS

Mr. ROONEY. What consequences, if any, would there be with regard to negotiations and possible commitments with foreign governments if there were a reduction as mentioned here?

Mr. WIGGINS. I think if there were a reduction, there would be very serious consequences, both——

Mr. PASSMAN. Let me follow up. I am going to put in the record your words of last year, that there would be no harm done, that you just would not have a Peace Corps. Again you are either wrong last year or this year.

Mr. SHRIVER. Nobody said that last year.

Mr. PASSMAN. What kind of serious implications would you have?

Mr. SHRIVER. Nobody said last year there would be no harm. We said we could close it up.

Mr. PASSMAN. We will let the record speak for itself. Then, you actually are committing funds?

Mr. WIGGINS. No, sir.

Mr. PASSMAN. How could you have serious implications, then?

Mr. WIGGINS. I think there are serious implications that even go——

Mr. PASSMAN. Serious results?

Mr. WIGGINS. Yes, sir; I believe that.

Mr. PASSMAN. Then, in effect, if we are not to destroy the integrity and reputation of this country, we have to give you the money; is that right?

Mr. WIGGINS. No, I did not say that.

Mr. PASSMAN. What will the serious implications and repercussions be? Could you explain that?

Mr. WIGGINS. I would like to try.

Mr. PASSMAN. That is, if you did not keep bloating this thing. What are some of them?

Mr. WIGGINS. The serious implications for the program if we do not do roughly what we have done this first year in the second year I think are something like this. We have over 500 Americans a week who are signing up for the Peace Corps.

Mr. PASSMAN. Would you limit it at this time to the implications it would have on our relations with foreign governments. Do you see any implications so far as foreign affairs are concerned?

Mr. WIGGINS. Yes, I do.

Mr. PASSMAN. Please define that.

Mr. WIGGINS. The Peace Corps as a vehicle for accomplishing things abroad both in our interest and in the interest of the other countries is becoming well understood now, and it provides us an opportunity in the coming year, if we put on additional volunteers, to do a variety of things that I think are very much in the interest of the United States.

Mr. PASSMAN. You are speaking in generalities. You cannot pin down any implications where there is going to be any offense on the part of foreign countries if the money we are having to borrow is not forthcoming in the quantity you think it should to continue this bloated program? There is not going to be any real offense to foreign countries, is there? Remember, you are dealing with a brandnew program.

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. You are talking in generalities.

Mr. WIGGINS. I believe the answer is a relatively general answer.

EFFECT OF CUTBACK ON PHILIPPINE PROGRAM

Mr. PASSMAN. In the Philippines, where you have 999 people, which is about one-third of the total amount, if you cut them down, we shall say, to 500, what is going to happen?

Mr. WIGGINS. First of all, 999 is roughly one-fifth of the 5,000.

Mr. PASSMAN. I am looking on this page at 2,880. You have it scattered.

Mr. WIGGINS. One-third.

Mr. PASSMAN. One-third of those listed on page 11.

Mr. WIGGINS. Which are only the programs we are in gear on now.

Mr. PASSMAN. One-third of that?

Mr. WIGGINS. Yes, sir.

Mr. PASSMAN. What would happen if you were forced to cut that down to 500?

Mr. WIGGINS. If we were to cut that to 500, I think that the nature of the program out there of attempting to upgrade the English language capacity of that country, if you cut that program in half, you endanger accomplishing the objective of the program.

Mr. PASSMAN. Are not those people further advanced in their country as far as English than, for instance, if you were to jump right over to some of the other countries such as Vietnam, Cambodia, or Thailand?

Mr. WIGGINS. Yes, sir; there is no comparison. As a matter of fact, English is the language of the Philippines where it is not the language of the other countries.

Mr. PASSMAN. You would be teaching them maybe half what you would teach them if you had all the money, but you would still have a workable program if you cut it in two, would you not?

Mr. SHRIVER. If you only had 10 people there, you would have a workable program.

Mr. PASSMAN. That is as good an answer as any man could give. You are dealing strictly with personnel and teaching. If we cut this program in half, we would still be in good graces around the world, would we not, internationally speaking?

Mr. SHRIVER. Consider the case of the Dominican Republic. Here is a country very close to us.

Mr. PASSMAN. Close one day, separated the next day, and close the next. Did they not say that you were interfering and they ran our personnel out?

Mr. SHRIVER. It is a country close to our borders.

Mr. PASSMAN. So is Cuba.

Mr. SHRIVER. Some people regret the fact that Cuba has gone communistic, and they think that if we take more effective direct action

in the Dominican Republic, we may be providing crucial assistance to that country.

Mr. PASSMAN. I would like to say that Cuba was the most subsidized nation by U.S. tax dollars on the face of the earth. There is nothing to compare with it in history, if you consider the sugar subsidy and other types of aids for the past 15 years, put it on a per capita basis in Cuba, I think it was about $2¼ billion. We still lost it. We both regret that we did, but it certainly is an indication that money within itself does not necessarily solve the problem.

Mr. SHRIVER. I could not agree with you more, which is why we do not send money. We send people.

Mr. PASSMAN. We had people there.

Mr. SHRIVER. We did not have this kind of people.

Mr. PASSMAN. We almost had to double deck them in beds, there were so many.

Mr. SHRIVER. The effect of sending them will be great for foreign policy. The effect of not sending them there will be harmful.

Mr. PASSMAN. I think history will indicate it is not infallible, that the world would not come to an end if you do not get every dollar you have asked for.

We have only two pages in the justifications to justify about $18 million, 30 percent of the cost of the Peace Corps for fiscal 1963. In the future the committee would like to have a more comprehensive justification of the administration expense of the organization.

PEACE CORPS VOLUNTEERS

So that the people who read this record may understand what we are talking about with relation to these volunteers, every person who works for the Federal civil service is, in reality, volunteering, is he not? You volunteer your services, you go down and ask for a job. You would be a volunteer for employment, would you not?

Mr. SHRIVER. You are an applicant.

Mr. ROONEY. Just the same as a Member of the House of Representatives.

Mr. PASSMAN. We could even include the President. I asked the simple question.

Mr. SHRIVER. Not a Peace Corps volunteer in any sense of the word.

Mr. PASSMAN. If I request the Government to give me a job in one of the departments or agencies, I am a volunteer for employment, am I not?

Mr. SHRIVER. Not in the sense of the Peace Corps volunteer.

Mr. PASSMAN. What is the penalty if one of these people wants to resign? He can come home?

Mr. WIGGINS. Yes.

Mr. PASSMAN. Compensations are not always in cash. I think of them as employees of the Government.

Mr. SHRIVER. If they were employees, they would get all the benefits that employees get.

DUTIES OF MR. JOHN CORT

Mr. PASSMAN. We discussed the gentleman with nine children. Would you tell the committee now what are the actual duties of

the associate Peace Corps representative, Mr. John Cort, in the Philippines, who was attracted to this job by his friend——

Mr. SHRIVER. Dr. Lawrence Fuchs, dean of Brandeis University.

Mr. PASSMAN. What are his specific duties?

Mr. WIGGINS. Administrative duties in the office in Manila under the direction of Dr. Larry Fuchs to handle a wide variety of what we call administrative-type functions of performing liaison with the volunteers. They have to get their allowance checks every 2 weeks. Certain records on them because of their connection with the Government as volunteers have to be kept. We have to have certain things taken care of in terms of some of their supplies and equipment.

This is an administrative staff person stationed in Manila who is conducting liaison and support of our volunteers in the islands.

Mr. PASSMAN. Is not this man, with his background, going to be given more important duties than delivering allowance checks?

Mr. WIGGINS. I did not do well if I described him as a messenger.

Mr. PASSMAN. You said he was going to deliver checks.

Mr. WIGGINS. I did not mean to put it that way. He does not deliver the checks in hand himself. He is not a messenger. This is one of the kinds of things he sees gets done.

Mr. PASSMAN. I thought the State Department, through the embassy officials, did that?

Mr. WIGGINS. We have a small staff that works with the State Department on this sort of questions. For example, in the Philippines we had some difficulty getting the checks out on time. We need people to work as liaison. We select our Peace Corps people based upon general leadership ability and ability to work with people of other nations and to understand our volunteers and give them guidance and counseling. You might say in the broadest sense leadership is the most important.

Mr. PASSMAN. He is just a man around the office you can use for anything?

Mr. WIGGINS. I would not say that.

Mr. PASSMAN. You have men who get $17,000-plus, and this man gets $10,000-plus, so certainly you did not fit him in the top echelon.

Mr. WIGGINS. That is right.

COST OF TRANSPORTATION FOR MR. CORT

Mr. PASSMAN. I am trying to find out what this man is doing. I will ask you to furnish for the record the cost of the airplane tickets for the family of 11 and the cost of transportation of things.

Mr. WIGGINS. I would like to add he is in an executive capacity and if my words have not indicated that I want to make it clear.

(The requested information follows:)

The cost for travel and transportation of things for Mr. John C. Cort and family was:

Post assignment transportation costs	$7,400
Transportation of effects (includes packing, crating, handling of personal effects)	5,790
Total	13,190

Mr. PASSMAN. This is the first time you have used the word "executive."

Mr. WIGGINS. I am sorry.

Mr. PASSMAN. You have not yet told us exactly what he will do. You have covered six or seven things he will do but you have not stated exactly what he is doing.

Mr. SHRIVER. We have lawyers, for example, who voluntarily have given up their partnership in a law firm and gone overseas with the Peace Corps.

We have had some who earned $25,000 a year in a law firm and they have given that up to go out there.

Mr. PASSMAN. It is exciting. But when you mentioned delivering those allowance checks that opened a new field.

Mr. SHRIVER. We do not deliver allowance checks.

Mr. PASSMAN. That is in the record.

Mr. WIGGINS. We have a variety of functions. This man, I would like to make clear, is an executive.

Mr. PASSMAN. In the lower echelon?

Mr. WIGGINS. He is a $10,600 executive.

Mr. PASSMAN. Your average for all the personnel is $9,700 and you go in the Philippines up to $17,000-plus, and so far as the Philippines are concerned he is about the low man on the totem pole, is he not?

Mr. WIGGINS. No, sir.

Mr. ROONEY. Is he not the No. 2 man in the Philippines?

Mr. SHRIVER. He is the No. 3 man.

Mr. PASSMAN. He is about as low on the totem pole as you can get if he is No. 3, because you have only three in the Philippines.

Mr. SHRIVER. In Manila.

Mr. ROONEY. I think it might throw some light on this if the agency were given an opportunity to set fourth exactly what this gentleman's duties are and insert that information in the record.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

(The following was subsequently supplied for the record:)

DUTIES AND RESPONSIBILITIES OF JOHN CORT, EXECUTIVE OFFICER, STATIONED IN MANILA, PHILIPPINES

As executive officer, under the general direction of the Peace Corps representative in Manila, Mr. Cort is responsible for all general staffwork and for a wide variety of administrative duties in support of Peace Corps volunteers in the Philippine Islands. He coordinates administrative effort with the AID mission in setting up the logistic support for the Peace Corps volunteer and projects in the Philippines. This includes the provision of special materials for teaching, housing, supplies and equipment, all allowances for the volunteers, etc. He insures that appropriate records for accounting, leave, and other administrative purposes are established and maintained. He initiates and prepares regular reports to the Washington office on these and other matters. In addition, he counsels volunteers on problems connected with their work, living situation, personal problems, etc.

Mr. Cort also serves as liaison officer with the American Embassy, the AID mission, the USIS, and other communications media in the Philippines. He advises on all news items concerning Peace Corps projects and volunteers in the Philippines and authorizes release of such items. He serves as editor of the Voluntario, the mimeographed bulletin for the volunteers in the Philippines, and he advises and coordinates with the volunteers in the preparation of articles they write and radio appearances that they may make.

The position of executive officer requires a person with a high degree of leadership qualities and the ability to work with the Philippine people. The person holding this position must be able to gain the respect and confidence of the volunteers and be effective in guiding and counseling them.

Mr. PASSMAN. Gentlemen, it has been a pleasure working with you, and, it has been interesting. We thank you for your cooperation.

WEDNESDAY, AUGUST 8, 1962.

RYUKYU ISLANDS—DEPARTMENT OF THE ARMY

SUPPLEMENTAL REQUESTS FOR FUNDS

WITNESSES

HON. STEPHEN AILES, UNDER SECRETARY OF THE ARMY
HOWARD HAUGERUD, DEPUTY UNDER SECRETARY OF THE ARMY (INTERNATIONAL AFFAIRS)
EDWARD W. O'FLAHERTY, CHIEF, ECONOMIC AFFAIRS DIVISION, CIVIL AFFAIRS AND CIVIL DEFENSE DIRECTORATE
COL. JOHN D. SITTERSON, OFFICE, UNDER SECRETARY OF THE ARMY
EDWARD J. McLAUGHLIN, ECONOMIC AFFAIRS DIVISION, CIVIL AFFAIRS AND CIVIL DEFENSE DIRECTORATE
JOSEPH S. HARBISON, PUBLIC AFFAIRS DIVISION, CIVIL AFFAIRS AND CIVIL DEFENSE DIRECTORATE
WILLIS E. NOWELL, ECONOMIC AFFAIRS DIVISION, CIVIL AFFAIRS AND CIVIL DEFENSE DIRECTORATE
WILLIAM J. SEEFELDT, JR., ECONOMIC AFFAIRS DIVISION, CIVIL AFFAIRS AND CIVIL DEFENSE DIRECTORATE
STUART H. D. FREED, OFFICE, DIRECTOR OF ARMY BUDGET, OFFICE, COMPTROLLER OF THE ARMY

Mr. PASSMAN. The committee will come to order. I must say very respectfully, when you appeared before the subcommittee earlier this year (see p. 1) for the regular appropriation for the Ryukyu Islands, I would have thought your request was more than sufficient, but here you are today requesting additional money.

The original budget request called for $7,900,000, and in effect this is a supplemental, or may we say an amendment to the original budget, calling for an additional $6,382,000, for a grand total of the original budget estimate and the amendment of $14,282,000.

At this point in the record we shall insert the pertinent portions of House Documents 378 and 463 and page 7 of the justifications.

(The documents referred to follow:)

[House Document No. 378]

DEPARTMENT OF DEFENSE—CIVIL

DEPARTMENT OF THE ARMY

Budget appendix pages	Heading	Original estimate	Revised estimate	Increase
	RYUKYU ISLANDS, ARMY			
358–359	Administration	$7,900,000	$13,900,000	$6,000,000
	(Delete the paragraph under this heading and insert in lieu thereof the following):			
	ADMINISTRATION			
	For expenses, not otherwise provided for, necessary to meet the responsibilities and obligations of the United States in connection with the government of the Ryukyu Islands, as authorized by the Act of July 12, 1960 (74 Stat. 461); services as authorized by section 15 of the Act of August 2, 1946 (5 U.S.C. 55a), of individuals not to exceed ten in number; not to exceed [$3,500] *$4,000* for contingencies for the High Commissioner, to be expended in his discretion; hire of passenger motor vehicles and aircraft; purchase of four passenger motor vehicles for replacement only; and construction, repair, and maintenance of buildings, utilities, facilities, and appurtenances; [$7,089,000] *$13,900,000*, of which not to exceed [$1,722,000] *$1,900,000* shall be available for administrative and information expenses, *and $3,000,000 shall be available for payment to the General Fund of the United States Civil Administration Ryukyus, for additional working capital for the Ryukyu Development Loan Corporation: Provided*, That expenditures from this appropriation may be made outside continental United States when necessary to carry out its purposes, without regard to sections 355 and 3648, Revised Statutes, as amended, section 4774(d) of title 10, United States Code, civil service or classification laws, or provisions of law prohibiting payment of any person not a citizen of the United States: *Provided further*, That funds appropriated hereunder may be used, insofar as practicable, and under such rules and regulations as may be prescribed by the Secretary of the Army to pay ocean transportation charges from United States ports, including territorial ports, to ports in the Ryukyus for the movement of supplies donated to, or purchased by, United States voluntary nonprofit relief agencies registered with and recommended by the Advisory Committee on Voluntary Foreign Aid or of relief packages consigned to individuals residing in such areas: *Provided further*, That the President may transfer to any other department or agency any function of functions provided for under this appropriation, and there shall be transferred to any such department or agency without reimbursement and without regard to the appropriation from which procured, such property as the Director of the Bureau of the Budget shall determine to relate primarily to any function or functions so transferred.			

This amendment to the budget is to provide for a higher level of economic aid beginning in 1963 in order to increase the rate of economic development of the Ryukyu Islands. At the time the annual estimates were prepared last Fall this matter was still under study. The study has now been completed and these additional funds are needed to implement its recommendations. Legislation is also being prepared to raise the present $6 million ceiling on annual appropriations for economic aid.

[HOUSE DOCUMENT NO. 463]

DEPARTMENT OF DEFENSE—CIVIL

DEPARTMENT OF THE ARMY

Budget appendix pages	Heading	Original estimate, as amended	Revised estimate	Increase
	RYUKYU ISLANDS, ARMY			
358–359	Administration	$13,900,000	$14,282,000	$382,000
	(Delete the paragraph under the heading and insert in lieu thereof the following):			
	ADMINISTRATION			
	For expenses, not otherwise provided for, necessary to meet the responsibilities and obligations of the United States in connection with the government of the Ryukyu Islands, as authorized by the Act of July 12, 1960 (74 Stat. 461); services as authorized by section 15 of the Act of August 2, 1946 (5 U.S.C. 55a), of individuals not to exceed ten in number; not to exceed [$3,500] *$5,000* for contingencies for the High Commissioner, to be expended in his discretion; hire of passenger motor vehicles and aircraft; purchase of [four] *six* passenger motor vehicles, *of which four are* for replacement only; and construction, repair, and maintenance of buildings, utilities, facilities, and appurtenances; [$7,089,000] *$14,282,000*, of which not to exceed [$1,722,000] *$2,282,000* shall be available for administrative and information expenses, *and $3,000,000 shall be available for payment to the General Fund of the United States Civil Administration Ryukyus, for additional working capital for the Ryukyu Development Loan Corporation. Provided*, That expenditures from this appropriation may be made outside continental United States when necessary to carry out its purposes, without regard to sections 355 and 3648, Revised Statutes, as amended, section 4774(d) of title 10, United States Code, civil service or classification laws, or provisions of law prohibiting payment of any person not a citizen of the United States: *Provided further*, That funds appropriated hereunder may be used, insofar as practicable, and under such rules and regulations as may be prescribed by the Secretary of the Army to pay ocean transportation charges from United States ports, including territorial ports, to ports in the Ryukyus for the movement of supplies donated to, or purchased by, United States voluntary nonprofit relief agencies registerd with and recommended by the Advisory Committee on Voluntary Foreign Aid or of relief packages consigned to individuals residing in such areas: *Provided further*, That the President may transfer to any other department or agency any function or functions provided for under this appropriation, and there shall be transferred to any such department or agency without reimbursement and without regard to the appropriation from which procured, such property as the Director of the Bureau of the Budget shall determine to relate primarily to any function or functions so transferred.			

On April 2, 1962, a budget amendment (H. Doc. No. 378) was transmitted to the Congress proposing an increase of $6 million from the original budget estimate for this appropriation. The proposed increase herein is in addition to that amendment, and the above text should be substituted for that previously proposed.

This amendment to the budget provides for implementing the recommendations of the Task Force Ryukyus for an increasing rate of economic development by increasing the operating staff of the Civil Administrator to carry out forward planning and negotiations between the U.S. civil administration and the Government of Japan, and by authorizing the purchase of additional staff vehicles.

JUSTIFICATIONS

DEPARTMENT OF THE ARMY, FISCAL YEAR 1963 (2nd AMENDMENT)—ADMINISTRATION RYUKYU ISLANDS, ARMY

Comparative summary of obligations by projects

Project No.	Purpose of project	Original estimate, fiscal year 1963	Revised estimate, fiscal year 1963	Increase (+) or decrease (−)
8710	Administrative activities	$1,900,000	$2,282,000	+$382,000
8711	Pay of civilian employees	1,562,000	1,720,000	+158,000
8712	Travel of civilian employees	80,000	151,000	+71,000
8713	Information materials and services	100,000	226,000	+126,000
8714	Incidental operating expenses	158,000	185,000	+27,000
8740	Aid to Ryukyuan economy	6,000,000	12,000,000	+6,000,000
8741	Reimbursement for Government services	945,000	945,000	
8742	Contribution to Government projects	4,630,000	9,630,000	+5,000,000
8743	Transportation of commodities	5,000	5,000	
8744	Disaster relief		1,000,000	+1,000,000
8745	Technical education and training	295,000	295,000	
8746	Technical cooperation	125,000	125,000	
	Total appropriation or estimate	7,900,000	14,282,000	+6,382,000

Mr. PASSMAN. We have with us this morning the Honorable Stephen Ailes, Under Secretary of the Army; Col. John D. Sitterson, Office, Under Secretary of the Army; Mr. Edward O'Flaherty, Chief, Economic Affairs Division, Civil Affairs; Mr. Edward J. McLaughlin, Economic Affairs Division, Civil Affairs and Civil Defense Directorate; Mr. Joseph S. Harbison, Public Affairs Division, Civil Affairs and Civil Defense Directorate; Mr. Willis E. Nowell, Economic Affairs Division; Mr. William J. Seefeldt, Jr., Economic Affairs Division; Mr. Stuart H. D. Freed, Office, Director of the Army Budget; and I believe we have several other very distinguished gentlemen here this morning, beginning with General Gerhardt, Chief of the Legislative Liaison, and General Rosson. I also see Mr. Haugerud.

If you have a statement to read at this time, Mr. Secretary, we will be glad to hear from you.

STATEMENT OF UNDER SECRETARY OF ARMY

Mr. AILES. Mr. Chairman and gentlemen, I appreciate this opportunity to discuss with your committee the Department of Defense views on the importance of the Ryukyu Islands to the United States and the request for increasing economic assistance in the appropriation "Administration, Ryukyu Islands, Army," now under consideration.

The approval by the House of Representatives of H.R. 10937, which, if enacted into law, will increase to $25 million the amount which may be appropriated in any fiscal year for this purpose indicates the exceptional degree of urgency which attaches to this initial request for increased assistance to Ryukyuan economic and social development.

Throughout the consideration of this amendment in the authorizing legislation, the dominant thrust has been the essentiality of maintaining the stability of our strategic base in these islands. The report (No. 1684) of the House Committee on Armed Services is an excellent unclassified compendium of the considerations involved in this important action.

You have dealt with this problem for some years, however, with concern and interest and a sense of great responsibility. I am informed that some members of this committee have visited Okinawa on one or more occasions because they recognize that this appropriation concerns not foreign assistance in the usual sense, but an extension of our defense frontier. This is the principal reason why we continue to retain the powers of the sovereign over the area.

The members of this committee are well aware of the strategic importance of the Ryukyus.

In the light of your comments earlier, I think it is desirable we get to the heart of this matter.

Mr. PASSMAN. What you are going to talk about is in your prepared statement?

Mr. AILES. So it is, and so I intend to add to it as we go along here.

Mr. PASSMAN. We put it all on the record.

Mr. AILES. Everything that relates to specific items here is going to be in the record, or given in answer by one of our witnesses, but there are a couple of general comments that occurred to me as I looked over this material that I would like to interpolate, and I will make it clear that I am doing that when I come to that. They are thoughts that occurred to me as I looked over this material. We went back and reread General Caraway's testimony when he came over and testified before Mr. Philbin's subcommittee when the hearings were held on whether or not the so-called Price Act should be changed. There is a lot in that testimony in terms of questions and answers back and forth between the Members of Congress and General Caraway that I think would be extremely helpful on this whole subject.

Mr. PASSMAN. The Committee on Appropriations has a different procedure. Therefore, we have to get right down to earth and off the polished part of the pole and get into the meat of it.

Mr. AILES. I really commend that to your consideration.

Mr. PASSMAN. Why did he not come today?

Mr. AILES. General Caraway? Because he is over 12,000 miles away. He is the High Commissioner in Okinawa.

Mr. PASSMAN. We miss having him. We thought he would have been here.

You may proceed.

Mr. AILES. I would like to see him here. This happens to be a particularly difficult time for them.

Mr. PASSMAN. However, this is only the money committee.

Mr. AILES. We were lucky he was here the last time. I do commend that to you.

Mr. PASSMAN. I understand he has charge of all our forces out there?

Mr. AILES. Yes, the Army forces. He is also responsible for maintaining the security of the base.

Mr. PASSMAN. We recognize that it is an important duty and we mean that sincerely. You have plenty of people here who can testify to this amount which is small compared to that for the bases in Okinawa.

Mr. AILES. Our Okinawa base is an important factor in the U.S. defense system, as well as a supporting factor in the free world's effort against communism.

Our position with respect to the Ryukyus is contained in the President's budget for fiscal year 1963, which contains the following statement:

To protect the security of the United States and of the free world, the United States will continue responsibility for the administration of the Ryukyu Islands as long as conditions of threat and tension in the Far East require the maintenance of military bases in these islands.

With this in mind, visiting the Ryukyu Islands in July of last year, I observed the increasing concern on the part of our officials.

ECONOMIC STATUS OF RYUKYU ISLANDS

Mr. PASSMAN. Will you put in the record at this time the population of the island?

Mr. AILES. About 895,000.

Mr. PASSMAN. Then we are not facing a tremendous army that could push us off in the ocean?

Mr. AILES. This was due to portents that conditions were developing which could seriously impair our position there. There were evidences of growing dissatisfaction among the Ryukyuan people, indications that we might be unwarrantedly taking for granted that we will continue to enjoy that degree of voluntary cooperativesness which we have experienced there for the past several years.

As you know, the Ryukyuans are poor, and their land, especially their arable land, is overcrowded. They are not economically self-sufficient and must depend on outside assistance. Naturally they look to us for help, because we are charged with their administration by peace treaty with Japan. This responsibility, as expressed in Executive Order 10713 of June 1957 and later in Public Law 86-629, is to make every effort—

to improve the welfare and well-being of the inhabitants of the Ryukyu Islands and to promote their economic and cultural advancement.

The Ryukyuan people look to us for help. At the same time they see the prosperity and well-being of the Japanese. They see the support and allotments made by the Government of Japan to its prefectures. These economic factors create dissatisfaction among the Ryukyuans and stimulate reversionist sentiments.

POLITICAL CONSIDERATIONS

At this point, if I may, I would like to add, we have more than just an economic problem there. There are certain what you might refer to as political considerations that make that situation particularly difficult.

Those people are in a sense stateless. We do not hold out to them possible participation in the American community. They are not presently part of Japan. The arrangement that we went in out there was basically a military occupation. The assumption was the military need would be relatively short lived. We now face the prospect of being in control of these islands, or having a military necessity for being in control of these islands, for a substantial period of time.

Mr. FORD. Did I not just read recently a statement by President Kennedy to the effect we were making some change in the status

there, giving the Japanese some hope they might reestablish themselves there?

Mr. AILES. I do not think there has been any change in policy. We——

Mr. FORD. He did make some statement?

Mr. AILES. Yes, sir. It began with Secretary Dulles. We have been saying for some time that residual sovereignty in Okinawa and in the Ryukyus was in the Japanese, and we no longer talk, and have not talked in 10 years, about a possible U.N. trusteeship which the treaty with Japan required Japan to support. The treaty required Japan to go along with our conveying the islands to the U.N. under a trusteeship. This we got away from apparently some time back. The President in the statement he made when Prime Minister——

Mr. FORD. Put in record whatever the President said at this time. I do not recollect the specifics, but let's have for the record the President's statement.

Mr. PASSMAN. We will insert that in the record.

(The information follows:)

THE WHITE HOUSE, *March 19, 1962.*

STATEMENT BY THE PRESIDENT

I have today signed an amendment to Executive Order 10713 dated June 5, 1957, providing for the administration of the Ryukyu Islands. The amendment to the Executive order, as well as a number of other measures set forth below, are the result of recommendations of the interdepartmental task force appointed last year to investigate current conditions in the Ryukyu Islands and the U.S. policies and programs in force there.

The work of the task force underlines the importance the United States attaches to its military bases in the Ryukyu Islands. The armed strength deployed at these bases is of the greatest importance in maintaining our deterrent power in the face of threats to the peace in the Far East. Our bases in the Ryukyu Islands help us assure our allies in the great arc from Japan through southeast Asia not only of our willingness but also of our ability to come to their assistance in case of need.

The report of the task force examines in detail the problem of reconciling the military imperative for continued U.S. administration with the desires of the Ryukyuan people to assert their identity as Japanese, to obtain the economic and social welfare benefits available in Japan, and to have a greater voice in the management of their own affairs. The report has also considered in the same context the desire of the Japanese people to maintain close contact with their countrymen in the Ryukyus.

I recognize the Ryukyus to be a part of the Japanese homeland and look forward to the day when the security interests of the free world will permit their restoration to full Japanese sovereignty. In the meantime we face a situation which must be met in a spirit of forbearance and mutual understanding by all concerned. I have directed that a number of specific actions be taken to give expression of this spirit by the United States, to discharge more effectively our responsibilities toward the people of the Ryukyus, and to minimize the stresses that will accompany the anticipated eventual restoration of the Ryukyu Islands to Japanese administration. These actions consist of:

1. Asking the Congress to amend the Price Act (Public Law 86-629) to remove the present $6 million ceiling on assistance to the Ryukyu Islands.

2. Preparing for submission to the Congress plans for the support of new programs in the Ryukyus to raise the levels of compensation for Ryukyuan employees of the U.S. Forces and the Government of the Ryukyu Islands and the levels of public health, educational, and welfare services so that over a period of years they reach those obtaining in comparable areas in Japan.

3. Preparing proposals for the Congress to provide over future years a steady increase in loan funds available for the development of the Ryukyuan economy.

4. Entering into discussions with the Government of Japan with a view to working out precise arrangements to implement a cooperative relationship between the United States and Japan in providing assistance to promote the welfare and well-being of the inhabitants of the Ryukyu Islands and their economic development, as discussed between Prime Minister Ikeda and myself during his visit to Washington last year.

5. Carrying on a continuous review of governmental functions in the Ryukyu Islands to determine when and under what circumstances additional functions that need not be reserved to the United States as administering authority can be delegated to the government of the Ryukyu Islands.

6. Carrying on a continuous review of such controls as may be thought to limit unnecessarily the private freedoms of inhabitants of the Ryukyu Islands with a view to eliminating all controls which are not essential to the maintenance of the security of the United States military installations in the Ryukyus or of the islands themselves.

The amendments to Executive Order No. 10713 are designed to accomplish the following purposes:

1. Provide for nomination of the chief executive of the Government of the Ryukyu Islands by the legislature.

2. Restate the veto power of the High Commissioner, to emphasize its restricted purposes.

3. Lengthen the term of the legislature from 2 to 3 years.

4. Permit the legislature to alter the number and boundaries of election districts.

5. Provide that the Civil Administrator shall be a civilian.

6. Make certain technical changes in the provisions for criminal jurisdiction over certain Americans in the Ryukyus.

Mr. AILES. I think what Mr. Ford refers to specifically is the President's statement on March 19 of this year when he said:

I recognize the Ryukyus to be a part of the Japanese homeland and look forward to the day when the security of the free world will permit their restoration to full Japanese sovereignty.

I suspect that is what you have reference to. This statement was made.

Mr. PASSMAN. I am interested in what Mr. Ford has said. I think I read a statement that may be a little broader than what you have read.

Mr. AILES. We have the President's whole statement here, which we will be delighted to put in the record at this time.

Mr. PASSMAN. How long is the statement?

Mr. AILES. About a page and a half.

Mr. PASSMAN. Please put it in the record.

Mr. AILES. As I read over this statement this morning, we are trying to explain what we are trying to do on the economic end of it and there is a problem that stems from this strange political position they have.

Mr. PASSMAN. I believe the committee is familiar with it. We have been there many times.

PURPOSE OF U.S. INTERESTS IN RYUKYU ISLANDS

Mr. AILES. I am sure you are more familiar with all of this than I.

Mr. PASSMAN. We do want your views.

Mr. AILES. If I may make one more statement here, one more point which to me is the really overriding consideration here, and that is the reason we are on the islands is a purely military one.

Mr. PASSMAN. I think these people have been one of the greatest recipients on the face of the earth of our generosity.

Mr. AILES. What I am trying to say is, in my judgment, there is far more than a matter of economic need involved here.

Mr. PASSMAN. That is a basic problem. It is at least one of the important factors.

Mr. AILES. That is part of it. You do have an unusual political situation here. This base can only be maintained with a reasonable acquiescence of the people of the Ryukyus, and it is against that backdrop this whole question has to be resolved.

Mr. PASSMAN. I think we have to have their concurrence and respect. I would not want the record to show they are about to push us out.

I want to say those people have been the recipients of an abundance of our aid and consideration. Take the electric co-ops. I do not think we have anything to match them in the United States. Those are the most fortunate people that ever occupied the islands.

Mr. AILES. I do not presume to have the same background of information that you do, or the other members of the committee, but I would just like to lay out my proposition.

Mr. PASSMAN. Surely.

Mr. AILES. That is fundamental to it.

(Off the record.)

RECOMMENDATIONS OF TASK FORCE

As a result of the High Commissioner's concern, an interdepartmental task force was established on August 11, 1961, to investigate the extent to which economic and social conditions contribute to the dissatisfaction of the Ryukyuans, and to determine measures to improve these conditions.

The area of principal concern of the High Commissioner and of major study by the task force is the economic well-being of the people of the Ryukyu Islands.

In my judgment, this is one hand to the problem. When one sees their major problems of shortage of land, low income, inadequate educational facilities, disease, and others continuing, as well as the continued presence of U.S. forces and facilities, it is not surprising that the Ryukyuans have doubts and dissatisfactions.

It is true that their income has increased over a period of years, but when they see their many remaining problems, it is understandable that they have a sincere desire to better their position. They are aware that the Government of Japan contributes to the cost of schooling, public welfare, and government activities in its prefectures. The sound course for the United States, as well as its obligation according to the Price Act, is to assure the economic well-being of the Ryukyus.

At this point, I would like to make another points, if I may.

Mr. PASSMAN. Certainly.

Mr. AILES. I was a member of this task force, at least from the Washington end. A working group went out there, and I spent some time with Mr. Kaysen from the White House staff and the men from the State Department and from the Department of Labor and from the AID Agency who worked on this question.

Mr. PASSMAN. Is AID involved in this?

Mr. AILES. No.

Mr. PASSMAN. What were they doing out there?

Mr. AILES. John Ohly came and discussed some of the basic problems with us when this was under consideration.

Mr. PASSMAN. He is head of one phase of the aid program, is he not?

Mr. AILES. Yes, sir.

Mr. PASSMAN. Was he out in Okinawa?

Mr. AILES. As I said before, this task force had a group that worked here in Washington, of which I was one. This task force was organized, or appointed, last August.

Mr. PASSMAN. Were you out in the Ryukyus?

Mr. AILES. Earlier. I have been in Korea and out in Saigon and I came back home through the Ryukyus in July last year.

Mr. PASSMAN. How long did you stay there?

Mr. AILES. I was there about 48 hours. I might add, it rained harder than I ever saw.

Mr. PASSMAN. It kept you inside most of the time?

Mr. AILES. I saw nothing but a downpour the whole time I was there.

I did get an opportunity to talk about 12 hours with General Caraway about his situation and what he was doing there.

THREE-POINT PROGRAM

The point I want to make is this, because I think this is really significant in connection with the question that is before the committee: The essential idea that the task force came up with was that we would be able to buy more time, the time we need, if we had a three-way program. A three-way program had three basic aspects to it.

One was, we would be able to demonstrate continuing economic improvement in the Ryukyus.

The second was, there would be some increase in political dignity which would be achieved by increasing the autonomy of the government of the Ryukyu Islands.

And the third was, official Japanese cooperation with the American administration of the islands.

As I say, this is a three-legged stool; let's put it that way. The basic idea was that there were three parts to it, and the three parts were essential and independent.

Mr. PASSMAN. If these programs do not become a little sounder, we are going to wind up with a two-legged stool; which is going to fall over.

Mr. AILES. We are in full agreement.

My point is, the economic aid discussed here is the third leg of a three-legged stool, and without it the rest of the program is liable to fall over.

Mr. PASSMAN. Surely.

Mr. AILES. All right.

ADDITIONAL FUNDS REQUIRED TO MEET RECOMMENDATIONS

In consonance with the recommendations of the task force approved by the President, we are requesting this committee, which bears such a major degree of responsibility and authority, to approve and to recommend to the Congress substantially increased economic support programs for the Ryukyus beginning with this appropriation for fiscal year 1963. We present these to put our military position on a more stable basis and to promote the welfare and well-being of the inhabitants of the Ryukyus.

I would like to make another interpolation here.

This again occurred to me this morning as I looked over the statement. Let me correct my statement.

I have been operating under the assumption I was going to testify before this committee every day for a week, so I have been prepared over and over again.

Mr. PASSMAN. I might say to the Secretary, we are considering an aid bill that is in 101 of the world's 113 nations and practically every British territory and possession on the face of the earth. We have been holding hearings since March. You can just imagine what a strain the committee has been under trying to consider such requests.

COMPARISON OF ECONOMIC RECOVERY

Mr. AILES. Now, I am still on my interpolation.

I wholeheartedly agree with the prescription, we have to have a three-way attack on the problem in Okinawa. I think it is clear regardless of how conditions compare with what they were before we got there, or even with last year, or the year before, it is still clear some economic improvement is possible, a great deal is.

Mr. PASSMAN. I believe that is true in all 50 States of the Union.

Mr. AILES. There is no question about that.

Mr. PASSMAN. I think a lot of people in the Ryukyus are getting along a lot better than some people are in the States.

Mr. AILES. The point I am trying to make is, I do not conceive of this as a welfare program. The State I come from, which is West Virginia, may need it more. I fully agree with that.

Mr. PASSMAN. Some States greatly need it. But the trend seems to be to take care of people elsewhere, and take care of ourselves later.

Mr. AILES. My point is, economic improvement, I say, is possible there. The conditions are certainly not such they cannot be improved upon.

Mr. PASSMAN. I agree with the Secretary, but we have gone so far to help that it is becoming more difficult to find places to improve their economy.

Mr. AILES. Sure.

My point is, it is clearly possible that some economic improvement will reduce the basis for the unit comparison which is now before everybody over there, between the conditions in the Ryukyus and those with Japan.

General Caraway——

Mr. PASSMAN. You mentioned that several times. Are those people playing both ends against the middle?

Do they always look to some other place on the face of the earth a little bit more prosperous? In this instance, Japan?

They want you to do more so they will come nearer in keeping with the conditions in Japan.

It that what you are confronted with?

Mr. AILES. I can agree with the last part.

As I understand the situation, of course, before the last war the Ryukyuans were a part of Japan. They were a Japanese prefecture, as you know.

Mr. PASSMAN. Yes, sir.

Mr. AILES. Japan has had a fantastic recovery.

Mr. PASSMAN. To one extent on account of at least $3,574,600,000 worth of different types of U.S. aid.

Mr. AILES. Whatever the situation, they have had a fantastic recovery. They have had a high level of business activity. They have a low rate of unemployment. The Japanese Central Government does quite a bit. It is the main taxing authority, and there are considerable benefits that percolate down by way of teachers' salaries, retirement programs, and items like that.

It is possible for the Ryukyuans to make certain direct comparisons between conditions in the Ryukyus and conditions in Japan, say on the matter of teachers' salaries, or retirement programs. Then they look to see what the poor prefectures get in the way of grants from the Central Government, and they make this comparison. They compare that figure with what is given by the United States in the way of economic aid and say, after all, if we were part of Japan we would be getting this. I do not for a minute say——

Mr. PASSMAN. That is what you would call diplomatic blackmail.

Mr. AILES. Put it this way: This is not like hunting around to find someone else with whom they can make a comparison. The comparison is somewhat logical and obvious. I do think this. There is a limit as to how accurate such a comparison can be. I feel sure many of the standards of comparison that are used by some of the politicians in Okinawa are grossly inflated, that if you take into consideration the fallout that comes from the presence of the American base there, which creates some major advantages for the Ryukyuan economy, if we were to leave altogether the chances they would be better off would be slight or nil.

Mr. PASSMAN. They have learned to like the taste of caviar, pink champagne and fillets and do not want to go back to hamburgers; is that the way it is?

Mr. AILES. I think that is a slightly exaggerated statement.

Mr. PASSMAN. Where are we in your statement?

Mr. AILES. I am trying to finish up this interpolation.

The important thing to me is, in relation to the three-point program, that some economic improvement be shown.

(Off the record.)

And as a result, if the people who are charged with the responsibility of handling this thing on a day-to-day basis say that we believe that if we can progress at this level——

(Off the record.)

Mr. AILES. I think that is an important consideration.

POSSIBLE DISSATISFACTION AS A RESULT OF ASSISTANCE

Mr. PASSMAN. This is a very small request, but we do have substantial aid programs going on in practically every nation in that part of the world.

Now, if we build the economy of the people of the Ryukyus to where it is higher than Vietnam, or possibly Cambodia, Laos, they will get dissatisfied and want us to build our aid program up to where it is as good as it is in the Ryukyus.

Are we reaching that point where we are going to be competing with islands and nations and one gets jealous because the other is a little better off?

Mr. AILES. I certainly hope not.

Mr. PASSMAN. I certainly hope not too. Things like that can happen and do happen.

Mr. AILES. I would like to point out our situation in Okinawa is vastly different than the situation we have in South Vietnam, and General Rosson here is a real expert on that. He could tell you more about what kind of fighting is going on.

Mr. PASSMAN. I named a lot of countries out there.

Mr. AILES. All the others are different from Okinawa, that is the point I want to make. Here we are the sovereign in complete administrative control.

(Off the record.)

MILITARY OPERATIONS IN RYUKYUS

Mr. AILES. The committee should review General Caraway's list of the exact operations that we have going on in the Ryukyus today.

Mr. PASSMAN. We are very interested in what goes on over there, Mr. Secretary.

Mr. AILES. I understand it. That is why the Ryukyus, and South Vietnam and Cambodia are in a vastly different situation.

Mr. PASSMAN. If you do for people what they should do for themselves, you make it too easy. Initiative disappears. They become more dependent, do they not?

Mr. AILES. I would agree with that completely.

Mr. PASSMAN. Have you finished interpolating?

INCREASED REQUEST FOR FISCAL YEAR 1963

Mr. AILES. Yes; I have. I am on page 4 on the paragraph that begins:

To this end, the task force considers as most compelling substantial increases in the capital of the two important public lending institutions, the Ryukyu Development Loan Corp., and the Central Bank for Cooperatives. Assuming continued support of the Ryukyuan Government capital investment program to develop a healthy economic climate, the private sector of the economy can make an impressive contribution to Ryukyuan economic growth. In this context it is proposed that the United States make a capital contribution in the amount of $3 million to the Ryukyu Development Loan Corp. and a $1 million capital contribution to the Central Bank for Cooperatives in fiscal year 1963, as the first increment in a 5-year program strengthening

these institutions which are essential for sound and meaningful economic development.

Further, in harmony with the task force recommendations approved by the President, it is requested that the Congress appropriate the following additional amounts.

Mr. PASSMAN. Would that be in addition to the $6 million?

Mr. AILES. A presentation was made for $6 million. We are asking for an additional $6 million, which makes a total $12 million for fiscal year 1963.

Mr. PASSMAN. I understand. Really you are asking for $14.282 million total, are you not?

Mr. AILES. Yes, sir; counting the administration.

PROJECTS TO BE FUNDED FROM INCREASED FUNDS

1. For economic assistance projects on which the High Commissioner has placed high priority but which could not be included under the $6 million Price Act limitation, $1 million.

This would provide for the following urgently needed projects:

(*a*) Educational facilities, $225,000. This amount is programed for vocational and educational equipment for the University of the Ryukyus.

(*b*) Medical facilities, $575,000. This is required to accomplish construction of a vitally needed hospital at Koza.

(*c*) Urban development, $125,000. Construction of municipal housing, urgently needed, will be partially financed by this contribution.

(*d*) Southern district water system, $75,000. The purpose of this last item is to furnish potable water to that area of southern Okinawa not served by the integrated water system operated by the Ryukyu Domestic Water Corp.

2. To meet urgent emergency requirements arising from typhoons and other disasters, $1 million. The Ryukyuans are in a typhoon corridor and suffer a great damage from them every year. Typhoons cannot be programed and there never have been funds available to repair typhoon damage at the time the need is most urgent. This is essential and these funds are requested on a no-year basis to be available to the High Commissioner until expended.

These recommendations amount to $6 million which, although more conservative than the increases which the task force endorses, are submitted as the minimum initial increment essential in fiscal year 1963 in order to move positively toward solidifying our position in the Ryukyus.

Related to these requests is a requirement for a relatively modest increase in overhead costs of the civil administration. The High Commissioner attributes a share of our deficiencies in dealing with the Okinawa situation not only to inadequacies of staff support and technical assistance, with essential supporting facilities, but also the imperative need to do a more effective job of informing the Ryukyuan people of the whys and wherefores of our presence there.

EFFECT OF JAPANESE AID ON WORKLOAD

The introduction of significantly increased Japanese assistance projects which must be coordinated with and approved by the High Commissioner in the planning, programing and implementation phases has already placed onerous demands on his staff which will increase markedly as the program advances. The task force accepted this as axiomatic and advanced a tentative estimate of $1 million as the additional amount which might be needed to accomplish the job.

For fiscal year 1963 the High Commissioner estimates that he can do it with an increase, over the amount previously requested, of $382,000. The breakdown of requirements is $158,000, pay of civilian personnel; $71,000 for travel of civilian personnel; $126,000, information materials and services; and $27,000 incidental operating expenses.

These, then, are the additional measures which we recommend at this time. Further measures to carry out the recommendations of the task force will involve negotiations with Japan in regard to Japanese aid contributions and with the indigenous government of the Ryukyus in regard to their own actions to do their part. It is only fair to point out that we expect that other additional measures may be recommended in the future, probably next year.

INCREASED U.S. ECONOMIC ASSISTANCE PROJECTED

In summary, we are convinced that our interests and responsibilities in the Ryukyus call for an increase in U.S. economic assistance. The amounts needed, while greater than provided in recent years, are still small in comparison to what we have at stake.

(Off the record.)

Mr. PASSMAN. It has been said, and I assume it is factual, that if you should confiscate all the wealth in America, you would still not have sufficient funds to do all the things labeled "desirable."

Mr. AILES. I am sure that is true.

This is a matter of priorities again. The military puts the highest priority, as you know better than I, on the maintenance of this base in the Ryukyus.

Mr. PASSMAN. You could do a lot out there for what we have spent.

Mr. AILES. This is a special and unique case; the military need is compelling. Increased aid for the Ryukyus and for economic development there is in our own interest, essential if we are to assure the continued usability of our Okinawa base.

I believe that the steps which we propose are the right way to go about it.

In closing, therefore, I urge that you give favorable consideration to the budget amendments which have been submitted.

That concludes my prepared statement. Undoubtedly you will have some questions. I have with me Department of the Army personnel who are prepared to provide the detailed data you may desire.

Mr. PASSMAN. Thank you very much.

You may rest assured this committee will give consideration to your request, taking into account the earlier testimony for the first budget request.

INITIAL 1963 BUDGET REQUEST

Earlier this year, when you appeared before this committee, I think with a higher program than you have had in previous years, we thought you had requested more than ample funds at that time. However, I think it was indicated that at a subsequent date there would be a supplemental request.

Mr. AILES. Yes, sir.

Mr. PASSMAN. Who is going to do the testifying for this money?

Mr. AILES. Sir, we have the experts here.

Mr. PASSMAN. Who are the experts?

Mr. AILES. Five people are acquainted with different aspects of this thing. Here is a witness list that was prepared for me. It shows the areas of responsibility of the men who are here. I thought it might be helpful to you. You can go directly to the man you want.

PEACE CORPS

Mr. PASSMAN. Do you have a Peace Corps plan for the islands?

Mr. HAUGERUD. No, sir.

Mr. PASSMAN. Has a Peace Corps representative been out there trying to work out a plan?

Mr. HAUGERUD. It was decided they would not be used out there.

Mr. AILES. That was discussed when I first came with the Army. That must have been in March of 1961, something like that, and we have had discussions on that subject since then.

Mr. HAUGERUD. We have had word that the Peace Corps is no longer considering Okinawa.

Mr. PASSMAN. We understand they did send a representative out there last year?

Mr. HAUGERUD. I think their Far Eastern representatives did stop there.

LONG-RANGE ECONOMIC PROGRAM

Mr. PASSMAN. This increased program for the Ryukyus actually originated in the mind of the former Ambassador to Japan, Douglas MacArthur, did it not?

Mr. AILES. Not this program. I do not know what position he had——

Mr. PASSMAN. I can tell you his position. We were out there and discussed it with him at length. He said they wanted to start a long-range economic program for the Ryukyus Islands. We discussed it at length. We pointed out to him some of the improvements that had been made and the tremendous increase in the standard of living and all other facilities.

We felt that we had sort of arrested that idea and came back home somewhat encouraged that we would not do there what we have done in a lot of other places, and that is, spoil the people.

Mr. AILES. May I say something with respect to that? I can give you the genesis of this specific program if you would like to have it.

Mr. PASSMAN. You mean the increased program over what we have been carrying on previously for years?

Mr. AILES. Yes.

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What actually happened was last summer—first of all, the Under Secretary of State went through—I am not sure whether he went before me or afterward, but both of us, Mr. Ball and I, were in Okinawa within a matter of a couple of weeks. Both of us talked with General Caraway at great length about the situation that existed there.

Mr. PASSMAN. How long has General Caraway been there?

Mr. AILES. About a year and a half.

Mr. PASSMAN. I met his predecessor and he did not indicate anything like this was in the making.

Mr. AILES. When I was there and talked with General Caraway at great length, he was genuinely disturbed about the situation that was brewing and developing in his judgment in Okinawa and that was the opinion of most of his people. It was agreed back here that a task force should be organized to take a hard look at this situation.

Mr. PASSMAN. How long had he been there before he got this idea?

Mr. AILES. Let me make clear his idea at that time. His idea was that we really have to take a hard look at a whole lot of things here. The economic aid aspect of the thing came out of the report of the task force which was organized in August.

MEMBERS OF TASK FORCE

Mr. PASSMAN. Give us a list of the task force members.

Mr. AILES. Yes, sir; I can do it from memory.

Sir, I do not know whether this document is a part of the record. Why not let me read the names of the five people?

Mr. PASSMAN. Go ahead.

Mr. AILES. The Chairman of the task force is Mr. Carl Kaysen.

Mr. PASSMAN. Where is he from?

Mr. AILES. He is from the White House. He is deputy special assistant to the President for national security affairs.

Mr. PASSMAN. What is his background?

Mr. AILES. He is from the Harvard College faculty. Professor of economics.

Next is Mr. John Steeves who is a career State Department man. He had been the political adviser in Okinawa some 6 or 7 years before.

Colonel SITTERSON. At the time of the task force, he was the Deputy Assistant Secretary of State for Far Eastern Affairs.

Mr. AILES. At the present time he is Ambassador to Afghanistan.

He was succeeded by Edward Rice who is his successor in the State Department.

Mr. PASSMAN. Who is next?

Mr. AILES. Mr. Steeves was succeeded on the task force by Mr. Rice.

Mr. PASSMAN. Has he had banking experience?

Mr. AILES. No, sir. He is a State Department man. He succeeded Mr. Steeves in his job in the State Department. He took his place on the task force.

Mr. PASSMAN. He is also a career employee?

Mr. AILES. Yes, sir.

Next was myself, representing the Department of Defense.

Mr. PASSMAN. I think you have given your background.

Mr. AILES. I am a lawyer.

Mr. PASSMAN. Next?

Mr. AILES. The next was John Ohly, whom I mentioned, from the AID agency.

Mr. PASSMAN. What is his background?

Mr. AILES. I am quite sure he is a lawyer.

When I first knew him he was a lawyer. I do not know how long he was in Washington but I knew him in Washington during World War II and so far as I know he went back to New York and then came back here.

Mr. PASSMAN. Next?

Mr. AILES. The next one is George Weaver, from the Department of Labor.

Mr. PASSMAN. What is his background?

Mr. AILES. I really do not know, sir. I think he is a career employee in the Department of Labor.

Then we had a working group headed up by——

Mr. PASSMAN. This is the task force?

Mr. AILES. Yes, sir.

Mr. PASSMAN. They are historically known as the spenders, the people who find ways to spend money.

Mr. AILES. This was the task force that remained here, except Mr. Kaysen.

Mr. PASSMAN. You gave us the names of the task force that went out?

Mr. AILES. No, sir; these were the senior men on the task force. We had a working group who went out to Okinawa and prepared reports and came back and reported to this group.

Mr. PASSMAN. The senior task force stayed in Washington?

Mr. AILES. Yes, sir; except Mr. Kaysen, who went out with the working group.

Mr. PASSMAN. The other members of the task force remained in Washington and then you had a working force that went out. Who are they?

Mr. AILES. Except that Mr. Kaysen went out with the task force.

Mr. PASSMAN. Mr. Kaysen, the Harvard Professor, went out with the task force?

Mr. AILES. Yes, sir.

Mr. PASSMAN. Who are the working members?

Mr. AILES. John Kaufmann.

Mr. PASSMAN. Who is he?

Mr. AILES. This is a man I recommended for this group.

Mr. PASSMAN. What is his background?

Mr. AILES. He is an economist. He worked for me when I was practicing law in connection with some litigation. He had been 2 years working for the Ford Foundation in Iran.

Mr. PASSMAN. Please give us the others.

Mr. AILES. As I say, I am partially responsible for this man Kaufmann being on this task force.

Mr. PASSMAN. Is he the economist?

Mr. AILES. He is the economist that had been in Iran for several years and previously with an economic consulting firm here in Washington.

Mr. PASSMAN. Did that firm have any AID contracts?

Mr. AILES. The economic consulting firm would not. The organization he was working for in Iran was the Ford Foundation which had a management team out there helping them try to set up and improve the nature of operation of that government.

Mr. PASSMAN. Do you have any others?

Mr. AILES. Yes, sir.

Mr. RHODES. He did a great job.

Mr. PASSMAN. Yes; apparently he succeeded in helping them maintain a no-budget atmosphere out there. We had budgetary support but there was no budget to put the budgetary support into so it was butted over in all directions.

Mr. RHODES. Nobody worries about the money. Do you have any others?

Mr. AILES. I guess we are not supposed to debate that particular point.

Mr. PASSMAN. I am not going to debate it. We are giving you the facts that Iran is one of the worst fouled-up situations on the face of the earth, so far as their budget is concerned.

We are not blaming him. No doubt this thing started before he went out.

Mr. AILES. It has been fairly bad for some time.

Then we have Mr. Henry Brodie and Mr.——

Mr. PASSMAN. Who is Mr. Brodie?

Mr. AILES. From the State Department.

Colonel SITTERSON. He was a policy planning man in the State Department.

Mr. AILES. Then we have Mr. Swayne, who is a desk officer.

Colonel SITTERSON. For Japan and Okinawa.

Mr. PASSMAN. All those are career employees?

Mr. AILES. Yes, sir.

Then we have three Army officers; Brig. Gen. Benjamin F. Evans; then we have Col. Edward Allen, and a very capable young colonel named John D. Sitterson.

Mr. PASSMAN. Next?

Mr. AILES. Then we had Mr. Albert Wilson from the AID Agency.

Mr. PASSMAN. Who is he?

Mr. AILES. John, do you know what his background is?

Colonel SITTERSON. He was on loan to AID at the time. He had a good bit of experience in the Philippines. I do not know precisely in what capacity but he worked for the Government on special projects off and on and also was an educator in a university.

Mr. PASSMAN. These men comprised the intergovernmental task force?

Mr. AILES. Yes, sir.

Mr. PASSMAN. You do not have a banker or businessman in the entire group, do you?

Mr. AILES. The last man was James Hoover from the Department of Labor.

Colonel SITTERSON. He is a professional career man in the Department of Labor.

Mr. PASSMAN. All of them are governmental people.

Mr. AILES. Yes, sir.

Mr. PASSMAN. No bankers or hard-boiled businessmen?

Colonel SITTERSON. We have some hard-boiled Army officers.

Mr. PASSMAN. I have nothing but praise for the military. You fellows learn how to fight and you do a terrific job, but I suspect, along the way, in a lot of the procurement divisions where they need 3 items, they order 12. I have never known anybody in any branch of the military to buy short. At least you are entitled to praise there.

U.S. ASSISTANCE TO JAPAN

Is it not true we have had a very substantial aid program in Japan?

I think this is pertinent to the matter we are considering. Have all facets not amounted to $3,574,600,000 through 1961?

Mr. AILES. Sir, I cannot answer that.

Mr. PASSMAN. I rest on those figures as being accurate.

IMPORTANCE OF RYUKYUS TO SECURITY OF JAPAN

Our presence in that part of the world is important to the security of Japan as well as to our own country; is that true?

Mr. AILES. Yes, sir.

Mr. PASSMAN. It would naturally follow that a nation of 90 million would want to cooperate in keeping 800,000 citizens on the Ryukyu Islands happy, rather than to create discontent, would it not?

Mr. AILES. I think it should, yes, if I understand you correctly.

Mr. PASSMAN. That is what I think. We have helped Japan with billions of dollars, and if it is to their security interest as well as ours, it would naturally follow that this nation would want to cooperate in keeping these people satisfied rather than dissatisfied?

Mr. AILES. Yes, sir; I agree with that. That certainly is the position of the Japanese Government.

IMPROVEMENT IN ECONOMIC CONDITIONS IN RYUKYUS

Mr. PASSMAN. I think the record might show that someone out there may have gotten taken in. For example, do they not have better housing there than they have ever had since the inception of this program?

Mr. AILES. There is no question about the fact that over the last 15 years there has been a steady improvement in conditions in Okinawa.

Mr. PASSMAN. That is what I am trying to establish. They have better housing?

Mr. AILES. That is right.

Mr. PASSMAN. They have a better standard of living?

Mr. AILES. There is no question.

Mr. PASSMAN. A few years ago when this committee went out, they had some old barracks they were holding their court sessions in.

Are there any of you here today who remember those days?

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. They had an old wooden shack. Now they have a beautiful new air-conditioned, typhoonproof building that we built for them.

Mr. O'FLAHERTY. A courthouse.

Mr. PASSMAN. It is really a beautiful layout, as we think of it.
Mr. O'FLAHERTY. I have not seen it.
Mr. PASSMAN. You do not disagree with my description of it?
Mr. O'FLAHERTY. It is an adequate building, certainly.
Mr. PASSMAN. As to the legislature, where are they meeting today?
Mr. O'FLAHERTY. In the legislative building.
Mr. PASSMAN. They, too, have nice new quarters, do they not, furnished by the U.S. taxpayers?
Mr. O'FLAHERTY. Yes, sir.
Mr. PASSMAN. That is what I thought.

EDUCATIONAL FACILITIES

So far as educational facilities on the islands are concerned, they have gone from little huts and benches until today you have many modern educational buildings on the islands; do you not?
Mr. HARBISON. Yes, sir; 463 schools.
Mr. PASSMAN. That we have built on the islands?
Mr. HARRISON. Yes, sir; we and the Ryukyuan Government. At the end of the war, over 95 percent of the schools had been totally destroyed.
Mr. PASSMAN. This is a remarkable record. Will you repeat that number of schools?
Mr. HARBISON. There are 463 schools. There is still a shortage.
Mr. PASSMAN. Yes; and in all 50 States there is a shortage, so it seems to run kind of true all around the world.
Mr. RHODES. Mr. Chairman, may I ask a question?
Mr. PASSMAN. Yes.
Mr. RHODES. Will you tell me what the average number of pupils is per classroom?
Mr. HARBISON. Today it runs close to 40. It averages around 40.
Mr. RHODES. That would be the number of pupils per teacher also?
Mr. HARBISON. That is right.

NUMBER OF ISLANDS IN RYUKYU GROUP

Mr. PASSMAN. How many islands are there in this chain, Mr. Secretary?
Mr. AILES. Some incredible number. What is it?
Colonel SITTERSON. It depends on what you count as an island.
Mr. PASSMAN. Where there are people living.
Mr. AILES. They range from rocks. I do not know the figure as to how many live on the island of Okinawa.
Colonel SITTERSON. May I give you help on this?
Mr. PASSMAN. Yes.
Colonel SITTERSON. In the Ryukyus under U.S. control, excluding the Amamis returned to Japan in 1953, there are about 64 islands that are significant enough to be counted. Forty-eight of them are inhabited.
Mr. PASSMAN. Let us talk about the ones inhabited.
Colonel SITTERSON. Forty-eight.
Mr. PASSMAN. Are we helping the people on all 48 islands?
Colonel SITTERSON. To some extent, although——

Mr. PASSMAN. You have 800,000 people scattered on the islands?
Colonel SITTERSON. About 890,000.
Mr. PASSMAN. On 48 islands?
Colonel SITTERSON. Right. Over 75 percent of them are on Okinawa proper.
Mr. PASSMAN. How many school buildings are on Okinawa?
Mr. HARBISON. I would not be able to tell you exactly but in the neighborhood of 400 on Okinawa.

INCREASED BUDGET REQUEST RESULT OF TASK FORCE STUDY

Mr. PASSMAN. I think we have already had stated for the record that the estimate of $6,382,000 we are considering today is a result of an interdepartmental task force established in August 1961; is that correct?
Mr. AILES. Yes, sir.
Mr. Chairman, would you say that again? I am afraid I missed the first part of that.
Mr. PASSMAN. The present estimate of $6,382,000 is the result of an interdepartmental task force established in August 1961?
Colonel SITTERSON. A result of it; yes, sir.
Mr. PASSMAN. The Ryukyuans are at this time enjoying the highest standard of living they have ever enjoyed so far as we know; is that correct?
Mr. AILES. I am sure that is so.

PER CAPITA INCOME

Mr. RHODES. Mr. Chairman, what is their per capita income?
Mr. O'FLAHERTY. May I answer that?
Mr. AILES. Yes.
Mr. O'FLAHERTY. It is $239.50.
Mr. RHODES. How does that compare with their per capita income before the war?
Mr. O'FLAHERTY. Prewar, $119.
Mr. RHODES. Are those in constant dollars?
Mr. O'FLAHERTY. At 1953 prices.
Mr. RHODES. Both figures according to 1953 prices?
Mr. O'FLAHERTY. The second figure is not adjusted.
Mr. RHODES. Would it be possible to submit for the record a figure based on 1953 dollars for the present per capital income?
Mr. O'FLAHERTY. Yes, sir.
(The information follows:)

Fiscal year 1961 Ryukyuan national income, per capita in 1953 dollars, $247.

Mr. PASSMAN. In establishing the per capita income, are the many facilities we have discussed a factor?
Mr. O'FLAHERTY. In establishing the per capita income?
Mr. PASSMAN. Yes.
Mr. O'FLAHERTY. To the extent these will enter in the——
Mr. PASSMAN. The wealth of the islands is measured in other terms rather than just per capita income of the individual; is that correct?
Mr. O'FLAHERTY. That is true, social indicators——

Mr. PASSMAN. Is not the system of establishing the gross national product or the per capita income a little different than in this country because on many of the islands there are things that usually are not measured in that total?

Mr. O'FLAHERTY. I would say it is pretty much a monetized economy in the Ryukus today.

Mr. PASSMAN. Are they using U.S. dollars for currency?

Mr. O'FLAHERTY. Yes, they are.

WORKING FORCE

Mr. PASSMAN. How many of the 890,000 Ryukyuans would be in what we would refer to in America as a working forces or would be eligible to work if they had positions?

Mr. O'FLAHERTY. 400,000.

Mr. PASSMAN. 400,000?

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. That is almost 50 percent. Is that not a rather high percentage?

Mr. O'FLAHERTY. It is. Those who are 14 years of age and over, and able, are considered to constitute the gross labor force.

Mr. PASSMAN. How many are unemployed?

Mr. O'FLAHERTY. Approximately 4 percent unemployed.

Mr. PASSMAN. Are 96 percent of them employed?

Mr. O'FLAHERTY. That is correct.

Mr. PASSMAN. How does that compare with other countries in that section of the world?

Mr. O'FLAHERTY. In Japan, out of a labor force of 47 million, 400,000 are unemployed.

Mr. AILES. Only 1 percent.

Mr. O'FLAHERTY. Something like that; about eight-tenths of 1 percent.

Mr. PASSMAN. What would be the percentage in our country?

Mr. O'FLAHERTY. Today?

Mr. PASSMAN. Yes.

Mr. O'FLAHERTY. I believe it is in the range of 5 percent.

Mr. PASSMAN. So you have a higher percentage of eligibles on the islands employed that we actually do in our own country?

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. It is even more favorable to them when you take into account you are picking them up at age 14, are you not?

Mr. O'FLAHERTY. That is correct.

I think it should be pointed out, Mr. Chairman, that a number of these people are only partially employed.

Mr. PASSMAN. That is also true in the system we use in America. We pick them up if they are partially employed, do we not?

Mr. O'FLAHERTY. I think we do.

Mr. PASSMAN. I have established that these people, are doing very well. We thought you had actually requested too much money earlier in the year and now you come in with this additional request we have to consider.

INCOME FROM MILITARY ESTABLISHMENTS

What is the income of the islands as a result of our military operations?

Mr. O'FLAHERTY. May I speak to that?

Mr. AILES. Please do.

Mr. O'FLAHERTY. It is estimated that of the total amount expended for the maintenance of our military establishment on the islands approximately $90 million enters into the Ryukyuan balance of payments. However, because of the——

Mr. PASSMAN. I believe that is about 2¾ times the amount that enters into the budgets of the 14 parishes in the State of Louisiana that I have the honor to represent.

Mr. O'FLAHERTY. This enters into the Ryukyuan balance of payments which does not mean it remains entirely in the Ryukyus.

BALANCE-OF-PAYMENTS PROBLEM

Mr. PASSMAN. Do they have a balance-of-payments credit or deficit?

Mr. O'FLAHERTY. They have a deficit, a very significant deficit which is compensated for only, in large measure, by gratuities from the United States and Japan.

Mr. AILES. I am sorry. I did not hear.

Mr. O'FLAHERTY. Gratuities from the United States and Japan.

Of the amount considered to enter into the Ryukyuan balance of payments, studies made by the High Commissioner's staff indicate that approximately 75 percent is expended abroad to provide the goods and services in demand in the Ryukyus.

Mr. PASSMAN. I think that would certainly follow.

Mr. O'FLAHERTY. Which would mean that something like $22 million would remain in the economy. However, we consider that that figure is subject to some study and perhaps modification.

Mr. PASSMAN. Briefly stated, of the 890,000 people on 48 islands, 400,000 are employed. You start at age 14 and this broadens the base. To me, this is a commendable record.

WAGES AND LABOR ORGANIZATIONS

How are the present prevailing wages? Is that established jointly by the leaders in the islands and our people?

Mr. O'FLAHERTY. It is affected by our employment of local nationals, Ryukyuans.

Mr. PASSMAN. I know that, but on what basis do they establish the wages per hour? Do you have labor organizations out there as a strong movement?

Mr. O'FLAHERTY. Yes, sir. The labor organizations are increasing in number and in strength. Fortunately, they are not dominated by Communists.

Mr. PASSMAN. You have labor organizations in the islands and they are developing rapidly?

Is that a statement of fact?

Mr. O'FLAHERTY. Yes, sir.

If I may make a point, Mr. Chairman, they are free of domination from Japan where some labor organizations are pretty Red-centered.

Mr. PASSMAN. Are most of the labor leaders in Okinawa U.S. citizens?

Mr. O'FLAHERTY. No, sir.

Mr. PASSMAN. I am speaking of the heads of these organizations. Are they locals?

Mr. O'FLAHERTY. Ryukyuan.

Mr. PASSMAN. Do any of the American unions have people out there training them?

Mr. O'FLAHERTY. No, sir. There is a representative of the ICFTU stationed in Okinawa. He was selected by the AFL–CIO. He has had a good, salutary influence on the labor population there.

ELECTRIFICATION

Mr. PASSMAN. You have a very successful electric cooperative system in the islands. I believe you have two electric cooperatives, do you not, operating on Okinawa?

Mr. O'FLAHERTY. Yes, sir. There is one very large cooperative union.

Mr. PASSMAN. Could you tell us what percentage of the homes in Okinawa are electrified?

Mr. O'FLAHERTY. I do not know that offhand, Mr. Chairman.

Mr. PASSMAN. It is very high, is it not?

Mr. O'FLAHERTY. No, sir; it is not as high as it is, for example, in Japan.

Mr. PASSMAN. Tremendous strides have been made in the last few years in providing electricity to the so-called rural homes of the islands.

Mr. O'FLAHERTY. Thanks to your foresight and making a personal study of the electric power requirements in Okinawa, yes. It has made strides and it is improving but it leaves a great deal to be desired because the Kin plant for which this committee appropriated funds has not been completed.

Mr. PASSMAN. When the plant for which funds have already been appropriated is completed, in all probability the number of homes on the islands receiving, or wired for, electricity will be in the neighborhood of 95 percent?

Mr. O'FLAHERTY. I should think something less. We can supply that figure for the record.

Colonel SITTERSON. On Okinawa?

Mr. PASSMAN. Yes.

Colonel SITTERSON. That would not apply to the other islands though.

(The information will be supplied the committee.)

Mr. PASSMAN. Most of your people live on Okinawa, do they not?

Colonel SITTERSON. Roughly, 75 to 79 percent.

Mr. PASSMAN. Are they also being taught the advantages of modern electric appliances, such as refrigerators, washing machines, and so on?

Mr. O'FLAHERTY. No, sir; they are not. They have very, very few of them.

Mr. PASSMAN. They are coming into use?

Mr. O'FLAHERTY. Those seen in the shops are mainly carried for sale to U.S. personnel on the islands.

Mr. PASSMAN. I visited some of the homes and some of them do have refrigerators. Many of them have radios and I am for these facilities.

Mr. O'FLAHERTY. The radio is not uncommon.

Mr. PASSMAN. They are making great strides there.

PUBLIC LENDING INSTITUTIONS

I think you also have many banking cooperatives created in recent years; is that true?

Mr. O'FLAHERTY. The banking system consists of what we would call commercial banks in the United States, two of them; plus six mutual saving societies or associations. There are agricultural cooperatives which are, in a limited sense, financial institutions.

Mr. PASSMAN. That is something new to the islands, is it not?

Mr. O'FLAHERTY. Not particularly new. The cooperatives were initiated some years ago.

Mr. PASSMAN. During the occupation?

Mr. O'FLAHERTY. During the occupation.

Mr. PASSMAN. How many banks do they have on the island of Okinawa?

Mr. O'FLAHERTY. Two significant banks. The others are mutual savings associations.

Mr. PASSMAN. Would you know the total on the islands?

Mr. O'FLAHERTY. The total number?

Mr. PASSMAN. The banks and mutual savings associations.

Mr. O'FLAHERTY. Yes, sir. I can get that immediately.

As I say, there are two commercial banks and six so-called banks which are mutual savings and loan associations.

Mr. PASSMAN. Six; and two commercial banks which make eight?

Mr. O'FLAHERTY. Yes, sir. The principal bank is the Bank of the Ryukyus, founded by the military government.

RURAL COOPERATIVES

Mr. PASSMAN. How many of those agricultural cooperative financial institutions do you have?

Mr. O'FLAHERTY. Farm cooperatives are really not banks. They are very like our own cooperatives. They extend credit.

Mr. PASSMAN. As far as the farmer is concerned, it is a bank to him, is it not?

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. He can borrow money there?

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. How many do you have?

Mr. O'FLAHERTY. 183 cooperatives and 3 federations of cooperatives.

Mr. PASSMAN. Rural cooperatives?

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. That is what you would call a banking cooperative as it applies to the rural people?

Mr. O'FLAHERTY. No, I think they are farming and fishery cooperatives.

Mr. PASSMAN. The purpose is to make capital available for the people in whatever field, whether farming, fisheries; would that be correct?

Mr. O'FLAHERTY. Yes, they serve as a channel for loans from the Central Bank for Cooperatives.

Mr. PASSMAN. Channels for finances for capital investment, is that correct?

Mr. O'FLAHERTY. That is correct.

Mr. PASSMAN. Whether farm or small industry or fishing?

Mr. O'FLAHERTY. And they advance credit on crops as they do in this country.

Mr. PASSMAN. That is 191 cooperatives, banks, and mutual organizations you have for the islands with a population of 890,000. That certainly indicates thrift and progress.

I wonder if that would not set an alltime record for these institutions in relation to the population?

Mr. O'FLAHERTY. I think, if you consider a cooperative a financial institution, that virtually every country that has cooperatives would have an extremely large number of financial institutions. They are not basically considered that.

Mr. PASSMAN. I represent a district that covers 10,000 square miles and we have nearly 400,000 people. I do not think if we took the entire district's banks, mutual building associations, and cooperatives, you would have, at the very outside, over 55 or 60.

They are either very prosperous or they are slicing it pretty thin.

I would not know.

Mr. O'FLAHERTY. These are very, very small and very localized in their little communities.

STRENGTHENING FINANCIAL INSTITUTIONS

Mr. PASSMAN. Mr. Secretary, on page 4, you state that you have a 5-year program of strengthening the Development Loan Corporation and the Central Bank for Cooperatives with the amended 1963 estimate of $1 million as a capital contribution to the Central Bank for Cooperatives and $3 million as a contribution to the capital of the Ryukuan Development Loan Corporation; is that right?

Mr. AILES. Yes, sir.

Mr. PASSMAN. What will be the new capital structure of the two institutions if this estimate is approved?

Mr. AILES. I think this is Mr. O'Flaherty's department.

Mr. O'FLAHERTY. The contribution of $3 million to the Ryukyuan Development Loan Corporation, if approved, will have assets at the beginning of fiscal 1964, or the end of fiscal 1963 of $36.3 million.

Mr. PASSMAN. That will be the capital?

Mr. O'FLAHERTY. Total assets.

Mr. PASSMAN. How about the capital structure?

Mr. O'FLAHERTY. Capital structure will be $26 million, and retained earnings will be practically $10 million. The total capital structure will be about $36 million.

Mr. PASSMAN. Gentlemen, I think that is the most commendable thing I have ever heard of. I believe the capital structure in dollars for this one bank would exceed the capital structure of all of the banks

in my district, numbering perhaps 17. My hat is off to them. They must have really created some savings out there, and that is a mighty healthy condition.

How about the Central Bank for Cooperatives?

CAPITAL STRUCTURE OF RYUKYUAN FINANCIAL INSTITUTIONS

Mr. O'FLAHERTY. The Central Bank for Cooperatives will have a loan capability of $10 million, assuming the request for contribution——

Mr. PASSMAN. I am dealing with the present structure. How much, $9 million?

Mr. O'FLAHERTY. $9 million.

It holds deposits of the government of the Ryukyu Islands and for the cooperatives.

Mr. PASSMAN. Basically we are interested in the capital structure. When you can create a $36 million capital structure in a bank on the Ryukyu Islands, and then move over to your cooperatives, and other banking institutions, with a capital structure of $9 million, that is tremendous.

Mr. AILES. Mr. Chairman, at least that is not the way I understand the situation to be. This is not their own institution or one that has this capital structure built up as a result of the savings of the people. This was originally U.S. funds, as I understand it. They have been increased by grants from here. They have been increased by retaining the earnings of the operation which came out of the interest that was charged.

Mr. PASSMAN. It follows, nevertheless, that this bank is owned and operated by the islanders themselves?

Mr. AILES. No, sir.

Mr. PASSMAN. Who controls this bank?

Mr. O'FLAHERTY. The High Commissioner controls this institution. It is not the property of the Ryukyuans.

Mr. AILES. I think this——

Mr. PASSMAN. Why are we in the banking business out there? Who owns the capital of $36 million?

Mr. O'FLAHERTY. According to an opinion of the Comptroller General of the United States, the High Commissioner holds these assets in trust for the benefit of the Ryukyuan people.

Mr. PASSMAN. In effect, this is for them?

Mr. AILES. Yes, sir.

Mr. PASSMAN. For all practical purposes, this is their capital?

Mr. AILES. That is right.

Mr. PASSMAN. Are the Ryukyuans permitted to buy stock or savings in the institution?

Mr. O'FLAHERTY. No, sir; it is not a stock institution.

Mr. PASSMAN. Why would you be asking this committee for additional money for the local economy, grant aid and all that, if you have a banking institution out there with $36 million in American dollars that belongs to the Ryukyuans to be used in their economy?

How about this second bank? Who owns it?

Mr. O'FLAHERTY. This is owned by the government of the Ryukyu Islands.

Mr. PASSMAN. The Ryukyuans own $9 million in this bank; is that correct?

Mr. O'FLAHERTY. That is correct.

Mr. PASSMAN. I believe that almost would set a record because you are dealing with 890,000 people. Who controls that bank?

Mr. AILES. I think there we are not using the right figures. These figures are the total outstanding loans, are they not?

Mr. PASSMAN. I asked for the capital structure and that is what we are trying to find out.

Mr. AILES. These are not stock. The capital structure of a bank is, as I understand it, the——

Mr. PASSMAN. If there are 20 stockholders who put in $1,000 each to start a bank, that is the capital structure and then at a subsequent date you add to it?

Mr. AILES. We do not have a comparable figure.

Mr. O'FLAHERTY. Do we speak of the Central Bank for Cooperatives?

Mr. PASSMAN. Let us get to the $9 million. Is that the net assets of the bank?

Mr. O'FLAHERTY. That would be the loanable assets of the bank.

Mr. PASSMAN. What are the net assets?

Mr. O'FLAHERTY. They will be approximately $4 million.

Mr. PASSMAN. You are still talking about a lot of money for these islands. What are the net assets out of the other $36 million? Is that available for loans to people on the islands?

Mr. AILES. That money is currently loaned.

Mr. O'FLAHERTY. Most of it, $25 million, outstanding in loans today.

Mr. PASSMAN. $11 million on deposit?

Mr. O'FLAHERTY. Not in the Ryukyuan Development Loan Corporation. It does not hold deposits——

Mr. PASSMAN. I am speaking of the other one. You had $36 million as capital structure; how much did you say was out on loans?

Mr. O'FLAHERTY. $25 million at this time.

Mr. PASSMAN. That would leave $11 million?

Mr. O'FLAHERTY. We are assuming that the contribution requested here is approved, which is $3 million.

Mr. PASSMAN. Let us take $3 million out of the $36 million. If we cut that down, will that be $7 million on hand that could be loaned?

Mr. O'FLAHERTY. It is revolving and probably about $7 million.

Mr. PASSMAN. That is a lot of money.

Mr. RHODES. Mr. Chairman, could we get a balance sheet for these?

Mr. PASSMAN. I think we should.

We would like to have a balance sheet for the two banks.

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. I think you told us you had 183 cooperatives?

Mr. O'FLAHERTY. 183, and three associations.

Mr. PASSMAN. 183 institutions that make loans of some type or another to the islanders?

Could you give us a brief résumé of the capital structures of all of these cooperatives.

Mr. O'FLAHERTY. I think we could. However, again it should be pointed out that these cooperatives, agricultural cooperatives, are not per se financial institutions.

Mr. FORD. They do make loans?

Mr. O'FLAHERTY. They do make crop loans, that is true. The other loans they make are primarily made by the Central Bank for Cooperatives through these local cooperatives throughout the islands.

(The information supplied follows:)

Ryukyu Development Loan Corporation comparative balance sheet as of June 30, 1961, 1962, and 1963

	June 30, 1961, actual	June 30, 1962, estimate	June 30, 1963, estimate
Assets:			
Current assets:			
Cash	$5,361,888	$3,582,764	$3,472,564
Advances receivable	987	1,000	1,000
Suspense payments	1,924	2,000	2,000
Accrued interest receivable	236,105	190,000	217,000
Total current assets	5,600,904	3,775,764	3,692,564
Fixed assets	15,030	23,037	26,597
Less reserve for depreciation	(9,172)	(10,300)	(10,860)
Long term assets:			
Loans receivable	24,058,226	28,886,426	32,867,626
Less reserve for bad debts	(394,096)	(265,096)	(302,096)
Total assets	29,270,892	32,409,831	36,273,831
Liabilities: Current liabilities:			
Accrued expenses payable	19,813	7,000	7,000
Advance receipts on loan collections	27,341	27,000	27,000
Funds held in trust (fire insurance premium)	50,941	51,000	51,000
Other liabilities	666	700	700
Total liabilities	98,761	85,700	85,700
Net worth:			
Capital	22,757,854	24,257,854	[1] 26,257,854
Retained earnings	6,414,277	8,066,277	9,930,277
Total net worth	29,172,131	32,324,131	36,188,131

[1] Made up as follows:

Initial contribution, sale of assets provided by Government and Relief in Occupied Area appropriations	$833,333
Subsequent contributions from U.S. Civil Administration	25,424,521
Total	26,257,854

CENTRAL BANK FOR AGRICULTURE, FORESTRY, AND FISHERY COOPERATIVES

Financial condition for the fiscal year ended June 30, 1961

Assets:		
Current assets:		
Cash		$168,089.14
Deposits with other depositaries		1,556,476.85
Loans receivable	$5,150,119.24	
Less reserve for bad debts	199,644.41	
		4,950,474.83
Accrued interest receivable		7,363.98
Suspense payment		503.28
Total current assets		6,682,908.08
Fixed assets:		
Land	$45,568.93	
Building	[1] 45,949.85	
Furniture and fixtures	[1] 1,875.87	
Vehicles and other equipment	[1] 21,118.27	
		114,512.92
Total assets		6,797,421.00
Liabilities and net worth: Current liabilities:		
Deposits payable		4,100,182.14
Other liabilities		53,104.60
Total liabilities		4,153,286.74
Net worth:		
Capital (authorized 100,000 shares at $50 per share)	$5,000,000.00	
Less value of unpaid capital	2,709,687.53	
Paid-in capital	2,290,312.47	
Surplus reserves	285,608.33	
Retained earnings	68,213.46	
Total net worth		2,644,134.26
Total net worth and liabilities		6,797,421.00

[1] Stated at cost less depreciation.

COOPERATIVES IN THE RYUKYUS

There are 197 cooperatives and 3 associations of cooperatives in the Ryukyu Islands. The cooperatives are classified as agricultural, fishery, business, and credit cooperatives, and are organized as nonprofit institutions. Their objective is to render service to their membership through the following activities:

(*a*) Provide commodities necessary for the business of the membership or for their daily subsistence needs.

(*b*) Transport, process, store, or sell goods produced by the members.

(*c*) Establish facilities for the joint use of the members.

(*d*) Render service or disseminate information to improve the management or know-how of the business of the members or to disseminate knowledge of the activities of the cooperatives.

(*e*) Improve farmland, provide irigation facilities.

(*f*) Establish facilities for fishing operations, for protection or breeding of marine products, and for marine safety and rescue operations.

(*g*) Accept savings deposits from and provide personal loans to members.

One hundred and eighty-three of the Ryukyuan cooperatives and the three federations of cooperatives are shareholders of the Central Bank for Cooperatives (CBC), the primary source of credit for cooperative members. A survey of 150 of the cooperatives showed a membership of 121,951 individuals as of June 1960.

Loan operations of the cooperatives are controlled by the board of directors with the help of a credit committee. The credit committee consists of elected

officers of the villages under jurisdiction of the cooperative and includes Ku-Cho (administrative head of the village). The committee prepares semiannual reports on credit standing of all the members of the cooperative who are eligible for the cooperative loans and immediately notifies the board of directors of any change with respect to credit standing of any members. Since the members of the committee are the best informed group in their respective villages, their evaluation of credit standing is quite reliable. This is supported by the fact that the cooperatives have experienced a writeoff of bad debts, although this is partly attributable to the policy of the cooperative that no new loans be extended to any members living in the villages which have delinquent borrowers.

THE CENTRAL BANK FOR COOPERATIVES

The cooperatives and associations of cooperatives own 5 percent of the stock of the Central Bank of Cooperatives (CBC) of which the Government of the Ryukyn Islands (GRI) owns the remaining 95 percent. Pertinent data in connection with the CBC follow:

(*a*) *Nature and purpose*

1. *Origin and purpose.*—The Central Bank for Cooperatives was established by the Government of the Ryukyu Islands (GRI) Legislative Act No. 45 in September 1952 to provide loans, through local cooperatives, to farmers, fishermen, and forestry workers.

2. *Capital and growth.*—The bank was incorporated with an initial capital stock of ¥100 million (20,000 shares at 5,000 yen per share) or $833,333. In 1955, Act No. 26 increased the capital stock to ¥200 million (40,000 shares) or $1,666,666. The legislative provided that GRI invest ¥180 million or 90 percent of capital stock. The remaining 10 percent of stock is owned by cooperative associations. Shareholders had the privilege of paying so much down for their stock with the remaining balance payable within a prescribed period. This stock was fully paid in by June 1959.

The GRI again revised the act in 1957 and increased the capital to $5 million in response to pressing requests of fishermen, farmers, etc. With the increase of the capital to $5 million (100,000 shares) the ratio of the amount to be invested by GRI and cooperatives was changed to 95 percent for GRI and 5 percent for cooperatives. The GRI share amounting to $4,750,000 is to be paid in by June 30, 1963. As of January 1962, the GRI had paid in $2,590,000. It is believed that the GRI, considering its present financial condition, will experience difficulty in making payment of the balance of $2,160,000. Payment by the cooperatives has been made without incident or difficulty.

The bank has accumulated all the profits each year without paying any dividends, in order to strengthen its capital and to increase its loanable funds. During this time, surplus reserves in the amount of $285,608.33 have been set aside, and retained earnings have accumulated to $68,213.46. Profits from operations for fiscal year 1961 were $55,158.25. Generally speaking, profits have been realized at a nominal level, in view of the principal objective of the corporation, namely, loans to farmers, fishermen, and foresters at low rates of interest.

3. *Management.*—The bank is managed by a president, one managing director, seven directors, and three auditors. They are elected at a meeting of the shareholders and their remuneration is set at that time.

(*b*) *Credit policies and terms*

1. *Types loans.*—The bank makes both short- and long-term loans. Short-term loans have a duration of 3 to 12 months. As of June 30, 1961, short-term loans were $3.46 million of the total $5.15 million outstanding loans. Long-term loans extend from 1 year to a maximum of 5 years and are funded from four special revolving funds entrusted to the bank by the GRI, aggregating as of June 30, 1961, $860,000. In addition to the long-term credit from these funds, the Central Bank makes allotment loans for the purchase of agricultural equipment and the construction of facilities, which amounted to $832,000 as of June 30, 1961.

2. *Interest rates.*—The rate of interest which the Central Bank charges local cooperatives is 5.48 percent per annum; cooperatives make loans to members at the average rate of 8.5 percent depending on the type of loan. Profits which cooperatives earn from the difference in rates are used principally for financing their operations including services to members and partly to guarantee bad debts. The interest rate charged by cooperatives had declined significantly in

recent years and is below that of other areas in Asia, including Japan. Continuing efforts are being made to reduce this rate.

3. *Collections.*—Collection activity of the bank is satisfactory. Collection ratios for fiscal years 1959, 1960 and 1961 are 97.5, 98.54 and 98.24 percent respectively.

(c) *Capital needs and capabilities*

1. *Needs.*—For fiscal year 1963, the CBC can fund a lending program of about $9 million. This measures against a valid requirement for approximately $39.2 million in loan funds in this most important sector of the economy. It is considered that with a U.S. grant of $1 million plus a possible Government of Japan contribution of $361,000, the resulting funds would be available for a loan program of approximately $10.4 million and will represent an increase of $3.7 million over the actual fiscal year 1961 program, an increase of 55 percent which meets the capacity of the bank to administer prudently.

2. *Source of credit.*—The CBC is the only source of credit for the cooperatives and the farmers, fishermen and foresters involved, except for private money lenders who charge extremely high rates. Practically no loans are provided by local commercial and mutual banks for these purposes.

CAPITAL EXPANSION OF DEVELOPMENT LOAN CORPORATION

Mr. PASSMAN. During our hearings earlier this year the committee expressed its concern over the way the Development Loan Corp. was growing without any action on the part of the Congress.

Have you read those hearings?

Mr. O'FLAHERTY. Yes, sir.

Mr. PASSMAN. Do you agree?

Mr. O'FLAHERTY. We read the transcript. We do not have it in our possession.

Mr. PASSMAN. The transcript becomes the hearing record.

Mr. O'FLAHERTY. We do not have it available yet, sir.

Mr. PASSMAN. Do you agree that the capital structure of this Development Loan Corp. is growing by leaps and bounds?

Mr. O'FLAHERTY. Sir, I think it is a matter of great credit to the administration of the Ryukyus that this institution was established in 1950 with a capital contribution of $833,000 from the military government; that it has been possible through subsequent years for the business-type enterprises which the military government had to conduct, and some of which still are continued under the civil administration, to make contributions to this institution which is the only source of long-term credit in the islands. It is the backbone of the economy and if it had not been established and if it had not been possible to make capital contributions to this institution from the earnings of the other enterprises under the military government and the civil administration, there would not have been nearly the economic development that has been achieved.

Mr. PASSMAN. I am on your side there and I endorse it that way.

Mr. AILES. I am sure you are.

EFFECT OF ECONOMIC ASSISTANCE

Mr. PASSMAN. We all know Okinawa is almost a showplace in that part of the world so far as improvements are concerned on that island.

I am glad you have it. You asked for so much money earlier this year that I could hardly imagine the committee recommending it. Then to come in here today with this inflated supplemental request causes me great concern.

Let us go back to fiscal 1956. Let us see what we had for that year and see how fast the thing is growing on us.

I am afraid you are going to get these people to expect more than we should provide.

You may take them so far ahead in their standards as compared with others in that part of the world until they will be unhappy.

PRIOR APPROPRIATIONS

To show how this thing has gone up, let us go back to the appropriation for 1956.

You asked for $3 million and Congress gave you $3 million; is that correct?

Mr. O'FLAHERTY. No, sir; the appropriation for economic aid in 1956 was $1,714,000.

Mr. PASSMAN. We are using the total appropriation.

Mr. O'FLAHERTY. Including administrative costs?

Mr. PASSMAN. That is right. You asked for $3 million and we gave you $3 million.

In 1957 you asked for $2,380,000 and the Congress gave you $2,350,000. In 1958 you asked for $3,875,000 and the Congress gave you $2,475,000; in 1959 you asked for $3,128,000 and the Congress gave you $2,860,000.

That is when I found great prosperity out there and in 1960 you asked for $6,282,000 and the Congress gave you $5,282,000.

In 1961 you asked for $6,704,000 and the Congress gave you $6 million.

You asked for a supplemental of $89,000 and the Congress gave you every dime of it.

In 1962, you asked for $6,835,000 and the Congress gave you $7,089,000.

This appropriation has doubled in amount since 1956 for Ryukyuans.

You came in this year and asked for $7.9 million, which was $1,065,000 over what you asked for last year.

We have gone along with you and followed your recommendations but now you come in with a supplemental almost doubling the original $7.9 million request.

Contrast 1956, when you were getting along very nicely on the $3 million which we gave to you, with the $14,282,000 you are now asking for.

I yield to Mr. Ford.

FORMER TESTIMONY INDICATING SELF-SUFFICIENCY OF RYUKYUANS

Mr. FORD. Mr. Chairman, apropos of what was testified to previously, I have before me the hearings for fiscal 1955. It is testimony given May 4, 1954, by General Marquat.

In that connection there is an interesting colloquy. Mr. Taber was asking the questions and he said the following:

I have in front of me the hearings for last year and I have Mr. Baron's statement in answer to a question by Mr. David right down below the middle of the page.

Incidentally, Mr. Baron was always an extremely good witness, in my opinion, but Mr. Baron said in 1953:

I might mention in this regard that this is right in the midst of a changing condition in the Ryukyu Islands. We are rapidly approaching self-sufficiency. The activities in the economic field have paid off in developing this self-sufficiency.

Apparently, there was a break in the testimony and Mr. Baron had gone on to say the following:

At the same time the United States in the form of military operations received a great deal of services from the government of the Ryukyuans.

Then Mr. Baron made another comment:

We hope from the economic area that we can, in the future balance our earnings with our expenditures and there will be no economic aid necessary from the U.S. Government.

How can we be so wrong? This is testimony by people who were thoroughly experienced out there. As I said, I was greatly impressed with Mr. Baron's testimony back in 1953 when he was telling us we were rapidly approaching self-sufficiency. What is the answer?

Mr. AILES. I wonder what he meant by "self-sufficiency"?

Mr. FORD. Self-sufficiency is pretty clear to me, particularly when he says, "There will be no economic aid necessary from the U.S. Government." That is very clear.

Mr. RHODES. Would the gentleman yield?

Mr. FORD. Yes.

DANGER OF ECONOMIC COMPARISONS

Mr. RHODES. Of course, if we were comparing it to Japan, as you are, it would not be self-sufficient.

Mr. AILES. Yes, sir.

Mr. RHODES. How can you compare the Ryukyus to Japan and expect the Ryukus to have the same standards of living?

Mr. AILES. I do not make that comparison. They make the comparison.

This happens to be the center——

Mr. RHODES. You are asking us to adopt their method of comparison?

Mr. AILES. I am not making that comparison but they are making it. It is their view they would be better off as a part of Japan. This is a logical and natural comparison for them to make. This goes to the question of self-sufficiency.

We are talking about aid here, not because there is a need that produces——

Mr. FORD. It is not based on need?

Mr. AILES. No, sir; that is what I tried to make clear earlier. This is not a welfare program at all.

Mr. PASSMAN. I suggested earlier it was diplomatic blackmail.

I want to say, Mr. Secretary, that this caused me great concern. I have been out to the islands many times as you know, and I have come back and followed your recommendations. I was subjected to criticism for carrying the ball for you and recommending without exception almost every dime you asked for. It appears to be a situation of great prosperity out there. I was surprised to think

that those people, who appeared to be so cheerful and so happy and had pushed their standard of living maybe above anything that even the wildest imagination ever indicated they would have, and during my brief tenure as chairman of this subcommittee, beginning in fiscal year 1956, where you asked for $3 million, and I pleaded with the committee to follow my recommendation and give you every dime you asked for because I had been out there, and in the following 5 years you have doubled that amount.

Last year we jumped it up to $7,089,000 and now you are in this year asking for $14,282,000.

You state it is not needed and you are asking for this simply because these people, even though they are enjoying the highest standard of living in the history of their island, are comparing their standards with that of Japan.

The committee will make the proper decision.

Mr. Gary, Okinawa.

POLITICAL SITUATION

Mr. GARY. What is the political situation in Okinawa at the present time?

Mr. AILES. You mean as between the local parties or the problem we consider——

Mr. GARY. I mean the general situation politically on the islands. If you want to take this off the record, all right. But I would like to know.

They did have a Communist mayor out there at one time and I have heard rumors to the effect that there is a group out there now that wants to go back with Japan. I would like to know just what the political situation is there.

As I say, any part of it you think would be detrimental to the welfare of the country, you may strike off the record.

(Off the record.)

Mr. GARY. What we have been doing is to put most of this on the record, Mr. Secretary, and then let you go over it before it is printed You can strike anything off you want.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. AILES. The reversion sentiment is really a strong factor there. In Japan the opposition seeks to make political capital out of that.

There was a resolution passed recently by the Government of Ryukyus Legislature.

What was the text of that?

Colonel SITTERSON. The legislature earlier this year at the beginning of this last session, unanimously passed several resolutions. One of them called for immediate reversion of the Ryukyus to Japan. There are several forms of that because they addressed one of these resolutions to the administration of the U.S. Government, one to Japan, and so on and so on.

There were several forms of it depending on to whom it was addressed. They adopted another resolution that was addressed to the members of the United Nations calling for a United Nations investigation of retention of these islands by the United States.

BASE AGREEMENTS

Mr. RHODES. Will the gentleman yield?

If we can make proper agreements with Japan as to the rights for bases, why do we not let the islands revert to Japan?

Mr. AILES. May I review what is there?

Mr. RHODES. Please do.

Mr. AILES. Let me give you a very few simple illustrations.

(Off the record.)

Mr. RHODES. I prefaced my question by saying if we could perfect the proper agreements for bases.

Mr. AILES. All right; the answer is that they could not perfect the proper agreements for bases under the current situation.

FAMILIARITY OF RYUKYUANS WITH U.S. ASSISTANCE

Mr. PASSMAN. If the gentleman will yield, I want to clear up a point.

You said the legislature voted unanimously on a resolution not particularly to our liking. How many are in the legislature?

Colonel SITTERSON. Twenty-nine.

Mr. PASSMAN. A unicameral system?

Colonel SITTERSON. Yes.

Mr. PASSMAN. When was the vote taken?

Colonel SITTERSON. February of this year.

Mr. PASSMAN. Of course this proposed program to some extent has been discussed with the Ryukyuans. Are they not familiar with what we are trying to do to help them?

Colonel SITTERSON. In part.

Mr. PASSMAN. They knew you had a task force out there. When did the task force go out to the Ryukyus?

Colonel SITTERSON. Last year.

Mr. PASSMAN. Did you have a group that followed later?

Mr. AILES. That was the only one in this particular connection.

Mr. PASSMAN. They were in the Ryukyus in October planning an aid program? You said this estimate is not based on need. Notwithstanding the fact this task force went out by invitation of General Caraway, those people knew we had the task force out there.

Colonel SITTERSON. Yes.

Mr. PASSMAN. Notwithstanding that fact, they voted unanimously to revert back to Japan; is that a statement of fact?

Colonel SITTERSON. That is a statement of fact.

Mr. PASSMAN. What are you trying to do here, bribe the people?

Mr. AILES. I do not like to put it in those terms.

Mr. PASSMAN. I do not know any other way to put it.

INTERNAL POLITICAL SITUATION

Mr. GARY. Will you tell me what the political situation is there?

Mr. AILES. I cannot remember where we were when we got off on the other subject. Do you want to know about the Communist mayor?

Mr. HARBISON. Mayor Senaga was mayor of Naha and lost out later on. He is a voice of the Communist Party in that area.

Mr. GARY. How strong are they?

Mr. HARBISON. Not very strong. They have one member in the legislature.

Mr. GARY. Which party is the reversionist party, which wants to revert back to Japan?

Mr. HARBISON. You cannot say any party is a reversionist party. They all are, as the Secretary stated a moment ago.

JAPANESE-RYUKYUAN RELATIONS

Mr. GARY. Did Japan treat them any differently than the way they do Korea?

Mr. HARBISON. The Ryukyuans were always the poor country cousins of the Japanese Empire.

In the Army parlance, they were at the end of the PX line.

Mr. GARY. I was told in Korea when the Japanese had control they were very restrictive on the Koreans. They did not permit them to hold any positions above that of bootblack. Consequently, when we went into Korea there were very few that were capable of running the Government, or of operating the army.

One of the great difficulties we had in Korea using native troops was, there were practically no trained Korean officers to command them. The Japanese had given them no advantages of education and had held them down very materially economically, educationally, and in every other way. If that same condition existed in Okinawa, why should these people, after all the advantages they have now, want to go back to Japan?

Mr. HARBISON. Mr. Gary, the same conditions practically existed in Okinawa and the Ryukyus at the time of Meiji restoration in 1870, when Japan took over the Ryukyus. They had nobody with any administrative power among the natives of the Ryukyu Islands. All the administrative work was done by people sent down from the mainlands of Japan. The only people who had any influence at all were the schoolteachers, and the administrative end of the school system were all sent down by the Ministry of Education in Japan. They had two normal schools for elementary teachers only, and those were the only people that the Ryukyuans had to do any of their representation.

Mr. GARY. It was not only true in government, but when they opened up the powerplant there, you had no one who was capable of operating the powerplant. Consequently, we had to decide whether we would let Japanese technicians do it, or whether we would send over U.S. technicians. That is because those people were not given any training, they were not permitted to occupy important positions.

As I understand it, we have reversed that situation and we are trying to give the Okinawans, individually and through their Government, every opportunity. Under those circumstances, why would they want to go back to Japanese rule?

That is what I cannot understand.

Mr. HARBISON. There are certain conditions in the oriental mind that are rather unexplainable to us. It is difficult for me to imagine that I would want to go back to Japan under some circumstances, but there are certain fringe benefits in many of the areas that the Ryukyuans do not have today. They have no retirement systems,

they have no social security. These are items which they consider a Japanese administration would afford them.

Mr. GARY. They never gave them such benefits when they had control?

Mr. HARBISON. No.

Things have changed considerably in Japan in the last 15 or 18 years.

Mr. GARY. How many men do we have on the island now, military?

Colonel SITTERSON. Off the record.

BANKING FACILITIES

Mr. GARY. Do the banks which you mentioned serve the military personnel?

Colonal SITTERSON. Those banks do not. There is a branch of one of the American institutions there, an American Express type thing.

Mr. GARY. So the post has their own banking facilities?

Colonel SITTERSON. Not on every little installation. Available to their personnel, yes.

Mr. GARY. The posts also have their own schools which are separate from the Ryukyuan schools?

Colonel SITTERSON. That is right.

ELECTRIC POWERPLANT CONSTRUCTION

Mr. GARY. When did you say they are going to complete this new hydroelectric plant?

Mr. O'FLAHERTY. It appears now it will be completed about January 1964.

Mr. GARY. You are not getting any benefit from it now?

Mr. O'FLAHERTY. That is right.

Mr. GARY. 1964?

Mr. O'FLAHERTY. Yes. There has been very considerable slippage due in part, first, to difficulty in getting a proper architect engineering contract. The engineers rejected the first plan submitted.

Secondly, due to policy recommendations which were indicated by this committee on the "Buy American policy," necessitated first a survey of the field to get an estimate of how prices were running in the United States as against costs of foreign production; also, a determination by the Secretary of Defense that the heavy equipment to be purchased in the United States would be shipped on U.S. bottoms.

POWER GENERATING CAPACITY

Mr. GARY. To what extent will the power be increased when the plant commences operations?

Mr. O'FLAHERTY. It is an 80,000-kilowatt plant, Mr. Gary.

Mr. GARY. What is the present plant? I was there just before the present plant was completed.

Mr. O'FLAHERTY. The Machinato plant, to which I think you refer, is a land-based plant. It is a part of a system that includes two power barges.

Mr. GARY. I understand. Those two power barges were brought over from Korea.

Mr. O'FLAHERTY. Yes. The capacity of the entire system today is 118,500 kilowatts. That is the present power capacity.

Mr. GARY. With the barges?

Mr. MCLAUGHLIN. With the barges, and with certain deisel units. The largest single unit is discounted from the system to calculate firm capacity. That is when you take out the "Impedence," which is 30,000. Rated capacity, 118,000; firm capacity, 88,000.

Mr. GARY. And the plant would only increase that 80,000?

Mr. MCLAUGHLIN. By 80,000 kilowatts.

Mr. GARY. You would have how much altogether?

Mr. MCLAUGHLIN. At the present time you have firm capacity of 88,000. The new plant would bring on 80,000 more. You would have then a firm capacity of 168,000.

Mr. GARY. But you plan to eliminate then some of the power obtained from the two barges, do you not?

Mr. MCLAUGHLIN. Yes. We feel they could retire the *Jacona*, which is overage and very expensive to operate. We would also be able to retire the deisel plants which are very expensive to operate.

Mr. GARY. How much would you lose?

Mr. MCLAUGHLIN. We would lose 18,000 for the deisel plants, and the barge 20,000, so the total loss would be 38,000.

Mr. GARY. Since you would increase it 80,000, and would take away 38,000. You net increase would be 42,000 kilowatts.

Mr. MCLAUGHLIN. Correct.

Mr. PASSMAN. I believe you stated earlier, with the new facilities financed by the United States you could electrify about 95 percent of the homes on Okinawa.

Mr. MCLAUGHLIN. I think that is correct.

RYUKYUAN OBJECTIVES

Mr. PASSMAN. They want to return to their mother country, but they do not want to give up the U.S. dollars.

Mr. AILES. I think what they are saying is, why do you not let us loose and go back to Japan, and we say, along with other measures, such as increased autonomy for the local government, and some firm Japanese cooperation with our program, we can progress steadily with economic improvement.

Mr. PASSMAN. You are dreaming. We have increased this program out there by leaps and bounds, have we not, since just 1956?

Mr. AILES. We are talking about a relatively small amount.

Mr. PASSMAN. I am going to go to the point. I am concerned about this.

You told us that we had this task force out in October, which was considering doubling what had been doubled since 1956. It would be over a 400 percent increase beyond what appeared to be a satisfactory program in 1956. Notwithstanding that fact, this vote in the Parliament was unanimous.

Mr. AILES. Yes, sir.

Mr. PASSMAN. Twenty-nine votes for reversion to Japan. We have not picked up a supporter for the American position there; is that correct?

Mr. AILES. That is correct.

Mr. PASSMAN. How do you know when you are separating the sincere from the insincere if that is the political atmosphere?

Mr. AILES. I am not sure that I follow.

Mr. PASSMAN. I believe you stated no politician could afford to advocate anything else than returning to Japan.

Mr. AILES. That is the commonly held view.

Mr. PASSMAN. You do not know whether doubling this aid program would check that trend or not?

Mr. AILES. I do not think it will. I think some increase in aid, along with some increase in political independence for the government, plus Japanese participation in this program, creates a situation which would be a tremendous improvement.

Mr. PASSMAN. You are not asking for a slight increase. You are asking for this thing to be doubled. We have already more than doubled it since 1956. You are asking for us to double it again in just 1 year. Money is running out. We do not even know where we are going to get money to meet the foreign aid program this year. We have been borrowing it, you understand, from the American people. I guess we will have to continue doing so. We are trying to approach this thing very realistically.

FINANCING ELECTRIC POWERPLANT

There are a lot of plus items for Okinawa that are not included in the justification?

Have I made a statement of fact?

Mr. O'FLAHERTY. That is correct. You appropriated $18 million for a loan to the electric power corporation.

Mr. PASSMAN. I am familiar with the loan. It is not a part of the normal request you have been presenting?

Mr. O'FLAHERTY. That is correct.

Mr. PASSMAN. That is one of the many items that is adding to the economy of the Ryukyuans not considered here.

Mr. O'FLAHERTY. This is in line with the figures recited.

Mr. PASSMAN. The water system would fall in that same category?

Mr. O'FLAHERTY. No. There was $600,000 appropriated.

Mr. PASSMAN. Is that in addition to what we are giving you?

Mr. O'FLAHERTY. Yes.

(Off the record.)

BASIS FOR INCREASED REQUEST

Mr. ALEXANDER. Mr. Secretary, in the original request, you asked for $7.9 million. Now you are requesting a minimum addition of $6,382,000. When did you come to the conclusion you needed these additional funds?

Mr. AILES. I have difficulty in putting on the precise date. The additional amounts grew out of the study made by the task force organized last August and which was in Okinawa in October.

The final report was submitted and approved by the President and resulted in a statement by him on the 19th of March. When the precise amount for the first year was settled upon, I simply cannot remember.

Mr. O'FLAHERTY. It was in March.

Mr. AILES. We had a problem. There was not any authority for the Congress to appropriate more than $6 million for economic assistance. That $7 million figure includes the operating expenses. There was not any authority to appropriate more than $6 million for economic assistance so we asked that the Congress change what we refer to as the Price Act to increase the authority above $6 million.

There was a limitation in the act to that effect. Hearings were not set before this committee on that amount until after this legislaion passed the House, which it did.

Mr. ALEXANDER. Did the task force consist of people from our own country who were in the foreign-aid program?

Mr. AILES. There was one man from the foreign-aid program. The task force consisted of Carl Kaysen of the White House and the others mentioned in the record.

Mr. ALEXANDER. This is in the record?

Mr. AILES. Yes.

Kaysen from the White House, a representative from the State Department, myself, and a man from the AID Agency and a man from the Labor Department.

Mr. ALEXANDER. This additional request grew out of the report that was filed by them?

Mr. AILES. Yes.

The task force group came back with the proposition that it was very clear something had to be done and it ought to be a three-way program.

Mr. ALEXANDER. I am very much interested in this program, but I am going to yield to Mr. Rhodes.

I have to answer the rollcall.

POLITICAL PARTIES

Mr. RHODES. Do you have any political parties in Okinawa that are pro-American parties?

Mr. AILES. There is no one who campaigns on that issue.

Mr. RHODES. How many parties are there?

Mr. HARBISON. There are three major parties, the Okinawa Liberal Democratic Party (the OLDP), the Okinawa People's Party, and the Okinawa Social Masses Party.

Mr. RHODES. Which is the presently dominant party?

Mr. HARBISON. The OLDP has 22 members out of the 29 members of the legislature.

Mr. RHODES. Is this party a reversionist party?

Mr. HARBISON. I go back to the statement I made before, that, at least pro forma, they are all reversionist parties.

Mr. RHODES. In varying degrees?

Mr. HARBISON. I would say to varying degrees.

Mr. RHODES. It strikes me, Mr. Secretary, we have failed to remember the old adage, "You cannot beat somebody with nobody." The record will show that a Republican should not be giving political advice but even so it strikes me that if we do have a position to maintain and we intend to maintain it over a long period of time, we have got to do it by some other method. All this is superficial. We have

missed the fundamental element in getting other people to see our point of view.

Mr. AILES. Can I say something to that?

Mr. RHODES. I wish you would.

Mr. AILES. Unfortunately, these discussions all start going in one direction and we paint a wrong picture. This way overstates the situation. I have not been too long with the Army but I think the Army has done an excellent job of administering a very difficult situation over a period of years.

What began as a military occupation against a conquered people has taken on a very different character. There is a real reservoir of good will among the people of Okinawa for Americans, for the American soldier, for the American administrators out there.

Mr. RHODES. All right.

(Discussion off the record.)

PURPOSE OF REQUEST FOR INCREASED FUNDS

Mr. AILES. The chairman refers to the fact that this is double or triple what we had here before. The fact of the matter is that this is a premium on an investment.

Mr. PASSMAN. Gentlemen, you are shocking me. You are dealing with 890,000 people scattered on 48 islands where we have poured in, directly and indirectly, tens of millions of dollars. We have built their standard of living to a level they never dreamed of. You have given them school facilities they never dreamed of before. You have given them modern court buildings and legislative halls and banks. You have stated for the record these people did not need this aid from the standpoint of their economy. Any time you have a legislature on a little island that votes 29 to 0 to return to Japan, rather than to support America, as far as I am concerned, it is a bad situation.

To me it comes as a disappointment when we know we do not even have the money to meet our own commitments in America, Mr. Secretary. You and I know what we have done to the public debt to carry on this foreign-aid program.

Mr. AILES. May I clarify something else? I do not believe I said the people do not need this program.

Mr. PASSMAN. You said there was not a need for these funds.

Mr. FORD. The statement was that the request was not based on need?

Mr. AILES. That is right.

Mr. PASSMAN. You may have different words but I concurred with you in your previous statement, that it is not based on need.

Mr. AILES. No, sir. I would like to make clear what I did mean, if I may, because this is a significant subject. This is a frequently expressed statement when we talk about this thing. This is not charity. This is not something that the Red Cross is supposed to do. This request is based on a calm, sober determination of what looks like the best way to meet the existing problems.

Mr. PASSMAN. Thank you, Mr. Secretary.

Our foreign policy has developed into a checkbook. Every time we get into trouble we run for the checkbook. It appears that every time some high government official comes through Washington he goes out with a commitment for more money.

Mr. RHODES. Mr. Chairman, just one more question.

This is more in the nature of a plea than a question.

Will you please reconsider your position on this island and realize that money is not going to buy what you are trying to get? There may be some political action very definitely indicated but Americans are good politicians when they try to be, I suggest you do a better public relations job, and beam it to political action, to help identify more completely the common interests of the Okinawan and the American.

Mr. AILES. Sir, I would like to say we are trying to do a lot of other things. We have a civilian civil administrator for the first time out there and we have pretty extensive programs by which we undertake to get across our views on things, why we are there, and what the long-range prospects are.

Mr. PASSMAN. Will you yield?

Mr. AILES. Yes.

Mr. PASSMAN. You mean we have not gotten our views over after all these years, with all this money?

Mr. RHODES. This is the point I was making. There is not even a political party friendly to the United States.

Mr. AILES. I do not believe you can say that. All political parties talk about reversion. The argument is, how soon?

Mr. PASSMAN. I have carried the fight for you in previous years and recommended almost every dime you wanted and this appropriation has grown until it has more than doubled in 6 years. But now you come in with a supplemental that almost doubles that. It is fantastic.

DISASTER RELIEF

Mr. FORD. Mr. Secretary, I would like to ask some questions about the proposed $1 million for disaster relief. On page 19 of the justification books the following is stated:

> To carry out the obligations of the United States under Public Law 86-629, and to maintain our position in the Ryukyus, disaster relief fund must be available when needed.

You have underlined the words "when needed."

> This requires they be available until expended.

Those last three words again are underlined, i.e., on a no-year basis.

This is pretty far-reaching, is it not, to have a kitty of $1 million on a no-year basis with no strings attached, a broad unlimited authority? Who would make the decision when to use it?

Mr. AILES. The High Commissioner would, I am sure.

Mr. FORD. That is a pretty fancy kitty.

Mr. O'FLAHERTY. Mr. Secretary, it should be added that it would have to be apportioned by the Bureau of the Budget upon manifestation of need.

Mr. FORD. This is really a contingency fund, is it not?

Mr. O'FLAHERTY. Yes, sir.

Mr. FORD. The President has a contingency fund under the mutual security program in the amount of $300 million?

Mr. PASSMAN. $275 million last year.

Mr. FORD. Fiscal year 1962, $275 million. Can that be used for this kind of work?

Mr. O'FLAHERTY. No, sir. Generally speaking, the Ryukyu Islands are not considered eligible for mutual security assistance. They are not regarded purely as a foreign country for purposes of foreign aid.

Colonel SITTERSON. This committee makes specific provision which the Congress thinks appropriate for the Ryukyus. They are not usually considered eligible for the other parts.

Mr. FORD. Let us put in the record the provision in Public Law 86-629 which authorizes this.

Mr. O'FLAHERTY. Yes, sir.

(The matter referred to follows:)

PUBLIC LAW 86-629

86TH CONGRESS, H.R. 1157

July 12, 1960

AN ACT To provide for promotion of economic and social development in the Ryukyu Islands

* * * * * * *

SEC. 4. There is hereby authorized to be appropriated not to exceed $6,000,000 in any fiscal year for obligation and expenditure in accordance with programs approved by the President, for: * * * (c) emergency purposes related to typhoons or other disasters in the Ryukyu Islands * * *.

USE OF CONTINGENCY FUND FOR DISASTER AID

Mr. FORD. I would like to have this analyzed to see whether or not the President can use the contingency fund for this purpose. It is my belief that he can.

Mr. O'FLAHERTY. If there was an expression of the will of Congress that this be done, I believe that the responsible officials of AID, who have administration of this fund, would agree.

Mr. FORD. May I say that they find many, many strange places or unusual circumstances to use the contingency fund. I am positive their imagination is such they could find a reason to use it for a good and justifiable reason if they wanted to.

Mr. O'FLAHERTY. Apparently, then, we can only conclude that they do not want to use it for this purpose.

Mr. FORD. I agree with you. That is why they want to set up another contingency fund. They do not want you to come up with a good, justifiable request that would make some of their requests look bad in comparison.

Mr. O'FLAHERTY. Perhaps.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. On the record. As far as I am concerned, I would protest vigorously if the President of the United States ever attempts to use his contingency fund to start a series of projects and programs on Okinawa. He may follow the recommendations of the same task force that is requesting that the appropriation be doubled in 90 days and with that kind of imagination I hope the President's contingency is never turned loose in the islands. Those are my personal views.

Thank you, Mr. Ford.

Mr. FORD. As I understand it, the purpose of this $1 million contingency fund is not to initiate projects but to rehabilitate following

natural disasters. I would agree with you they should not be used for the purpose of initiation of programs.

Mr. PASSMAN. Unfortunately, they have initiated a lot of programs with the contingency.

Mr. FORD. Under the AID.

Mr. O'FLAHERTY. Mr. Ford, the real problem here is that the typhoon season is, as you know, in the late fall.

Mr. FORD. I had some experience with that.

Mr. O'FLAHERTY. The Congress is not in session at that time. There is——

Mr. RHODES. What year was that?

Mr. O'FLAHERTY. That is generally speaking.

There is a real need for the United States to assert its interest, as the authority having responsibility for the area, to bail these people out, literally, to the extent of torrential rains, particularly in the area of public facilities and utilities, when a typhoon strikes: this is the reason why a contingency fund is required, or why it should be available until expended, to be apportioned by the Bureau of the Budget when required.

Mr. FORD. Have we ever failed to meet such an emergency when it happened in the past?

Mr. O'FLAHERTY. We have never had any appropriated funds for disasters.

Mr. FORD. That is not the question. Have we ever failed to meet the emergency by supplying of funds or supplies to meet such a disaster?

Mr. O'FLAHERTY. I think we have not, Mr. Ford, but certain availabilities which were ready in past years are no longer available. For example, we received some Japanese yen, Public Law 480 yen, which were accumulated in Japan for third-country purchases. This was the main source of cash we ever had for disaster relief.

Mr. FORD. That did the job, did it not?

Mr. O'FLAHERTY. For the time being. That source is exhausted now.

Mr. FORD. But there are other areas, I am sure, where you have funds that could be made available.

REVENUE OF GOVERNMENT OF RYUKYU ISLANDS

Let us go back to the hearings in 1954. There is a table inserted on page 118 of the hearings that shows revenue of the Government of the Ryukyu Islands, fiscal year 1950–51 to fiscal year 1954–55.

What is the percentage of the program met by internally generated funds for fiscal year 1962?

Mr. O'FLAHERTY. By that term "the program," do you mean the cost of government and economic development, complete?

Mr. FORD. The chart has four columns; one column is internally generated revenue; the second is grant-in-aid; third column, expenditure program; fourth column, percent of program by internally generated funds.

Mr. O'FLAHERTY. All right, sir. I think we can provide you what you want.

Mr. O'FLAHERTY. For the total operation of the Government of the Ryukyu Islands, including economic development, the cost was $47.8 million. Of this, the Government of the Ryukyu Islands, from its own resources, was able to provide $27-plus million; or about 57 percent. This is in fiscal 1962.

Mr. FORD. Back in 1954 and 1955 the percentage was 87.3. This had improved from 23.6 in 1950–51 and we were led to believe by the testimony given by witnesses back in 1954 that the situation was going to improve as it had in the past. Now you tell us it has gone down, or the other way. What is the explanation?

Mr. O'FLAHERTY. I must correct a misimpression. I thought we were talking about not only Government costs, but all costs, including economic development, disaster relief, power, and all. I must modify the statement I made and say that the GRI in fiscal 1962 was able to provide, not 57 percent, but 83.9 percent of the cost of its own operations, including capital investments.

Mr. FORD. Let us take the chart on page 118 of the supplemental appropriations for 1955 hearings, part 2, 83d Congress, 2d session, and bring it up to date.

(The material requested follows:)

Revenue of the Government of the Ryukyu Islands, fiscal year 1951–62

[In thousands of dollars]

Fiscal year	Internally generated revenue	Grant-in-aid	Total expenditure program	Percent of program met by internally generated funds
1951 (April 1950–March 1951)	$2,436.8	$7,910.4	$10,347.2	23.6
1952 (April 1951–June 1952)	8,621.9	8,926.0	17,547.9	49.1
1953 (July 1952–June 1953)	8,940.6	3,386.6	12,327.2	72.5
1954	11,818.8	2,579.5	14,398.3	82.1
1955	13,052.4	3,357.5	16,409.9	79.8
1956	16,408.1	3,426.8	19,834.9	82.7
1957	17,608.8	1,631.5	19,240.3	91.5
1958	18,093.2	2,484.4	20,577.6	87.9
1959	19,503.6	1,861.3	21,364.9	91.3
1960	21,660.0	1,643.0	23,303.0	92.9
1961	23,966.0	2,917.0	26,883.0	89.3
1962	26,573.0	5,108.0	31,681.0	83.9

LAND DEVELOPMENT

Mr. FORD. How is this land reclamation project program doing out there?

Mr. O'FLAHERTY. Do you not mean a resettlement——

Mr. FORD. We had a program of land reclamation where we had a 15-year revolving fund and the people were to be resettled in some of the southern islands with the cost-benefit ratio such that the funds going back into the program would provide for a continuing program. What is the status of that?

Mr. O'FLAHERTY. This is the Government of the Ryukyu Islands program?

Mr. FORD. Which we find in the first place.

Mr. O'FLAHERTY. Yes, sir. The program for land development is proceeding at a moderate pace. It is not startling or spectacular.

Mr. FORD. It has not paid off as well as you hoped?

Mr. O'FLAHERTY. I think the returns to the Government of the Ryukyu Islands are coming back at the rate anticipated but it never was a very big program. This is not the resettlement program I thought you referred to initially.

Mr. FORD. It was designated in the hearings in 1954 as land reclamation?

Mr. O'FLAHERTY. Yes, sir. That is to bring into production marginal areas, Mr. Ford.

Mr. FORD. Put in the record how much we invested, what the status is, and how well or how badly it is doing.

Mr. O'FLAHERTY. We will, sir.

(The information follows:)

AGRICULTURAL LAND DEVELOPMENT LOANS, 1955–62

Under a Government of the Ryukyu Islands (GRI) Act of 1953, the GRI may subsidize, within the limits of its budget, agricultural land development projects carried out by land improvement associations. In implementing this program, GRI originally stipulated that the benefiting associations repay 40 percent of the project cost over a 10-year period. This was revised on December 19, 1958, to repayment of 20 percent of project cost over a like period but preceded by a 2- or 3-year moratorium, depending on the percentage of area newly converted to rice paddy. Interest of 5 percent per annum of unrepaid principal was charged during fiscal year 1955–58. In fiscal year 1959 the interest rate was reduced to 3 percent.

During the period fiscal years 1955–62 the United States provided GARIOA/ARIA appropriated funds totaling $1,833,000 for agricultural land development loans. Together with funds provided by the High Commissioner's general fund, $664,000, and the GRI, $1,060,000, a total of $3,557,000 has been programed, of which a total of $2,910,000 has been expended for land development projects. Repayments to date on that portion of the projects for which repayment is required (20 percent) and due amount to $62,700.

This program provides for the irrigation of approximately 5,900 acres of land with an estimated annual increase in yield of 5,400 metric tons of rice, 5,458 metric tons of sugarcane, and 1,776 metric tons of vegetables and potatoes with an increase in annual yield at current retail market value of $1,671,200.

LOANS, RYUKYU DEVELOPMENT CORPORATION

Mr. FORD. These banks or loaning institutions the chairman discussed, I presume are related to, or a part of, the B-yen currency program; is that right?

Mr. O'FLAHERTY. B-yen currency was the sole legal tender at the time of these hearings to which you referred. In 1958, however, the dollars which had been accumulated in the islands by U.S. administration husbanding of payments for GARIOA imports, and so forth, were used to convert the total military yen circulation in the Ryukyus at the official rate of 120 to 1.

Mr. FORD. Is that still the rate?

Mr. O'FLAHERTY. The B-yen is not in existence any more. The only legal tender is the U.S. dollar.

These financial institutions of which you speak had holdings in 1958, at the time of the currency conversion, and their holdings were converted, just as were private holdings into dollars.

Mr. FORD. During the hearings in 1954 we got into some discussion about the loss ratio. Apparently, you were having, or these institu-

tions were having, some difficulty on loans and repayments were not as good as you had hoped. What is the story on that now?

Mr. O'FLAHERTY. The story is much brighter, Mr. Ford. At the present time, the loss ratio is running less than 1 percent. The normal reserve set aside by the Ryukyu Development Loan Corporation against possible losses is 1 to 1½ percent. It has not been required to draw down that much.

In 1959 the bad debt expense of the Ryukyuan Development Loan Corporation was $29,300 or 0.2 of 1 percent.

In 1960 it was $31,470 or 0.1 of 1 percent.

In 1961 it was even less.

Mr. FORD. Apparently your problem in 1954 was with smaller loans.

Mr. Baron testified that we have a number of big items such as a sugar plant, and we financed a hotel this way but they are on a basis which allows them to repay their loans.

You said previously we have had a number of failures to pay but they have not been in large items. Is that your experience?

Mr. O'FLAHERTY. The present experience is not distinguishable as between the large and small items.

RESETTLEMENT PROGRAM

Mr. FORD. Later the witness told about the resettlement program. Has this been completed? If so, with what effect?

Mr. O'FLAHERTY. The resettlement program was funded out of the "Military construction, Army funds" which provided $5.7 million. Of that amount only $2.7 million has been expended, mainly because the principal area of resettlement, Iriomote, has been the subject of rather protracted surveys.

There is a question of whether it is economically feasible or desirable to try to move any large numbers of people to Iriomote. Miyako and Yaeyama Islands have been largely resettled, virtually to capacity.

Mr. FORD. Let us bring up to date what program is envisaged and how much money was made available to carry it out. What results, if any, have you had?

Mr. O'FLAHERTY. Yes, sir.

(The requested information follows:)

Resettlement program, Mar. 31, 1962

1. Objective: To assist in resettling families displaced from land on Okinawa Island required for U.S. use.
2. Financial summary:

	Millions
Funds apportioned	$3.7
Obligations (expended $2,537,000)	2.7
Unobligated, programed	1.0

3. Completed projects:
   (*a*) Resettlement of 600 families (3,000 persons) during 1954–58; Okinawa Island.
   (*b*) Resettlement of 560 families (2,800 persons); Yaeyama.
   (*c*) Establishment of resettlement camps in Yaeyama for 80 families (400 persons).
   (*d*) Construction of community facilities including schools, health centers, water supply, farm roads, land clearance, etc. 1.817
4. Projects in progress: Malaria control, resources survey, facilities construction, principally on Iriomote Island .881

Total obligations	2.698
5. Projects programed: Development of Iriomote Island, including facilities construction	1.000
Total apportioned	3.698

Mr. FORD. That is all, Mr. Chairman.

Mr. PASSMAN. Thank you, Mr. Ford.

UNLIQUIDATED OBLIGATIONS

Gentlemen, would you tell us the total amount of unliquidated funds to the credit of the Ryukyus as of June 30, 1962, or for the last date you have it complete?

Mr. SEEFELDT. $3,658,887 as of May 31.

Mr. PASSMAN. Thank you very much, gentlemen.

I am very sympathetic to your problems and I think in the past my recommendations have indicated that. If we have been a little outspoken in expressing our disappointment today, we did so, representing you and the American people on this side of the table.

Money will not do everything.

This year every dime we spend on foreign aid we are going to have to borrow.

Good luck to all of you.

Mr. AILES. Thank you, Mr. Chairman.

LIST OF WITNESSES

	Page
Ailes, Hon. Stephen	842
Allen, Robert	423
Anderson, A. M	82
Ashton, Col. T. N	608
Barall, Milton	608
Bradford, William	608
Bratina, Ily	1
Cocke, Erle	275
Corcoran, J. D	657
Cortada, J. N	540
Crawford, R. H	608, 644
Curtin, Col. W. A	423, 476, 540, 608, 644
Cutler, Robert	135
Duff, Maj. Gen. C. B	1
Eaton, Col. S. K	423
Ellis, William	476
Enemark, Brig. Gen. William	608
Farer, Tom	423, 476, 540, 608, 644
Finkel, E. J	275
Freed, S. H. D	1, 842
Fuqua, Brig. Gen. S. O	540
Gulick, C. S	540
Harbison, J. S	1, 842
Harley, Charles	135
Haugerud, Howard	842
Heinz, Rear Adm. L. C	476
Junkermann, Col. Howard	540
Kelly, W. P	657
Leddy, J. M	275
Legate, Maj. H. A	1
Lemnitzer, Gen. L. L	339a
Leve, H. A	135, 275
Linder, H. F	82
Maness, Col. L. E	1
McLaughlin, E. J	1, 842
McNamara, Hon. R. S	339a
Moyers, Bill	657
Mullen, John	423
Nathan, Col. A. P	423, 476, 540, 608, 644
Nowell, W. E	842
O'Flaherty, E. W	1, 842
Palmer, Gen. W. B	339a, 423, 476, 540, 608, 644
Quinn, Charles	540
Robinson, A. W	423
Rosenson, A. M	135
Sandri, H. J	476
Seefeldt, W. J	842
Shriver, R. S	657
Shultz, E. K	1
Simpson, C. L	82
Simpson, Lt. Col. Robert	423, 476, 540, 608, 644
Sitterson, Col. J. D	842
Smith, Walter	423
Spencer, G. O	608
Theimer, Maj. Gen. J. E	1
Tyler, W. R	423
Wayne, Charles	476
Wiggins, W. W	657

INDEX

E

Page

Export-Import Bank 82
Administrative expenses, limitation on 82
Unobligated balance 121
Automobiles, rental of 109
Balance of payments, effect on 130
Cash on hand 127
Employment 108
Financing of new positions 107
Equipment, electronic data processing 117
Exporter credit guarantee program 96
Foreign Credit Insurance Association 90, 115
India, representative in 110
Insurance program, reserve in 131
Loan program:
Aircraft and facilities 101, 122
Applications pending 107
China, loan to 98, 122
Countries expropriating U.S. property, loans to 128
Countries receiving 98
Cuba, loan to 98, 123
Development project loans 93
Losses on 94
Ethiopia, loan to 132
Exporter 95, 108
Foreign currency loan operations, transfer to AID 100
Latin America, loans to 124
Loans charged off 99
Loans in default 97
Refinancing 98
Repurchase agreements 126
Sale of 129
Source and application of 125
Terms of 130
Underdeveloped countries, selected loans to 99
Obligational authority, limitation on 90, 91, 92
Uncommitted balance 93
Reserve for contingent liability, amount of 91, 95, 128
Summary of lending operations 89
Survey of operations 106
Taxi fares 109
U.S. Treasury, obligations to 127

I

Inter-American Development Bank 135
Administrative expenses 206
Alliance for Progress program:
Administration of 248
Projects financed by social progress trust fund 252
Reforms in countries receiving funds 250, 256, 257, 267
Argentine automobile accessory loan 247
Bolivia:
Delinquency on loans 205
Mine rehabilitation loan 202
Rehabilitation of railroads loan 203

Inter-American Development Bank—Continued Page
Brazil, expropriation of private property in 154, 269
Cuba, participation by 157
Directors 183, 210, 215, 223
Employment 209, 216
Fringe benefits 216, 223
Export-Import Bank, difference between 208
Financial statements and background information 139
Financial structure 159
Governors' meetings 211, 212
Honduras project 188
Income from various funds 272
Interest on capital subscription funds 219, 220, 271
Investment in U.S. Government obligations 219, 220, 271
Loans:
Applications for 182
Approved loans from ordinary capital 163
Approved, statement of participations in 149
Availability from commercial banks 162
Interest rates 119
Repayment of 179
Sale of loans 246
Social progress 178
Technical assistance 184
Terms of 160
Water supply system 178
Local currencies:
Restrictions on use of 191
Multiple sources of economic aid available 186, 205
Obligations 268
Office occupancy 221
Participation of United States, amount of 135, 156
Payments by present membership 159
Pension plan 217, 224
Purpose and structure of 136
Social progress trust fund:
Alliance for Progress program, administration of 248
Establishment of 185
Loans approved 178, 251
Collections from 181
Interest on 247
Source of funds for 245
Special operations fund, loans from 195
Subscription to capital stock 135, 220, 269
Non-interest-bearing notes for capital subscription pledges 192, 220
Summary of activities to date 137
Technical assistance:
Duplication in programs 186, 205
Grants 188
Loans 184
Travel expenses 214, 218
International Development Association 275
Administrative expenses 302
Travel expenses 304, 305, 307
Balance of payments of the United States 310
Board of Governors 305, 317
Countries earning hard dollars 299, 310
Duplicity of assistance programs 335
Expenditures 320, 324
Extent of operations 277, 288
Inter-American Development Bank, comparison of operation with 334
Loans:
Chile 321
Colombia 326
Costa Rica 326
Eligibility for 333

International Development Association—Continued
Loans—Continued
Page
Honduras 326
Sources of funds for highway project 335
India 295, 312, 313, 327, 329
Jordan 330
Latin America 312
Nationalist China 323, 324
Pakistan 330
Paraguay 331
Reforms of countries participating in Alliance for Progress 317
Review prior to making 298, 313
Statement of development credits 293
Swaziland 320
Sudan 331, 333
Terms of 279, 298, 338
To territories or possessions of developed countries 334
Type made 317
U.S. loans to member countries 301
World Bank, effect on 299
Yugoslavia 314
Obligations 319, 324
Operations of various lending institutions, relationship of 304, 306
Procedure for disbursing funds 324
Statement of condition 281
Subscription to:
Additional capital 318
Formula for determining amount of 315
Initial subscription of member countries 332
Investment in U.S. securities 338
Non-interest-bearing notes 286, 319
Other countries, payments by 278, 288, 289, 292
Additional countries approved 315
Restrictions on use of currency 291
Underdeveloped countries participating 316
Underdeveloped countries 316, 337
United States, payments by 275, 316, 319
Installments proposed 279

M

Military assistance program 339a
Acquisition cost of equipment furnished 564, 566, 646
Administrative costs 649
Africa 363, 541
Cameroon 566
Ethiopia 566
Excess stocks furnished 562
Military hardware for 575
Vessel loaned to 567, 576, 620
Morocco 544, 547
AID funds for military budget 557
Soviet technicians in 560
Special program 542, 578
Summary of programs, by country 542
Trucks, procurement of 574
Aircraft:
Cost of rehabilitation of 507, 509, 605
Excess, utilization of 519
Strike aircraft program 655
Attitude of neutral nations toward United States 351
Balance of payments of United States 343, 382, 384
Benefits of 342
Budget for 1962:
Reduction in 378
Total funds available 406

Military assistance program—Continued — Page

- Budget for 1963 — 345, 347
  - Adequacy of — 392
  - Summary of proposed program — 361
  - Validity of — 378
- Carryover funds, new funds and expenditures, by fiscal years — 401
- Changes in program — 348
- Civic action programs — 650
- Civilian specialists in logistic program — 421
- Combatting of communism — 354
- Communist agression, action against — 374
- Comparison of programs, 1961–63 — 393
- Cooperation of friendly nations — 367
- Cost of equipment charged recipient nations — 443
- Countries assuming own defense costs — 364, 427
- Defense budget, effect on — 352
- Defense policy of United States, nature of — 376
- Director, statement of the — 392
- Disarmament program, effect on MAP — 350
- Dollar credits earned by nations receiving aid — 383
- Economically developing countries, communist reaction to — 375, 377
- Emergency funds (sec. 510) — 372, 391, 588
- Europe — 423
  - Aircraft:
    - F–104 production — 474
    - Trainer — 464
    - Turbojet engines, development of — 473
  - Atomic weapons — 437
  - Berlin crisis — 430
  - Comparison of 1962 and 1963 programs — 426
  - Countries meeting own requirements — 364, 427
  - Denmark — 443
  - Excess equipment, cost of — 463
  - Flexibility, funds for program — 461
  - France — 447
    - Algeria — 447, 475
  - Germany, West — 449, 452
    - Aid program of, reduction in — 350, 384
    - Equipment for — 346
    - F–104 program — 347
  - Increase in program for 1963 — 434
  - Italy — 427, 452
    - Excess stocks used — 563
  - Luxembourg — 438
  - Military personnel in — 432
  - Missile equipment, repair and rehabilitation of — 453
    - THOR — 466
  - Multiyear programs — 451
  - NATO — 424
    - Comparison of 1962 and 1963 programs — 426a
    - Defense expenditures of members of — 426b, 431, 434, 436
    - Force objectives, fullfillment of — 368
    - Headquarters, amounts budgeted for — 468
  - Netherlands — 455
  - Norway — 456
  - Pipeline — 429
  - Portugal — 459
  - Recoupment of funds — 428
  - Rehabilitation of equipment — 435
  - Situation in, summary — 433
  - Spain — 461
  - Termination of program in — 367
  - Unexpended balance — 428
  - United Kingdom — 465
  - U.S. obligation in — 430
  - Yugoslavia — 439
- Excess stocks, use of — 463, 507
- Excess stocks of Department of Defense — 565, 646

Military assistance program—Continued — Page

- Far East — 476
  - Aircraft, rehabilitation of — 507
  - Architectural and engineering costs — 513
  - Burma, local currency generated, use of — 488
  - Cambodia — 480, 492
  - China, Republic of — 479, 494
    - Armed forces of — 365
  - Civil use of military engineer equipment — 499
  - Deobligations — 495, 501, 528
  - Expenditures in, annual rate of — 484
  - Firmness of funds requested for — 525
  - Flexibility, funds for — 505
  - Japan — 478, 500
    - Balance of payments — 503, 537
    - Foreign assistance program of — 536
    - Logistics depot in Tokorozawa — 526, 532, 535
    - Procurement of vehicles from — 502, 521, 524
      - "Buy American" policy — 536
    - Vehicle rehabilitation and assembly plants in — 522, 539
  - Korea — 479, 501
    - Conditions in — 364
    - MAAG housing — 418
    - Pilferage of material — 486
    - Unexpended balances — 501
  - Laos — 369, 370, 379, 481
  - Okinawa — 535
    - Counterinsurgency training program in — 534
  - Philippines — 479, 503
  - Procurement of vehicles for — 502, 521
    - "Buy American" policy — 536
  - Programing, manner of — 526
  - Repair and rehabilitation of equipment — 522, 528
  - Sources of aid, multiple — 500
  - Southeast Asia program, special — 531
  - Supply operation, cost of — 527, 531
  - Textile mills — 497
  - Thailand — 481, 495, 511
  - Vietnam — 480, 483
    - Conditions in — 369
    - Training and logistical assistance to — 366
- Food-for-peace program — 373
- Force objectives — 407
- Gold holdings of free world countries — 385
- Gold reserves of the United States — 342, 343, 344, 346, 384
- Guerrilla warfare — 341
- Inter-American Defense College — 654
- Latin America, programs in. (*See* Western Hemisphere region.)
- Leadtime — 412
- Level of programs, establishment of — 545, 613
- Local currency, use of — 488, 491
- Loss of territory, effect of — 370, 371
- Management of program — 359, 399
  - Auditing — 363
- Missile program — 420
- Modern weapons production program — 348
- Nations receiving, number of — 405
- Near East and south Asia — 580
  - Afghanistan — 586
  - Greece — 591
  - Iran — 592, 598, 599
  - Jordan — 597, 599
  - Pakistan — 601, 646
  - Saudi Arabia — 581
  - Training program for region — 606
  - Turkey — 605

Military assistance program—Continued Page
Nonregional programs 644
Administrative costs 649
Civic action programs 650
NATO forces 349
Fulfillment of force objectives 368
Nuclear weapons, use of 349, 350
Nutritional surveys 412
Offshore procurement office expenses 417
Orientation tours for foreign officers 416
Origin of country programs 545, 614
President's study of 340
Programs in 1963, firmness of 388, 390
Recoupment of funds 345, 381, 386, 396, 406, 412, 528
Europe 428
Far East 495, 528
For period 1955–63 530
Western Hemisphere 615
Regional alliances, responsibilities of 371
Representation allowance 649, 652
Reprograming 389, 530
Reservation of funds 404
Sale of military equipment to foreign countries 358, 399, 420
Receipts from, use of 406
SEATO countries, assistance to 374
Secretary of Defense, statement of 355
Serviceable condition of material supplied other countries 398, 403, 409
Status of forces in various areas 349
Supporting assistance 390
Training programs 414
Travel of foreign technicians 540
Unexpended balances 408
Vessel loan program 618
Western Hemisphere region 608
Argentina 622
Bolivia 629
Brazil 631
Expropriation of property 632
Ceiling on program in Latin America 362
Chile 635
Colombia 635
Commitments before availability of funds 614
Costa Rica 636
Cuba 612, 636
Dominican Republic 639
Ecuador 640
Guatemala 640
Haiti 641
Honduras 641
Nicaragua 642
Panama 642
Peru 642
Recoupment of funds 615
Reforms by countries prior to receiving funds 623
Size of program in Latin America 621
Training program, increase in 621
Unexpended balance in Latin America 615
Venezuela 643
Vessels loaned to 616

P

Peace Corps 657
Administrative expenses 690, 764, 765, 797
Automobiles 784
Breakdown of 781
Consultants 788
Equipment 781
Reimbursements to other agencies 752, 817

Peace Corps—Continued
Administrative expenses—Continued Page
Rents, communications, and utilities 779
Representation allowance 817
Research contracts 786, 790
Staff:
Additional requested 765, 774
Compared with number of volunteers 822
Employment of Mr. John Cort 776, 783, 786, 839
Grades of 773
Local employees 767
Temporary 774
Travel 775, 783
Advertising program 677, 680
Africa:
Ghana 691, 696
Evaluation of program in 728
Ivory Coast 735
Liberia 714, 715, 789
School construction 714, 736
Nigeria 742
Tunisia 747, 820
Alliance for Progress program, relationship with 675
Budget for 1963:
Original estimates 835
Reduction in 762, 795, 834, 837
Size of 832, 834
Contributions of host countries 827
Cost of program projected 793
Duplication of activities with other agencies 723
Evaluation studies 724
Agency men assigned as evaluators 733
Cost of 730
Universities making 724
Number of 732
Expansion of programs 692, 794
Cost of 761, 764, 794
Far East:
Japan 696, 791
Malaya 698, 737, 739, 821
Philippines 821, 824, 838
Latin America:
Brazil 722, 724
Chile 695
Columbia 686, 696
Evaluation of program in 724
Jamaica 750
Peru 746
Venezuela 745, 748
West Indies, agriculture program in 749, 818
Near East and south Asia:
India 696, 698, 718, 735
Pakistan 744
Obligations 674, 690, 719, 791
Oversea expenses, control of 673
Pay and allowances 672, 684
Program support 765, 782, 796
List of volunteers and description of (by countries) 700
Origin of 718
Types of 712, 759
Co-ops 712
Public works projects 826
Recruiting activities 682
Requests for assistance by foreign countries 743
Research contracts 786, 790
Size of program in 1962 and 1963 832, 835
At various appropriation levels 834, 836

Peace Corps—Continued Page
Size of programs in individual countries 822
Training program:
Contracts with universities and private agencies 683, 685, 689, 829
Experiment in international living 727
Institute for the Study of Man 727
Cost of 671, 683, 695, 760, 822
Puerto Rico 677, 678
Teachers:
Number of 714, 717, 788, 790, 799, 828
Qualifications of 737, 758
Schools teaching in 789
Colleges 790
Shortage in the United States 737, 738, 758
Subjects taught 789
Teaching standards 721
Underdeveloped countries, countries qualifying 697
Universities and private agencies, projects funded with 685, 689, 829
Volunteers:
Administrative costs of 690
Age of, average 663, 684
Classification of 798, 800, 830
Cost of, total 694
Cost of each 669, 670, 773
Cost of funding expanded strength 761, 764, 794
Number of 668, 686, 693, 759
At various budget levels 834, 836
Level of operations 792, 825
Occupational skills of 663
Overseas, location of 663
Peak season for enlistment 792
Percentage accepted 720
Recruiting of 682
Secretaries, use as 772
States recruited from 664
Teachers. (*See* this title.)
Terms of enlistments 792, 817
Training of. (*See* Training.)
Value of 674, 677, 825, 826

R

Reforms in countries receiving aid 250, 256, 257, 267, 317, 623
Ryukyu Islands 1
Administration 1, 71
Aid to, need as factor 876, 884
Appropriations previously made 875
Area and population of 5
Balance-of-payments problem 865
Banking institutions 867, 880
Central Bank for Cooperatives 868, 871, 873
Capital contribution to 854, 868
Ryukyu Development Loan Corporation 10, 868, 871, 874, 889
Capital contribution by the United States to 854
Loans made by 15
Building repair and maintenance 33, 42
Air conditioning 33
Contingency fund, use of 886
Cost of program, increase in 8, 47
Disaster relief 885
Economy of 847
Aid to 45
Cost of, 1957–63 47
Compared with Japan 852, 876
Improvement in 6, 852, 861
Income, per capita 7, 863
Income from U.S. military establishments in 865

Ryukyu Islands—Continued
Economy of—Continued
Page
Revenues 887
Self-sufficiency of 875
Working force 864
Education, aid to 52, 862
Teachers' salaries 9, 29, 57, 81
Electric cooperative system 36, 67, 69, 866, 880, 882
Construction of power generation facilities 21, 76
Emigration problem 75
Employment:
Health educationist 25
Nonpermanent positions 24
Number of employees 24
Ryukyuans 19
Fishing industry 80
High Commissioner's general fund 18
Health educationist 25, 48
Hospital facilities 68
Illiteracy rate 77
Information material and services 28
Book presentations and publications purchased from USIS 31
Cultural centers 32
Radio and TV stations 30, 34
Japan:
Aid given by 856
Conditions between two countries before U.S. occupancy 879
Cooperation of 34
Participation in administration 5
Return of islands to 847, 878, 881
Action of Ryukyuan Legislature 877, 878, 881
Land, U.S. acquisition of 51
Land development program 888
Leftist agitation 28
Military importance to the United States 849, 861, 878
Length of control by the United States 847
Military base in, U.S 70
Objectives of U.S. program in 881, 885
Ryukyuan position on 881
Operating expenses, incidental 37
Building renovation 38
Darkroom 39
Entertainment expenses 41
Equipment and supplies 39
Elevator, repair of 39, 43
Vehicle hire 40
Pay of civilian employees 22, 29
Peace Corps 62, 857
Political situation in 71, 877, 878, 883
President Kennedy's statement on 848
Public health and medical programs 50, 58, 72
Doctors:
Ratio to population 66
Training of 73
Medical and dental education 66
Public safety 49
Police affairs 49, 59
Public works program 60
Livestock experimental station 65
Productivity center 65
Resettlement program 62, 890
Retirement system 18, 20
Schools in 64, 68, 69
Vocational 79
Self-sufficiency of 875
Services rendered for other agencies 47
Social welfare, construction of houses for aged 61

Ryukyu Islands—Continued Page
Supplemental request for funds 842
Basis for:
Implementation of task force recommendations 863, 882
Military considerations 849, 861, 878
Need as factor 876, 884
Political considerations 847
Projects included in 855
Task force 4, 850
Membership of 858
Three-point program 851
Tax system 57
Termination of aid to 847, 876
Transportation and communication facilities 78
Travel 27
Unexpended balances 891
Wages and labor organizations 865

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