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**INTER-AMERICAN SOCIAL AND ECONOMIC
COOPERATION PROGRAM AND THE
CHILEAN RECONSTRUCTION AND
REHABILITATION PROGRAM**

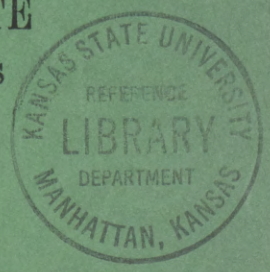
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HEARINGS
BEFORE THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
EIGHTY-SEVENTH CONGRESS

FIRST SESSION
ON

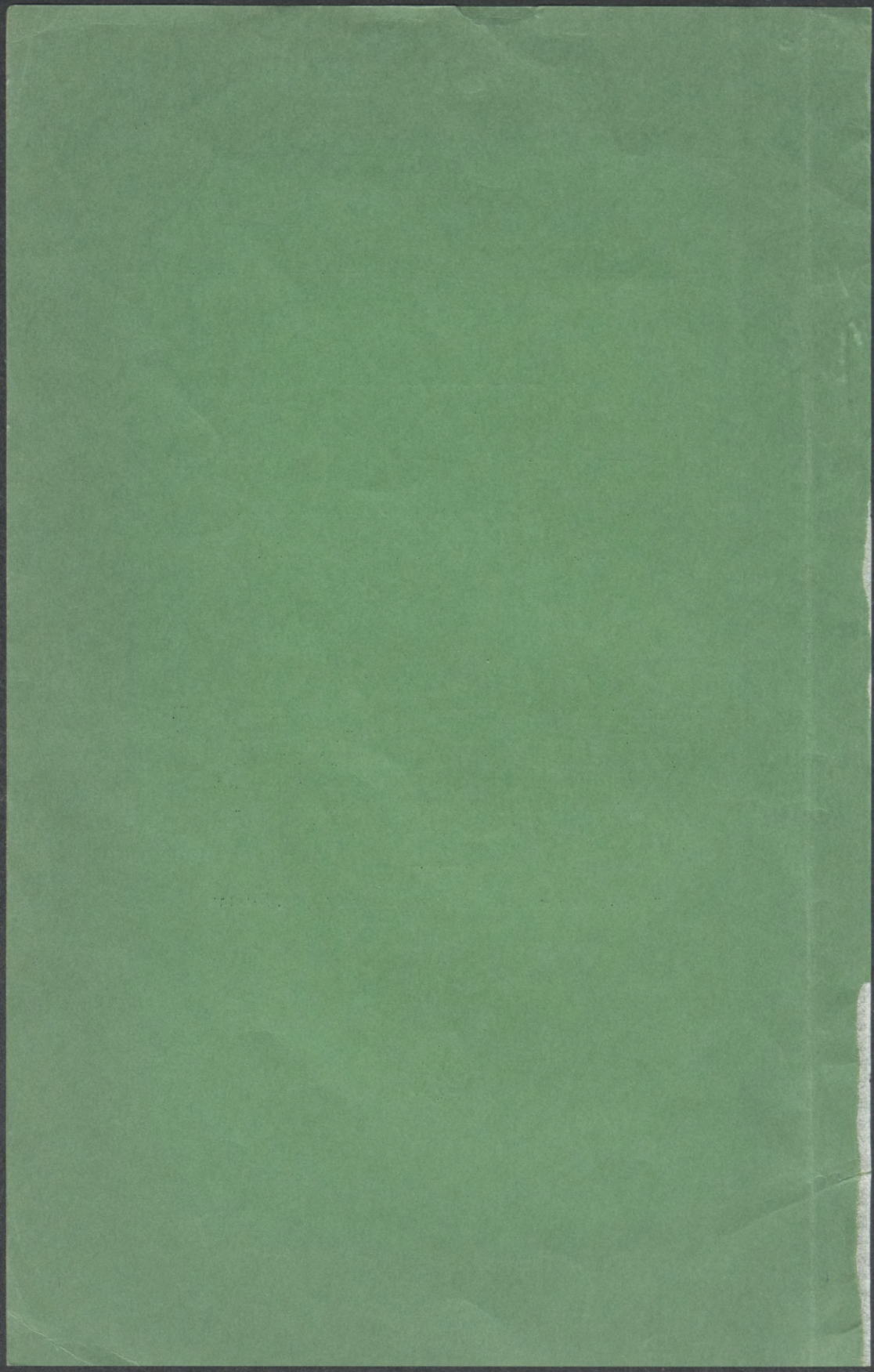
H.R. 6518



AN ACT MAKING APPROPRIATIONS FOR THE INTER-AMERICAN SOCIAL AND ECONOMIC COOPERATION PROGRAM AND THE CHILEAN RECONSTRUCTION AND REHABILITATION PROGRAM FOR THE FISCAL YEAR ENDING JUNE 30, 1961, AND FOR OTHER PURPOSES

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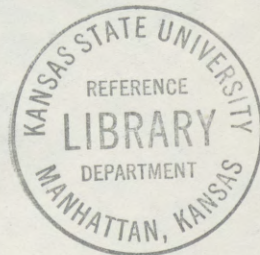


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U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1961

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INTER-AMERICAN SOCIAL AND ECONOMIC COOPERATION PROGRAM AND THE CHILEAN RECONSTRUCTION AND REHABILITATION PROGRAM APPROPRIATIONS FOR 1961

FRIDAY, APRIL 28, 1961

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 1223, New Senate Office Building, Hon. Carl Hayden (chairman of the committee) presiding.

Present: Chairman Hayden, Senators Chavez, Ellender, Stennis, Humphrey, Dworshak, Kuchel, Allott, and Schoeppel.

INTER-AMERICAN SOCIAL AND ECONOMIC COOPERATION PROGRAM

STATEMENTS OF HON. GEORGE W. BALL, UNDER SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE; HON. DOUGLAS DILLON, SECRETARY, DEPARTMENT OF THE TREASURY; ACCOMPANIED BY HON. ADOLF A. BERLE, CHAIRMAN, PRESIDENT'S TASK FORCE ON LATIN AMERICA, DEPARTMENT OF STATE; LINCOLN GORDON, CONSULTANT, PRESIDENT'S TASK FORCE ON LATIN AMERICA, DEPARTMENT OF STATE; PHILANDER P. CLAXTON, JR., DEPUTY ASSISTANT FOR CONGRESSIONAL RELATIONS, MSA; DONALD B. MacPHAIL, ASSISTANT DEPUTY DIRECTOR FOR OPERATIONS, INTERNATIONAL COOPERATION ADMINISTRATION; CHARLES R. HARLEY, CHIEF, LATIN AMERICAN DIVISION (OIF), DEPARTMENT OF THE TREASURY; WILLIAM V. TURNAGE, SPECIAL ASSISTANT, DEPARTMENT OF STATE; AND JOHN R. MOSSLER, BUDGET DIRECTOR, INTERNATIONAL COOPERATION ADMINISTRATION

AMOUNTS AUTHORIZED

Chairman HAYDEN. The committee will please come to order.

We are starting our hearing this morning on H.R. 6518, which passed the House last Tuesday, April 25. This resolution provides for \$500 million for the Inter-American social and economic cooperation program and \$100 million for Chilean reconstruction.

The House allowed the full amount of the budget estimate.

We will insert in the record the authorization act and a copy of of H.R. 6518.

(The material referred to follows:)

Public Law 86-735

86th Congress, H.R. 13021

September 8, 1960

AN ACT To provide for assistance in the development of Latin America and in the reconstruction of Chile, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

STATEMENT OF POLICY

SECTION 1. (a) It is the sense of the Congress that—

(1) the historic, economic, political, and geographic relationships among the American Republics are unique and of special significance and, as appropriate, should be so recognized in future legislation;

(2) although governmental forms differ among the American Republics, the peoples of all the Americas are dedicated to the creation and maintenance of governments which will promote individual freedom;

(3) the interests of the American Republics are so interrelated that sound social and economic progress in each is of importance to all and that lack of it in any American Republic may have serious repercussions in others;

(4) for the peoples of Latin America to continue to progress within the framework of our common heritage of democratic ideals, there is a compelling need for the achievement of social and economic advance adequate to meet the legitimate aspirations of the individual citizens of the countries of Latin America for a better way of life;

(5) there is a need for a plan of hemispheric development, open to all American Republics which cooperate in such plan, based upon a strong production effort, the expansion of foreign trade, the creation and maintenance of internal financial stability, the growth of free economic and social institutions, and the development of economic cooperation, including all possible steps to establish and maintain equitable rates of exchange and to bring about the progressive elimination of trade barriers;

(6) mindful of the advantages which the United States has enjoyed through the existence of a large domestic market with no internal trade barriers, and believing that similar advantages can accrue to all countries, it is the hope of the people of the United States that all American Republics will jointly exert sustained common efforts which will speedily achieve that economic cooperation in the Western Hemisphere which is essential for lasting peace and prosperity; and

(7) accordingly, it is declared to be the policy of the people of the United States to sustain and strengthen principles of individual liberty, free institutions, private enterprise, and genuine independence in the Western Hemisphere through cooperation with all American Republics which participate in a joint development program based upon self-help and mutual efforts.

(b) In order to carry forward the above policy, the Congress hereby—

(1) urges the President through our constitutional processes to develop cooperative programs on a bilateral or multilateral basis which will set forth specific plans of action designed to foster economic progress and improvements in the welfare and level of living of all the peoples of the American Republics on the basis of joint aid, mutual effort, and common sacrifice;

(2) proposes the development of workable procedures to expand hemispheric trade and to moderate extreme price fluctuations in commodities which are of exceptional importance in the economies of the American Republics, and encourages the development of regional economic cooperation among the American Republics;

(3) supports the development of a more accurate and sympathetic understanding among the peoples of the American Republics through a greater interchange of persons, ideas, techniques, and educational, scientific, and cultural achievements;

(4) supports the strengthening of free democratic trade unions to raise standards of living through improved management-labor relations;

(5) favors the progressive development of common standards with respect to the rights and the responsibilities of private investment which flows across national boundaries within the Western Hemisphere;

(6) supports the consolidation of the public institutions and agencies of inter-American cooperation, insofar as feasible, within the structure of the Organization of American States and the strengthening of the personnel resources and authority of the Organization in order that it may play a role of increasing importance in all aspects of hemispheric cooperation; and

(7) declares that it is prepared to give careful and sympathetic consideration to programs which the President may develop for the purpose of promoting these policies.

AUTHORIZATION

SEC. 2. In order to carry out the purposes of section 1 of this Act, there is hereby authorized to be appropriated to the President not to exceed \$500,000,000, which shall remain available until expended, and which the President may use, subject to such further legislative provisions as may be enacted, in addition to other funds available for such purposes, on such terms and conditions as he may specify: *Provided*, That none of the funds made available pursuant to this section shall be used to furnish assistance to any country in Latin America being subjected to economic or diplomatic sanctions by the Organization of American States. The Secretary of State shall keep the Committee on Foreign Relations of the Senate and the Committee on Foreign Affairs of the House currently informed about plans and programs for the utilization of such funds.

SPECIAL AUTHORIZATIONS FOR CHILEAN RECONSTRUCTION

SEC. 3. There is hereby authorized to be appropriated to the President not to exceed \$100,000,000, which shall remain available until expended, for use, in addition to other funds available for such purposes, in the reconstruction and rehabilitation of Chile on such terms and conditions as the President may specify.

SEC. 4. Section 551 of the Mutual Security Act of 1954, as amended, which relates to limitation on the use of the President's special authority, is amended by inserting before the period " : *Provided, however*, That the aforementioned authority may be used during the fiscal year 1961 to finance activities which normally would be financed from appropriations made pursuant to sections 411 (b) and 411 (c) of this Act".

Approved September 8, 1960.

[H.R. 6518, 87th Cong., 1st sess.]

AN ACT Making appropriations for the Inter-American Social and Economic Cooperation Program and the Chilean Reconstruction and Rehabilitation Program for the fiscal year ending June 30, 1961, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the following sums are appropriated, out of any money in the Treasury not otherwise appropriated, for the Inter-American Social and Economic Cooperation Program and the Chilean Reconstruction and Rehabilitation Program for the fiscal year ending June 30, 1961, namely:

FUNDS APPROPRIATED TO THE PRESIDENT

INTER-AMERICAN COOPERATION

INTER-AMERICAN SOCIAL AND ECONOMIC COOPERATION PROGRAM

For expenses necessary to carry out the provisions of sections 1 and 2 of the Act of September 8, 1960 (74 Stat. 869), \$500,000,000, to remain available until expended.

CHILEAN RECONSTRUCTION AND REHABILITATION PROGRAM

For assistance in the reconstruction and rehabilitation of Chile, as authorized by section 3 of the Act of September 8, 1960 (74 Stat. 870), \$100,000,000, to remain available until expended.

Passed the House of Representatives April 25, 1961.

Attest:

Clerk.

STATEMENT OF UNDER SECRETARY BALL

Chairman HAYDEN. The Secretary of the Treasury, Mr. Douglas Dillon, is here as well as the Under Secretary of State, Mr. George Ball.

We shall be pleased to hear any statement that these witnesses desire to make.

Mr. BALL. Mr. Chairman, if I might, I have a prepared statement for the record that I would like to read.

Chairman HAYDEN. You may do that.

Mr. BALL. Thank you, sir.

Mr. Chairman, we appear here this morning to support the President's request for the appropriation of \$500 million for the Inter-American program for social progress, and \$100 million for Chilean reconstruction and rehabilitation.

These appropriations were authorized by the Congress last September in Public Law 86-735.

The funds for the inter-American program were requested by President Eisenhower in January, and on March 14 President Kennedy sent to the Congress a message asking that the funds in both categories be now appropriated as a matter of urgency.

A bill to provide these two appropriations was passed by the House of Representatives last Tuesday afternoon, April 25.

Secretary Dillon, who headed the U.S. delegation to the Bogotá Conference last September, will describe to you the relation of these funds to that historic meeting and will explain the operations of the Inter-American Development Bank, which is expected to administer the larger part of the program.

As U.S. Governor of the Bank, Mr. Dillon led our delegation earlier this month to the second annual meeting of the Board of Governors in Rio de Janeiro.

We also have present with us this morning, Mr. Adolf A. Berle, chairman of the President's task force on Latin America; Dr. Lincoln Gordon, a consultant to the task force, who has been assisting me in the development of the Inter-American Program for Social Progress; and Mr. Donald B. MacPhail, Assistant Deputy Director of Operations of ICA.

ORIGIN OF THE PROGRAM

The program for which these funds are being requested is a logical outgrowth of the numerous excellent studies which have been carried out over the past few years by national, regional, and international agencies working in Latin America and by U.S. officials, foundations, and private citizens.

Of particular significance were the series of studies and reports on U.S. Latin American relations prepared in 1959-60 under the direction of the Latin American subcommittee of the Senate Foreign Relations Committee, including the special reports by Senators Morse and Aiken.

REPORTS OF FOREIGN RELATIONS COMMITTEE

These studies and reports show a remarkable degree of consensus concerning the basic nature of the problem. While there has been marked progress in Latin America in certain fields of industry, urban commercial and financial institutions, mining and plantation agriculture for export, many millions of the populations have not shared in the benefits of this development.

Illiteracy, desperate poverty, ill health, malnutrition, and appalling housing conditions are widespread, especially in the countryside. Rapid population growth aggravates these evils.

This imbalance in development results from a structure of social institutions, especially systems of land tenure, taxation, and education, which are not in keeping with the needs or the possibilities of the 20th century.

DESCRIPTION OF PROGRAM

The Inter-American Program for Social Progress is a new type of effort. It is in every sense a bipartisan and nonpartisan program, a truly national program in which our people can join with those of the other American Republics in building for a better future.

Originally proposed by President Eisenhower, it now constitutes a basic step in President Kennedy's alliance for progress.

Although technical assistance and capital investment have made indispensable contributions to development, we have now come to realize that they alone cannot bring about the improvement in the conditions of life of the ordinary people with the rapidity which these times demand.

It has become increasingly clear that the benefits of such investments are not adequately diffused to major sectors of the Latin American societies, especially to the mass of agricultural workers and small farmers, and that a more direct attack on these lagging social sectors is indispensable to progress on a broad front.

PROGRAM FOR LAGGING SECTORS OF ECONOMY

These lagging sectors are the foci of social unrest and political vulnerability.

There must be an expanded effort to strengthen those institutions which make possible a decent and secure living from the land, adequate health and housing, and widespread educational opportunity.

This is the purpose of the Inter-American Program for Social Progress.

What are the new elements in this program? There are four outstanding ones:

1. The program is addressed squarely to the critical lags in social development recognized as urgent by the Latin Americans themselves.

2. It calls for measures of self-help not only in funds contributed to individual projects, but of even more importance in related institutional improvements, where needed, to promote enduring social progress.

3. It is to become part of a sustained cooperative effort, jointly planned through the Organization of American States, comprising sound national programs for long-term economic and social development.

4. It grows out of the combined thinking of Latin and North Americans, and its administration is to be handled mainly by the Inter-American Development Bank—IDB—a regional operating agency in which the Latin American part is predominant. I cannot stress too strongly the importance of this inter-American instrument to the success of the whole plan.

The Bank is led by a Latin American, staffed mainly by Latin Americans, and recognized throughout the hemisphere as dedicated to the special needs and problems of the continent.

The difficult problems of institutional improvement related to loans for social projects can be far better worked out by such a cooperative instrument with its own members through bilateral means.

PREPARATIONS SINCE AUTHORIZING LEGISLATION

Since the Congress passed the authorizing legislation last summer, there have been three significant steps taken to shape this program.

First, the Act of Bogotá was negotiated and agreed with representatives of Latin American countries. The Act of Bogotá sets forth in considerable detail a broad program to accelerate social progress in the region.

Second, a draft trust agreement has been developed with the management of the IDB which sets forth the specific provisions for the administration of the funds by that institution.

Third, informal consultations with Latin American governments have resulted in the identification of a large volume of projects which are consistent with the program outlined in the Act of Bogotá and which are urgently needed to speed social progress.

In accordance with section 2 of the authorizing legislation, and in keeping with the report of the Foreign Relations Committee, I appeared before the Foreign Relations Committee on March 6 to inform the committee of progress in development of the program.

That committee has also been furnished with copies of the program presentation book.

We believe that these steps add up to a comprehensive program for the use of the funds.

ALLOCATION OF FUNCTIONS AND ADMINISTRATION OF FUNDS

Under the Act of Bogotá, there are five broad fields of social progress which it is the purpose of these funds to assist. They are:

- Improved land use and rural living conditions;
- Housing for low income groups;
- Water supply and sanitation;
- Education and training; and
- Public health.

These are interrelated fields, and advance in each of them is essential to the overall success of the program.

CRITERIA FOR DIVISION OF RESPONSIBILITY

The basic criterion for division of operating responsibility is to assign to the IDB the functional areas where projects are generally suitable for financing—whether repayable in dollars or in local currencies—and to assign to the International Cooperation Administra-

tion—ICA—the areas where most projects should be on a grant basis or are otherwise unsuited for IDB administration.

A small fraction is to be reserved for studies, conferences, and related technical assistance. This work will be organized under the direction of the Deputy Secretary General for Economic and Social Affairs of the Organization of American States, in order to assist member countries in planning for the mobilization of domestic resources and in developing institutional improvements.

In practice, this means IDB administration of projects for land use and related improvements in rural living conditions, housing, water supply and sanitation, and technical assistance related to such projects.

ICA administration under this program would include projects in education and training, general public health and certain other activities.

The evidence indicates that the needs for assistance from the fund are divided in a ratio of about 4 to 1 between the respective areas of responsibility of the Bank and the ICA.

The proposed allocations of funds, therefore, are \$394 million for the Bank, \$100 million for the ICA, and \$6 million for the OAS.

ARRANGEMENTS FOR IDB ADMINISTRATION

The terms and conditions under which funds are to be administered by the IDB will be specified in a trust agreement.

The Bank's management and board of executive directors have indicated their agreement with the draft as contained in annex C of the presentation book and summarized at pages 32-33, subject to final consideration by the Board of Governors.

It is anticipated that, immediately after the Congress has acted upon the appropriation, a definitive agreement will be concluded with the Bank.

PROVISIONS OF DRAFT AGREEMENT

Provisions of the draft agreement include the following:

(a) The Bank shall provide loans on flexible terms and conditions, including repayment in local currency, and may provide technical assistance on a grant, loan, or reimbursable basis. Repayments to the Bank will become part of the resources of the trust fund, to be reused for similar purposes.

(b) The Bank shall give continuous consideration to the institutional improvements and other self-help measures which a country is making, and assistance shall be made available to projects related to self-help measures in countries which demonstrate progress in this area.

ARRANGEMENTS FOR ICA ADMINISTRATION

The ICA, like the Bank, will make its assistance available only where the recipient country takes appropriate measures of self-help.

It is essential to the development of sound projects and adequate self-help measures that the nations of Latin America know the \$100 million intended for ICA administration will be in fact available to it.

It is equally important to the efficient and economical use of these funds that they not be obligated under the pressure of a fiscal year deadline.

We urge you most strongly that the funds for this program be available on a no-year basis.

INITIAL PROJECT PROPOSALS

Since the conference of Bogotá our embassies and operations missions have consulted with the Latin American governments to identify projects which are urgently needed to speed social progress. About 200 such proposals have been reported thus far with total outside resource requirements of about \$1,225 million.

First examination of these initial reports indicates that proposals needing some \$800 million in outside help warrant early consideration.

A breakdown of these by major classes is contained in the President's message, and a detailed listing has been submitted to you on a classified basis.

TOTAL PROPOSED FOR OPERATIONS

The total in the fields proposed for Bank operation amounts to \$611 million and the total in ICA fields amounts to \$187 million.

There is also available to you an unclassified listing of a number of proposals in the fields of education and health, fields which will be assigned for administration by the ICA.

You will see that the proposals are squarely directed to the objectives set forth in the Act of Bogotá.

NEED FOR FUNDS IN HAND

Let me stress that these are not refined projects negotiated in detail with the governments concerned. Two factors make it unwise and impracticable to go further in refining specific projects without funds in hand.

The first is that the ICA cannot commit funds for specific projects until those funds are appropriated and we do not believe you would wish it to do so.

Similarly, we cannot permit the bank to commit funds, nor would it be willing to do so until funds are available to it.

The second factor is that we do not want to and do not intend to commit funds for these social development projects until the governments which are to be beneficiaries have given evidence of their determination and ability to carry through essential institutional and legislative changes.

We are not talking here simply about isolated projects. We are talking about projects as parts of programs for social development.

Unless the necessary outside resources are clearly going to be available in adequate amounts and for long enough time periods, these programs will not be gotten underway and we will be back in the position of assisting isolated endeavors which, however good each one is itself, do not add up to a coherent and cumulative result in durable social improvement.

IMPORTANCE OF FULL \$500 MILLION APPROPRIATION

The sum of \$500 million authorized by the last Congress has come to achieve a very great symbolic importance in Latin American minds. It is regarded as an earnest of the intention of the United States to

assist our neighbors in the hemisphere to come to grips with their most pressing social ills.

Prompt appropriation of this fund will maintain the momentum generated by the Bogotá Conference and reinforced at the Inter-American Development Bank meeting in Rio only 2 week ago.

One final point should be emphasized. The parts of the program to be administered by the Bank and by the ICA are equally important. The help that the Bank can extend with these funds to improved land use, to housing, and to sanitation, is essential. The help that the ICA can give with these funds to education and health is equally essential. Both are integral parts of the Bogotá program.

CHILEAN RECONSTRUCTION AND REHABILITATION

The proposed appropriation also includes \$100 million to be appropriated to the President for use in the reconstruction and rehabilitation of Chile after the natural catastrophes of May 1960.

I am sure that you will recall the disasters which began with the earthquake on May 21. This destruction was all the more tragic because it struck a serious blow at the program, instituted by the administration of President Alessandri, which was attacking the two greatest problems of Chile's economy, inflation and economic stagnation.

By early 1960 the Alessandri administration had managed to stem the persistent and acute inflation that had afflicted Chile since World War II. At the time the earthquake struck, the Chilean Government was preparing a 10-year development plan calculated to overcome the continuing problem of economic stagnation.

Emergency aid for urgent relief to the victims of the disaster was provided by the United States and other friendly countries.

With the heavy costs of longer term reconstruction now added to those of development, the Chilean Government asked the United States for a loan of \$100 million and this amount was authorized by the Congress last year in Public Law 86-735.

PRESENT REQUEST ESSENTIAL

The Chilean Government is presently pursuing its programs of reconstruction and development and is counting heavily on our help to aid in their recovery effort.

Without this help, the whole Chilean reconstruction and development process will be endangered.

For this reason and in keeping with our humanitarian tradition, I urge that the full funds authorized for the reconstruction and rehabilitation program in Chile be appropriated.

ADMINISTRATIVE EXPENSES

It is not the intention of the executive branch to use appropriations authorized by Public Law 86-735 for the purposes of administering either of these programs. It is intended that such expenses would be paid from administrative funds made available to the ICA and the Department of State under appropriations for such purposes under the Mutual Security Act. These funds would be used pursuant to the usual administrative authorities under section 537(a) of the Mutual Security Act.

URGENCY OF PROGRAM

Time is running out in the Americas. The winds of change are blowing over the continent. Millions of people have come to know that a better life is possible and they are determined to secure it.

It is as important to us as it is to them, that they may gain this better life as free societies, dedicated to the dignity of man and led by governments of, by, and for the people.

The Act of Bogotá makes it clear that the will for the progress in freedom exists. By making these funds available promptly, we will make it possible for our sister nations to move ahead with projects of sufficient size and duration to make a real attack on the most critical areas of special needs.

There can be no absolute guarantee of success for this program, but the alternative to prompt and resolute forward action is certain catastrophe.

I am confident that the Congress will do its part to help set in motion this alliance for fortifying the foundations of freedom in the hemisphere.

That concludes my prepared statement, Mr. Chairman. Perhaps Secretary Dillon would like to add to these remarks.

Chairman HAYDEN. Secretary Dillon.

PREPARED STATEMENT

Secretary DILLON. Mr. Chairman, I, also, have a statement which I would like to leave for the record. In order to save time I would like to briefly recapitulate what is in the statement.

Chairman HAYDEN. Your whole statement will go into the record at this point.

(The statement referred to follows:)

STATEMENT OF HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY

Mr. Chairman and members of the committee, before reviewing briefly the Act of Bogotá of last September, which constitutes an important segment of the background against which the proposed fund for social progress is to be appraised, I would like to say a word about the second annual meeting of the Board of Governors of the Inter-American Development Bank which took place in Rio de Janeiro 2 weeks ago. Inasmuch as the administration is proposing that \$394 million of the \$500 million fund requested will be administered by the IDB, attitudes of that institution toward the program are of major significance.

SECOND ANNUAL MEETING OF THE INTER-AMERICAN DEVELOPMENT BANK

It was clearly evident at this most recent meeting of Latin American leaders that the spirit of the Act of Bogotá, the inspiration of President Kennedy's call for an "alliance for progress" and the earlier Brazilian appeal to join in Operation Pan America, have already started to bring about an effective shift in age-old patterns of thought in Latin America. It is not a new idea for us—the idea that the purpose of economic development is to achieve an improvement in the physical, educational, cultural, and social life of all the people. But as that idea becomes more and more widely accepted as a basis for action by the leaders of Latin America, it will constitute a basic prerequisite for sound, sustainable economic growth. The spread of this idea will create social ferment, but it will provide the best hope for avoiding social explosions.

One Latin American statesman at Rio de Janeiro interpreted the new spirit of Latin American progress in these words:

"Progress, economic growth, expansion of wealth, industrialization, expansion of markets, substantial increase in buying power, whatever words you use, we all understand the concept. But we do not believe in the methods of the

Pharaohs. We do not believe in their present-day counterpart, totalitarian methods, which consist in planning great works but with the sacrifice of millions of human beings and of several generations. Therefore, we must think in terms of the human being of today, not as a figure of statistics but as a man of flesh and blood, who lives and breathes, who knows hunger, perhaps is attacked by sickness requiring medical attention, lacks schools, needs a roof over his head, and longs for a bit of land to work and to call his own and to be able to pass on to his children. The present living conditions of our peoples in many cases are terribly difficult. Therefore, paralleling a plan of economic growth, we must carry forward without delay a bold and creative program of social betterment."

I was impressed not only by the enthusiasm with which speaker after speaker endorsed the theme that economic progress and social progress must go hand in hand, but also by the widespread recognition that the new alliance for progress demands self-help measures on the part of the Latin American countries as a precondition for assistance from the social progress fund which you are considering today. Sr. Herrera, President of the IDB, pointed out that there should be no illusions that the social development fund will provide a direct solution to the social requirements and problems of Latin America. He said: "The fund will not act as a charitable institution, but as a device contributing to the effort of such Latin American countries as are concerned with surmounting social obstacles to their economic progress."

In the short span of 7 months between the conference at Bogotá and the recent conference in Rio, very substantial advances have been made in creating a unified and consistent concept of the type of economic and social growth we are seeking in Latin America.

I would like to express my appreciation for the fact that among my advisers at the Rio meeting were Senator Fulbright and Senator Hickenlooper, and Representatives Kilburn and Rains. Senator Morse and Senator Hickenlooper were members of our earlier delegation to the conference in Bogotá. The report of the last two Senators on the Bogotá Conference is an excellent summary review and analysis of that meeting.

THE BOGOTÁ CONFERENCE

The conference held in Bogotá, Columbia, in September of last year was the third full-scale meeting of the Subcommittee To Study the Formulation of New Measures for Economic Cooperation.

This group, popularly known as the Committee of Twenty-one, was first convened by the Organization of American States in November 1958 in Washington, to give specific form and content to Operation Pan America. This was the name given by the then President of Brazil to the stirring appeal he had voiced in June of that year for closer cooperation within the Americas, in order to preserve and defend Western values of democratic government and personal freedom by joining in a concerted attack on underdevelopment and poverty. The Committee met again in the spring of 1959 in Buenos Aires.

The Brazilian appeal embodied in Operation Pan America—like the call of President Kennedy for an alliance for progress—dramatized the growing desire through the hemisphere for a collective attack upon the social and economic problems of the Americas.

The U.S. delegation went to the Bogotá Conference with an unusually favorable opportunity to present a positive and forward-looking program to the other American Republics. (This opportunity existed because of the action of the Congress last September in authorizing appropriation to the President of \$500 million to be used in assisting those Latin American countries which were prepared to support programs designed to further social progress in their respective countries.)

Early in the conference, the U.S. delegation introduced a draft document proposing a great cooperative effort to achieve these goals. After intensive consideration, based on this draft, the Act of Bogotá was evolved and approved by the Conference. You will find the full text in annex B of the presentation book.

I should like to stress at this point the emphasis which the Act of Bogotá as finally agreed placed upon self-help measures. The preamble of the act recognizes that the success of a cooperative program of economic and social progress will require maximum self-help efforts on the part of the American Republics. Chapter I consists of an outline of a program for social development in which

the participating countries undertake to examine existing legal and institutional system dealing with land tenure legislation, agricultural credit institutions, tax systems, and fiscal policies as they affect use of land. Similar examination is called for in connection with measures for improving housing and community facilities, the reexamination of educational systems, measures for improving public health and measures for mobilizing domestic resources with a view to providing additional revenues to assist in accomplishing the purposes of the act.

In chapter II of the Act of Bogotá, the other American Republics welcome the decision of the United States to establish a special inter-American fund for social development "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."

The introduction of the U.S. proposal to the meeting rapidly set the tone of the entire Bogotá Conference. All other topics on the agenda were subordinated to the task of drafting the Act of Bogotá. The tone of the Conference was one of enthusiastic and friendly cooperation in working out agreement on detailed areas of activity in which the Latin American countries recognized the need for self-help measures in support of which the proposed fund for social progress would provide assistance.

The only discordant note was sounded by representatives of the Government of Cuba. Cuba did not sign the Act of Bogotá and will not be eligible for assistance from the proposed social progress fund so long as it continues to isolate itself from cooperative efforts in this hemisphere. The Dominican Republic was not present at the Conference and will not be eligible for assistance so long as it is subject to economic or diplomatic sanctions by the Organization of American States.

Chapter III of the Act of Bogotá, which deals with measures for economic development emphasizes a very important point—that the social progress program is designed to supplement, not to supplant in any degree, the essential measures needed for economic development.

Social progress and economic development are not separate and independent efforts. They are mutually reinforcing. Fundamentally, social progress is an added dimension to economic growth—the dimensions of a broader distribution of the benefits of growth and genuine participation in the development process by all segments of the population. Economic development can take place without adequate social progress. But sustained social progress cannot take place without economic development.

I think we will find as the years go by that the Act of Bogotá will be regarded as one of the truly historic documents of human progress in this hemisphere. It is taken very seriously by the Latin American countries. One very encouraging development since the close of the meeting in Bogotá is the agreement of the Organization of American States and the United Nations Economic Commission for Latin America to sponsor a long-range program to strengthen Latin American tax systems within the context of the Act of Bogotá. This work will be carried out in cooperation with the Harvard Law School's international program in taxation. The Inter-American Development Bank will participate in certain phases of the program. A conference in Latin America on tax administration is planned for this fall to be followed by another conference on tax policy early next year.

USE OF THE INTER-AMERICAN DEVELOPMENT BANK AS A PRIMARY MECHANISM IN ADMINISTERING THE PROPOSED FUND

Secretary Ball has rightly stressed the desirability of using an inter-American agency for administering a substantial portion of the proposed fund for social progress. This applies to the fields of improved land use, housing, and sanitation, which are appropriate for financing mainly on a loan basis. The fields of education and health, which are proposed for bilateral assistance, mainly on a grant basis, are, of course, equally essential parts of the Bogotá program as a whole.

When the social development program was presented to the Congress last year it was suggested that a substantial proportion of the funds available should be channeled through the Inter-American Development Bank. The same proposal was enthusiastically endorsed by representatives of the Latin American

Governments at the Bogotá Conference and the Act of Bogotá contemplates that the Inter-American Development Bank will be the "primary mechanism" for the administration of the proposed fund.

Operating on the conviction that social progress is an added dimension to economic growth it appears highly appropriate that the Inter-American Development Bank, which was created "to contribute to the acceleration of economic development in Latin America," should be entrusted with additional funds to handle this additional dimension of the problem. Both economic development and social development must be carried on with due attention to the total allocation of a nation's resources, both those domestically available and those provided through external assistance. The staff of the Bank is highly qualified to deal with both these problems.

The "Act of Bogota" emphasizes necessary improvement of institutions for mobilizing domestic resources. Such improvement will involve consideration of tax systems, the stimulation of capital markets, the organization of local savings and loan institutions. These are all areas in which the Inter-American Development Bank and its specialized personnel will have particular competence.

The Inter-American Development Bank is already showing its ability to handle the important functions with which it has been entrusted. It opened its doors for business on October 1, 1960. At the second annual meeting in Rio this month the president of the Bank was able to announce that the Bank had already approved 10 credit operations with a total value of \$50.2 million. He forecast that this amount might be doubled within the next 3 months. The loans had involved Peru, Bolivia, Paraguay, Haiti, Nicaragua, Brazil, Chile, and Colombia. The president of the Bank also announced that 520 loan requests or inquiries had been received by the Bank up to the end of February 1961. Of the loan requests, 118 involving an estimated \$240 million were being given further study and 24 loan requests, involving \$60 million, were in an advanced stage of analysis and consideration.

The management of the Bank has the full confidence of the United States and the enthusiastic support of the Latin American countries which have contributed to its resources and regard it as an institution wholly devoted to economic advance in the Americas. This was made abundantly clear during the course of the second annual meeting in Rio de Janeiro.

The president of the Bank is Mr. Felipe Herrera. He is a distinguished Chilean who formerly served his country as Minister of Finance and as General Manager of Chile's Central Bank. The executive vice president is Mr. T. Graydon Upton of the United States who was formerly Assistant Secretary of the Treasury. All the executive directors have had broad experience with both the economic and social problems of the area.

Mr. Ball has explained the arrangements we have in mind for entrusting the management of a substantial portion of these funds to the Inter-American Development Bank. We expect to benefit from the wide knowledge and experience of the Bank's Board of Executive Directors and from the work of the Bank's staff which has already demonstrated high competence and a strong sense of responsibility both to the shareholders and to the clients of the Bank. At the same time, all decisions regarding use of the moneys entrusted to the Bank from the social progress fund will be taken by a two-thirds vote of the Board of Executive Directors. This means that the Executive Director representing the United States, who casts over 40 percent of the total votes, will be in a position to prevent favorable action on any particular loan proposal not clearly in harmony with the principles of the Act of Bogota.

ILLUSTRATIVE SELECTED PROPOSALS

There are set forth below selected proposals for external assistance which could be considered for bilateral funding under the Inter-American program for social progress. These proposals were selected from a substantially larger number of proposals submitted by U.S. Embassies and operations missions, after consultation with the Latin American Governments, both before and after the Act of Bogotá.

In general, it may be said of the following proposals that they represent areas of activity high on the priority list of the individual countries, that they are considered more nearly ready for implementation, and that they fall within the activities to be funded on a bilateral basis within the program now before

the committee. Many of these proposals represent an application on a significant scale of previous technical assistance activities in training personnel and conducting demonstration or pilot programs. This is particularly true for such proposals as self-help school construction, vocational education, and health centers.

In the absence of appropriations, no contracts, agreements or commitments have been made to the countries concerned; detailed negotiations subsequent to appropriation will be necessary if these projects are to be made more precise and closely coordinated with existing programs in the countries concerned.

In order to maintain optimum flexibility in negotiating with recipient countries, projects and programs that will achieve the maximum feasible degree of self-help and mutual cooperation envisaged in the authorizing legislation, the proposals listed below are not identified by country.

For each proposal additional background information is supplied with respect to recent or contemplated self-help measures or institutional improvements related to the proposal. No attempt has yet been made to assess the adequacy of such measures.

Proposal 1: Aided self-help rural school facilities

Estimated cost, \$3,000,000.

Approximately 62 percent of rural school age children in country ----- are without any school facilities; and about 80 percent of the schools now in use are inadequate even by the lowest standards.

A pilot project under the administration of the Cooperative Education Servicio has trained the people in various communities in school construction through aided self-help cooperative effort. The project has received wide popular acceptance, the enthusiastic support of the Ministry of Education, and has demonstrated the willingness and capacity of rural people to help themselves. The Government has matched the U.S. contribution of \$100,000 and the local communities furnished land, labor, materials, and in some cases cash contributions.

It is proposed that this project be expanded to build new schools in approximately 250 rural communities at an estimated cost of \$3,000 per room. This would provide school facilities for approximately 40,000 children, and is the maximum which can be supplied with trained teachers and effectively used.

Related background.—This project is designed to meet pressing elementary school problems in a Latin American country with a high illiteracy rate. A technical assistance pilot project has already been instrumental in completing three school units of four rooms each in three communities. To date more than 50 applications from local communities have been received by the Government.

While contributions by local communities are expected to aggregate more than 20 percent of total costs, the extremely difficult budgetary position of the Government precludes its providing additional matching funds from its own resources for this expanded program. Consequently, it is recommended that half of the \$3 million in external requirements be provided as a loan and half as a budgetary support grant. Grant assistance to this country will be required during a transitional period until domestic resources can be mobilized and rescheduled to amortize long-term development loans.

Proposal 2: School construction

Estimated cost, \$9,800,000.

This project is to assist the Ministry of Education in country ----- to carry out its projected plan to provide functional school buildings to house the 200,000 children in rural areas who are not now enrolled in any elementary school due to the shortage of such facilities. Some 5,000 units, accommodating 40 children each, are needed. If 250 units are built per year, it will take 20 years to do the job, and the problem will be complicated by normal population growth. It is obvious that the pace must be greatly accelerated in the next few years. This project would provide about half the cost required to enable the nation to catch up with its educational deficit, the remainder of the cost being borne by the Government. The project, in addition to providing the necessary buildings, would provide children with the opportunity for enrollment in schools where they will receive a basic elementary education; reduce the absenteeism in schools by improving facilities, teacher preparation, and educational standards; and raise the social and cultural standards of the lower strata of society. Funds would be used for technical assistance, building materials and equipment. It is expected that local communities will provide local labor and some materials.

Related background.—This is a self-help project in which the U.S. share would equal slightly more than 50 percent of the total estimated cost of \$16.5 million. The balance will be contributed by the cooperating government. This proposal is an extension on a national basis of a previous technical assistance demonstration program designed to show the Government of "X" a low cost, self-help method of meeting important elementary school requirements. In addition, earlier U.S. activities have laid a foundation for the training of elementary schoolteachers and supervisors.

Proposal 3: Hospital and health center construction

Estimated cost, \$25,000,000.

This project proposes to construct and expand hospitals to meet the existing shortage of hospital beds, plus the construction of 135 health centers over a 5-year period. In addition to matching contributions of \$25 million by the United States and the Federal Government, \$14 million in other financing would be provided by the local governments to complete all the required construction of health centers.

The Government of country ----- would have to provide, as part of their matching contribution, the administrative machinery for the construction of hospitals and health centers, furnish funds for staff and other operational costs after construction, and train the necessary personnel.

Of the total estimated cost of \$64 million excluding land, 40 percent would thus be provided by external financing, 40 percent by the Federal Government of country ----- and 20 percent by state, municipal, and other local sources.

Related background.—The host country with the assistance of U.S. technicians has already undertaken a large amount of architectural and engineering work in designing plans for hospitals and health centers. Because of the high priority assigned to the broad construction program in the country's plans, country ----- is prepared to match the U.S. contribution on an equal basis. The municipalities in question will contribute an additional \$14 million to the \$50 million contributed by the United States and the cooperating country.

Proposal 4: Industrial training

Estimated cost, \$4,350,000.

The project provides for a 6-year vocational education program to expand industrial arts training in approximately 20 secondary schools. A countrywide survey, completed in 1960, shows that country ----- has only about 3 percent of the needed skilled labor force and that 25,000 electrical and radio technicians, 5,000 skilled sheet metal workers, 19,000 skilled metal workers, 16,000 carpenters, 20,000 mechanics, 10,000 leather workers and 3,000 plumbers are needed in addition to those presently trained. The project would assist the Government and the educational system training skilled workers by providing the necessary facilities at secondary schools, build a pool of trade and industrial arts teachers, train school officials in vocational education functions, and train young nationals in the 14 to 18 age bracket in seven or eight different trades. Funds would be used for U.S. technicians in the various fields, equipment and supplies for establishing the necessary training facilities, and to assist in their initial operation and maintenance. Country contribution would consist of space, personnel, gradual take-over of entire direction and financial responsibility for the project.

Related background.—A pilot program has been developed and installed in the country's two largest trade schools, which will provide the basis for both vocational school curricula and trained instructors for the above proposal.

Proposal 5: School construction

Estimated cost, \$15,000,000.

This 5-year plan proposes construction of 3,250 schoolrooms—2,100 to replace standard rooms now in use, and 1,150 additional rooms. The construction would be carried out by a cooperative program between the Ministry of Public Works and Education and the local communities. Self-help would be required in rural areas as local communities would be required to furnish land, labor, and locally available materials.

Related background.—This project has been proposed as a result of a survey recently completed by the Government in question to determine its program and priorities for school construction. The above proposal is in line with the recent Government decision to allocate an increasing share of its internal resources to education. At the present time nearly 25 percent of the national budget is devoted to education.

Proposal 6: National Medical Center

Estimated cost, \$2,375,000.

Curative medicine in the capital city of country ----- is handicapped severely by inadequacies in the several small public hospitals and clinics. These hospitals are inefficient and lack basic equipment and sanitary facilities. There are no facilities to demonstrate proper hospital administration and operation, and satisfactory training of medical students, nurses, and technicians is nearly impossible. Establishment of a modern national medical center with 650 to 700 beds would accomplish effectively and at less cost, medical services now carried out poorly and expensively in the present eight marginal and sub-marginal 1,250-bed hospitals. The government of country ----- would cover the costs of land, architectural services, and construction, including all locally available building materials. Still usable equipment and materials would be transferred from the present hospitals to the medical center. An important result of this project would be to bring together into a single center, the Ministry of Health, the medical school of the national university, and the national social security institution where close contact would support greater efficiency and enhance the effectiveness of their closely related functions.

Related background.—Life expectancy in country ----- is 43 years, as compared to the U.S. average of 70. Although progress has been made in the public health field in that country in recent years, hospitals in the principal city are inadequate and resources are lacking to renovate or even maintain them in their present poorly organized and inefficient state. A technical assistance training program in recent years has helped to produce a cadre of U.S.-trained health officers who will be able to train additional staff for the proposed center. A continuing program of technical assistance which would embrace hospital administration and expansion of the nursing training program would help the country to make the best use of the facility.

Proposal 7: Assistance to universities

Estimated cost, \$20,000,000.

The purpose of this proposal is to improve university education in the fields of agriculture, science, and engineering by providing services of U.S. professors, participant training in the United States, and by financing purchase of laboratory, field, and teaching equipment (in the United States) for institutions of higher learning. A survey was made which determined the need for assistance, the fields, the types of materials, and the universities willing to participate in the program. The government of country ----- has agreed to support the increased local cost and in addition is concerned that this program be enacted as early as possible in order to develop leaders in the proposed fields as rapidly as possible.

Related background.—The government of country ----- has informally indicated its willingness to contribute approximately \$5 million annually, or one-half of its present expenditures, for higher education to support this co-operative program during the 5-year life of the project. The project will provide significant support to a fully national program to strengthen higher education and will in addition provide the country with additional extension agents.

Proposal 8: Labor training centers

Estimated cost, \$300,000.

The project provides for the establishment of social, professional, educational, and cultural centers for members of democratic labor organizations. Arrangements between the Ministry of Labor and ICA have resulted in the free trade unions of the country receiving intensive training. ICA would provide guidance in establishment and operation of the centers. The centers would provide a meeting place for democratic groups which do not have and cannot afford their own union hall, cultural, professional and technical libraries, and visual aid centers, permanent centers for labor education programs and eventually facilities to improve the basic skills of members of artisan and labor groups, as well as facilities for employment services. Labor training courses have been successfully carried out in cooperation with local universities and outstanding students given scholarships in the United States and Puerto Rico. The cooperation with these efforts has been good and the time is ripe to broaden its effect and centralize efforts to promote the free and democratic labor movement. The project provides for increasing support from the Government, municipalities, and labor groups. The unions will assume full responsibility and support for these centers at the end of this time, with eventual sponsorship of the program passing to international (ORIT) and national labor organizations.

Related background.—Informal discussions with the Ministry which would be responsible for this project have indicated the Government's desire for expanding labor advisory and training services, which have been underway for some time. Under U.S. sponsorship, more than 80 trade union officials have received training in Puerto Rico and the United States and local universities are operating successful labor training courses for trade union members. Although precise magnitudes of cooperating country contributions have not been negotiated, it is planned that contributions during the life of the project will be made by principal municipalities in the country, by the national Government, and by the democratic labor movement in the country concerned.

Proposal 9: Elementary and vocational education

Estimated cost, \$25,000,000.

This project is designed to provide a basic primary education for school-age children over a 5-year period. It provides for the construction of additional schools, training additional teachers, and improving the training of existing teachers.

Between one-third and one-half of the schoolchildren in country ----- do not attend school; of the remainder, 10 percent of those entering the first grade never complete the fifth grade. Only 5 percent entering the first grade attend secondary schools. An estimated 18,000 classrooms and additional teachers are required to meet this shortage.

The total cost of this project will be about \$50 million; composed of \$25 million in external financing requirements, direct central Government costs of \$500,000, and local contributions of land, labor, material, and expanded teacher training and services with an estimated value of \$25 million. In order to provide for salaries of teachers at the expanded level it will be necessary within 5 years to increase the Education Ministry's allocation from its present level of 10 to 15 percent of the national budget. It is expected that the municipios will contribute all the land and 20 percent of the construction costs; while the balance of 80 percent will be provided in the form of a loan or grant by a school construction financing agency.

In addition to the primary school program, funds will be used to improve and expand vocational training facilities.

Related background.—This proposal arises in large part from an existing cooperative demonstration and training project designed to train elementary school teachers and improve curricula. It is felt that this proposal is an extremely worthwhile one, and the United States should be prepared to explore its implementation further to assure that more concrete and satisfactory self-help measures, including increased teachers' salaries can be negotiated with the host Government.

Proposal 10: Aided self-help school construction

Estimated cost, \$540,000.

This proposal would provide for construction of 500 classroom units by the end of fiscal year 1964 at a cost of \$2,700 per unit. The local communities would be required to furnish land, labor, and materials. An ICA education adviser is available to assist in administration of the project. The Government would provide 40 percent of the financing.

Related background.—Only 34 percent of children of elementary school age of country ----- are now in school, many of them in substandard private structures which the government is forced to rent. This proposed aided self-help school program arises from a previous demonstration project. The proposed U.S. contribution of \$540,000 to cover a 3-year program would be equally matched by the cooperating government. In addition, local communities would contribute an estimated \$270,000 in land, local material, and labor.

Proposal 11: Self-help school construction

Estimated cost, \$1,000,000.

The Ministry of Education of country ----- has proposed a program of building 40 new schools to serve students now attending school on a shift basis. Thirty of the schools would be located in the highlands and 10 in the lowland eastern region. The total cost of the buildings would be \$1,500,000. The Ministry has assumed the responsibility for designing the buildings and would contribute the equivalent of \$350,000 as well as necessary land. The local communities would contribute labor and all necessary local construction materials. The local communities would amortize the \$1 million borrowed for this project by allocating 10 percent of their municipal taxes for this purpose.

Related background.—This proposal is designed to meet an essential need in a country with an excessively high rate of illiteracy. Within the past few years, this country, despite limited financial resources and considerable internal instability, has made marked progress in providing elementary education to its children. Enrollment in the elementary schools has risen from less than 50,000 to more than 150,000. A number of schools have already been constructed through the use of cooperative community self-help programs, initiated and carried out with relatively little direct government aid. Technical assistance programs have assisted this country in developing a cadre of elementary school teachers through an emergency teacher training program.

Proposal 12: Urban elementary school construction

Estimated cost, \$6,200,000.

This proposal would provide for 1,000 classrooms at a cost of approximately \$6,000 per classroom, including furniture, equipment, service and administration rooms. These new facilities would replace rented structures which now cost the Government about \$200,000 per year. Classrooms constructed in selected urban centers would also be nuclei centers for surrounding rural population. This project would be financed through a long-term loan to be amortized by funds presently used to pay rent plus an increase in tax revenue created for this purpose.

Related background.—Illiteracy is high and lack of education has had a retarding effect on the development of this relatively backward country. Country ----- with technical cooperation from ICA has established an effective program of "nuclear" schools which serve as demonstration and training centers for teachers of other schools. The proposed new classrooms would strengthen this system by providing needed additional facilities and equipment.

Proposal 13: Agricultural extension

Estimated cost, \$4,000,000.

The purpose of this proposal is to finance the building and equipment of two schools for training of extension workers at the vocational agricultural level. The schools are to be constructed in zones of major resettlement activity under the 4-year agrarian reform program.

Related background.----- is a country which has achieved some success in industrialization but in which there is wide disparity in the income of different social groups and in which rural development has lagged far behind urban. Agriculture is backward and primitive. The present government is progressive and dedicated but lacks trained personnel. It is very enthusiastic about the development of an agricultural extension service and if external financing is obtained for the proposed facilities, could be relied upon to provide the necessary annual budget to maintain the agency. It is worthy of mention that country ----- last year passed an agrarian reform law and is successfully carrying out a program of distributing land to landless farmers.

Proposal 14: Self-help school construction

Estimated cost, \$2,000,000.

This self-help construction program for elementary and secondary schools would be financed jointly by the United States and the government of country ----- The local communities would furnish land, labor, and local building materials. The dollar contributions would be used for the purpose of paying for imported supplies such as hardware, tools, sanitary facilities, pipe, etc. When completed, this project would have 1,200 classrooms and house 50,000 students who currently have no school facilities. U.S. technicians would also teach nationals the organizational techniques required to develop community activities in self-help school construction.

Related background.—This is a predominantly rural country with a major long-range problem in education. The proposed project would not solve this problem completely, but would provide facilities as fast as the necessary teachers can be trained. A technical cooperation program over the past several years has helped to develop a rural normal school and trained teachers. This has paved the way for the expansion of rural school systems.

FACT SHEET

INTER-AMERICAN PROGRAM FOR SOCIAL PROGRESS

CHILE RECONSTRUCTION AND REHABILITATION PROGRAM

Public Law 86-735: Passed on September 8, 1960.

Authorized:

\$500 million for social development in Latin America.

\$100 million for Chilean reconstruction.

Bipartisan request:

Authorization requested by President Eisenhower.

Appropriation requested by President Kennedy as part of Alliance for Progress with our Latin American neighbors.

Appropriation:

\$394 million to be administered through the Inter-American Development Bank (IDB) as one of its functions.

\$100 million to be administered by International Cooperation Administration (ICA).

\$6 million for the Organization of American States (OAS) to aid development throughout Latin America.

Reasons for appropriation: To carry out the historic Act of Bogotá—an act calling for a cooperative effort by the American nations to achieve social progress.

Inter-American program for social progress: This program will aid Latin Americans in improving conditions in their own countries in five interdependent categories:

Agricultural production and rural living.

Housing.

Water supplies and sanitation.

Education and training facilities.

Public health.

Social development: This program fills the need not previously met by capital assistance for economic development and technical cooperation for development of know-how. This appropriation will help improve the life and opportunity for the average Latin American. The economic development process has often increased national wealth but the increase has not been evenly distributed.

Social development needs: At the present time the following conditions in Latin America illustrate the needs:

Illiteracy: Averages 43 percent, but is up to 90 percent in some countries (U.S., 2 percent).

Land ownership: Examples: Guatemala, two-tenths of 1 percent of farm owners own 40 percent of farmland; Chile, 1 percent of farm operators control 43 percent of farmland.

Housing: 80 percent of people live in subminimum standard dwellings.

Per capita national income: Averages \$280, but is as low as \$55 per year (U.S., \$2,700).

Life expectancy: 46 years (U.S., 70 years).

Population growth: 29 percent for next decade (U.S., 13 percent).

Infant mortality: 110 per 1,000 live birth (U.S., 26).

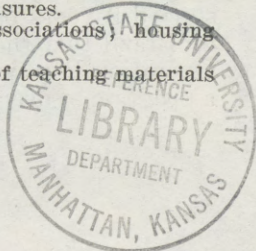
Origination of social progress program: It is the result of extensive study here in the United States as well as spontaneously coming from progressive Latin American leaders. President Kubitschek of Brazil called for Operation Pan America in 1958. The Committee of Twenty-One was formed and held a series of meetings culminating in the historic meeting at Bogotá, Colombia, in September 1960, and the signing of the Act of Bogotá at that time. The authorization act, Public Law 86-735, was passed on September 8, 1960, and on the strength of such legislation the United States representatives indicated our commitment to the goal of social development in Latin America.

Examples of attack on social problems under this program:

Farming and rural living: Settlement on unused land; establishing rural credit facilities; farm-to-market roads; land reform measures.

Housing: Self-help housing; savings and loan associations; housing cooperatives.

Education: Self-help school construction; provision of teaching materials and equipment.



Water supplies and sanitation: Establishment of and provision of technical advice for clean water supplies and sewage disposal systems.

Public health: Establishment of medical and nursing schools.

Self-help and internal reform: Assistance will depend upon the willingness of each recipient nation to improve its own institutions, make necessary social changes and mobilize its own resources in the appropriate fields. Aid from both the IDB and ICA will depend upon this principle. The specific measures needed will depend upon the situation in each country and the assistance needed. There is no one formula for all countries and the administration of the aid must be flexible in order to achieve the maximum effect.

Five hundred million dollar assistance: This appropriation will not fill the needs in Latin America. Project proposals for over \$1,200 million have already been received. Preliminary examination indicates that at least \$800 million of projects warrant early consideration for inclusion in the program for social progress. Illustrative details of the proposed projects were provided the appropriations committee. No specific project agreements could be entered into by the ICA or the IDB prior to appropriation of funds. Furthermore, agreements with the governments of the various Latin American countries which contain the maximum self-help and internal reform measures on the part of the recipient country cannot be obtained if the projects are decided upon prior to the conclusion of negotiations. For such reasons the presentation to the appropriations committee was necessarily illustrative in nature. Nevertheless, some of the ICA projects are farther along toward agreement than others.

At the hearings before the appropriations committee, the ICA offered to set forth the status of each of the illustrative projects. (See hearings, p. 175.) Although no firm contracts have been entered into, there will be no difficulty in translating the program into action once the funds are available.

Inter-American Development Bank: Operations of the Inter-American Development Bank (IDB) began on October 1, 1960, and its membership is composed of the Latin American Republics (except Cuba) and the United States. The Bank's authorized capital is \$1 billion (less the Cuban quota of \$40 million). The U.S. quota is \$450 million, of which the United States has paid in \$80 million and has appropriated (but not paid in) \$200 million for its quota of callable capital. The Bank will administer under the terms of a specific trust agreement the proposed \$394 million appropriation. The funds administered by the Bank under the trust agreement would be used primarily to make loans for projects or programs in three of the five fields of the inter-American program for social progress: agricultural production and rural living, housing, community water supply and sanitation facilities. The ICA will administer assistance in the remaining two fields. All loans by the Bank under the trust agreement require an affirmative vote of two-thirds of the voting power of the Bank's Executive Directors; the U.S. member has 41 percent of the voting power.

International Cooperation Administration: The ICA will administer \$100 million for: education and training and public health. These two fields are an integral part of the Act of Bogotá and the inter-American program for social progress. Progress in these fields is as important as progress in the IDB-administered fields. The ICA's experience in providing technical assistance to Latin America for 20 years is an invaluable asset for helping achieve social progress.

Chile reconstruction program: The \$100 million for Chile is urgently needed to aid in reconstruction after the May 1960 earthquake disasters.

STATEMENT OF SECRETARY DILLON

Secretary DILLON. I am here today to give you gentlemen the background and answer questions regarding the conference at Bogotá and also in regard to the Inter-American Bank of which I am the U.S. Governor.

The meeting at Bogotá last year was the third in a series which had started 2 years before after the suggestion of President Kubitschek of Brazil that the American nations join together in what he called Operation Pan-America which was designed to unite the Americas in a program of overall development and political unity.

The earlier meetings had shown a good deal of dissatisfaction and difficulty in working out an overall joint approach. As a result the United States last summer conceived a new approach, new from our point of view in that we would couple it with assistance which we had not made before for the purpose, assistance for social progress which would actually get down to the people and not just skim off the business cream as our aid program has sometimes been accused of doing in the past in various parts of the world.

As part of this approach we also felt that the countries concerned should take very real responsibilities on their own shoulders of carrying forward, themselves, programs of reform in the fields of taxation, land ownership, and so forth.

This program was put forward at Bogotá thanks to Congress having authorized it just prior to the meeting.

It was very well received down there.

STATEMENT FROM ACT OF BOGOTÁ

The Act of Bogotá, itself, said that the other American governments welcomed the establishment of this special inter-American fund for social development and I quote:

To support the efforts of the Latin American countries that are prepared to initiate and 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.

This was agreed to by all the countries except Cuba which was present but whose delegation walked out and refused to sign the agreements.

The Dominican Republic was not present and did not sign this agreement.

Senator ELLENDER. Were they invited?

Secretary DILLON. Yes, they were invited, but they did not come.

RECEPTION OF PROGRAM BY LATIN AMERICA

Since then, all Latin American countries have obviously taken this thing very seriously and there is already measureable progress. Land reform measures are moving through the legislatures of Colombia and Peru and there has been tax legislation in Uruguay. In the tax field we are particularly pleased that there is a project, inter-American project, that came out of this whereby there will be an inter-American meeting in Buenos Aires this fall on tax administration and another one next spring on basic tax policy in Santiago, Chile. At this meeting the policy of each of the countries will be scrutinized and advice will be given.

These conferences are being prepared by the OAS and the Inter-American Bank, working together, and also with help of the Harvard Law School which is providing technical assistance to this project.

We have great hopes that this will improve one of the serious areas of omission in Latin America.

NICARAAGUAN TAX STRUCTURE

Senator CHAVEZ. Mr. Secretary, what about Nicaragua and their tax structure?

Secretary DILLON. They are part of the OAS.

Senator CHAVEZ. I know they are. What are they doing about it, or is there any land to tax?

Secretary DILLON. Any land to tax?

Senator CHAVEZ. Yes.

Secretary DILLON. Any specific details about any specific country I am sure the State Department could give you, but this tax program will take some time to get into effect generally. I am not familiar with what has done since Bogotá, in Nicaragua particularly.

FUNCTION OF FUND

The head of the Bank at the meeting in Rio de Janeiro I just attended, in talking about this Fund, stated:

The Fund will not act as a charitable institution, but as a device contributing to the effort of those Latin American countries that are concerned with surmounting social obstacles to their economic progress.

That was the tenor of all statements made by the Governors who were Finance Ministers of their individual countries.

At Bogotá, our delegation was accompanied by Senators Morse and Hickenlooper, who wrote a report on that conference which is available and which is an excellent summary of what occurred there.

At the Rio meeting which we have just been to, we were accompanied by Senator Fulbright and Senator Hickenlooper and they are aware of the fine success that the Bank achieved at this first meeting.

REPORT ON BANK

The Bank was able to report that they had authorized \$50 million worth of loans out of the Bank's resources since the Bank was ready to commence operations last October.

In 1 year the Bank has built a fine staff. Its president is Felipe Herrera of Chile, former Minister of Finance and head of the Central Bank in Chile.

The vice president is Mr. Graydon T. Upton, formerly Assistant Secretary of the Treasury of the United States. The executive directors whose names and qualifications we will give you, are all top-flight individuals.

(The information referred to appears on p. 68.)

So we have full confidence in the management. We think it is the appropriate organization to administer these funds.

So far it has had great success with the Latin American countries who are willing to see it come in and prescribe very strict conditions for loans and we feel that through this organization, through this method of operation, the necessary reforms in Latin America will be promoted.

BENEFITS ACCRUING TO THE UNITED STATES

Chairman HAYDEN. What benefits are to accrue to the United States as a result of the Act of Bogotá, and the making of these appropriations?

Secretary DILLON. I would say that what will accrue to the United States is that we will get a considerable advance in our basic security because the strength of the hemisphere will be greatly solidified.

Two things were necessary to do this. One is that there be development and progress and the other is that the countries break with their traditions which in many cases did not take adequate care of the populace. There had been a rise of feeling, a leftwing type of agitation, in many of these countries. As a result of what was established at Bogotá all the governments recognized it, agreed to attack it jointly, and we agreed to make available these funds to help those countries who actually take steps to do this and put up funds themselves.

We think it is of the highest importance for that reason because it is a joint cooperative effort in the right direction.

QUESTION OF VETO AUTHORITY

Chairman HAYDEN. Now, what authority does the United States have to block proposed loans by the International Bank which are not in our judgment in harmony with the Act of Bogotá.

Secretary DILLON. The United States actually will have full authority because under the agreement these specific loans must be approved by two-thirds vote of the executive directors and the U.S. executive director, on the same sort of system of voting as there is in the International Bank for Reconstruction and Development, casts slightly over 40 percent of the votes. So he has a blocking vote on any particular project.

Chairman HAYDEN. Are there any further questions?

Senator Chavez.

Senator CHAVEZ. Yes, Mr. Chairman.

ACTUAL APPLICATION OF AID

I was very glad to read on page 6, Secretary Ball, your second paragraph there that under the Act of Bogotá there are five broad fields of social progress. I believe the approach is good.

That is actually necessary if it can be carried out.

The trouble is we are getting from the John Q. Public, it is fine to say we give aid, but they want to know to whom.

Only the few well to do or the common man you spoke about. Do you think you are sufficiently protected that you can go ahead and improve the land, living conditions, low-income groups, water supply, and sanitation, education and training, and public health?

Mr. BALL. Senator Chavez, I think that the arrangements which have been set up for the administration of these funds makes it quite possible to achieve the objectives we have in mind. I think it would be rather difficult to have full success with this program if the United States alone were dealing directly with these countries.

But there is a very considerable added amount of strength that is given to the kind of conditions that can be imposed when the Inter-American Bank is serving as the agent for the negotiating and making of these arrangements, because, in that case, we have the Latin Americans themselves imposing the conditions, policing the conditions, and making sure that they are carried out.

It is very much easier for a government to accept tough conditions when those conditions are not imposed by the great colossus to the north, but are imposed by the Latin Americans themselves, working together on this.

Senator CHAVEZ. Yes, but we are making quite a contribution, \$500 million.

Mr. BALL. That is right.

TYPE OF COMPLAINTS

Senator CHAVEZ. The complaints that I get are that if you depend entirely on the Government that possibly the Government officials will be the beneficiaries of the progress and not the people who have the greatest need.

Believe me, I know Mr. Herrera, I think he is a very fine person, but it is just the general condition of the past.

I am glad you are approaching it this way because I think in the past you did not have a program, you sent it over and the Government got it, but it never permeated down there to the people that you intended to help and would like to be relieved.

They need it and need it badly.

LAND OWNERSHIP

On the tax structure, the only country in South America where they have land ownership is Costa Rica.

It might be a little piece of land, but it is theirs.

Over 90 percent of the Costa Ricans own a little piece of land so you can tax them. But you go to other countries and it is confined to very few. They do not want to be taxed.

Chairman HAYDEN. There was considerable discussion in the House hearings and on the House floor with respect to the justification or the lack thereof.

LACK OF PROJECT JUSTIFICATIONS

Will you please advise the committee why you have not furnished specific detailed project justifications.

Mr. BALL. Yes, Mr. Chairman, the primary reason is that the concept of this is of a bank which functions as a bank and imposes very stern conditions for the making of loans.

Now, in the case of a bank, the method of operation normally is for the bank to establish itself with some resources; to announce the standards on which loans will be made; to receive applications for those loans; to test those applications against the criteria which has been set up; and only then to select the best projects which are among the applications that have been submitted.

Now, if we were to go through the process of having the Bank negotiate with the governments on the basis of submitted projects before the Bank actually had any funds at all, we would have created a very false situation which would have been quite contrary to what in our opinion is good banking practice.

What we are doing here is proposing to turn over some funds to the Bank against the type of project which we have worked out, the type of project which is established by the kind of criteria which have been set up, and then on the basis of applications which are submitted let the Bank, undertake the negotiations to obtain an agreement to carrying out those criteria and only then will a loan application be approved.

If we tried to program all of this in advance it would destroy the whole concept of the arrangement which we are trying to establish and which we think is essential to the effective carrying out of a program of social reforms, such as we are trying to encourage.

The same thing is true with respect to those funds which are being made available through the ICA.

Here, again, we want to be able to negotiate very hard conditions and it is difficult to negotiate hard conditions in advance of being able to say that we are going to have the fund available.

So it seemed to us that this would be a reverse of the kind of procedure which we should try to follow here.

USE OF DEVELOPMENT LOAN FUND

Chairman HAYDEN. I believe there was a question raised that this program might be handled under the Development Loan Fund.

Mr. BALL. Well, the Development Loan Fund has quite a different function. Its function is that of economic development.

This is a function of social development which is something quite distinct from economic development.

Do you want to amplify this?

Secretary DILLON. I think to amplify what Secretary Ball said, first in this justification, there is one other real problem and that is that all of our efforts in this field through the Inter-American Bank and through the ICA are dependent upon the government itself of the countries we are dealing with, adopting certain reform programs which are not easy and which breaks with their tradition in the past, as Senator Chavez pointed out.

These countries clearly will not be able to take these steps until they are certain, until they know that funds are actually available which will come to them when they pass the laws that are required for more difficult tax systems, change in their agrarian legislation and so forth.

We could not ask the countries to take these steps, which often involve the legislative process, until they were aware that funds would be available provided they did this.

Senator CHAVEZ. You want to give them a little encouragement by having our share of the money available?

Senator DILLON. In the Bank, that is right.

Chairman HAYDEN. Are there any further questions?

ELLENDER REPORT RECOMMENDATIONS

Senator ELLENDER. I am very much pleased to hear that this program will be operated under conditions that I laid down in my report of 1958 which I prepared when I returned from my visit to Latin America.

I quote from this report:

Loans should be conditioned upon proper assurances that the proceeds be used to finance projects and facilities beneficial to all the people. Consideration should also be given to conditioning the disbursement of such loans or changes in Latin American tax laws.

You folks must have read this report? I will now continue reading from my 1958 report on Latin America.

Laws which are either extremely lax or which are honored more often in their breach than in their observance. In short, the burden of taxation must be placed on the shoulders of those able to pay if the reforms I advise are to come to pass.

It may be argued that the imposition of such conditions will inflict upon the sovereignty of our Latin American friends. In one view they perhaps would, but if the loans were properly secured the requirement of internal taxation reform as a means of assuring repayment would in my opinion be nothing more than the rights or prerogative of any prudent lender.

I would further recommend that American private enterprise seeking to do business in Latin America be compelled by the U.S. Government to meet certain basic standards of conduct designed to assure the payment of fair wages, to preclude the reaping of vast or unconscionable profits and to hasten economic development of the nation involved for the benefit of all the people.

That is in the program, too? Is it not?

I continue with the quote from my report:

An enlightened local business community must be developed—a business community which understands that the payment of fair wages, the raising of living standards and, the extension of mass and medical educational benefits to the poor and humble are not only desirable from the humanitarian point of view, but vitally necessary if the pent-up demand for a better way of life is not to explode violently and destroy those who today feed and grow fat at the expense of the poor.

While there is an apparent trend among our own diplomats and foreign aid officials to recognize the seriousness of what is obviously lack of responsibility for the welfare of all the people among the ruling class of Latin America, it must be emphasized again that U.S. economic assistance is not a panacea—

I recommended in my report, Mr. Chairman, that a bank be established for the purpose of supplying capital for the development of Latin America.

That is the purpose of the Inter-American Development Bank. Is it not?

Mr. BALL. Exactly.

CENTRAL BANK SUGGESTED

Senator ELLENDER. I do not know how far you will go with it, but I thought, that by creating a central bank in one of the countries and branch banks in the other countries you could get assistance from the local people to capitalize the banks.

Is that envisioned by this program?

If not, I think it is worthy of study. Reading again from my report, I quote:

I suggest that certain conditions be attached to all loans with the view toward improving the plight of the masses. Some may contend that this would amount to interference by the United States in the internal affairs of a foreign nation. I must admit that such a contention is essentially valid. However, it is my deep conviction that no lasting benefits will ever accrue to the masses of the people of South and Central America, those whom we should assist, unless those in business are made to pay their fair proportion of taxation and provide a reasonable wage to workers.

Mr. Chairman, I will not consume more of the committee's time by reading from my report but I would like permission to have included as part of my remarks some of the conclusions and recommendations included in my 1958 report on Latin America.

Chairman HAYDEN. That may be done.

(The material referred to follows:)

CONCLUSIONS

I again found forces at work in much of Latin America which are not unlike those seething in other areas of the world and which, perhaps for lack of a better name, can all be lumped together under the general term "nationalism."

In the Near East, in southeast Asia—in fact, in much of Asia and Africa—these forces have resulted primarily from years of European economic exploitation and political colonialism.

There, longstanding domination by foreign powers produced the bubbling caldron of emotions which has already boiled over more than once, and which gives every indication of boiling over again.

The explanation for the bitterness and ill feeling in those areas of the world are readily apparent.

The reasons for the existence of similar conditions in Latin America, on the other hand, are not so easily identifiable.

However, I am compelled to report to the committee that although the good neighbor policy has been in effect since 1936, there is a large—and growing—body of public opinion in the American Republics which seems convinced that the United States is today a good neighbor in name only.

When pressed for specific examples of American neglect or economic discrimination, those most critical of American policies were unable to provide them. Many complainants simply referred to the tremendous aid that we made available to countries of the Eastern Hemisphere, and asked the question: "Why were we so neglected?"

In my opinion, the underlying reason behind a growing dislike of the United States is but another reflection of a prevailing desire among the Latin American peoples to better their way of life.

It is unfortunate, but, in most cases, true, that our neighbors to the south are envious of the prestige, power, wealth, and economic productivity of the United States. There is also a broadening belief that since many of the raw materials which feed U.S. industries come from the nations of Latin America, the United States is, in effect, living off the sweat of Latin America's brow.

It is difficult, if not impossible, to convince many of our severest critics in that part of the world that U.S. private enterprise pays, and pays well, for the raw materials it purchases from the American Republics.

In addition, while payment is ample, it is often overlooked that American firms operating in Latin America, particularly in the development of natural resources and manufacturing, have generally adopted an enlightened attitude toward their employees, providing hospitals, schools, good housing, at their own expense, and fair pay.

However, even though it is true that U.S. firms doing business here are not exploiting the area, the cold facts are that the bulk of Latin American profits derived from sales to, and investments by, U.S. enterprises are not generally used to benefit the masses of the people.

Thus, even in such relatively developed countries as Venezuela, where American capital has sparked tremendous advances in living standards of employees of U.S. firms, there remains considerable poverty among the masses of the people.

As the violence directed against Vice President and Mrs. Nixon demonstrated, much of Latin America believes the United States is stealing its natural resources.

In my opinion, if there is theft involved, it takes place after a fair price for Latin American materials is paid by American purchasers, and before these profits trickle into Latin American treasures.

In other words, in the majority of Latin American countries, economic development has brought more wealth to the wealthy, and very little to the masses of the people.

Basically, this situation cannot be corrected by the United States. Certainly, we should not attempt to correct it by extending wholesale economic aid to this area. As a matter of fact, as my report amply demonstrates, much of the economic and related assistance already made available to this part of the world has, as in the case of economic development, further enriched the well-to-do, with only a pittance trickling down to those who need help the most.

We certainly must not place ourselves in the position of actually fostering dissatisfaction and unrest, while attempting to do just the opposite.

And yet, under existing conditions, and without far-reaching Latin American internal reforms, further U.S. economic assistance is destined to produce that result.

So long as existing conditions prevail, so long as established internal economic patterns exist—patterns which automatically direct the fruits of economic gains into the pockets of the rich instead of into the thirsty mouths, the sick bodies, and hungry bellies of the poor—U.S. aid will inevitably benefit only the wealthy.

In effect, we might well be helping to forge a weapon to be used against us at some future time.

This does not mean, however, that the future of Latin America is hopeless.

This area is potentially one of the wealthiest parts of the world. It abounds in natural resources—petroleum, iron ore, nitrates, lead, zinc, and countless others, all of which are mostly owned and controlled by the countries in which they are found. With very few exceptions, they cannot be explored or otherwise developed except by concessions from the state. In other words, in most instances, the state owns all resources beneath the soil.

These resources, which are ostensibly the property of all the people, if properly used, can bring not only a constantly rising standard of living to the people of Latin America, but assurance of continued economic well-being to the United States.

I wish to emphasize that Latin America needs assistance, but she does not want charity.

Long-term loans for economic development are being, and should continue to be, made available. However, they should be conditioned upon proper assurances that the proceeds will be used to finance projects and facilities beneficial to all the people. Consideration should also be given to conditioning the disbursements of such loans or changes in Latin American tax laws—laws which are either extremely lax, or which are honored more often in their breach than their observance. In short, the burden of taxation must be placed on the shoulders of those able to pay, if the reforms I advise are to come to pass.

It will be argued that the imposition of such conditions would infringe upon the sovereignty of our Latin American friends. In one view, they perhaps would but, if the loans were properly secured, the requirement of internal tax reform as a means of assuring due repayment would, in my opinion, be nothing more than the rightful prerogative of any prudent lender.

I would further recommend that American private enterprise seeking to do business in Latin America be compelled by the U.S. Government to meet certain basic standards of conduct, designed to assure the payment of fair wages, to preclude the reaping of vast or unconscionable profits, and to hasten economic development of the nation involved for the benefit of all the people.

Fortunately, exploitation by American firms is today the exception rather than the rule.

Development is no longer synonymous with exploitation.

Assurance must be given that this will remain the case.

An enlightened local business community must be developed—a business community which understands that the payment of fair wages, the raising of living standards, the extension of mass medical and educational benefits to the poor and humble are not only desirable from a humanitarian point of view, but vitally necessary if the pent-up demand for a better way of life is not to explode violently and destroy those who today feed and grow fat at the expense of the poor.

While there is an apparent trend among our own diplomatic and foreign aid officials to recognize the seriousness of what is obviously a lack of responsibility for the welfare of all the people among the ruling classes of Latin America, it must be emphasized again that U.S. economic assistance is not a panacea.

The correction of what could become a desperate situation can come only from the businessmen of Latin America. They must be convinced that it will be to their ultimate benefit if wages are raised and basic social institutions—schools, hospitals, decent housing, etc.—are fostered.

If these were accomplished, the benefits would be twofold: (1) A rising standard of living, providing, ultimately, for vastly enlarged markets, plus increased consumer purchasing power, and (2) a satisfied population, bringing stability to governments, and the creation of a climate attractive to private investment.

Finally, I wish to make it clear that I do not urge these reforms in the spirit of criticism, but, rather, with the full realization that the continued well-being of our own country is tied directly to the fortunes of our Latin American neighbors. I sometimes wish it were possible to enmesh, in some way, our own economy with those of the countries to the south of us.

The United States needs materials for its factories, outlets for its manufactured products, the assurance of growing mutual trade with the nations to the south. In fact, I would venture to again say that if the wheels of our great industrial facilities are to continue to turn at their present rate we will be compelled to look to the south of us for raw materials.

In my judgment, our needs and the needs of our Latin American neighbors, if properly directed, can be the basis of mutual growth, stability, and prosperity. We must revitalize the good neighbor policy—we must restore the spirit in which it was conceived.

Truly, the two continents of the Western Hemisphere are neighbors, and neighbors we must remain. The factors of geography alone so dictate.

Our aspirations are similar; our origins are essentially the same. We are joined by a common bond of history and a common desire for freedom. Our ideals are founded on a spiritual concept of man. Our belief in the rights of the individual is so sacred that we willingly sacrifice our all to protect them.

These concepts, of themselves, offer assurance that no part of the Western Hemisphere is likely to succumb to a totalitarian state.

Above all, just as the United States and our Latin American neighbors share a joint past, so must we share a joint future.

As neighbors, linked by common bonds of friendship, history, tradition, and culture, we must joint hands today, as partners in tomorrow.

RECOMMENDATION

* * * 15. I recommend that a cooperative loan program exclusively for use in Central and South America be inaugurated. This program should be participated in by the United States and the countries to the south of us. It should cater principally to small businesses and should supplement all other agencies or banks now established for extending credit in that area. A control bank should be established in one of the countries to the south of us, with branch banks in other countries participating in the effort.

I wish to repeat for the sake of emphasis that a new loan program of the type recommended need not interfere with the Development Loan Fund or any other program now in effect. It would simply augment them. In addition, it would have the effect of stimulating local investment within their own countries by the businessmen of Central and South America.

Because of a lack of capital, much of the technical assistance we make available to our friends in Latin America cannot be utilized. Unfortunately, I found a tendency among some of our planners to stretch the technical aid program in such a way as to provide the needed capital investment. This practice is directly contrary to the spirit, intent, and purpose of technical aid, and it should be terminated at once.

If capital investment of any kind is required, it should be provided from sources created for that purpose, such as I have recommended above, for example—not by violating the intent of Congress. (See specifically recommendation 16, below.)

I suggest that certain conditions be attached to all loans with a view toward improving the plight of the masses. Some may contend that this would amount to interference by the United States in the internal affairs of a foreign nation. I must admit that such a contention is essentially valid. However, it is my deep conviction that no lasting benefits will ever accrue to the masses of the people of South and Central America—those whom we should assist—unless those in business are made to pay their fair proportion of taxes and provide a reasonable wage to workers.

Any economic development effort should be essentially a program by Latin Americans, for Latin Americans, to benefit all Latin Americans.

16. Again I wish to call to the attention of the committee the practice of many of our ICA administrators of using technical aid funds for capital investments. I found cases where as much as \$1,100 per unit were advanced for building homes for workers under the guise of technical assistance. Such a practice is inexcusable, and those responsible should be made to account for such a violation of the law.

Many services are also furnished money that is used for capital investments. This practice should be stopped.

I recommend that many programs should be discontinued because they have passed the demonstration point. In other words, we have shown the good effects of certain programs, but we are still contributing money for demonstration purposes. A classic example is our contribution to extend water facilities in many villages in Venezuela.

17. The cost of administering these programs is entirely too large. Most, or practically all, of the administrative work could be handled by the administrative sections of our embassies abroad, as I have previously pointed out.

18. It is my view that many technicians sent abroad are not competent. Some are, doubtless, political appointees with little experience. Some effort should be made at once to evaluate the competence of all technicians—and we have quite a horde of them.

19. I recommend that aid of any kind to British colonies in the Americas be halted immediately. British Honduras, British Guiana, and Trinidad are all under British control and are, therefore, primarily British responsibilities. I see absolutely no reason for the United States to spend any funds in these areas.

Actually, we are simply being asked to come in and revitalize areas that have been milked dry over the years by British exploitation.

In this connection, I was informed that the program in Trinidad has been inaugurated over the protest of the head of our mission there. Efforts are now being made to extend aid on many of the islands in the West Indies.

* * * * *

ICA ADMINISTRATION VERSUS LOANS

Senator ELLENDER. Now, there is one more question I would like to ask.

Why is it that you are giving ICA as much as \$100 million? Why could not all of that be handled through loans?

I have pointed out on many occasions that the people of South and Central America are a proud people. They do not want charity.

We have been giving technical training to the people there for the past 12 years.

But I found, that those who have learned our ways, are not able to establish themselves in business because they have to pay interest rates which are as high as 12 to 15 percent.

Therefore, I feel that the real need in Latin America is not grants but loans. Loans should be available at low interest rates so that the people we trained can make a real contribution to the development of their countries. This will create a middle class there and communism will have no appeal.

Senator CHAVEZ. They have a handicap, the State Department. We all mean right by Latin America, but it is the cooperation of the one who could afford to start a little business in these countries.

He will not do it. He wants American enterprise to go down there and start a factory, while he will send his money to New York or Switzerland by the millions.

That is a handicap that you have to overcome.

Senator ELLENDER. In answer to my good friend, Mr. Chairman, I believe that the State Department can convince the wealthy Latin American to invest his money there. However, that does not concern me. I want to see the little man in Latin America get into business. In this way we will help create a middle class. If the method proposed here today can do just that then I am 100 percent for it because I believe it is the only way to do it.

The only thing that bothers me is for you to give ICA this \$100 million.

I want to know why.

Mr. BALL. The reason for this distinction and for the separation of the funds, Senator Ellender, is that the funds which are being turned over to the Bank for administration are funds which will go into projects which themselves earn revenue, and, therefore, they are the type of funds which are most appropriate for loans.

Now, the funds that are being turned over to the ICA are to be used for public health and for education and for training.

Senator ELLENDER. You mean by way of grants?

USE OF GRANTS

Mr. BALL. By way of grants, but on the condition that the governments themselves make a very considerable effort. There is a self-help principle involved in this.

Senator ELLENDER. The Marshall aid plan had that principle written into it, but our administrators did not follow through in that manner.

They thought it was too slow and we assumed the entire burden.

I fear that if we start a program of grants they will eventually bypass the Bank.

You mark what I am saying.

Mr. BALL. Except that the funds are very limited in what they can be used for.

Senator ELLENDER. But you are requesting \$100 million. That is just a start, my dear sir. It will grow.

As the demands are made things will grow. You mark what I am saying to you.

I was in hopes that even the \$100 million, if you have to have it administered by the ICA, should be on a loan basis because the people of South and Central America do not want charity, if I understand them. The moment that you make available any of these funds by way of grants, you are going to find out that those who benefit by that will be those already able to take care of themselves but the poor people will not.

EFFORTS TO MATCH FUNDS

Mr. BALL. As I say, Senator, these funds will be used for very restricted purposes. They will be used for education and for public health. They will be used where the condition will be imposed that there has to be a very considerable matching effort made by the country to whom those funds are made available.

Senator ELLENDER. Who will be the judge of that matching?

Mr. BALL. The ICA.

Senator ELLENDER. You know, I have been criticizing the ICA administrators for many years. You have a lot of them that do not know what it is all about, that do not have in mind the impact that all of this is having on our own country. I hope that will change.

It is my hope that the President's self-help program will be more or less forced on them before you give them a dime because that is the only way you will be able to do anything with them.

Senator CHAVEZ. Do away with the idea, Secretary Ball, that they think of the old-fashioned dollar diplomacy. They do not want that. Help, yes, but they want help more than they want a handout.

FUNDS TO LOCAL BANKS

Secretary DILLON. I would like to answer one statement or question Senator Ellender made. I think he would be interested in the facts regarding the first 10 loans that the Inter-American Bank made in connection with what you said, Senator, about providing funds to local banks so that they can make credit available to private industry.

Seven out of the ten first loans were of that nature and they were made to local development banks in Nicaragua, Colombia, Chile, Bolivia, Paraguay, Haiti, and Brazil—not branches, but local development banks for this purpose.

I do not have the figures here, we can make them available.

Interest will presumably be limited to a certain amount over the Bank's rate.

Senator ELLENDER. That would not be satisfactory to me.

Secretary DILLON. It is far better than it has ever been before.

LIMITATION ON INTEREST CHARGES

Senator ELLENDER. That is not the point. We are making this money available. It strikes me we ought to loan it at 4 or 5 percent at the most, you understand, particularly to help these small people who have learned a trade through our technical aid program, so that they can get in business.

Secretary DILLON. These funds are only partly ours, Senator Ellender.

Senator ELLENDER. Will you tell us the conditions under which this money is loaned and to what banks and what is the rate of interest being charged. I hope it is not more than 6 percent.

Secretary DILLON. We will be glad to.

Mr. BALL. The rate of interest is determined in part with relation to the rate at which we lend the money to the bank, you see.

Senator ELLENDER. What do you mean by that? Give us an example.

Mr. BALL. If the Inter-American Bank makes a loan to a bank in Nicaragua, then the condition presumably will be imposed that the Nicaraguan bank to whom that bank loan is made can charge only a margin above the interest rate it has to pay the Inter-American Bank for the money.

Senator ALLOTT. Why can we not be specific? What are the interest rates and what are the conditions?

Mr. BALL. We will provide you with that information, Senator Allott.

Senator CHAVEZ. We have to make the money available, we have to borrow it and we have to pay a certain amount of interest.

So I believe it should be at least enough to pay what we have to pay in the way of interest.

We borrow money in order to make it available.

(The information referred to follows:)

Loans by the Inter-American Development Bank to development institutions in Latin America

Country and borrower	Amount	IDB interest rate	Reported re-lending rates of borrowing institutions
<i>Loans from ordinary capital resources:</i>			
	<i>Millions</i>	<i>Percent</i>	<i>Percent</i>
Nicaragua: Instituto de Fomento Nacional de Nicaragua.....	\$2.00	5½	18 29
Colombia: Corporacion Financiera Colombiana de Desarrollo Industrial.....	1.00	5½	9½
Chile: Corporacion de Fomento.....	6.00	5½	36
<i>Loans from fund for special operations:</i>			
Bolivia: Corporacion Boliviano de Fomento.....	10.00	4½	(1)
Paraguay: National Development Bank of Paraguay.....	3.00	5½	9
Haiti: Banque Nationale de la Republique d'Haiti.....	3.50	4	8
Brazil: Banco do Nordeste do Brasil.....	10.00	4½	9
Total.....	35.50		

¹ Short term.

² Long term.

³ Plus a single commission of 1.5-2 percent to cover cost of administration.

⁴ The various Bolivian entities which will administer lines of credit in agriculture, mining, industry, electric power, and irrigation-drainage will charge an interest rate adequate to permit operations without losses.

NOTE.—We understand that the Inter-American Development Bank has in all cases concerned itself with the rates at which borrowing institutions would relend the money. It has not, however, attempted to establish a uniform spread between its rate and the relending rate. Variations in such a spread reflect the varying situations of the development banks. Although all but one of the institutions to which loans have been authorized are governmental organizations, there are necessarily differences in the operating costs and conditions under which they work in the various countries, and accordingly in the spread which is required between borrowing and lending rates. Such a spread can also vary depending upon the nature and size of the loans which the borrowing institution makes to its clients. In addition, account must obviously be taken of the differences in the general interest rate structures and the differing situations as to inflation in the borrowing countries. The interest rates to be charged by the development banks to their borrowers are at, or in most cases, below going rates for comparable loans in the respective countries.

POSSIBLE USE OF PUBLIC LAW 480 FUNDS

Chairman HAYDEN. I would like to ask this question: Could any part of this request for funds be financed from foreign currencies generated by the surplus agricultural program, Public Law 480?

Mr. BALL. As I understand it, Mr. Chairman, the available funds, Public Law 480 funds, are all committed now.

If I could give you a breakdown of that situation, there are no significant amounts of uncommitted local currencies.

The major source of such currency is title I of Public Law 480.

Out of \$547 million worth of sales in Latin America, \$121 million have been reserved for U.S. uses, including \$2 million for defense uses, \$45 million for loans for private enterprise under the Cooley amendment, and \$358 million for economic development.

Agreements have already been reached in the recipient countries on the use of these funds and therefore they are not available for diversion to this program.

Chairman HAYDEN. Are the conditions under which money has been made available as tight as you expect to impose in this instance?

Mr. BALL. They are made available for different types of programs. This is a program of social development.

In this case we are imposing these conditions in order to bring about these social reforms.

The money that has been made available for economic development is made available on a different basis, as I understand it.

AMOUNT FOR MILITARY

Senator ELLENDER. What was that military figure?

Mr. BALL. \$2 million.

Senator ELLENDER. What is that for? Is that to be borrowed by anybody? Is it in connection with the Bank?

Mr. BALL. This is \$2 million of local currencies used for a military geodetic survey in Brazil.

Senator ELLENDER. Mr. Chairman, I would like to put in the record at this point the statement from our President, appearing in the justifications "Self-help and internal reform," which I think ought to be put in bold type because that is what I understand is going to be done and that is why I am for it.

We will soon learn if it is not that way later.

(The information referred to follows:)

JUSTIFICATION STATEMENT ON SELF-HELP MEASURES

Change is the dominant theme in Latin America. The question is whether this gathering force for change—a fundamental social, political, and economic transformation—is to be directed into constructive channels. The issue is whether constructive measures will be too little and too late.

Recognition of the need for self-help and internal change is evident from the warmth of the support given the Act of Bogotá by nearly all the delegations present at the meeting. It is evident from the many public statements of such progressive leaders as President Lleras Camargo, of Colombia; President Romulo Betancourt, of Venezuela; and Prime Minister Pedro Beltran, of Peru.

The establishment or improvement of institutions which provide credit to small farmers and institutions which extend long-term loans for low-cost housing construction are most sorely needed. Credits to support such institutions would afford opportunity to millions of people to improve their status, to increase their productivity and to create new sources of income.

Self-help measures of the broad institutional type include the improvement of land tenure and tenancy legislation, the expansion of marketing facilities, the organization of aided self-help housing projects, the expansion of school facilities and teacher-training programs.

With respect to the mobilization of domestic resources, the modernization of tax systems and administration procedures is a top-priority problem. Tax systems in most countries do not yield sufficient revenues, are decidedly regressive and are poorly designed to stimulate efficient use of resources. Moreover, evasion of taxes is the rule rather than the exception.

Local resources can be directed into social development programs through other measures, including reallocation of budget expenditures, maximum use of the self-help principle in the preparation and implementation of projects, especially those projects which require a relatively large amount of local labor and materials, and the use of public lands for agricultural settlement and housing projects.

A start has been made toward constructive change.

Taxation.—In the field of taxation, Uruguay approved an income tax law for the first time in 1960. Colombia adopted new legislation only a few months ago designed to achieve more equitable tax incidence and provide incentives for investment and development. The Guatemalan Legislature is now considering legislation for the first income tax in the country's history. Several countries are engaging experts to advise them on ways to improve their tax policies and tax administration.

An outstanding example of legislation with both a tax and a land reform aspect is provided by the state of Sao Paulo in Brazil. A law adopted in December 1960 provides for a land tax that rises from 2 percent on the first 100 hectares to 5 percent on the portion in excess of 5,000 hectares. In addition,

the law encourages large rural estate owners, not willing to farm themselves, to sell tracts of land to small farmers interested in cultivating the land. Conversely, the tax is lowered if 80 percent of the property is rationally cultivated, soil conservation is practiced, antierosion measures are taken, and adequate housing for workers is provided. The law provides for expropriation but only after giving adequate notice to the owner to enable him to use the land along the lines mentioned above.

Farm credit institutions.—Some countries already have important, though inadequate, institutions in the field of agrarian credit. The Agrarian Credit Bank of Colombia, for example, has 350 offices throughout the country, has 7,000 employees, and in 1959 loaned \$80 million to 400,000 borrowers. Its operations are diverse and include credits for land colonization and irrigation projects.

Land reform.—The land reform program of President Betancourt in Venezuela is designed to settle tens of thousands of families. Approximately 7 percent of the Venezuelan national budget for 1960-61 is devoted to financing the plan. Some 17,000 families have already been settled, but the magnitude of the problem is indicated by the fact that about 350,000 rural families should be resettled.

Housing credit institutions.—In Colombia, the principal agency in the housing field, the Institute of Territorial Credit, produced 3,000 units in 1959. By emphasizing aided self-help techniques, however, it is estimated to have produced 15,000 units in 1960, and a further expansion is planned. With assistance from ICA, Guatemala and Chile have also successfully employed the aided self-help technique in the field of housing.

To meet the housing needs of medium income groups, a few countries in Latin America have already made some progress toward setting up building and loan associations to mobilize internal private savings to provide long-term mortgage credits for housing. Peru pioneered in this field, establishing a privately owned and managed savings and loan association in 1958. The Peruvian association has thus far accumulated about \$1.3 million in local savings and has obtained a \$2 million DLF loan. Chile is another country which, with ICA technical assistance, has taken a number of steps to establish a framework for the establishment of building and loan associations.

Education.—Latin American Governments are devoting a larger share of their resources to improving the education system. In Colombia, for example, funds available for education have increased from 5 to 10 percent of the national budget since 1955, and the State governments have increased their educational budget from an average of 22 percent of the total to an average of 31 percent of the total since 1955. In Venezuela, the budget for education jumped from \$32 million in 1958 to \$93 million in 1959 and the number of students attending school almost doubled in the 2-year period. In Honduras, the Government recently has instituted programs in the fields of vocational education, teacher training, school construction, and school administration. ICA is contributing technical assistance, training, and a part of the necessary funds. In Panama, a permanent advisory group of leaders in industry and education has been formed to coordinate vocational education with estimated manpower needs; the industrial arts curriculum is being extended in fiscal year 1962 to include the junior high schools. In Chile, the University of Pittsburgh is working with two Chilean universities in developing a skill improvement program for all levels of Chilean workers. Similar illustrations could be presented to indicate the desire for educational reform in all Latin American nations. Much more, of course, must be done.

Guatemala, with ICA assistance, has had considerable success with self-help school construction projects. ICA, in addition to technical advice, has helped pay part of the cost for materials, furniture, and equipment. The local communities have provided the sites and much of the necessary labor; the national government has provided skilled labor and contributes to meet material costs.

The basic purpose of the Fund for Social Progress is to encourage and support further constructive improvements in these and other self-help efforts.

THE PROGRAM BY FUNCTIONS

Of these proposals some \$611 million would fall in fields appropriate to financing by the Bank and \$187 million in fields of ICA action.

It is plain, therefore, that although specific projects have not yet been agreed to, the total of projects deserving early consideration far exceeds the full appropriation requested, and the total of projects properly allocable to the Bank and

to the ICA respectively exceed the funds which would be allocated to each operating agency.

It is also evident that when funds are available to the Bank and to the ICA and they are in a position to consider firm applications, the Latin American nations will rapidly identify and submit many other proposals for which outside assistance is needed.

For the program to succeed, funds must be appropriated now so that the Bank and the ICA may have them in hand. The nations of the Americas may then continue to move forward with essential measures of self-help and institutional reform with confidence that needed supplementary financial assistance will be available for them.

At the same time, until the Bank and the ICA can be assured that the recipient nations are in fact prepared for their part in specific cases, it is impossible to predict the individual projects for which the funds now requested will be used, the amounts which will be allocated for each country, or the rate at which commitments will be made.

Nevertheless, proposals now in hand provide many examples of the sorts of constructive measures which the nations of Latin America can be expected to undertake in the principal fields to which this program is directed. Several such examples follow. A separate, classified book contains a detailed listing of the selected proposals amounting to the \$800 million referred to above.

LAND USE AND AGRICULTURE

Throughout Latin America, the low productivity of subsistence, tenant, share-cropper, or squatter farmers operating under inequitable and antiquated tenure and tax laws is the rule rather than the exception. The distribution of land is extremely uneven. In Venezuela, for example, less than 2 percent of the farms larger than 1,000 hectares, account for 75 percent of the total area in farms. In Uruguay 4 percent of the large farms cover 55 percent of the total area in farms, while in Central American countries 2 percent of the farms account for 40 percent of the total area.

EXCERPT FROM CONGRESSIONAL RECORD

Senator ELLENDER. Mr. Chairman, I would also like to put in the record an excerpt from the Congressional Record during the debate under date of August 19, 1960, when the chairman of the Foreign Relations Committee, Senator Fulbright, justified the authorization of the funds requested and I now quote from his remarks:

The administration has not asked for an appropriation at this time. The amount is \$500 million. A specific program is to be submitted to the Congress next year.

We are speaking of 1960.

It is obvious that such a program will have to spell out the proposed uses for the money and specify the channels through which it is to be expended. The relative priority as among such needs as land reform, basic education, and housing must be worked out. There may be a need for new institutions both bilateral and multilateral although the administration is thinking of using the Inter-American Bank which will come into operation October 1.

That is the bank you are talking about.

Mr. BALL. That is right, sir.

Senator Ellender (reading) :

And the Inter-American Economic and Social Council. At the present time the administration expects that most of the funds will be used for loans, but it reserves the possibility that 10 to 15 percent will be in the form of grants.

USE OF FUNDS GRANTED

Now, Mr. Chairman, I would like to have in the record at this point the proposed uses of the \$100 million requested for ICA. I hope this will be on a loan basis instead of grants.

Mr. GORDON. May I make a remark on that? Senator Ellender, I think if you look through the list of the 14 illustrations which are from the ICA section of this, you will see in each case very substantial contributions of resources are proposed by the member countries. Now, these include some of our contributions in the form of grants.

CURRENT PRACTICES

Senator ELLENDER. I am familiar with the method employed. They will furnish land, land that is worth 25 cents an acre, but they will value it at \$100 an acre and say that they are furnishing, say, a hundred thousand dollars when, as a matter of fact it is far less.

Now, you will find that out. That is the way they do it. You have it in your own justifications where the land is considered, extra labor is considered, and that labor may be considered at \$2 a day.

As a matter of fact, they may pay much less for labor. That is what you have to guard against. Be sure that when they say that they will put up so much that theirs is either their own money or value received for the money they put up.

Mr. GORDON. The typical pattern here is that the national government puts up cash, that the local government puts up land and labor. I don't know how it is valued, and that the United States also puts up cash. But typically there are in these projects cash contributions by the national governments as well as land and labor.

NEED FOR LOCAL CONTRIBUTIONS

Senator ELLENDER. I express the hope, as you start a brandnew program in South and Central America, that you do not make any of these funds available by way of grants as such; that you ought to exact from those countries to whom you make this money available a real contribution and effort to show that these funds will be used for the benefit of the masses, as Senator Chavez has just stated.

Unless we do that, you might as well stop now before you start because if you do not do it that way you will get into deeper and deeper trouble with those people.

Mr. GORDON. Mr. Chairman, could I request that these be included in the record.

Chairman HAYDEN. Yes.

(The information referred to follows:)

ILLUSTRATIVE SELECTED PROPOSALS

There are set forth below selected proposals for external assistance which could be considered for bilateral funding under the inter-American program for social progress. These proposals were selected from a substantially larger number of proposals submitted by U.S. embassies and operations missions, after consultation with the Latin American governments, both before and after the Act of Bogotá.

In general, it may be said of the following proposals that they represent areas of activity high on the priority list of the individual countries, that they are considered more nearly ready for implementation, and that they fall within

the activities to be funded on a bilateral basis within the program now before the committee. Many of these proposals represent an application on a significant scale of previous technical assistance activities in training personnel and conducting demonstration or pilot programs. This is particularly true for such proposals as self-help school construction, vocational education, and health centers.

In the absence of appropriations, no contracts, agreements, or commitments have been made to the countries concerned; detailed negotiations subsequent to appropriation will be necessary if these projects are to be made more precise and closely coordinated with existing programs in the countries concerned.

In order to maintain optimum flexibility in negotiating with recipient countries, projects and programs that will achieve the maximum feasible degree of self-help and mutual cooperation envisaged in the authorizing legislation, the proposals listed below are not identified by country.

For each proposal additional background information is supplied with respect to recent or contemplated self-help measures or institutional improvements related to the proposal. No attempt has yet been made to assess the adequacy of such measures.

Proposal 1: Aided self-help rural school facilities

Estimated cost, \$3 million.

Approximately 62 percent of rural school age children in country ----- are without any school facilities; and about 80 percent of the schools now in use are inadequate even by the lowest standards.

A pilot project under the administration of the Cooperative Education Servicio has trained the people in various communities in school construction through aided self-help cooperative effort. The project has received wide popular acceptance, the enthusiastic support of the Ministry of Education, and has demonstrated the willingness and capacity of rural people to help themselves. The Government has matched the U.S. contribution of \$100,000 and the local communities furnished land, labor, materials, and in some cases cash contributions.

It is proposed that this project be expanded to build new schools in approximately 250 rural communities at an estimated cost of \$3,000 per room. This would provide school facilities for approximately 40,000 children, and is the maximum which can be supplied with trained teachers and effectively used.

Related background.—This project is designed to meet pressing elementary school problems in a Latin American country with a high illiteracy rate. A technical assistance pilot project has already been instrumental in completing three school units of four rooms each in three communities. To date more than 50 applications from local communities have been received by the Government.

While contributions by local communities are expected to aggregate more than 20 percent of total costs, the extremely difficult budgetary position of the Government precludes its providing additional matching funds from its own resources for this expanded program. Consequently, it is recommended that half of the \$3 million in external requirements be provided as a loan and half as a budgetary support grant. Grant assistance to this country will be required during a transitional period until domestic resources can be mobilized and re-scheduled to amortize long-term development loans.

Proposal 2: School construction

Estimated cost, \$9,800,000.

This project is to assist the Ministry of Education in country ----- to carry out its projected plan to provide functional school buildings to house the 200,000 children in rural areas who are not now enrolled in any elementary school due to the shortage of such facilities. Some 5,000 units, accommodating 40 children each, are needed. If 250 units are built per year, it will take 20 years to do the job, and the problem will be complicated by normal population growth. It is obvious that the pace must be greatly accelerated in the next few years. This project would provide about half the cost required to enable the nation to catch up with its educational deficit, the remainder of the cost being borne by the Government. The project, in addition to providing the necessary buildings, would provide children with the opportunity for enrollment in schools where they will receive a basic elementary education; reduce the absenteeism in schools by improving facilities, teacher preparation, and educational standards; and raise the social and cultural standards of the lower strata of society. Funds would be used for technical assistance, building materials and equipment. It is expected that local communities will provide local labor and some materials.

Related background.—This is a self-help project in which the U.S. share would equal slightly more than 50 percent of the total estimated cost of 16.5 million. The balance will be contributed by the cooperating government. This proposal is an extension on a national basis of a previous technical assistance demonstration program designed to show the government of "X" a low cost, self-help method of meeting important elementary school requirements. In addition, earlier U.S. activities have laid a foundation for the training of elementary school teachers and supervisors.

Proposal 3: Hospital and health center construction

Estimated cost, \$25 million.

This project proposes to construct and expand hospitals to meet the existing shortage of hospital beds, plus the construction of 135 health centers over a 5-year period. In addition to matching contributions of \$25 million by the United States and the Federal Government, \$14 million in other financing would be provided by the local governments to complete all the required construction of health centers.

The Government of country ----- would have to provide, as part of their matching contribution, the administrative machinery for the construction of hospital and health centers, furnish funds for staff and other operational costs after construction, and train the necessary personnel.

Of the total estimated cost of \$64 million excluding land, 40 percent would thus be provided by external financing, 40 percent by the Federal Government of country ----- and 20 percent by state, municipal, and other local sources.

Related background.—The host country with the assistance of U.S. technicians has already undertaken a large amount of architectural and engineering work in designing plans for hospitals and health centers. Because of the high priority assigned to the broad construction program in the country's plans, country ----- is prepared to match the U.S. contribution on an equal basis. The municipalities in question will contribute an additional \$14 million to the \$50 million contributed by the United States and the cooperating country.

Proposal 4: Industrial training

Estimated cost, \$4,350,000.

The project provides for a 6-year vocational education program to expand industrial arts training in approximately 20 secondary schools. A countrywide survey, completed in 1960, shows that country ----- has only about 3 percent of the needed skilled labor force and that 25,000 electrical and radio technicians, 5,000 skilled sheet metalworkers, 19,000 skilled metalworkers, 16,000 carpenters, 20,000 mechanics, 10,000 leather workers, and 3,000 plumbers are needed in addition to those presently trained. The project would assist the government and the educational system in training skilled workers by providing the necessary facilities at secondary schools, build a pool of trade and industrial arts teachers, train school officials in vocational education functions, and train young nationals in the 14 to 18 age bracket in seven or eight different trades. Funds would be used for U.S. technicians in the various fields, equipment and supplies for establishing the necessary training facilities, and to assist in their initial operation and maintenance. Country contribution would consist of space, personnel, gradual takeover of entire direction and financial responsibility for the project.

Related background.—A pilot program has been developed and installed in the country's two largest trade schools, which will provide the basis for both vocational school curriculums and trained instructors for the above proposal.

Proposal 5: School construction

Estimated cost, \$15 million.

This 5-year plan proposes construction of 3,250 schoolrooms—2,100 to replace standard rooms now in use, and 1,150 additional rooms. The construction would be carried out by a cooperative program between the Ministry of Public Works and Education and the local communities. Self-help would be required in rural areas as local communities would be required to furnish land, labor, and locally available materials.

Related background.—This project has been proposed as a result of a survey recently completed by the government in question to determine its program and priorities for school construction. The above proposal is in line with the recent government decision to allocate an increasing share of its internal resources to education. At the present time nearly 25 percent of the national budget is devoted to education.

Proposal 6: National medical center

Estimated cost, \$2,375,000.

Curative medicine in the capital city of country ----- is handicapped severely by inadequacies in the several small public hospitals and clinics. These hospitals are inefficient and lack basic equipment and sanitary facilities. There are no facilities to demonstrate proper hospital administration and operation, and satisfactory training of medical students, nurses, and technicians is nearly impossible. Establishment of a modern national medical center with 650 to 700 beds would accomplish effectively and at less cost, medical services now carried out poorly and expensively in the present eight marginal and submarginal 1,250 bed hospitals. The government of country ----- would cover the costs of land, architectural services, and construction, including all locally available building materials. Still usable equipment and materials would be transferred from the present hospitals to the medical center. An important result of this project would be to bring together into a single center, the Ministry of Health, the medical school of the national university, and the national social security institution where close contact would support greater efficiency and enhance the effectiveness of their closely related functions.

Related background.—Life expectancy in country ----- is 43 years, as compared to the United States average of 70. Although progress has been made in the public health field in that country in recent years, hospitals in the principal city are inadequate and resources are lacking to renovate or even maintain them in their present poorly organized and inefficient state. A technical assistance training program in recent years has helped to produce a cadre of United States-trained health officers who will be able to train additional staff for the proposed center. A continuing program of technical assistance which would embrace hospital administration and expansion of the nursing training program would help the country to make the best use of the facility.

Proposal 7: Assistance to universities

Estimated cost, \$20 million.

The purpose of this proposal is to improve university education in the fields of agriculture, science, and engineering by providing services of United States professors, participant training in the United States, and by financing purchase of laboratory, field, and teaching equipment (in the United States) for institutions of higher learning. A survey was made which determined the need for assistance, the fields, the types of materials, and the universities willing to participate in the program. The Government of country ----- has agreed to support the increased local cost and in addition is concerned that this program be enacted as early as possible in order to develop leaders in the proposed fields as rapidly as possible.

Related background.—The Government of country ----- has informally indicated its willingness to contribute approximately \$5 million annually or one-half of its present expenditures for higher education to support this cooperative program during the 5-year life of the project. The project will provide significant support to a fully national program to strengthen higher education and will in addition provide the country with additional extension agents.

Proposal 8: Labor training centers

Estimated cost, \$300,000.

The project provides for the establishment of social, professional, educational, and cultural centers for members of democratic labor organizations. Arrangements between the Ministry of Labor and ICA have resulted in the free trade unions of the country receiving intensive training. ICA would provide guidance in establishment and operation of the centers. The centers would provide a meeting place for democratic groups which do not have and cannot afford their own union hall, cultural, professional, and technical libraries and visual aid centers, permanent centers for labor education programs and eventually facilities to improve the basic skills of members of artisan and labor groups, as well as facilities for employment services. Labor training courses have been successfully carried out in cooperation with local universities and outstanding students given scholarships in the United States and Puerto Rico. The cooperation with these efforts has been good and the time is ripe to broaden its effect and centralize efforts to promote the free and democratic labor movement. The project provides for increasing support from the government, municipalities, and labor groups. The unions will assume full responsibility and support for these centers at the end of this time, with eventual sponsorship of the program passing to international (ORIT) and national labor organizations.

Related background.—Informal discussions with the Ministry which would be responsible for this project have indicated the Government's desire for expanding labor advisory and training services, which have been underway for some time. Under U.S. sponsorship, more than 80 trade union officials have received training in Puerto Rico and the United States and local universities are operating successful labor training courses for trade union members. Although precise magnitudes of cooperating country contributions have not been negotiated, it is planned that contributions during the life of the project will be made by principal municipalities in the country, by the national government, and by the democratic labor movement in the country concerned.

Proposal 9: Elementary and vocational education

Estimated cost, \$25 million.

This project is designed to provide a basic primary education for school-age children over a 5-year period. It provides for the construction of additional schools, training additional teachers, and improving the training of existing teachers.

Between one-third and one-half of the schoolchildren in country ----- do not attend school; of the remainder, 10 percent of those entering the first grade never complete the fifth grade. Only 5 percent entering the first grade attend secondary schools. An estimated 18,000 classrooms and additional teachers are required to meet this shortage.

The total cost of this project will be about \$50 million; composed of \$25 million in external financing requirements, direct central government costs of \$500,000, and local contributions of land, labor, material, and expanded teacher training and services with an estimated value of \$25 million. In order to provide for salaries of teachers at the expanded level it will be necessary within 5 years to increase the Education Ministry's allocation from its present level of 10 percent to 15 percent of the national budget. It is expected that the municipios will contribute all the land and 20 percent of the construction costs; while the balance of 80 percent will be provided in the form of a loan or grant by a school construction financing agency.

In addition to the primary school program, funds will be used to improve and expand vocational training facilities.

Related background.—This proposal arises in large part from an existing cooperative demonstration and training project designed to train elementary schoolteachers and improve curricula. It is felt that this proposal is an extremely worthwhile one, and the United States should be prepared to explore its implementation further to assure that more concrete and satisfactory self-help measures, including increased teachers' salaries can be negotiated with the host government.

Proposal 10: Aided self-help school construction

Estimated cost, \$540,000.

This proposal would provide for construction of 500 classroom units by the end of fiscal year 1964 at a cost of \$2,700 per unit. The local communities would be required to furnish land, labor, and materials. An ICA education adviser is available to assist in administration of the project. The Government would provide 40 percent of the financing.

Related background.—Only 34 percent of children of elementary school age of country ----- are now in school, many of them in substandard private structures which the Government is forced to rent. This proposed aided self-help school program arises from a previous demonstration project. The proposed U.S. contribution of \$540,000 to cover a 3-year program would be equally matched by the cooperating government. In addition, local communities would contribute an estimated \$270,000 in land, local material, and labor.

Proposal 11: Self-help school construction

Estimated cost, \$1 million.

The Ministry of Education of country ----- has proposed a program of building 40 new schools to serve students now attending school on a shift basis. Thirty of the schools would be located in the highlands and 10 in the lowland eastern region. The total cost of the buildings would be \$1,500,000. The Ministry has assumed the responsibility for designing the buildings and would contribute the equivalent of \$350,000 as well as necessary land. The local communities would contribute labor and all necessary local construction materials. The local communities would amortize the \$1 million borrowed for this project by allocating 10 percent of their municipal taxes for this purpose.

Related background.—This proposal is designed to meet an essential need in a country with an excessively high rate of illiteracy. Within the past few years, this country, despite limited financial resources and considerable internal instability, has made marked progress in providing elementary education to its children. Enrollment in the elementary schools has risen from less than 50,000 to more than 150,000. A number of schools have already been constructed through the use of cooperative community self-help programs, initiated and carried out with relatively little direct government aid. Technical assistance programs have assisted this country in developing a cadre of elementary school teachers through an emergency teacher training program.

Proposal 12: Urban elementary school construction

Estimated cost, \$6,200,000.

This proposal would provide for 1,000 classrooms, at a cost of approximately \$6,000 per classroom, including furniture, equipment, service, and administration rooms. These new facilities would replace rented structures which now cost the government about \$200,000 per year. Classrooms constructed in selected urban centers would also be nuclei centers for surrounding rural population. This project would be financed through a long-term loan to be amortized by funds presently used to pay rent plus an increase in tax revenue created for this purpose.

Related background.—Illiteracy is high and lack of education has had a retarding effect on the development of this relatively backward country. Country ----- with technical cooperation from ICA has established an effective program of "nuclear" schools which serve as demonstration and training centers for teachers of other schools. The proposed new classrooms would strengthen this system by providing needed additional facilities and equipment.

Proposal 13: Agricultural extension

Estimated cost, \$4 million.

The purpose of this proposal is to finance the building and equipment of two schools for training of extension workers at the vocational agricultural level. The schools are to be constructed in zones of major resettlement activity under the 4-year agrarian reform program.

Related background.—----- is a country which has achieved some success in industrialization but in which there is wide disparity in the income of different social groups and in which rural development has lagged far behind urban. Agriculture is backward and primitive. The present government is progressive and dedicated but lacks trained personnel. It is very enthusiastic about the development of an agricultural extension service and if external financing is obtained for the proposed facilities, could be relied upon to provide the necessary annual budget to maintain the agency. It is worthy of mention that country ----- last year passed an agrarian reform law and is successfully carrying out a program of distributing land to landless farmers.

Proposal 14: Self-help school construction

Estimated cost, \$2 million.

This self-help construction program for elementary and secondary schools would be financed jointly by the United States and the government of country ----- . The local communities would furnish land, labor, and local building materials. The dollar contributions would be used for the purpose of paying for imported supplies such as hardware, tools, sanitary facilities, pipe, etc. When completed, this project would have 1,200 classrooms and house 50,000 students who currently have no school facilities. U.S. technicians would also teach nationals the organizational techniques required to develop community activities in self-help school construction.

Related background.—This is a predominantly rural country with a major long-range problem in education. The proposed project would not solve this problem completely, but would provide facilities as fast as the necessary teachers can be trained. A technical cooperation program over the past several years has helped to develop a rural normal school and trained teachers. This has paved the way for the expansion of rural school systems.

FUNDS AVAILABLE THROUGH BANK

Mr. GORDON. Thank you, sir.

Chairman HAYDEN. Senator Dworshak.

Senator DWORSHAK. I will try to be brief, Mr. Chairman.

Secretary Ball, I have listened to your statement with keen interest, but I became somewhat confused because I recall that in 1960 the Congress authorized participation of the United States in the Inter-American Development Bank in which we were committed to make available \$450 million. Is that correct?

I think a large part of that has already been made available. Do you know exactly how much was made available?

Secretary DILLON. Yes, Senator. As the Governor of the Bank I can answer that. We joined the Bank last year, we made our first payment, as did everyone else. Our first payment was \$80 million in cash and in addition to that we approved \$200 million in callable capital which is similar to the callable capital of the World Bank and which is available only to guarantee bonds that the Inter-American Bank may sell itself.

INSTALLMENTS OF CAPITAL OF BANK

The capital of this Bank is due in three different installments. The second installment will be due this year.

We have in our budget for this year, which will be coming along later, \$110 million which is the United States share of the capital of this Bank for the second installment.

The third installment will be due next year and that one is \$60 million.

So that the total in cash is the total of \$250 million.

Senator DWORSHAK. What will be the balance of the \$200 million made available then be in, in gold?

Secretary DILLON. \$250 million in cash. The other \$200 million is this capital I described earlier.

CALLABLE CAPITAL

Senator DWORSHAK. In what form do we provide the \$200 million?

Secretary DILLON. Callable capital?

Senator DWORSHAK. Yes.

Secretary DILLON. We don't provide it until such time as the Inter-American Bank has sold its own securities privately in the United States or in other markets.

Senator DWORSHAK. If we do will we provide local currency or in dollars?

Secretary DILLON. In dollars, whatever is necessary to pay off the obligation.

Senator DWORSHAK. Is it true that our total commitment is \$450 million?

Secretary DILLON. That is correct.

Senator DWORSHAK. It could be all in gold dollars?

Secretary DILLON. That is correct.

REASON FOR ADDITIONAL MONEY REQUEST

Senator DWORSHAK. Now, why is it necessary before this Bank really starts business to ask for \$394 million of additional money to be made available to the Bank? Do the other participating countries in the Bank provide any additional money to the original concept.

Secretary DILLON. They do as we go along in the regular subscription.

Senator DWORSHAK. But not additional?

Secretary DILLON. No, sir.

Senator DWORSHAK. There is a distinction there?

Secretary DILLON. Yes.

Senator DWORSHAK. This is another approach.

Secretary DILLON. That is correct. It is a totally different approach. This was our idea that the Bank would be the best organization to administer these funds, as our agent.

Now, we could have decided we wanted to do it all ourselves and do it all through the ICA, but we just thought the Bank would do a better job than our ICA.

U.S. OFFICIALS IN INTER-AMERICAN DEVELOPMENT BANK

Senator DWORSHAK. We have 1 governor out of the 19 governors?

Secretary DILLON. We have 1 governor of 19. We have one executive director out of seven and as I said he has 40 percent of the votes.

So he has a veto.

Senator DWORSHAK. And so, actually, this is an additional contribution we are making or committing ourselves to make, \$394 million, to the Bank?

Secretary DILLON. It is not to the Bank. That is an American fund which the Bank will operate for us.

SUPERVISION OF FUNDS

Senator DWORSHAK. When we make the funds available to the Bank, does that not become a unilateral program? Will the Bank or will it not have supervision of the use of the \$394 million that you are referring to in this Bill?

Secretary DILLON. It will have supervision of that in accordance with the trust agreement with the United States.

REPAYMENT POSSIBILITIES

Senator DWORSHAK. Now, Mr. Ball, on page 7 you said that:

Provisions of the draft agreement include the following:

A. The Bank shall provide loans on flexible terms and conditions, including repayment in local currency, and may provide technical assistance on a grant, loan, or reimbursable basis.

Repayments to the Bank will become part of the resources of the trust fund, to be reused for similar purposes.

Does that mean, then, that the U.S. Government receives no repayment of this \$394 million or of the money we originally committed ourselves to make available under the Development Bank?

Mr. BALL. No, at the time that the trust fund ultimately terminates, the assets that will have accrued as a result of this kind of revolving fund, funds that remain there, will become the property of the United States.

Senator DWORSHAK. But only if they do accumulate, if the loans are all repayable. The grants will not be——

Mr. BALL. No. But the great part of this——

Secretary DILLON. The Bank does not make grants.

Senator DWORSHAK. But the Bank operates with local currencies outside of our gold dollars?

Secretary DILLON. That is right.

PERIOD OF COMMITMENT OF FUNDS

Senator DWORSHAK. Now, you are proposing this as a long-range program?

Secretary DILLON. That is right.

Senator DWORSHAK. Ten years?

Secretary DILLON. I don't think there is any terminal date set on it.

Senator DWORSHAK. What do you estimate——

Secretary DILLON. As far as the \$500 million which we are asking for now the expectation is that this will be committed over a period of about 2 years.

Senator DWORSHAK. Two years?

Mr. GORDON. That is right.

Senator DWORSHAK. I read in the paper frequently and I think some place in the President's message submitted to the Congress under date of March 14, 1961, reference is made to a long-range 10-year program. Now, is that the present planning?

Mr. GORDON. That is the intention, Senator. The hope is that this will be a successful program.

Senator DWORSHAK. Just like the Marshall plan which was supposed to last 3 years and is still in existence.

Mr. GORDON. Senator, I think it is fair to say that the Marshall plan did terminate on schedule.

Senator DWORSHAK. The name was changed.

Mr. GORDON. I would say the original purposes of the Marshall plan were fully accomplished by 1952, which was the original date.

AID TO EUROPE SINCE 1952

Senator DWORSHAK. Why did we continue? Have we not had a foreign-aid program since 1952?

Mr. GORDON. We have with respect to Europe shifting in 1951 to military assistance to NATO. There has been no economic aid to Europe for years.

Senator DWORSHAK. You know that is not right.

Mr. GORDON. I am sorry, Senator——

Senator DWORSHAK. You mean since 1951 all the money made available under that foreign-aid program is for military defense? Do you say that?

Senator ELLENDER. Offshore procurement, \$3 billion.

Mr. GORDON. What I mean, Senator, is that starting in 1951, the aid to Europe was shifted to support for their extended military efforts.

Senator DWORSHAK. I asked you a question if you contend since 1951 or 1953 we have not made any economic aid available to European countries under our mutual aid program.

Mr. GORDON. I would not contend that.

Senator DWORSHAK. That is not what you said in the first place.

Well, I will not belabor that.

AMOUNT FOR 10-YEAR PROGRAM

The main thing I want to know in a very sincere way is how much you expect to spend in 10 years on this program.

Now, if you can give me an estimated figure then I want to ask another question.

Mr. GORDON. We have no estimate, Senator, for the full 10 years. I was asked in testimony before the House Appropriations Committee to make a guess and I said that with respect to the purposes that this particular program is scheduled for, a purely personal guess might be an average of \$250 million a year for the 10 years, which would be a total of \$2½ billion.

That, of course, is for the purpose of the social development programs that this \$500 million is intended to cover.

RECOMMENDATIONS FOR FINANCING PLAN

Senator DWORSHAK. As a part of this long-range program, which is commendable in many ways as compared to an annual program, are you recommending to the Congress any means for increasing taxes to finance this plan so that we will not automatically increase our annual deficits by this amount?

Secretary DILLON. I would say that question should come to me.

We do not expect that we will have any increases in taxes.

Senator DWORSHAK. How are you going to finance this?

Secretary DILLON. Except such increases as compensate for the investment incentive program which we are suggesting, we do not feel that this program in itself will lead to U.S. Government deficits.

It is true we have a deficit this year and we will have a deficit next year, but not due solely to this program or even to a major extent to this program.

Senator DWORSHAK. How do you finance this money, then, Mr. Secretary?

Secretary DILLON. Through the general revenues of the United States.

Senator DWORSHAK. Does it not to that extent contribute to the expenditures and thereby will be reflected in the final computation of the deficit or surplus?

Secretary DILLON. That is correct.

But we don't think we need any extra specific taxes for the purpose of taking care of this particular appropriation any more than we need extra additional taxes to take care of the unemployment compensation.

Senator DWORSHAK. We did on the highway program, did we not?

Secretary DILLON. We had to take care of that. We had to ask specific taxes.

Senator DWORSHAK. We might follow the same procedure on this.

Secretary DILLON. We are not suggesting it in this case, Senator.

Senator DWORSHAK. That is fine. You have given me a specific answer.

Now, I have one more question.

ATTITUDE TOWARD U.S. FOREIGN POLICY

On April 27 in the Washington Post there appeared an article under the Rio de Janeiro, Brazil, dateline as follows:

Brazil opposes any direct or indirect military action against Cuba, even a blow against the spread of communism on this continent. Brazil believes the only solution for the United States is to learn to live with the pro-Communist regime in Cuba, 90 miles from the U.S. shores, while Latin American diplomats attempt to talk Fidel Castro into rejoining their democratic family.

What is your reaction to that?

I understand that there is already a rising tide of disagreement or controversy affecting our foreign policy.

Another article that appeared this morning said:

President Kennedy and President Frondizi have exchanged letters on the question of whether alliance in progress should put initial impetus on building basic industries or on education, agriculture, and social services.

Now, what is your reaction to that? Can you give us a brief comment? Are we heading into a long-range controversial program affecting our foreign policy, or not?

MR. BALL. I think with respect to Brazil I might ask Mr. Berle, who has been in the past our Ambassador to Brazil, and who is an expert in that area, to answer you, Senator.

MR. BERLE. I think the Senator has asked two questions in one. If I may speak to the second one.

Senator DWORSHAK. I want you to make a general comment in your own way.

MR. BERLE. Since the announcement of the arrangement for the Inter-American Bank was made at Bogotá last year and the President's speech of March 13 announcing the general outline of the alliance in progress, soul searching has been going on all over the hemisphere and indeed it should.

This goes on in Brazil and Argentina as well.

RESULTS OF LATIN AMERICAN THINKING

One result of that soul searching obviously is reflected in the communique which relates to a meeting between President Frondizi and President Quadros. That meeting, I may add, came out with a rather forthright statement that the states together would cooperate with the United States in combating foreign aggression though they may not have agreed on the method as to how it should be done.

I think, therefore, that to answer your first question, it reflects their own desires to work out their national planning which is a necessity for both.

Senator DWORSHAK. Which may be in conflict with our views?

MR. BERLE. Well, we will have to discuss that.

Obviously that can involve the policy of the Inter-American Bank and ICA and it will be taken into account, of course.

PRESS IN RIO DE JANEIRO

As to the second, regrettably I have learned to discount the press comments from Rio de Janeiro as well as other people on what the government would or would not do.

I think there are 27 different newspapers in Rio. Some of them are very much pro-American. There are one or two that I think are probably under Communist domination and I think we cannot take that as the view of the Government of Brazil.

Secretary Dillon was there only a few days ago. I was there, myself, in February and I think in both cases President Quadros took occasion to say that he considered it the ultimate duty of the President of Brazil to defend Christian civilization, which is their word for what we call Western civilization.

Obviously there will be a debate on the methods.

CARE NEEDED IN ADMINISTERING PROGRAM

Senator DWORSHAK. I just want to say that that is a very fine, clear statement and it is apparent that the State Department is aware of the difficulties we may face in Latin America.

I do hope that we shall proceed on the basis of not using American dollars to bribe these countries to give us acquiescence and cooperation. We have to consider them as equals, but in doing that let us be careful that we do not become involved in a long-range program that will make increasingly greater demands on us financially, because if we destroy the solvency of our Government we will not be able to help those countries.

Mr. BERLE. I agree with you on both points, Senator.

Senator DWORSHAK. I thought you would.

Chairman HAYDEN. Are there any questions, Senator Stennis?

Senator STENNIS. I have a few questions, Mr. Chairman.

I did not get to hear all the statement. In the first place, gentlemen, I recall the first major vote that I took in the Senate was in the special session of 1947 where the forerunner of the Marshall plan was up, the interim program, before the large organization.

Since then I have seen this thing come a long way. Since I have been on the Appropriations Committee I have learned more about the difficulty of it and I also know about how the money was spent.

I have opposed it sometime on the amount, the total amount, but I would not want to abolish the whole program.

Now, I very much hope that all of us can support this. I hope I can, but certainly we have profited by some bad mistakes we have made in the past and it seems like you have, to me.

But I want to ask this question now:

DISTINCTION BETWEEN IDE AND PRESENT FUND

Who joins with us? We call this the Inter-American Bank. Who joins in putting up money?

As I understood something was said there about some would put up land, labor, and commodities. Just how is that going to work out?

Does anyone else put money into this fund except us?

Mr. BALL. Not this fund, Senator Stennis.

In the Inter-American Bank itself, the Inter-American Development Bank, there are contributions by all member governments.

As Secretary Dillon said a few moments ago, this is an American fund which, as you know, was discussed at the Bogotá Conference.

It is a fund especially for social development reform purposes.

Senator STENNIS. Administered by the Bank under a trust agreement?

Mr. BALL. Under a trust agreement.

Senator STENNIS. We write the trust agreement after consultation with the other nations; is that right?

Mr. BALL. That is right. A copy of the draft of the trust agreement is with the papers that you have, sir.

Senator STENNIS. Well, I did not know that.

BANK REQUIREMENTS ON LOANS

Mr. BALL. Now, in connection with the loans that are made by the Bank, the Bank insists that measures be taken by the governments to whom those loans are made and those measures take a variety of forms, everywhere from tax reform to land reform, and they may well in many cases require the governments themselves to put up substantial amounts of money. In fact, this is the expectation.

Senator STENNIS. That is clear now.

May I interrupt there? At that point where are we represented? You say the Bank may require this country.

U.S. VETO POWER

Mr. BALL. We have a veto on any loans that are made by the Bank under this fund for this reason, that, as Secretary Dillon has said, our representative, the Executive Director on the Bank, has over 40 percent of the votes and these funds are made available on a two-thirds vote of the Bank.

So with 40 percent we have more than one-third necessary for a veto, which means that we have effective control of this.

Senator STENNIS. So whatever condition that X country is going to have imposed on it, we have representation there in making that final decision to the extent of a veto.

Mr. BALL. That is right.

Senator STENNIS. And that will apply in all cases?

Mr. BALL. That is right.

Mr. GORDON. Senator, could I just supplement what Mr. Ball said?

Senator STENNIS. Yes, sir.

STATEMENT FROM TRUST AGREEMENT

Mr. GORDON. With respect to the provision of the trust agreement on contributions by the recipient governments, there is a specific provision which is section 201(c) of the trust agreement which states as follows:

Loan requests shall be granted only for projects or programs in which the applicant bears an appropriate share of the total cost. Loans may be granted to cover the total cost of a specific project provided such project is an integral part of an expanding program in the same field financed to an appropriate extent by the applicant. The Administrator shall also be satisfied that the borrower or other appropriate entity is prepared to assume the cost of the continued support of the project or program including the cost of maintenance or operation of any structure, installation, or equipment connected therewith.

That is designed to see that no loans are approved unless an appropriate contribution by the recipient government is—

Senator STENNIS. Very well.

Now, one more question, unless you have further comment on this point?

Mr. BALL. No.

TYPES OF RECIPIENTS OF LOANS

Senator STENNIS. I have one more question. This one goes to this loan to X country. Is that to be funneled out to any individuals, political units, or how is that money to be spent?

Mr. BALL. Only to the extent that it is lent to, let us say, a building and loan association, which would be a typical case.

The Bank might make a loan to a building and loan association which would then extend credit for low-cost housing.

Senator STENNIS. Fine. That is a good illustration. Do you have another one?

Mr. GORDON. Another example would be credit for agriculture cooperatives, for loans to small farmers. Indeed, the whole agricultural credit supply is one of the major requirements in the field of better land use, this being one of the outstanding shortages in Latin America.

Senator STENNIS. That is encouraging.

Senator ALLOTT. Could I ask him to repeat that?

Mr. GORDON. Yes, Senator. I said a second example would be loans to an agricultural credit institution. It might be a cooperative or it might be another form of agricultural credit institution, to be re-loaned to small farmers for credits, for tools, seeds, production requirements and the like.

This is a very important gap in the present institutional structure of Latin American agriculture at the present time.

Senator STENNIS. You are getting right down to the ground level now.

Give us another illustration if you have one ready.

Mr. GORDON. Most of the loans to individuals would be either for housing, as Mr. Ball said, or in the agricultural field.

Now, the Bank in its normal operations apart from this special trust fund, has made loans to institutions for relending to small businessmen for industrial or commercial development.

But that is outside of this particular program.

Senator STENNIS. But this one is, you definitely have in mind now a sizable part going to farmers, co-ops, and other examples that you have given, building and loan associations, perhaps small utilities of some kind.

How will that be worked?

Mr. GORDON. This program does not contemplate any of these funds going into public utilities except in water supply and sanitation; not electric power or other types of public utilities.

INTERNAL AFFAIRS OF RECIPIENT NATIONS

Senator STENNIS. Now, while we are on that subject, what is your attitude here about trying to influence the internal affairs of these nations that you are dealing with that way? This is not a trick question now.

I have changed my mind somewhat on that. I remember we used to lean over backward here in the debates that we were not going to try to influence the internal affairs of any of these states we were dealing with. I think we went to the extreme.

I think we have to try to influence the internal affairs, otherwise—

Mr. BALL. This is one of the major reasons why we are using the Inter-American Development Bank for this program. When a group of the Latin American governments join with us in the creation of a bank and then that bank imposes a condition, this is not the United States interfering in the internal affairs of the country.

Senator STENNIS. But you are in effect, that is why you are going into the program, is it not, to improve and influence the policies?

Mr. BALL. That is right, but it is not on a bilateral basis is the point I am making.

So the tendency is not to say, "This is the U.S. Government interfering with us." What they say is "This is something in which all Latin American governments join and it is the Bank which is imposing these conditions which we have to accept."

Mr. BERLE. May I add a word to that?

BANK'S CONDITIONS APPROVED IN HEMISPHERE

These conditions have been very much discussed in the hemisphere. Far from having been considered interference, they have been, in general, roundly approved.

The fact that all of the Latin American governments joined first in the formation of the Bank and will approve the trust agreements which contains these conditions perhaps sufficiently suggest that they do not consider it an undue interference in their affairs.

Senator STENNIS. I am sure that is true now, but there will be argument ultimately made to them that this is an interference and it must be rejected or abused in some way.

NO UNILATERAL OR BILATERAL INFLUENCE INTENDED

I think we have to meet that headon now and just say among ourselves certainly that is the primary objective of it, to elevate the affairs and get stronger and better policies, but we are not trying to dominate on a unilateral or bilateral basis necessarily.

Now, does that express the sentiments of all you gentlemen in your approach to the planning on this?

Mr. BALL. It certainly does.

RIVALRIES BETWEEN LATIN AMERICAN STATES

Senator STENNIS. I think that is a major point. Now, how are you going to handle the proposition here about the rivalry between countries down there as to who gets how much and so forth. We have had that all these years and you have, too.

How are you going to handle it? I have heard you discuss these matters on other programs. Do you think that being a loan entirely and under the conditions you will outline that that will largely solve the question about the rivalry or will it?

Mr. BALL. I think two things, Senator Stennis: First, the fact that these are loans; secondly, the fact that again it is not merely the United States that is making the final decision in each case.

This is a combined decision of the governments, themselves. Therefore, there is not an onus attached to a decision that this favors one country against the other.

It is not an onus which the United States has to bear.

Senator STENNIS. So you think you are going to be fairly well insulated against that decision?

Mr. BALL. I believe so.

Senator STENNIS. In years past the different countries have had people tramping the hallways of the congressional office building, you know, knocking on doors and pumping you for all it is worth in direct and indirect ways.

ESTIMATE OF FUNDS NEEDED

Now, on the amount, I know you cannot give a firm figure here for 5 years, or 10 years either, but, Mr. Dillon, do you adopt the estimate made by the gentleman here that for the foreseeable future the best estimate now is \$250 million per year for 10 years for the fund that goes into the Bank; is that correct?

Mr. GORDON. That was for the total of these purposes, Senator, not just the Bank part.

Senator STENNIS. Excuse me, the total for all the purposes, then.

Secretary DILLON. The total for all the social development purposes. I think it is very hard to have a solid opinion. I certainly do not see any reason why it should be more than that. I think it will be in that area.

Senator STENNIS. You are rather firm in your belief on that as you see it now?

Secretary DILLON. As we see it now. I think we would be able to be much firmer after we have actually operated this program for a year, but that is the way it looks now.

Senator STENNIS. That is a great obstacle in a man's thinking on the subject, what does this really contemplate after all.

FUNDS FOR CHILE SEPARATE PROGRAM

Now, this \$100 million for Chile, is that a special fund that you have in this bill, just relief fund, because of the earthquake?

Mr. BALL. That is right.

Senator STENNIS. It has no association with the other part of the program?

Mr. BALL. No, no association.

Senator STENNIS. You just have it in the same bill?

Mr. BALL. That is right.

JUSTIFICATION FOR CHILEAN LOAN

Senator CHAVEZ. Outside of the charitable end of it, what is the justification?

Mr. BERLE. Senator Chavez, I don't need to go into the actual amount of devastation by the Chilean earthquake. It was probably the worst earthquake that the world has seen in many, many years.

The dead alone were more than 10,000 and it was estimated at one time more than 20 percent of all the structures in Chile had been demolished by it, but I do not wish to claim the estimate as exact.

This came at a time when Chile had made one of the most magnificent efforts in the hemisphere to stabilize her currency, bring her budget into balance, her own expenditures had been cut. This had borne very heavily on great parts of the population.

Now the Chilean Government has asked us to assist its people in getting back on the map at a precise time when she had already imposed enormous sacrifices to keep her currency in order.

I may further add that the Alessandri Government has been an enlightened government. It has fought off the dictators of the extreme right and claims of the extreme left and was steering a middle course in social and economic progress under freedom.

Under those circumstances, both political and economic motives, as well as humanitarian, have suggested that the time has come to give substantial support.

I may further add that the American interests in Chile are as you know very great. The bulk of the Chilean exports comes from the copper industry which is almost entirely owned in the United States.

Senator CHAVEZ. Not the United States as such, but American interests.

Mr. BERLE. I said owned in the United States, meaning thereby owned by Anaconda and the other copper companies.

WAGES TO MINERS

Senator CHAVEZ. Do you know how much Anaconda pays the miners there?

Mr. BERLE. This is a separate question. I may add—

Senator CHAVEZ. I know. It is very important to the Chilean miner.

Mr. BERLE. It is important to the Chilean miner and very important to me. I am variously accused of being everything from a Communist to something else because this has been on my mind. In fairness to the American mines, however, it must be said that they have paid better wages perhaps than any other mining group in the enterprise. Whether it is good enough is a question for debate. I will say the problem is a continuing one and the problem which has to have continuing concern. By comparative standards they have not done badly. Whether by comparative standards is a good enough criterion is a question that always lies open in my mind.

FUNDS FOR PRESENT FISCAL YEAR

Chairman HAYDEN. I just want to ask this question: This money is to be spent in the future. What fund do you intend to use for the present fiscal year for the administration of this new inter-American program? How much do you expect to use for administrative purposes?

Mr. BALL. There is a paragraph in the statement on this which I might just read if I may, Mr. Chairman.

This is on page 11:

It is not the intention of the executive branch to use appropriations authorized by Public Law 86-735 for the purposes of administering either of these bilateral programs. It is intended that such expenses would be paid from administrative funds made available to the ICA and the Department of State

under appropriations for such purposes under the Mutual Security Act. These funds would be used pursuant to the usual administrative authorities under section 537 (a) of the Mutual Security Act.

ADMINISTRATIVE COSTS

Mr. GORDON. Might I supplement that, Mr. Chairman?

With respect to the Bank's administrative expense there is a specific provision in the annex to the trust agreement and the Bank has made an estimate that something around 1 or 1½ percent at the outside would be the administrative cost.

ATTITUDE TOWARD UNITED STATES-CUBAN CRISIS

Senator STENNIS. Mr. Chairman, I have several questions, but other Senators are waiting with their questions.

Mr. Secretary, for months now we have been having military briefings on all our forces around the world. I have been impressed with the cost to us of what we are having to do in Formosa, what little help we have there, what we are doing in Korea, what little help we are having there with no prospect for better help.

The same thing is true in Japan. You can go around the world almost and you have not the identical picture, but with some exceptions about the same picture. I think we have to put more thought into the question now of who is going to help us, regardless of the merits of these programs, who is going to help us and how much.

I use that as a background leading up to this situation in South America now with reference to our special problem regarding Cuba. Just where do we stand with these South American countries now? These Latin American countries, with reference to the contest with Cuba. I will strike that word "contest" and substitute the "problem" of Cuba.

I don't want to bring out something you do not wish to tell.

Mr. BERLE. I am quite willing, myself, individually, to answer any questions.

There is certainly a problem in Cuba.

Senator STENNIS. Comment on that point if you will.

Mr. BERLE. The United States has military assistance arrangements with most of the Latin American countries.

Pardon me, I was not talking about having further consultations with the Latin American governments, they are not all finished but when things looked at their worst, I may add much worse, than they were, Uruguay, supposed to be under great stress from pro-Communist influence, supported the United States. Presidents Frondizi and Quadros met and issued their statement. Honduras, which is supposed to be in danger, came out and broke relations with Cuba and declared for the United States at once. We received personal assurances from a number of other countries privately and directly.

To go through the entire hemisphere the alinement grew and grew and, being faced with a choice of what you get under a Soviet or a Communist alinement and what you get with progress and social development under freedom, the declarations were amazing.

UNPRECEDENTED SOLIDARITY WITH UNITED STATES

Now included in that was something that is without parallel in the history of Latin American relations so far as I know. Twenty-four political parties, not governments, comprising a majority of all the votes cast in Latin America, not only joined in statements in favor of the United States but have declared that they wished to go further.

Now we are beginning, in other words, to get an alinement.

Coming back to the subject of this particular hearing, let me say that something is going on here very much like or somewhat like what happened in Europe in 1947. Then as you recall, the Marshall plan was announced and at the same time the United States decided to provide military aid in Greece. There ensued a period of political alinement with the same kind of Communist pressure brought on governments that is being brought on the Latin American governments now, pressure which Europe rejected for freedom as well as development. I, myself, am clear that Latin America will do the same thing. In a sense, the Alliance for Progress, which in this immediate aspect is represented by this bill, is the polarizing point as against the Communist group.

PROGRESS IN MOBILIZING OPINION

I am heartened thus far to see the progress. How much farther we can go, of course, we cannot tell because political forces mobilize rather slowly.

I myself feel that the blinding flash of realization that this was a contest between liberty and Soviet intrusion into the hemisphere crystallized an issue and people began to stop talking cloudy generalities and united fronts and began to realize what a cold war is.

Senator STENNIS. You state, then, on your responsibility here now, as the inter-American representative, as I understand it.

Mr. BERLE. I will state it on my personal responsibility.

STATEMENT OF PERUVIAN GOVERNOR OF BANK

Secretary DILLON. I would like to add to that one incident which I think also will interest you. When I was at the Rio de Janeiro Inter-American meeting the meeting was closed by an address of one of the governors who had been chosen to speak on behalf of all the governors to close up the meeting, a sort of formal statement.

This governor was the governor of Peru, the Prime Minister of Peru. He made a very excellent overall statement supporting the general principles of the Bank, supporting the general principles of self-help, and so forth. Then when he finished that part of his address he launched into a speech against totalitarianism from extracontinental sources. That was clearly directed against Cuba although he did not, I think, use the word "Cuba" but everyone knew what he was talking about. The interesting thing was that in this portion of the speech he was interrupted three times by spontaneous applause from all the assembled delegates. I think this is the first time that in one of these general formal meetings a Latin American has gotten up and openly spoken against Cuba and had this reception, this applause for it.

Senator STENNIS. When was that, Mr. Secretary?

Secretary DILLON. That was about 2 weeks ago.

Senator STENNIS. Thank you, gentlemen, very much.

ATTITUDE OF PAN AMERICAN HIGHWAY CONGRESS

Senator CHAVEZ. May I say this to Senator Stennis: The Pan American Highway Congress or Committee has been meeting in Washington. We have had them from Chile, Mexico, all over Latin America. What you have stated, Mr. Dillon and Mr. Berle, is the general feeling.

Mr. BERLE. I think I am stating it accurately. For some strange reason all bad news is well publicized. The good news which comes from all over always seems to be repressed. All the information reaching me, not all, of it but the trend of the information reaching me confirms that conclusion.

Chairman HAYDEN. Senator Kuchel.

REQUESTED FUND NOT FOR BANK CAPITAL

Senator KUCHEL. When the Senate approved the treaty to create the Inter-American Bank I remember one of the telling arguments was that the United States would be a minority stockholder and would supply a minority capital. According to your table we have some 41 percent of the total capital. Now as we approve this additional appropriation, Mr. Secretary, because obviously it is going to be approved and I support it, does that destroy the fact that we are a minority stockholder.

Secretary DILLON. No, Senator. This appropriation will be for an American fund which will be handled by the Bank as the agent and will be set up separately on its books as a fund that is handled by the Bank as agent for the United States. It has nothing to do with the capital of the Bank. No stock will be issued because of it. So it will have nothing to do with our stock interest in the Bank. We do have a 40 percent interest in the Bank. In the ordinary operations of the Bank, loans are approved by majority vote so we are in the minority. The fund for special operations of the Bank consists of \$150 million, of which we put up \$100 million as part of our capital. This fund can be used for loans repayable in local currencies.

These loans are approved by a two-thirds vote where the United States, having a 40 percent vote, actually has a veto if we choose to exercise it. That same procedure was carried over and used in the trust agreement to cover these funds for social development that are being requested.

RULES FOR AVAILABILITY SAME AS BANK'S

So the rules then with respect to these moneys we are discussing today would be the same as those for the moneys for special operations available by the treaty creating the Bank itself.

The ordinary operations of the Bank which are the hard loans are approved by majority. But loans from the special fund, which is \$150 million out of a billion dollars capitalization, are approved under the same method as these new moneys.

REQUEST FOR TEXT OF TRUST AGREEMENT

Senator KUCHEL. Mr. Secretary, I do not know whether this has been supplied for the record, but I would like to have for the record a copy of the trust agreement that you mentioned.

Mr. BALL. It is in the record.

Mr. GORDON. It is not in the record. It is in the presentation book. I think it would be very helpful if it were printed in the record. It is annex C of the presentation book.

Senator KUCHEL. If it is not long, I think it should be, too.

Mr. GORDON. It is not long.

(The information referred to follows:)

DRAFT AGREEMENT

SOCIAL PROGRESS TRUST FUND

Agreement dated this ----- day of -----, 1961, between the Government of the United States of America (United States) and the Inter-American Development Bank (hereinafter sometimes called the Bank), to entrust to the Bank the administration of the Social Progress Trust Fund, constituted from part of the Special Inter-American Fund for Social Progress.

PREAMBLE

Whereas the President and the Congress of the United States have endorsed the establishment of a cooperative program for the social progress of the American Republics, complementing measures directed toward accelerated economic growth, and based on the determination of the respective countries to contribute their own efforts and resources in a manner conducive to achieving the purposes of the program;

Whereas the representatives of the American Republics, considering it advisable to adopt measures for social improvement and economic development within the framework of Operation Pan America, recognized in the Act of Bogotá of September 12, 1960, that the preservation and strengthening of free democratic institutions in the American Republics require the acceleration of social and economic progress in Latin America adequate to meet the legitimate aspirations of the peoples of the Americas for a better life and to provide them the fullest opportunity to improve their status and recognized further that the magnitude of the problems involved will require maximum self-help efforts on the part of the American Republics and, in many cases, the improvement of existing institutions and practices, particularly in the fields of ownership and use of land, education, and training, health and housing, and taxation and other aspects of the mobilization of domestic resources:

Whereas in the Act of Bogotá the representatives of the American Republics welcomed the decision of the Government of the United States to establish a Special Inter-American Fund for Social Progress with the Inter-American Development Bank to become the primary mechanism for the administration of such a fund;

Whereas the United States has now established the aforesaid Fund to assist in carrying out its declared aims for social improvement in the Latin American Republics and thereby contribute towards fulfilling the purposes of the Act of Bogotá; and

Whereas the Inter-American Development Bank has determined that the administration of a trust fund for these purposes by the Bank would be consistent with the provisions of the Agreement Establishing the Bank and would strengthen the efforts of the Bank to foster greater social progress and balanced economic growth:

Now, therefore, the parties hereto agree as follows:

ARTICLE 1. ESTABLISHMENT AND PURPOSES OF THE SOCIAL PROGRESS TRUST FUND

Section 1.01. There is hereby established the Social Progress Trust Fund (hereinafter called the Fund), constituted by monies transferred to the Fund from time to time by the United States and by any other accruals thereto, pursuant to Article II of this Agreement, to be held in trust and administered by the Bank in accordance with the terms of this Agreement.

Section 1.02. The Bank is hereby designated Administrator of the Fund. The term "Administrator" will hereinafter be used to refer to the Bank acting in that capacity.

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 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 1.04. 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.

Section 1.06. The Fund and its assets and accounts shall be kept separate and apart from all other assets and accounts of the Bank.

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 improvements 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.

(b) Before acting favorably on a loan request, the Administrator shall be satisfied that measures necessary and appropriate for the success of the project or program have been or will be undertaken.

(c) Loan requests shall be granted only for projects or programs in which the applicant bears an appropriate share of the total costs. Loans may be granted to cover the total cost of a specific project, provided such project is an integral part of an expanding program in the same field financed to an appropriate extent by the applicant. The Administrator shall also be satisfied that the borrower or another appropriate entity is prepared to assume the costs of the continued support of the project or program, including the costs of maintenance and operation of any structure, installation and equipment connected therewith.

(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.

ARTICLE III. RESOURCES OF THE FUND

Section 3.01. The United States undertakes to contribute to the Fund out of moneys appropriated by the United States Congress which may be available for this purpose.

Section 3.02. The Administrator shall be entitled to make commitments on behalf of the Fund in an amount of \$-----, which may be increased by mutual agreement.

Section 3.03. The United States contributions will be made available to the Administrator from time to time as needed to meet disbursements from the Fund.

Section 3.04. All moneys received in repayment of loans made out of the Fund or by way of interest or by way of other accruals thereto, shall be held by the Administrator as part of the resources of the Fund and be available for use in accordance with this Agreement.

ARTICLE IV. OPERATIONS OF THE FUND

Section 4.01. Whenever assistance from the Fund is requested, the applicant shall be required to furnish the Administrator such information as may be necessary or desirable to enable the Administrator to determine whether favorable consideration of the application would further the purposes specified in Article I, Section 1.04, of this Agreement. The borrower shall also be required to supply the Administrator such additional information as the Administrator may reasonably request at any time during the course of the operation.

Section 4.02. Capital resources of the Fund shall be provided by the Administrator under such flexible terms and conditions of repayment as it is determined are best suited to carry out the purposes set forth in Article I, Sections 1.03 and 1.04, of this Agreement.

Section 4.03. Upon request, technical assistance may be provided by the Administrator on a grant, loan or reimbursable basis, for the preparation, financing, and execution of plans and projects for carrying out the purposes set forth in Article I, Sections 1.03 and 1.04, of this Agreement.

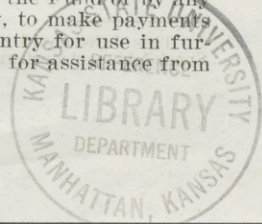
Section 4.04. Loans may be made to national governments, government institutions and agencies, to local and municipal governments and to private borrowers within an eligible country, including cooperatives and organizations affiliated with or sponsored by labor unions. The provisions of Article III, Section 7(b), of the Agreement Establishing the Bank shall be followed in applying 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.

Section 4.06. United States dollar funds made available under this Agreement shall be used for the purchase of goods or services from the United States or for the acquisition of goods or services of local origin in the country where the assistance is received. However, subject to the provisions of Section 4.05 of this Agreement, the Administrator may authorize the use of such funds for the acquisition of goods and services produced in other countries which are members of the Bank if such transaction would be advantageous to the borrower.

Section 4.07. Loans made from the Fund may be made repayable in whole or in part, as to both principal and interest, in the currency of the borrower. All loans of dollars shall be denominated in dollars and, to the extent that servicing is called for in a nondollar currency, the loan contract shall oblige the borrower to make payments of interest and payments of principal in such amount in the case of each payment as is required by provisions in the contract deemed by the Administrator to be appropriate to insure that the payment is equivalent in value to the dollar denominated amount due.

Section 4.08. Whenever any part of a loan is made repayable in the currency of the borrower, the Administrator shall require that the country of the borrower agree that its currency received by the Fund may be used by the Fund or by any recipient from the Fund, without restriction by the country, to make payments for goods and services produced in the territory of the country for use in furtherance of the purposes of the Fund in any country eligible for assistance from the Fund.



Section 4.09. Currencies held by the Administrator in the resources of the Fund shall not be used to purchase other currencies for making loans.

Section 4.10. Decisions relating to the Fund shall be reached by the Administrator in accordance with the provisions of Article IV, Section 9, of the Agreement Establishing the Bank.

ARTICLE V. THE ADMINISTRATOR

Section 5.01. In the administration of the Fund, cooperation shall be maintained with national and international organizations, both public and private, operating in the field of social development, and particularly with agencies of the United States administering other portions of the Special Inter-American Fund for Social Progress.

Section 5.02. The Bank shall exercise the same care in the discharge of its functions under this Agreement as it exercises with respect to the administration and management of its own affairs.

Section 5.03. The Administrator shall receive no compensation other than reimbursement for expenses incurred because of services rendered under this Agreement, which will be computed in accordance with the plan set forth in Annex A hereto.

Section 5.04. The Bank shall include in its annual and quarterly reports a separate section containing appropriate information with respect to the receipts and disbursements of, and balances in, the Fund. In addition, within sixty days after the close of each annual accounting period the Administrator shall issue a detailed report containing appropriate information with respect to operations of the Fund, the progress of the projects for which disbursements were made and other matters relating to the Fund, including a factual presentation of the measures being taken in the borrowing countries to accomplish the objectives stated in Section I of the Act of Bogotá. Observations which the United States may desire to make to the Administrator upon any such annual report shall be presented as promptly as possible and ordinarily within the annual accounting period in which the report is received.

ARTICLE VI. REVISION AND TERMINATION

Section 6.01. Following each annual report made by the Administrator under Article V, Section 5.04, hereof, either party may propose revision of the terms of this Agreement.

Section 6.02. If at any time it appears to the Administrator or to the United States that the Fund is no longer necessary or that the purposes of the Fund can no longer be appropriately or effectively carried out, the parties hereto shall forthwith consult with one another concerning the measures to be taken. If a decision to terminate the Agreement is reached, or if no decision is reached within thirty days, or if pursuant to Article X of the Agreement Establishing the Bank, the Bank suspends or terminates its operations, then the operations of the Fund shall cease and its liquidation shall be commenced upon the election of either party unless both parties agree on another course of action.

Section 6.03. Any assets remaining in the Fund at the time of termination, including outstanding loans, shall revert to the United States upon the settlement of all accounts due and payable from the Fund.

ARTICLE VII. ENTRY INTO FORCE

Section 7.01. This Agreement shall enter into force on _____, 1961.¹

ARTICLE VIII. TITLE

Section 8.01. This Agreement may be cited as "Social Progress Trust Fund Agreement."

ANNEX A

1. The Fund shall be charged for the salary costs of time which is spent on work for the Fund by the professional staff of the Office of Special Operations of the Administrator and by the professional staff, exclusive of division heads and

¹ This date would be subsequent to the date on which the legislation appropriating the Special Inter-American Fund for Social Progress is enacted.

assistant division heads, of the Loan, Technical Assistance, Economics, Engineering, and Legal Divisions of the Administrator.

2. The Fund shall be charged for all other expenses clearly identifiable as having been incurred by the Administrator in the Fund's behalf, *e.g.*, staff travel and consultants' costs.

3. For each dollar of the professional salary costs charged to the Fund pursuant to paragraph 1 above, the Fund shall be charged an additional \$1.80, representing the Fund's share of indirect and overhead expenses other than those specified in paragraph 4 hereof. The amount specified herein shall, at the request of either party, be subject to adjustment at the end of each annual accounting period of the Administrator.

4. No charge shall be made to the Fund for costs of the Annual Meeting of the Board of Governors; for the Offices of the Executive Directors; for personal services in the Offices of the President and the Executive Vice President; for the salaries of the heads and assistant heads of the Divisions referred to in paragraph 1 hereof; or for any part of the expenses incurred by the Bank primarily for its own benefit, such as travel, printing, library, books and periodicals, and for the various fees and compensation costs (*e.g.*, fees for actuarial services and for handling the retirement fund).

DRAFT EXCHANGE OF LETTERS PURSUANT TO THE SOCIAL PROGRESS TRUST FUND

Dear Mr. _____, 1961.

I have the honor to refer to the Agreement on the Social Progress Trust Fund between the Government of the United States of America and the Inter-American Development Bank signed today.

It is the view of my government that in accordance with applicable United States statutes at least 50 percentum of the gross tonnage of any equipment, materials and commodities which are financed with funds derived from a disbursement authorized under this Agreement and which are to be transported on ocean vessels, shall be transported on privately owned United States-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for United States-flag vessels.

I should be grateful if you could confirm on behalf of the Inter-American Development Bank that the foregoing will be applied in the administration of the Trust Fund.

For the Government of the United States

_____, 1961.

Sir:

I have the honor to acknowledge the receipt of your note of today's date which reads as follows:

"I have the honor to refer to the Agreement on the Social Progress Trust Fund between the Government of the United States of America and the Inter-American Development Bank signed today.

"It is the view of my government that in accordance with applicable United States statutes at least 50 percentum of the gross tonnage of any equipment, materials and commodities which are financed with funds derived from a disbursement authorized under this Agreement and which are to be transported on ocean vessels, shall be transported on privately owned United States-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for United States-flag vessels.

"I should be grateful if you could confirm on behalf of the Inter-American Development Bank that the foregoing will be applied in the administration of the Trust fund.

"For the Government of the United States

On behalf of the Inter-American Development Bank I herewith give the confirmation requested.

RULES FOR MATCHING

Senator KUCHEL. Now, with respect to the rules for matching under the \$100 million appropriation, are those rules available so that they, too, might be made a part of the record?

Mr. GORDON. Senator, we have no formal statement of rules with respect to the \$100 million. There is a formal statement in the trust agreement with respect to the Bank's part.

Senator KUCHEL. Yes, sir; but I mean the ICA money.

Mr. GORDON. What Mr. Ball has said in his statement is that similar criteria will apply to the administration of the \$100 million.

Senator KUCHEL. Yes, sir; but I thought there was some little confusion, at least in my mind. I think Secretary Ball suggested that the \$100 million to be made available to ICA would operate as a grant with, however, certain provisions of matching and if that is the fact, I wonder whether we might have at least a general indication of what that matching is. Is it 100 percent?

Mr. GORDON. In the illustrative proposals the figures are given in each case; they run typically from 30 to 75 percent of the total being supplied by the recipient government. There is not a single rule for all of these because, of course, these countries run from very poor ones like Haiti to not so poor ones like Chile or Argentina.

The amount of the contributions of the local government will, of course, depend on the resources and the particular project.

GOVERNMENT-TO-GOVERNMENT PROGRAM

Senator KUCHEL. This would be a government-to-government proposition whereas the Inter-American Bank is in the business of making loans to private individuals or private groups for other purposes.

Mr. BALL. Or to governments.

Senator KUCHEL. Or to governments.

Mr. BALL. Yes.

Senator KUCHEL. Although you have apparently ruled out loans to governments for certain purposes such as reclamation projects, as I understand it.

Mr. GORDON. That is right. Typically, the recipient in the first instance is a government entity although not in all cases. It might be a savings and loan association. Sometimes those would have a certain amount of governmental seed capital in them as well as private capital raised in the country concerned. But in the agricultural credit field, for example, typically the agency concerned is a special agricultural credit bank set up by the government with most of its capital supplied by the government concerned and then they would be able to borrow from the Inter-American Bank under the terms of this.

They, of course, in turn, would make loans to individual small farmers. There is also the possibility of loans directly to private organizations, for example, in the low-cost housing field. But I think that in general in this social development program the first recipient would typically be a governmental agency.

PUBLIC HEALTH AND EDUCATION

Now, the ICA part deals with public health and with education and, of course, in those cases normally the recipient would be some sort of government entity. But not necessarily a national government. It might be a local government entity.

ICA LOANS AND GRANTS

Senator KUCHEL. Has the ICA in making loans in the past in these fields of health and education, made grants exclusively and not entered into any loans?

Mr. GORDON. Mr. MacPhail?

Mr. MACPHAIL. There have been both loans and grants in the past. Under special assistance funds in Latin America, there have been a number of loans made.

Senator KUCHEL. Is it contemplated by the Department that any part of the \$100 million here would be for loans?

Mr. GORDON. Yes, sir.

Senator KUCHEL. I think the point made, gentlemen, and I am a new member of this committee and a new member of the Senate, relatively, at least, is that there is considerable merit in feeling that the Latin American people would take a little bit of offense, feeling that this great northern Goliath is giving the money. I don't raise the suggestion that we, by amendment, restrict the executive branch from making grants when that is in the interest of hemispheric solidarity. I think I recognize a little bit the need to raise the educational process, but it would be comforting, I think, for the country if your Department would indicate that wherever it was possible and feasible, you would resort to making loans for education and health rather than making gifts.

Mr. GORDON. Yes, Senator. We obviously don't intend to force grants on anybody. I think all of the things being equal the loan route is preferable.

SELF-HELP SCHOOL CONSTRUCTION

On the other hand, some of these educational projects, for example, include aid to local communities which are engaged in the type of what is called self-help school construction where the local community supplies the land, building materials and the labor but they require some things for equipment, teaching materials, perhaps certain of the building supplies that can't be made on the spot.

Some of these local entities do not have financial resources to make a loan really repayable. In a case of that kind I think it would be unfortunate if we were to insist on a loan when the resources are simply not there or in sight. If one thinks of a situation like that in Hati, I think it becomes very clear that genuine repayment of aid to education simply cannot be expected. There are other cases where a university, for example, has access to special funds, earmarked taxes, or other special funds. In cases of that kind a loan would be thoroughly appropriate for helping them, for example, to expand their engineering training facilities.

EXAMPLE OF ICA LOANS TO UNIVERSITIES

Senator KUCHEL. Would you be able to supply for the record an example of where loans might be made by ICA to assist South American universities.

Mr. GORDON. Certainly.

(The information referred to follows:)

Because of the non-self-liquidation aspect of assistance to schools or universities our assistance in the past in Latin America has generally been confined to dollar financed technical assistance or outright grants of laboratory and teaching equipment. In Chile loans of local currency (generated through Public Law 480 title I sales) have been made for the purpose of constructing university facilities. Also in Chile, a dollar loan was made for the purpose of procuring scientific equipment for its seven universities.

The following proposal for university X at an estimated cost of \$20 million is an example of how loans might be made to universities in Latin America. The purpose of this proposal is to improve university education in the fields of agriculture, science, and engineering by providing services of U.S. professors, participant training in the United States, and by financing purchase of laboratory, field, and teaching equipment (in the United States) for institutions of higher learning. A survey was made which determined the need for assistance, the fields, the types of materials, and the universities willing to participate in the program. The government of country Y has agreed to support the increased local cost and in addition is concerned that this program be enacted as early as possible in order to develop leaders in the proposed fields as rapidly as possible.

Related background: The government of country Y has informally indicated its willingness to contribute approximately \$5 million annually, or one-half of its present expenditures, for higher education to support this cooperative program during the 5-year life of the project. The project will provide significant support to a fully national program to strengthen higher education and will in addition provide the country with additional extension agents.

MOVEMENT FOR LAND REFORM

Senator KUCHEL. One of the broad questions that I think Senator Chavez raised is that apparently there are few landowners in many of the South American countries. Out of that fact apparently has grown some of the feeling by the poor there of some hope from what Castro said he was going to do.

It was suggested that by reason of the veto which the United States has in the two-thirds loan situation that we would be interested in the international affairs of those countries when we make loans perhaps to the extent of indicating our belief on land policy. Is that true?

Mr. GORDON. Sir, I think it is a little more complex than that. The movement for land reform in a broad sense in Latin America is very widespread. Venezuela, for example, has undertaken a large-scale program which includes both the settlement of empty land, some of which are publicly owned, and also the buying up of unused private lands with compensation to the owners and then for their resettlement by small farmers. This seems to us the orderly kind of land transfer which does provide landownership by the small farmers, but does not do it in the radical fashion that Fidel Castro talked about.

His actual performance has been, of course, rather different than what he predicted.

LAND REFORM MEASURE IN BRAZIL

In the case of the State of San Paulo in Brazil, which is the largest and most populous state, not largest in area but the most populous state in the country, they passed last year through their state legisla-

ture a combined tax and land reform measure which in effect, provides for a graduated tax, the amount of the tax increasing with the size of the land holding, but with remission of the higher tax in cases where the land is well used. The idea is to try to force the owners, if they don't want to pay the taxes, to sell the land and make it available for ownership by smaller farmers as a result.

This also seems to use a very useful kind of land redistribution. Our thought is that the Bank would in such cases make loans available for helping the small farmers to get properly settled on the land. They would be for agricultural credit perhaps in certain cases where it is inaccessible land in certain cases, for building access roads, for assistance to cooperatives in developing marketing and storage facilities for food and other agricultural crops and things of that kind.

Our hope is that by the example of making funds available in cases where governments are moving, by making it clear in cases where controversial land reform legislation is under discussion in Latin American legislatures, and this is true in several cases at this very time, that funds will be available if this kind of measure, which is directed toward getting the small farmer to have land of his own, is adopted, a refraining from making funds available where that kind of action is not taking place. We obviously can't say we are going to dictate the land reform legislation of another country but we can provide help where the right kind of legislation is forthcoming and refrain from providing help where it doesn't.

Senator KUCHEL. And giving consideration to that problem, for example, in making a loan to a savings and loan group so that where loans are made for the purposes of home construction, consideration would be given to the fact that the land on which the home would be constructed would belong to the person building the home.

HOUSING PROGRAM

Mr. GORDON. That is right. One of the important aspects of the housing part of the program is again what is called aid in self-help housing construction. There have been some very promising housing experiments in this, in Puerto Rico and some in Chile and other countries. Colombia is working on such a program. In those cases typically the land is contributed by the municipalities. The labor is supplied by the owner, the future owner, under some sort of technical supervision so that he knows how to make the building.

Senator KUCHEL. Will our country be given credit in those nations for the expenditures out of this trust fund? Will we get a little public benefit through appropriate public relations?

Mr. GORDON. We have this in mind, Senator. We don't want to advertise this as a bilateral program because the whole idea is to try to develop an inter-American spirit.

Senator KUCHEL. Except that this is a unique recommendation you make.

Mr. GORDON. Well, we have the public information aspect of this very much in mind. We have not got a specific program worked out as yet for that. We have this on our own immediate agenda to work on because we are very sensitive to the importance of this problem.

Senator CHAVEZ. They will know it when you build the roads. They will give the United States credit. From Guatemala to Panama City

they think the United States is great, not only because they contribute two-thirds of the funds, but for the benefit they get out of the road.

Mr. BALL. The President's announcement of this \$500 million program was very widely acclaimed in Latin America. I think that the knowledge of this fund is very strong in the consciousness of Latin America. Wouldn't you say that?

Mr. BERLE. Very much. It is the most discussed thing in Latin America.

Chairman HAYDEN. The Senator from Colorado.

HOUSE COMMITTEE REPORT

Senator ALLOTT. I will try to make my questions as brief as possible although I have a considerable number to ask. The House committee report says in paragraph 4 on page 2,

However, officials of the executive branch were unable to tell the committee in what countries, what projects, give precise estimates of cost, or any other useful data of the type and detail normally required to be furnished by U.S. Government departments and agencies in budgetary justification of the projects and activities to be constructed or conducted in the United States.

Then they go on to say—

Under all the circumstances, including those implicit in the adoption of the authorizing legislation at the last session and other relevant considerations—underscoring the last four words—

the committee recommends resolving the proposition in this particular instance in favor of the full budget request.

Now, I am very much concerned about this, gentlemen. I have, as everyone knows, supported the mutual assistance program consistently since I have been in the Congress. I have been concerned about such words and about such words having to be placed in a Senate report to which I would have to file a dissent.

What is your answer or what do you have to say to the language of the House included in its report?

STATEMENT BY REPRESENTATIVE PASSMAN

Mr. BALL. Let me read a statement which was made by Mr. Passman, who was the chairman of the subcommittee in the House which handled this appropriation. This is from page 6268 of the Congressional Record in the House for April 25:

Mr. Chairman, let me make this further statement. I am afraid that I have used the word "justification" very loosely. There are justifications for the appropriation. I tried to convey in my presentation the need for detailed justification by projects. However, the overall need is present and the committee does have justifications. I meant to refer to detailed justifications.

Now, what he was referring to was an earlier statement which he had made. The significance of what Mr. Passman said is this: that we do have a very clear definition of the types of projects to which the use of these funds will be restricted. We do have a very clear statement of the criteria which will be employed in making these funds available. We have screened something in the neighborhood of \$1.2 billion worth of projects of which we believe \$800 million worth are worthy of consideration.

Those projects will be put before the Inter-American Development Bank as the agent for the administration of this money, and the ICA by the governments concerned. Now, with these criteria and with the restriction as to the type of project, I think that this committee can be satisfied that there is going to be a very careful handling of these funds and that they are not going to be used for projects which are of a different order and they are not going to be used in ways which disregard these very strict criteria.

As I attempted to explain—

Senator ALLOTT. When you say these very strict criteria, are you speaking of the criteria laid out in the trust agreement?

Mr. BALL. That is right. As I attempted to explain to the committee earlier, in the case of the funds to be administered by the Bank, we are trying to follow the normal processes of a bank in which—

SECURITY FOR LOANS

Senator ALLOTT. Let me interrupt you there. The Development Loan Fund has made many loans in which it did not even follow the normal security pattern of the country in which it was operating. Do you or do you not intend to do this?

Mr. BALL. I am sorry. I don't understand what you mean.

Senator ALLOTT. Security for loans.

Mr. BALL. You mean in which we did not insist up security?

Senator ALLOTT. I am talking about the fact that the Development Loan Fund has done this and so testified before our committee. Do you or do you not intend to follow the loan procedures, together with such procedures for security as may be authorized by the laws of that particular country in securing these loans such as mortgages or trust deeds?

Mr. BERLE. May I answer that?

Mr. BALL. Yes.

Mr. BERLE. I understand the Development Loan Fund has made loans outside of the security in the countries involved. I believe that the Bank will guard the security of the Fund, not only will, but should. A good many of the security patterns of these countries are the kind of thing that would be prohibited under any reasonable law of the United States because they not only take a mortgage and a pledge as security but an agency to sell the product at any price the lender desires to take and to speculate against the borrower in the market for his own product.

I merely note that a change in some of those patterns may very well be one of the best things that we can possibly do. This does not mean that you are reckless with the use of the funds, but that you do break up some of the patterns which have contributed to the oppression of the poor in these countries. I hope I am not trying to say that the Bank and the ICA should be reckless with the Fund, but that they do not use some of the devices which are familiar in these countries would be very much to their credit.

In fact, we would like to create a competitive situation so that the capital of the country itself can go to work under conditions which are reasonable as we would consider good business practice.

Senator ALLOTT. Your answer is partially gratifying and partially not because I cannot help but feel that when we make loans in a country and do not avail ourselves of the same protection that any other business in the country would avail itself of, we only bring disdain and disrespect upon ourselves. This is something I hope we can correct in the Development Loan Fund and I hope we can do it here.

Now, it has been very difficult for you, Mr. Ball, to write this statement of yours which I think is perhaps in many respects, and I say this truly, as specific as you can be under the circumstances, without the use of the word "social."

EMPHASIS ON LOANS REPAYABLE IN DOLLARS

In section 3, paragraph 4 of the President's message to Congress on foreign aid he says—

Special emphasis should be paid on development loan funds repayable in dollars.

Are you going to have any fast and firm rule regarding payment or is it your intention now just to make as many of these repayable in dollars as you can?

Mr. BALL. I would think that the case, Senator—

Secretary DILLON. I am not sure that is correct, Senator. The statement you were reading from of the President's was from his message on general foreign aid, and that has to do with our future foreign aid programs. These funds would be made available under a trust agreement with the Inter-American Bank, which specifies that they can be loaned out for repayment in local currency. This procedure contemplated in the operation of this bank quite frequently because some of the assets of the bank itself are in local currency. Each country put up the capital of the bank, ordinary capital, half in dollars and half in local currency, so a typical loan of the bank is made part in one currency and part in the other, and there are extensive operations in these local currencies.

I think of this \$394 million a great many of them will be repayable in local currency.

Senator ALLOTT. The greater proportion in terms of dollars?

Secretary DILLON. I would think that is correct.

EXECUTIVE DIRECTORS OF BANK

I would like to say one other thing. Since this bank is so important as our agent here, I think it might be useful for the committee if I could submit for the record a list of the executive directors of this bank and their qualifications, the types of jobs they had before.

Chairman HAYDEN. That may be included.

(The information referred to follows:)

INTER-AMERICAN DEVELOPMENT BANK

EXECUTIVE DIRECTORS

Ignacio Copete (represents Colombia, Chile, and Venezuela): General manager of a leading commercial bank in Colombia; general manager of the Central Bank of Colombia; president of the Colombian Banking Association; Governor of the World Bank and International Monetary Fund; professor of law.

Robert Cutler (represents the United States): President and chairman of the board, Old Colony Trust Co., Boston; brigadier general, U.S.A.; Special Assistant to President Eisenhower for National Security Affairs; attorney at law.

Lucien Hibbert (represents Haiti and Panama): President of University of Haiti and dean of faculty of science; Secretary of Treasury of Haiti; Secretary of Agriculture and National Economy; Ambassador to the Organization of American States.

Cleantho de Paiva Leite (represents Bolivia, Brazil, and Ecuador): Head of National Economic Development Bank of Brazil; Chief of Cabinet, Ministry of Public Works and Transportation; adviser to Brazilian Government, loan and financial studies in Brazil, United States, and England; graduate of University of Recife Law Faculty.

Raul Martínez Ostos (represents Costa Rica, Dominican Republic, Guatemala, Mexico, Nicaragua, Paraguay, and Uruguay): Deputy director general of national Financiera, Mexican development agency; chief of audit department, Bank of Mexico; Executive Director, International Monetary Fund; director of financial studies, Ministry of Finance; attorney at law.

Mario Oscar Mendivil (represents Argentina and Peru): Under Secretary of State for Finance of Argentina; General Manager of Finance Ministry; adviser of monetary policy, Central Bank of Argentina; National Public Accountant.

Alfonso Rochac (represents El Salvador and Honduras): Minister of Economy of El Salvador; professor of economics, University of El Salvador; manager, Mortgage Bank; Director General of Customs; adviser to number of development banks in Latin America; doctor of law.

PRESIDENT, EXECUTIVE VICE PRESIDENT, AND DEPARTMENT HEADS

Felipe Herrera, President (Chile): Minister of Finance of Chile; General Manager of Central Bank of Chile; Governor of World Bank; Executive Director of International Monetary Fund; attorney at law and social scientist.

T. Graydon Upton, Executive Vice President (United States): Vice President, Philadelphia National Bank; president of Bankers Association for Foreign Trade; Assistant Secretary of the Treasury; Executive Director of World Bank; Director of Development Loan Fund; A.B., c.l., Harvard; Harvard Business School.

Ewaldo Correia Lima, Chief, Loan Division (Brazil): Director of National Development Bank of Brazil; Head of Economic Department of National Confederation of Industry; professor of University of Brazil; economist, Ministry of Labor.

Manuel Noriega Morales, Chief, Technical Assistance Division (Guatemala): President of Bank of Guatemala; Minister of Economy and Labor; Governor, International Monetary Fund; professor of public finance, money, and banking.

José C. Cardenas, Chief, Economic Division (Ecuador): Deputy Director of Central Bank of Ecuador; Director of Economic Research Department of Central Bank; member of Advisory Committee to Ministry of Finance; Director of Exchange Department of Central Bank; Member of National Economic Council.

Bernardo F. Grossling, Acting Chief, Engineering Division (Chile): Analyst, technology and geophysics, Standard Oil Co. of California; technical adviser on exploration, National Petroleum Co. of Chile; engineer, Chilean Government Development Corp.; professor of electrical technology, University of Chile.

Rollin S. Atwood, Chief, Division of Special Operations (U.S.A.) (among other functions, this division is charged with preparatory work for the Special Fund for Social Development): Regional Director for Latin America of International Cooperation Administration; Chief, Office of South American Affairs, Department of State; professor of business administration and director of Inter-American Educational Program, University of Florida.

Elting Arnold, General Counsel (U.S.A.): Chief, Foreign Funds Control, U.S. Treasury Department; Assistant General Counsel, U.S. Treasury Department; attorney at law.

Robert B. Menapace, former Executive Vice President of Bank and now consultant on finance (U.S.A.): Vice president for Latin American operations, Guaranty Trust Co.; Deputy Director, Development Loan Fund; colonel, U.S. military government in Italy and Codirector of Finance Subcommittee of Allied Commission; assistant vice president for foreign loans, Guaranty Co.

Jorge Hazera, Chief, Division of Administration (Costa Rica): Minister Counselor and commercial attaché, Costa Rican Embassy, Washington; Alternate Executive Director, International Monetary Fund; Costa Rican Ambassador-representative to Inter-American Economic and Social Council.

Lambert E. Jones, Acting Treasurer (U.S.A.): Chief accountant, loan officer and Deputy Chief, Division of Private Capital Participation, Export-Import Bank; auditor, Social Security Board; accountant.

Pedro Irañeta, Secretary of the Bank (Chile): Chief, Division of Economic Research, Pan American Union; professor of Economic theory, economic development and planning, Inter-American Statistical and Financial Center, Santiago, Chile; professor of economics, University of Chile.

Michael Lever, Acting Chief, Office of Information (U.S.A.): Public relations director, Guggenheim Bros., Santiago, Chile; professor of public relations, University of Chile; Public Information Director, Organization of American States; writer and editor, Coordinator of Inter-American Affairs; public relations consultant to Latin American governments and U.S. firms operating in Latin America.

Eduardo McCullough, internal auditor (Panama): Deputy Comptroller General, Government of Panama; Chief Administrator and Director of Accounting, General Audit Department, Government of Panama.

REPAYMENTS IN LOCAL CURRENCY

Mr. GORDON. There is a provision in the trust agreement that in case of repayment in local currency that the value of the repayments must be maintained in the equivalent dollars. So that if the local currency depreciates, extra amounts of the local currency will have to be paid.

Senator ALLOTT. Will that be determined by the laws of the country or an international exchange?

Mr. GORDON. No, sir; the loans must be denominated in dollars. The repayments must be equivalent of the dollars that would be due if it were repayable in dollars.

Senator ALLOTT. International exchange?

Mr. GORDON. That is right.

Senator CHAVEZ. But you can only use local currency locally.

Mr. GORDON. That is right. The local currencies that the Bank gets back then can be used for buying goods and services in the country whose currency it is.

Senator CHAVEZ. Could you use them for the purposes of improving the land, the living conditions, the housing, water supply, sanitation?

Mr. BALL. They could be reloaned for that purpose.

Mr. GORDON. That is exactly right. The funds coming back into the trust fund are to be reloaned for the same purposes that the trust fund was originally established for.

Senator ALLOTT. Senator Chavez has just asked my next question, which was what are you going to do with these soft currencies. They would be reloaned in that country to extend the general purposes of the act?

Mr. GORDON. Yes, sir. In some cases, depending on the country, they may be used to buy supplies to be used in one of the other Latin American countries. That is to say, if a country, as is true in the case of Brazil, is a sizable producer of various types of building materials, the cruzeiros that were repaid from a loan to Brazil could be used to buy building materials for Chile, Argentina or one of the other recipient countries.

PRESIDENT'S MESSAGE ON FOREIGN AID

Senator ALLOTT. In the President's message on foreign aid, referring to section 3 again, and I refer to subparagraphs 5 and 8 particularly, he says: "Special attention to those nations most willing to"—and I am not changing his thought by skipping some of the words here—"make necessary social and economic reforms." Then, in paragraph 8 he says again, "Our program of aid to social and economic development."

Now, your statement here, as I said, could not be written without the word "social." I want to ask this question. How much emphasis is going to be made on economic development to these countries? I ask this question for a specific reason. I, along with other Members of the Senate, particularly those on the Interior Committee, have found that our trade in raw minerals with these countries has not resulted in an upgrading of the welfare of the people to any measurable extent. We have closed down every lead and zinc mine in the West. In my own State there are none operating.

CONDITION OF U.S. MINING INDUSTRY

For the last 2 years, believe it or not, a lead and zinc smelter at Leadville, Colo., which is now closed and being dismantled, which is at 10,500 feet elevation, has operated almost exclusively on ore mined in Mexico and transported all the way to Leadville—up 10,500 feet. This is how far the balance has gotten out of hand.

Even so, the purchases we have made have not resulted in any improvement, measurable improvement, in the welfare of the Mexican people. They are still paying the miners a dollar, roughly, and we are paying our miners \$22. You can buy lead and zinc on the New York market today at the combined price of \$22. Our miners have to have \$31 in order to live.

RELATIONSHIP BETWEEN ECONOMIC DEVELOPMENT AND SOCIAL PROGRAMS

Now, let us put this another way. It does not do any good to build schools, to provide sanitation, unless you put an economic base under it by which these people can support the school and support the sanitation facilities and the water facilities. I want to know if this money is going to be just expended on loans on a social program or whether it is going to be expended also on programs which help to raise the economic level of the people.

Mr. GORDON. We have thought a great deal about this problem, of the relationship between economic development and the social programs. As was stated in the President's message on this bill on March 14, these are very closely related. I think what he said was that you cannot have economic development without social development and there are unfortunately examples of that in Latin American history, including a good deal of the Cuban history, and the Venezuelan situation is another example. You cannot have social development without economic development for the very reason you suggest.

PROGRAM OBJECTIVES

This is not in any sense intended to be a program merely for transferring American funds to feed, house, and clothe people as a kind of charitable, temporary raising of their standard of living. The purpose of these things is to accomplish two objectives.

One is to lay a stronger basis for the economic development of the countries themselves. Education has a very important part to play in that process, including not only mass basic education but also technical, rural vocational, and industrial vocational education and at the higher level, education in engineering and other applied fields.

With respect to the agricultural part of this, the idea is to try to get the benefit of agricultural development spread to the small farmer because, as was said before, in so much of Latin America land is very unevenly distributed.

Senator ALLOTT. In general then, it would be your policy that as far as agricultural development is concerned, these loans would be made only where there was a revision of the laws in such a way that the individual had an opportunity to own land, to achieve some degree of economic independence with respect to the land, so that he in effect would not be farming the land again for the benefit of some feudal landowner. Is that correct?

Mr. GORDON. That is correct. In some cases this does not require law revision because in some cases it may be opening up lands that are publicly owned and not occupied by anybody. But that is precisely the object of the exercise.

Senator ALLOTT. In other words, Mr. Ball's statement is termed and couched very much in terms of social improvement. Do you say now, Mr. Ball, that this will also be in terms of economic improvement so that the people can help to support the social improvements which we hope to get for them?

Mr. BALL. The prime purpose of this particular fund is to give the people a stake in society, to make it possible for them to own land, to make it possible for them to own houses, to make it possible for them to have a better share of facilities that are provided. Now, this money is not going into economic development as such. The economic development funds will be provided through the funds of the Inter-American Development Bank itself. Some of the moneys may be provided through the new fund which is described in the President's foreign assistance statement which we hope to have created under the act which we are bringing up to Congress within the next few weeks.

Senator CHAVEZ. But, Mr. Ball, indirectly, if you have social development, political and economic development follow.

Mr. BALL. That is right.

Senator ALLOTT. Let me interrupt there. I can't agree with this. You can't have social development in a vacuum.

Mr. BALL. It has to be within the context of an economy which is, itself, developing. This I would wholly agree with you on, sir.

Senator ALLOTT. It is your contemplation that the fund would be operated in this context?

Mr. BALL. The distinction which I was making is between the kind of economic development which consists of the development of the major resources of a country which are really big capital investment

projects and the kind of development really of the human and social resources which is what is contemplated by this fund. What this would be doing, certainly, is encouraging small business. It would encourage agriculture, an improvement in agricultural conditions by, as we said a moment ago, making agricultural credit available to small farmers. It will do things which will tend to increase the economic activity within the country and to create the economic condition under which social progress could really be made.

INTER-AMERICAN BANK POLICY

Senator ALLOTT. Could I state it in this way: that the Inter-American Bank will not be operated in such a way that it will result in further aggrandizement of those people who are already completely out of position with respect to the bulk of the population.

Mr. BALL. That is certainly true.

Senator ALLOTT. And I can be assured of this fact?

Mr. BALL. Right.

Senator ALLOTT. Although you have drawn a distinction as to how exactly American funds would be used vis-a-vis the other?

Mr. BALL. That is right.

PROTECTION OF ULTIMATE BENEFICIARIES

Senator ALLOTT. Now I would like to have you give me a specific example, if you can—and the Secretary spoke to this—of interest rates charged in loans to banks at and what the overcharge would be to local borrowers.

Specifically, what concrete, pinpointed steps have we taken to be sure that this does not result in local gouging of the ultimate, we hope, beneficiaries of this situation?

Mr. BALL. Senator Allott, I said that we would provide a statement on this with precise details, but in general, the situation is this: The projects which Mr. Gordon mentioned a while ago, where loans were made to development banks, were projects for loans made not out of the fund which we have before you now, but out of the capital of the Inter-American Development Bank itself.

Senator ALLOTT. We would make no loans or no loans would be made out of the American fund?

Mr. BALL. Not to banks, but they would be to agricultural credit organizations, even agricultural credit cooperatives, to building and loan associations and to institutions of this kind.

I don't think we contemplate using any of these funds for economic development as such.

Senator ALLOTT. Supposing they are made to agricultural cooperative associations, I have seen loans of various cooperatives which are supposed to result in a benefit to the people and the people could go to the bank and borrow the money for the same rate of interest. Would we take steps to see that the overcharge from those cooperative was not an excessive or a serious one?

Mr. BALL. In the agreement with the agricultural credit cooperative there would be a very precise agreement of a certain fraction of a percent or a percent or whatever the margin might be that would be deemed to be enough to pay for the administrative cost of the cooperative in making the loan. But, the cooperative would not be permitted

to charge the borrower more than that margin above the interest which the cooperative had to pay itself to the Inter-American Development Bank.

Senator ALLOTT. So that we would not have a cooperative or anybody else being in a position to place themselves in a usurious situation?

Mr. BALL. That is right. The whole point and thrust to this would be to make loans available on a low interest basis in order to spread the possibilities of ownership of land and equipment among small users.

Senator ALLOTT. I have just one more question, Mr. Chairman, if you will indulge me.

Chairman HAYDEN. I will indulge you.

Senator ALLOTT. I realize we have had a long session, but these questions are very important to me.

GRANTS AND TECHNICAL ASSISTANCE

This last year we gave to South America in grants and technical assistance \$170.4 million. Now in view of this program will we continue this in the fiscal year 1962 and is there contemplated an increase?

Mr. GORDON. Is that for fiscal 1960, Senator?

Senator ALLOTT. 1961. These figures I got from the staff and I presume they are correct.

Mr. GORDON. The answer is this: With respect to things falling in the fields that are described here, this will be the only source of funds. The overlap comes in two respects. As Secretary Dillon testified last August, when the authorizing legislation was before the Senate and House Foreign Relations and Foreign Affairs Committees, it was intended that as an interim measure that the Development Loan Fund use some of its resources in this kind of field, particularly on access roads for agricultural development and in housing, and loans have been made to Colombia and Peru for those purposes.

The Development Loan Fund or its successor will not be engaged in any more competition with this new fund in that kind of field.

Senator ALLOTT. Now these were in grants and technical assistance.

Mr. GORDON. With respect to technical assistance—

Senator ALLOTT. Will this same amount be requested if this appropriation is made?

TOTAL TECHNICAL ASSISTANCE TO LATIN AMERICA

Mr. GORDON. In technical assistance, the total for Latin America this year is approximately \$36 million. Of that, approximately \$26 million are in fields covered by this program.

We would not expect new appropriations to be requested which would overlap or duplicate what is being requested here. The smaller part is for technical assistance in other fields and there will be a request in the new foreign aid bill for technical assistance in those other fields.

Senator ALLOTT. I still do not have an answer to my question. This year we put \$170.4 million in grants and technical assistance to South America. Are you going to ask for an equivalent amount or greater amount during the ensuing year?

Mr. GORDON. Sir, if the technical assistance part of that is the 36 and of that as I said 24 is in fields covered by this, we will ask for nothing more in that area.

Senator ALLOTT. The rest will be asked for?

Mr. GORDON. No. The grant part of that, I believe, is mostly what has been called special assistance which has been particularly large in the cases of Haiti and Bolivia. Now the new foreign aid message or bill will also contain an analogous category and there will be some amounts requested for Latin America in that bill.

Senator ALLOTT. So this will be cut from 36 to 24 in the field of technical assistance but we can expect the balance in grants to be requested of Congress?

Mr. GORDON. I am informed that the figures that you quote seem to be rather larger than what we have. I wonder if we could have the source just to clarify any misunderstanding.

Senator ALLOTT. I made one error. I said 1961. It was 1960. But I am reading from "The U.S. Foreign Assistance, Obligations and other Commitments of the International Cooperation Administration." On page 58 it gives the figure of U.S. foreign assistance, obligations, and commitments, \$170.4 million.

Mr. GORDON. Yes, sir, I have that now. I think I understand the difference. Of that \$170 million, \$44 million is military.

Senator ALLOTT. \$44.5 million?

Mr. GORDON. Yes, that is about two-thirds of the way down the page.

Senator ALLOTT. Now, let me point out to you if you will go down, that is under the heading, "Economic." If you go down the same page you will find military \$55.6 million.

Mr. GORDON. Let me ask the ICA to comment on this.

Mr. MOSSLER. These are total grants and credits coming from all sources of U.S. foreign assistance. What they are for is broken down here. We have first the international cooperation program, which is \$67.3 million. This includes the technical cooperation program and special assistance, and then just below that you have development loan fund which is also under the mutual security program which is \$28.6 million.

You will notice that a sizable portion of economic assistance represents the sale of agricultural commodities under Public Law 480, right on down the line.

Senator ALLOTT. Nevertheless, the fact is that this report shows under the heading, "Economic," for this year we had \$170.4 million. Now the military is set out separately. What I want to know is the answer to one question. Are you going to request a repetition of these funds or are they going to be ameliorated by this situation, by this legislation we are considering here? That ought to be able to be answered very easily.

Mr. GORDON. Insofar as there is a direct overlap we are not going to ask for a repetition. We will, of course, ask for Public Law 480 funds to be used in Latin America as well as elsewhere. We will ask for economic development funds which are entirely apart from this program. We will ask for technical assistance funds in fields other than those covered by this program and we will ask for some amount of special assistance funds in particularly difficult cases such as

Haiti and Bolivia. Insofar as the present program overlaps with the program now before you, there will be no new requests for funds.

Senator ALLOTT. The only place it will overlap as nearly as I can get from your answer is to the extent of \$12 million.

Mr. GORDON. No, sir, \$24 million in the technical cooperation fund. The 12 is the nonoverlapping part.

Senator ALLOTT. Twelve is the nonoverlapping and the 24 is the overlapping?

Mr. GORDON. That is correct. Secondly, with respect to the development loan funds which are being applied to this sort of project this year, there will be no duplicating request in those fields.

Senator DWORSHAK. Will the Senator yield at that point?

Senator ALLOTT. Yes.

TOTAL ASSISTANCE TO LATIN AMERICA IN 10-YEAR PERIOD

Senator DWORSHAK. On page 13 of the House hearings appears some testimony as to the total amount of assistance through the decade ending in 1960 for Latin American countries. Secretary Bowles said that for that decade \$3,263,900,000 of which \$2 billion approximately is Export-Import Bank loans, have been made available to Latin American countries in one decade ending in 1969, a total of \$3.263 billion.

Mr. BALL. I might say, Senator, that quite a lot of that is actually for the purpose of selling American equipment in Latin America.

Senator DWORSHAK. The charge is made that we have been indifferent if not actually unfriendly to our Latin American neighbors but the facts are that during the past decade we have been quite generous.

Senator SCHOEPEL. I would like to ask a few questions.

CONDITIONS PRECEDENT TO LOANS

Mr. Ball, I think on page 9, if I remember correctly, about the middle of the page on the second factor you say as follows:

That we do not want to and do not intend to commit funds for these social development projects until the governments which are to be the beneficiaries have given evidence of their determination and ability to carry through essential institutional and legislative changes.

I would like to ask you what evidence or what proof would you require in a prudent approach to this matter?

Mr. BALL. We are talking of a bank as our agent in negotiations with the governments about making available certain credits which are to be used for land reform. Here we would want the government to have made available that part which it is going to contribute to this project. Or suppose we are talking about tax reform, we would want the government to have made progress on the legislative or administrative action which is required to reform the tax structure.

Senator SCHOEPEL. Are we to assume that that would be a condition percent that you would require before you would commit the Bank to these funds?

Mr. BALL. That would be true.

Mr. GORDON. Yes; that is right.

Senator SCHOEPEL. Now, some of these questions I had in mind here have been answered. I shall not continue very long here. Of course, what you are talking about here is in essence a loan program.

Mr. BALL. That is right, sir.

Senator SCHOEPEL. With the exception of the \$100 million that you described a while ago?

Mr. BALL. That is right.

Senator SCHOEPEL. I want the record to show as far as I am concerned that I associate myself with the thinking of Senator Ellender on this very important approach to this thing. I think it is practical. I think we should give some very serious consideration along those lines.

Now, do I further understand that what you are advocating here with this \$500 million loan, say \$100 million of it if it is finally determined to go to ICA, is this supplemental or will it supplant some of the other additional sums which we have been throwing into South America?

Mr. BALL. We have never had a program like this before.

Senator SCHOEPEL. I realize that but now we are going to start it.

PROGRAM OVERLAPS

Mr. BALL. That is right. Now, as Mr. Gordon said a moment ago, to the extent that this program covers the area where technical assistance is being applied for health and education and agriculture, we would not continue any separate appropriation for technical assistance to the extent of that overlap. The same would be true to the extent that the Development Loan Fund has been making loans in the areas which the Bank element will take over, we would not continue that duplication.

So that to that extent, this is a substitute, but it is a substitute where the conditions are different and where we are insisting on kinds of reforms and kinds of measures taken which we have not heretofore done. But in the larger sense I should think it is supplemental because it is a new kind of program. It is the kind of program that we have not attempted up to this point.

TOTAL CONTRIBUTIONS IN AID TO SOUTH AMERICA

Senator SCHOEPEL. Now, can some of you gentlemen tell me briefly and roughly in round figures what have we contributed or what have we given in aid to South America in the last year? Do we have any figures available on that?

Mr. GORDON. I have that right here, Senator. In fiscal 1960, the year ended last June, a grand total of all types other than military of just under \$400 million, \$399.4 million. That includes Export-Import Bank loans of \$139.5 million. It includes technical cooperation of \$36 million. It includes special assistance through the ICA of \$31 million. It includes Development Loan Fund of \$28.6 million and it includes Public Law 480 of \$75.7 million. Those are the larger items.

The other items are very small items, shown in table 2 of annex E of the presentation book.

PUBLIC LAW 480 PROGRAM

Senator SCHOEPEL. I noted that the Senate and the House have passed on the sums under Public Law 480 and making something like, I think it was, \$2 or \$3 billion, \$2 billion available. Is that included in some of these funds or will your funds that you have been talking about fit into that new authorization or new legislation?

Mr. GORDON. Public Law 480 funds would be entirely separate from what we are asking.

Senator SCHOEPEL. I rather suspected it would be.

Mr. GORDON. Right. Can I ask if the committee would permit, it might be useful to have this table in the record.

Senator SCHOEPEL. I would like very much to have that put in the record because we are confronted so many times with how much have you given, how much are you giving, here you are giving \$500 million more. What is the need and necessity for it?

Senator CHAVEZ (presiding). It will be inserted in the record.

(The information referred to follows:)

[The remainder of the page contains extremely faint, illegible text, likely bleed-through from the reverse side of the document.]

TABLE I.—Total U.S. economic assistance to Latin America

OBLIGATIONS AND OTHER COMMITMENTS 1951-60

[Millions of U.S. dollars]

	U.S. fiscal years										Total
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	
Total Mutual Security Program economic aid.....	19.4	18.7	27.8	42.1	73.1	82.4	117.2	97.7	561.1		
ICA.....		18.5	17.7	26.8	41.0	78.9	58.7	67.3	443.9		
Technical cooperation.....		18.5	17.7	22.4	27.7	29.7	34.3	36.1	239.2		
Other.....			4.4	13.3	44.2	49.1	24.4	31.2	204.7		
Development Loan Fund.....							8.5	28.6	94.4		
Other Mutual Security Program economic.....		.9	1.0	1.0	1.1	1.2	1.2	1.8	22.8		
Total non-Mutual Security Program economic aid.....	219.2	87.3	392.4	35.7	289.7	564.0	524.7	301.7	2,954.0		
Public Law 480 total.....		.1		.8	42.2	110.7	163.6	64.1	518.5		
Title I, 104c, loans to private enterprise.....					13.8	86.7	1.8	11.3	19.4		
Title I, 104g, loans to governments.....					(22.7)	(117.7)	136.1	18.2	43.6		
(Total sales agreements).....					20.2	6.6	(162.6)	(41.2)	315.6		
Title II emergency relief.....					8.2	17.4	11.4	7	(497.2)		
Title III (voluntary relief agencies).....		.1		.8			14.3	34.0	38.9		
Export-Import Bank long-term loans.....	201.8	80.3	373.8	19.6	240.0	127.1	370.5	189.8	454.6		
Other U.S. economic programs.....	17.4	6.9	18.6	15.3	7.5	29.9	29.9	8.9	86.5		
Inter-American highways.....	1.1	2.2	2.7	2.4	6.4	35.2	23.3	11.8	8.9		
Other grants.....	16.3	4.3	12.8	.8	.8	.5	6.6	6.5	100.5		
Loans.....		.4	15.0	.1	.3			180.0	115.1		
Grand total, economic aid.....	219.2	106.7	411.1	63.5	331.8	646.4	641.9	399.4	3,515.1		

¹ Inter-American Development Bank subscription.

ASSISTANCE FROM MULTILATERAL ORGANIZATIONS

[In millions of U.S. dollars and by fiscal years]

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	Total
International Bank for Reconstruction and Development.....		63	29	97	123	75	50	105	137	134	879
International Finance Corporation.....	76			1			1	8	8	16	33
U.N. Technical Assistance.....		1	5	5	7	8	9	10	10	9	64
U.N. Special Fund.....									1	12	13

TABLE II

U.S. economic and military assistance to Latin America—Obligations and other commitments—Fiscal year 1951 through fiscal year 1960

[In millions of dollars]

Program	Total	Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica	Cuba
Mutual security program: Total	\$920.1	\$32.6	\$131.1	\$164.1	\$84.9	\$37.0	\$10.9	\$13.4
Economic	561.1	26.5	130.6	38.4	45.2	11.3	10.0	2.8
International Cooperation Administration	443.9	1.7	126.4	38.2	23.9	11.3	10.6	2.8
Technical cooperation	239.2	1.6	20.9	35.8	18.3	11.0	8.6	2.8
Other	204.7	.1	105.5	2.4	5.6	.2	2.1	—
Development Loan Fund	94.4	24.8	4.0	.2	10.8	—	.3	—
Other mutual security program economic	22.8	—	.2	—	10.5	—	—	—
Military	338.9	6.1	.5	125.7	39.7	25.7	(1)	10.6
Chargeable to appropriations	358.9	6.1	.5	125.7	39.7	25.7	(1)	10.6
From excess stocks	(126.5)	(.4)	(.1)	(70.0)	(18.7)	(5.5)	(.5)	(.5)
Nonmutual security program: Total	2,984.8	331.0	39.2	1,112.8	178.9	191.4	54.7	38.3
Economic	2,954.0	331.0	39.2	1,086.0	178.9	191.4	54.7	38.3
Public Law 480	518.5	42.9	23.6	166.3	68.7	72.6	1.0	.6
Title I: Planned for grants and loans	359.2	42.9	—	148.1	33.3	51.4	—	—
(Total sales agreements)	(467.2)	(62.3)	—	(178.4)	(42.0)	(69.9)	—	—
Title II: Emergency relief	39.0	—	17.4	—	—	—	.2	—
Title III: (Voluntary relief agencies)	120.3	—	6.2	18.2	35.4	21.2	.8	.6
Export-Import Bank long-term loans	2,196.8	288.1	7.1	895.7	109.8	118.5	21.0	37.5
Other U.S. economic programs	238.7	—	8.5	24.0	.4	.3	32.7	.1
Military	30.8	—	—	26.8	—	—	—	—
Grand total	3,904.8	363.6	170.3	1,276.9	263.8	228.4	65.6	51.7
Economic	3,515.1	357.5	169.8	1,124.4	224.1	202.7	65.6	41.1
Military	389.7	6.1	.5	152.5	39.7	25.7	(1)	10.6

Program	Dominican Republic	Ecuador	El Salvador	Guatemala	Haiti	Honduras	Mexico	Nicaragua
Mutual security program: Total.....	\$8.2	\$46.6	\$7.2	\$70.7	\$41.6	\$22.4	\$11.6	\$11.1
Economic.....	2.1	29.1	7.1	69.2	39.1	21.3	6.8	9.5
International Cooperation Administration.....	2.1	19.1	7.1	63.8	31.5	13.5	6.8	6.4
Technical cooperation.....	2.1	14.4	7.1	13.7	11.0	9.6	6.8	6.1
Other.....		4.7		50.2	20.6	3.9		.4
Development Loan Fund.....		10.0		5.4	7.6	7.8		3.1
Other mutual security program economic.....	6.1	17.5	.1	1.5	2.5	1.1	4.8	1.6
Military.....								
Chargeable to appropriations.....	6.1	17.5	.1	1.5	2.5	1.1	4.8	1.6
From excess stocks.....	(1.9)	(3.7)	(1)	(1)	(.2)	(1)		(.1)
Nonmutual security program: Total.....	.1	23.8	1.2	38.6	32.5	11.0	453.8	26.7
Economic.....	.1	23.8	1.2	38.6	29.5	11.0	453.8	26.7
Public Law 480.....		9.3	1.0	4.7	7.8	2.6	22.3	
Title I: Planned for grants and loans.....		7.1					17.7	
(Total sales agreements).....		(9.3)					(35.2)	
Title II: Emergency relief.....		2.2	1.0	3.2	3.5	2	.2	
Title III: (Voluntary relief agencies).....				1.5	4.3	2.4	4.4	
Export-Import Bank long-term loans.....		13.8	.2	6.2	21.0	3.5	412.3	12.1
Other U.S. economic programs.....	.1	.7		27.7	.7	4.9	19.2	14.6
Military.....					3.0			
SUMMARY								
Grand total.....	8.3	70.4	8.4	109.3	74.1	33.4	465.4	37.8
Economic.....	2.2	52.9	8.3	107.8	68.6	32.3	460.6	36.2
Military.....	6.1	17.5	.1	1.5	5.5	1.1	4.8	1.6

Less than \$50,000.

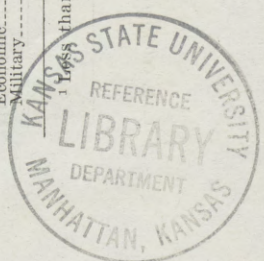


TABLE II

U.S. economic and military assistance to Latin America—Obligations and other commitments—Fiscal year 1951 through fiscal year 1960—Con.
 [In millions of dollars]

Program	Panama	Paraguay	Peru	Uruguay	Venezuela	Oversea Territories	Regional
Mutual security program: Total.....	\$12.9	\$22.5	\$78.3	\$33.8	\$30.2	\$8.6	\$31.1
Economic.....	12.9	22.0	28.1	10.6	1.2	8.5	27.6
International Cooperation Administration.....	12.9	14.9	23.6	1.8	1.2	8.5	15.5
Technical cooperation.....	10.9	13.5	21.5	1.7	1.2	5.1	15.5
Other.....	2.0	1.5	2.0	.2		3.4	
Development Loan Fund.....		7.1	4.5	8.8			
Other mutual security program: Economic.....		.5	50.2	23.2	38.0		12.1
Military.....			(11.4)	(5.5)	38.0		3.5
Chargeable to appropriations.....		.5	50.2	23.2	38.0		3.5
From excess stocks.....		(.2)	(11.4)	(5.5)	38.0		3.5
Nonmutual security program: Total.....	42.6	14.9	246.7	35.6	23.6	7.7	80.0
Economic.....	42.6	14.9	245.7	35.6	23.6	7.7	80.0
Public Law 480.....	5.3	3.7	45.8	32.7		7.7	
Title I: Planned for grants and loans.....		2.1	24.1	32.5			
(On local sales agreements).....		(2.9)	(34.0)	(43.2)			
Title II: Emergency relief.....			13.9	(1)			
Title III: (Voluntary relief agencies).....	5.3	1.6	7.8	.2			
Export-Import Bank long-term loans.....	15.2	10.4	108.6	2.6	23.4		
Other U.S. economic programs.....	22.1	.7	1.3	.2	.2		80.0
Military.....			1.0				
SUMMARY.....							
Grand total.....	55.5	37.3	325.0	69.4	62.8	16.3	111.1
Economic.....	55.5	36.8	273.8	46.2	24.8	16.3	107.6
Military.....		.5	51.2	23.2	38.0		3.5

¹ Less than \$50,000.

Multilateral assistance to Latin America—Fiscal year 1951 through fiscal year 1960

[In millions of dollars]

Country	IBRD	IFC	UNTA	U.N. Special Fund	UNICEF	Country	IBRD	IFC	UNTA	U.N. Special Fund	UNICEF
Total, Latin America	\$879.5	\$33.0	\$64.5	\$13.3	\$27.0	Haiti	\$2.6		\$2.4		\$0.4
Argentina		6.7	1.8	1.8	0.4	Honduras	29.0		1.2		.7
Bolivia		10.1	3.3	1.6	0.7	Mexico	136.2	\$1.1	3.0	\$0.4	9.0
Brazil	177.1	5.6	5.4	1.0	2.4	Nicaragua	38.8		1.1		.5
Chile	90.2	1.5	3.5	1.6	2.9	Paraguay	4.5		2.7		.4
Colombia	168.3		2.9	1.9	2.7	Peru	76.5	4.7	2.5		1.8
Costa Rica	8.5		1.3		.3	Uruguay	71.0		1.2		.1
Cuba			3			Venezuela		3.0	1.6		
Dominican Republic			3		4	Overseas territories in Latin America			1.2	2.4	1.4
Ecuador	45.0		3.9	1.2	.8	Other regional			20.0	.9	.9
El Salvador	19.1	.1	2.0	.3	1.1						
Guatemala	18.2	.2	1.9		1.4						

Sources and notes:

IBRD: International Bank for Reconstruction and Development annual reports. Includes loans authorized from July 1950 to June 1960.
 IFC: International Finance Corporation annual reports. Includes commitments from inception to June 30, 1960.
 UNTA: United Nations statistical yearbooks and special report of ECOSOC, No. E/3395. Includes contributions through the U.N. expanded program of tech-

nical assistance and the regular programs of the technical assistance of the United Nations, WHO, UNESCO, and IAEA. Also includes contributions through the malaria eradication program of WHO.
 UNICEF: United Nations statistical yearbooks and special report of ECOSOC, No. E/3395. Includes the contributions of the United Nations Children's Fund from January 1954 to December 1959. Data prior to 1954 not available.

Senator SCHOEPEL. There may be three or four questions that I would like to direct a communication to you on for my own perusal. Might I do that?

Mr. BALL. Certainly. We will be very happy to answer your questions.

Senator CHAVEZ. Senator Humphrey.

POSSIBLE DUPLICATION OF ECONOMIC ACTIVITIES

Senator HUMPHREY. I want to say this has been a very enlightening morning for me in terms of this program. I want to commend the witness. In the hearing in the other body, in the Subcommittee on Appropriations in the House, page 269, Mr. Passman was kind enough to quote me in reference to this program. His quotations are thoroughly accurate. I indicated, for example, that Congress is going to take a look at the possible duplication of economic activities under President Kennedy's Latin American program. We have done that this morning. That is what you were directing your remarks to a moment ago. Is that right, Mr. Gordon?

Mr. GORDON. That is right, Senator.

Senator HUMPHREY. The reference that has been made is that this is a supplemental program in part and also supplants some aspects of Ex-Im aids. Is that right?

Mr. GORDON. That is correct.

Senator HUMPHREY. Are those made to countries or to enterprises?

LOANS TO COUNTRIES AND PRIVATE ENTERPRISES

Mr. GORDON. They are made to both, sir. Most of them in Latin America I believe in recent years—would not say months, they have been made both to private enterprises and to governmental agencies.

Mr. BALL. Certainly in number there have been more to private enterprise than to governmental agencies. I am not sure in total amount.

Senator HUMPHREY. Are they payable in dollars?

Mr. GORDON. All repayable in dollars fully.

RECORD OF PERFORMANCE OF EXPORT-IMPORT BANK

Senator HUMPHREY. Has the Export-Import Bank had a fairly good record of banking performance?

Mr. BALL. It makes a great deal of money.

Mr. GORDON. It has almost a complete record of repayment. I believe there have been only one or two defaults in the last 10 years.

Senator HUMPHREY. The report you read of the approximately \$500 million of economic aid, how much was Export-Import? What year was that?

Mr. GORDON. That was for fiscal year 1960. It was approximately \$400 million in total. Of that, 139.5 million was Export-Import. For the last 10 years, if you would like the corresponding figures, the grand total was about 3.5 billion of which 2.2 billion were Export-Import Bank loans.

Senator HUMPHREY. They are repayable loans with interest.

Mr. GORDON. All repayable with interest.

Senator HUMPHREY. In dollars?

Mr. GORDON. And all used to finance the export of goods and services from this country.

Senator HUMPHREY. How many of those loans, what proportion would you estimate went to companies that had a substantial stock ownership of Americans, American nationals?

Mr. GORDON. To give a good estimate we ought to get the figures from the Export-Import Bank, sir. May we supply those for the record?

(The information referred to follows:)

Of the \$2.2 billion in Export-Import Bank long-term loans to Latin America over the last decade, loans totaling approximately \$405 million have been approved for entities either wholly owned by U.S. firms or in which U.S. interest is substantial. These loans were made to firms in 13 Latin American countries, largely for power, mining, and other industrial operations.

BUSINESSLIKE POLICY ON LOANS

Senator HUMPHREY. I wish you would because I have looked into this somewhat. The point I want to make, I do not call this aid. I don't think anybody aids me particularly when I pay him back with interest and he makes money. I call that business. And I am all for that, don't misunderstand me, but a substantial portion of this you are talking about, over \$2 billion in 10 years out of a \$3 billion total, has been Export-Import upon which the Government of the United States, the taxpayers, the property owners of this country have done fairly well.

Mr. GORDON. That is right.

Senator HUMPHREY. Because we have exported substantial quantities of goods. Is that not true?

Mr. GORDON. All of those loans are reflected directly in United States exports.

PUBLIC LAW 480 PROGRAM

Senator HUMPHREY. Now how much Public Law 480 have we given since 1954?

Mr. GORDON. The total Public Law 480 out of this same \$3½ billion and this of course is just since 1954 when Public Law 480 was enacted, is \$518.5 million for Latin America.

Senator HUMPHREY. \$518.5 million and how much was Export-Import?

Mr. GORDON. \$2.2 billion.

Senator HUMPHREY. What is the total for the 10 years?

Mr. GORDON. 3.5.

Senator HUMPHREY. So you have 2.718 billion of which is repayable and all paid for either to be paid back in dollars or in local currencies. Is that right?

Mr. GORDON. Not quite, sir, because a small portion of the Public Law 480 was emergency relief.

Senator HUMPHREY. Under title III?

Mr. GORDON. That is right. Title II emergency relief was 38.9 and title III, which is the voluntary relief agency provision, 120.3.

Senator HUMPHREY. That is about 160.

Mr. GORDON. That is right. The title I part of the money, which is paid for in local currencies, is 359.

TOTAL AMOUNT OF ECONOMIC TRANSACTIONS

Senator HUMPHREY. So you got over \$2.5 billion of transactions that are what you might call economic transactions.

Mr. GORDON. That is right.

Senator HUMPHREY. Recognizing that Public Law 480 title I sales are really a subsidized export in a sense, but also produce some return capital.

Now we will continue, as you have indicated, here, under some modified type of program with ICA activities; is that right?

Mr. GORDON. ICA technical assistance activities in fields other than those covered by this program; yes, sir.

Senator HUMPHREY. I understand. But I want the record clear this is not to supplant all of the other aspects of the mutual security program.

Mr. GORDON. That is right.

BOOK PROGRAM IN LATIN AMERICA

Senator HUMPHREY. For example, I am interested in the book program in Latin America. I am sick and tired of hearing about how the Communists flood this part of the world with cheap books and this great big country up here that has newstands filled with junk can't afford to send a book down there about Abraham Lincoln's writings. We are not going to have anything in the way of getting some authorizations in capital for what we call a paperback program, are we?

Mr. GORDON. This will not debar that in the slightest.

Senator HUMPHREY. I hope somebody will look into doing something about it.

Mr. BERLE. Senator, this is on my mind too and after discussing it with some of our people they say they have not the money for this but they have to have money for it.

Senator HUMPHREY. Everybody ought to quit going to a nightclub one night and just buy some books; that would help.

READING HABITS OF LATIN AMERICANS

Mr. GORDON. Latin Americans read more books per capita than we do here. They can buy the collective works of Marx for a quarter and it takes \$6 to buy the collective works of Abraham Lincoln.

Senator HUMPHREY. I am glad you put that in the record. It is an amazing thing you can buy the works of Lenin, Marx, Engels or Stalin or anybody else down there for little or nothing but you can't buy the writings of Abraham Lincoln or Thomas Jefferson or some other good patriot of this country unless you happen to be of the upper crust.

The special fund that we are talking about here, that is the President's fund, is that right, in the mutual security?

Mr. GORDON. This special assistance?

Senator HUMPHREY. Yes.

Mr. GORDON. That is right.

Senator HUMPHREY. This will be continued in some form?

Mr. GORDON. That is the intention.

Senator HUMPHREY. Your request here does not cover that item; is that right?

Mr. GORDON. That is right.

Senator HUMPHREY. The next point that I made and Mr. Passman commented upon—he quotes me—he said:

Senator Humphrey said “I have some concern about placing most of the emphasis in the future on placing the revolution of the Americas in the hands of a multilaterally operated bank.”

I say with all respect to my friend that the statement is counter to my orientation to think that a bank was going to lead a revolution. But I suppose one must look forward to all sorts of changes on the New Frontier. I am fairly well satisfied with the explanation, not only fairly well, I am very well satisfied with the explanation of the role of the Bank. I made some of these statements for the purpose of provoking some answers because a number of people were commenting, well, we only have one man on a board of how many?

Mr. GORDON. Seven.

Senator HUMPHREY. Yet we put in the largest single share in the regular Bank stock. The fact is that our one man votes shares, so to speak, not just a vote?

Mr. GORDON. That is right; 41 percent.

ROLE OF BANK IN PROGRAM

Senator HUMPHREY. In this particular operation, which is exclusive and separate from the regular normal operations of the Bank we are in a sense contracting with the Bank to act as our administrator of the banking aspects of this program. Is that right?

Mr. GORDON. That is exactly right, sir. Could I add one remark in that connection?

At the Rio meeting where Secretary Dillon led our delegation and which I also had the privilege to attend, it was repeatedly stated by Governors of the Bank that one of the most hopeful things about it was that this was a bank but it was also more than a bank. They made repeated references to the importance of the use of that multilateral institution in working on the social development programs.

Senator HUMPHREY. How does the Bank supervise these loans? And, gentlemen, this is very important because I think every one of us here, regardless of party or whatever our political orientation may be, have just about had it up to the ears of foreign aid that has been misused. I have been a loyal, generous, overly generous friend of foreign aid, but I hear the word “supervision”—I would just like to know how you are going to keep the corruption out of it.

Mr. GORDON. Well, sir, we can't speak of the experience of the Bank.

BORROWING STANDARDS

We can only judge by the small experience of the Bank so far out of its regular capital. They of course have been acutely conscious of the need to see that there is the right kind of standard applied in the borrowing entity, whatever it may be. One of the most interesting loans in this connection was their loan to Bolivia, which of course is a country very badly in need of economic development assistance, and also administrative assistance. In that case the principal assistant is the Bolivian Development Corporation and the Bank has arranged

to have a full-time representative chosen by them working with the Board of this Bolivian entity participating in the relending of the funds to smaller entities. They have also provided for technical assistance to improve their accounting and administrative standards.

This I think is representative of the Bank's approach to this problem of supervision in the actual detailed administration of the loans. Obviously the administrative standards vary in a region as large as Latin America from countries which have high administrative standards to countries where the standards are not so high. But I think it is fair to say that the Bank staff, the management and the Board of Executive Directors are very conscious of the risks that you refer to and are desirous of doing everything that can be done by prudent management to see that those risks are not realized.

FOREIGN AID PROGRAM RESULTS

Senator HUMPHREY. Gentlemen, the reason I raise this point is that we are at a crux, I think we are at a critical point in the consideration of the foreign aid. There is a sense of frustration as to the failure of foreign aid to do all that some of us had hoped. Maybe we expect too much. The Cuban situation has aggravated it. This situation in Laos is even more significant in terms of the failure of foreign aid, if we can term it that. I am a friend of foreign aid and I believe in these programs. I just want to be sure that in governments where there has been a record of lack of proper management and at times corruption that we do not prejudice this very important program in this critical area by weak management.

I think we ought to insist on standards. I am pleased about this trust agreement that you have. I am all over this business about worrying about a little intervention. I think we ought to intervene. The way you are doing it is better, through the Bank, through multi-lateral apparatus. You will be doing the program a great service. There will be money authorized for it but you will have to come back later.

The first time we find this program has not been operated well you are going to lose the program. And its friends will be in trouble.

UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA

Now the Latin American Economic Commission is a U.N. agency, is it not?

Mr. GORDON. Yes, sir.

Senator HUMPHREY. Does the Bank have any direct relationship with a man like Mr. Prebisch?

Mr. GORDON. There is this sort of relationship, Senator. The staff of the U.N. Economic Commission for Latin America is cooperating with the Bank staff in certain technical assistance work. For example, in the tax studies to which Secretary Dillon referred before, there is a four-party arrangement among the Bank, the Commission for Latin America, called ECLA for short, which is Dr. Prebisch's body, the Harvard Law School which is providing some technical help in connection with this, having made many studies of Latin American tax systems, and the Organization of American States.

We expect, as I think the President's message indicated, that there will be continuing participation by the ECLA staff in technical work of this type.

Senator HUMPHREY. I think this is very important because it is very difficult for a Yankee, North American, to take direct interference or direct intervention but there are people in these areas, as I have been finding out since my interest was aroused like all other Americans, there are people that are willing to discipline their own people and suggest needed reforms.

I have the feeling that ECLA as a group was in that category.

I only have a few more questions here. Most everything has been answered.

INTEREST RATES ON LOANS

I want to ask regarding these local development banks about which several questions have been asked. And you said the interest rate related to what the Bank had to pay out of the Inter-American Bank plus a service charge so to speak, a fair profit.

Now, the point that I raise is that there are two kinds of interest. There is one on top of the table and there is one that works under the table, gentlemen. We even have it in the United States. There is an interest you pay on a housing loan and then you pay points. That is another shakedown that we have. I never liked that. I would rather pay the interest than be shook around on the points. But they are not quite so savory in some of these other countries. They just plain take it. What about that? If it is a 6½-percent loan which it might have to be, or 5½ or even 7, depending on the type of loan, how much do they have to put under the table to get it? This is what I want to present to you, gentlemen.

Mr. BALL. Page 33 contains a statement on that.

Senator HUMPHREY. I may be wrong. I was just visiting last evening with a man who does a great deal of business in Latin America. He is an exporter and importer. I told him we were going to have this hearing. He is a very well-known businessman. He said, "I want you to ask the witnesses about the kind of things I have to do when I borrow money down there. You borrow money at one rate and you pay two."

There are a lot of fellows that get in between. I just wondered how many we were going to have to deal with. If we have to I would kind of like to know it, but I prefer not to.

Senator CHAVEZ. In New Mexico they used to call it the bite.

SUPERVISION OF SUBLENDING

Mr. GORDON. This is partly the problem of effective supervision by the Bank of sublending by the agencies. With respect to general industrial and commercial borrowing in those countries where they have had chronic inflation, the ruling interest rates are very high indeed. If there is a legal ceiling, as there often is, then these extra-legal or semilegal devices are employed to result in an actual interest rate which is much higher than the nominal interest rate. We would certainly expect that for the kinds of credit that we are talking about here, being financed with these funds, that it would be seen that the actual interest rate was the nominal interest rate and not something integrated by various subterfuges.

Senator ALLOTT. Mr. Chairman, may I just say this? I would like to compliment the Senator on this. This is a very important thing. If in any given country this should occur, I think that all of the good we are doing by this program would be undone and we would end up downhill.

I will say this, if you will yield to me for just a moment, Senator, that this was the real purpose or thought behind my questions on this subject because I can't believe that a man who has had to struggle for every day's living, who never had a cent or an extra loaf of bread or crust of bread even, against tomorrow, can have any respect for us if he sees any part of this in our dealings or sees us throwing money away loosely without employing the same firm grasp that he himself would employ.

Senator HUMPHREY. I want to suggest most respectfully while the Inter-American Bank is the agent in this instance, they are agent for our money. This is not the multilateral money. I know that the Bank consists of very high-caliber people. I am aware of some of the personnel involved. I do hope that some way in our own operation we can kind of take a quarterly review of the supervision. I don't know how we should do it. I am not an expert in this. But I think in the beginning it is very important that we try to supervise the integrity of this program even in a nonaggressive way. I don't mean just to be aggressive about it but to take a good look at it.

PUBLIC LAW 480 FUNDS

Now on these Public Law 480 funds that were committed, I have listened to your comment, I know these funds are committed, I have been looking into this, but are they at work? There is a trick on Public Law 480 funds, after having been in this business for a while. It is one thing to commit them. It is another thing to get them to work. The commitment is on paper. I feel that the use of Public Law 480 funds is so important in this effort that you are entering, that you are starting here, all of these programs have to move in a sort of synchronized manner.

If you only have them committed when they could be supplemental in terms of activity I think it would not be too good.

PROGRAM DIFFICULTIES IN BRAZIL

Secretary DILLON. I found out one of the biggest places, Senator, where we had trouble was in Brazil. When we were down there at this meeting I discovered that we have worked out arrangements with the Brazilian Government so all these back funds are now in the process of going to work. They are really being used. We have just made an additional Public Law 480 arrangement with Brazil in that a part of these funds are specifically going as grant funds to northeast Brazil, which is that very low economic development area, the depressed area. This has had a tremendous impact down there and I think that our problems with Brazil in this respect are probably over.

PROPOSED AMENDMENT TO PUBLIC LAW 480

Senator HUMPHREY. I introduced an amendment yesterday to Public Law 480 which will revive the authority that will expire on

June 30 to permit payment of wages in part on some of these projects with Public Law 480 commodities as a part of our economic assistance.

Now I think there is a lot of sympathy in Congress for this, as you have heard many of the Senators on both sides of the aisle. I hope you will take a look at that amendment so that we don't let it stagnate or let this authority drop.

EXPENDITURE OF PUBLIC LAW 480 FUNDS

Mr. MOSSLER. Of the obligations of title I, Public Law 480 generated foreign currencies we have made in Latin America of \$161.9 million equivalent we have actually spent \$137 million as of the end of the 1960 fiscal year.

Senator HUMPHREY. Of the public law 480?

Mr. MOSSLER. Yes.

Senator HUMPHREY. That is very good.

Now, on cooperatives, I spoke to Mr. Ball the other evening very quickly and informally. I have been terribly interested in having this economic aid that we are talking about, this Inter-American economic aid program, get directly to institutions and economic institutions, not just to governments.

COOPERATIVE MOVEMENT IN SOUTH AMERICA

In Latin America the cooperative movement is the one chance that we have of saving their agriculture. It is either going to be collectivization or state ownership or it is going to be cooperatives.

LARGE LANDOWNERS

Presently you have the large landowners.

I think somebody was showing me the other night that 1 or 5 percent of the people in Chile owned 45 percent of the land.

Of course, statistics are misleading here because you do not know whether it is good land or bad land.

But this cooperative endeavor is something that is familiar to Americans. Our farm people understand it completely.

I want to make sure that a sizable portion or I want to make sure that there is no limitation either written or unwritten, oral or just by gentleman's agreement, that will limit or that will prevent aid to cooperatives.

When I say aid I mean loans.

I am talking about farmer producer cooperatives, cooperatives where they buy machinery and pool it to operate their land.

Very frankly, this could be the greatest boon to American farm machinery manufacturing that we can have and we have whole plants shut down in the United States on farm machinery that could find market source.

Now, I want to make sure that a fertilizer cooperative is not denied under these terms that we are talking about, the trust arrangement and all.

I want to make sure that if they want to have cooperative housing like they have in Puerto Rico, which has worked well, that it is permissible.

Now, are these endeavors, these cooperative endeavors that I have mentioned, and more like them, permissible under the terms of this program?

Mr. GORDON. Yes, Senator.

Senator HUMPHREY. Without any specific limitation?

Mr. GORDON. They are eligible without limitation. It is an unfortunate fact as you know that the cooperative movement is in most Latin American countries very rudimentary and it is one of the things that as you say, is very badly needed.

Senator CHAVEZ. That is the individualistic character of the Latin?

Mr. GORDON. I am told in many cases there is a legal obstacle too. I am told there is a great interest in trying to amend the legislative structure.

LEGAL BASIS FOR COOPERATIVES

In Brazil I was told the other day, at least in one state, this is a matter of state legislation, someone wanted to establish a cooperative and found that the only legal basis was a very poor law which dates back to 1830 or 1840, and is entirely obsolete for the purpose, and action is now being taken. This is in the northeast of Brazil, and action is now being taken to amend the legislation so as to encourage this kind of movement.

DISTRIBUTION COOPERATIVES

You will notice in the trust agreement, the reference to the agricultural part of it, marketing and storage facilities as another important thing.

Senator HUMPHREY. Distribution cooperatives?

Mr. GORDON. That is exactly correct.

Senator HUMPHREY. As the Senator from Colorado knows, you have these group purchasing cooperatives where they buy in rather large amounts and you get a much better deal. I just wanted to make sure that we in America start to emphasize this because I feel, I tell you if we do not this land reform that we are talking about will be the land reform of state ownership and it will be the land reform of a kind of dictatorship.

Senator ALLOTT. Will the Senator yield for a question along the same lines that he is discussing?

COOPERATIVE DITCH COMPANIES

Throughout a great part of the West we have various corporate entities known in my own State as mutual lateral ditch companies which are purely cooperative ditch companies. That is what they are.

In respect to agriculture, would the application of these funds be available to such things, not only for distribution of irrigation water, but for drainage?

Mr. GORDON. Yes, sir.

MUTUAL SAVINGS SYSTEMS

Senator HUMPHREY. I would hope some way or another we might get the message to the Inter-American Bank that we look with favor upon mutual savings, for example, as the home construction program, farm cooperatives, producer cooperatives, consumer cooperatives, housing cooperatives.

This is one of the forms of free enterprise that can get down to an individual.

In talking to some people about this, as I have the last 5 or 6 months in the Latin American areas, I find them very excited about it.

What you have said is true, Mr. Gordon, the cooperative movement is weak in Latin America, but there are people in the cooperative movement that are available in the managerial services.

I have been meeting with some of them. I have them coming here to talk about offering their services, coming from all over the world. They are indigenous in a sense to the area, like the Italians, Portuguese, Scandinavians, British.

Secretary DILLON. I think that the Bank is aware of this interest and they have the same sort of interest. Cooperatives are not essentially mentioned in this trust agreement, but in view of the discussion here today and what you have said as Governor of the Bank, I will take it upon myself to see to it that our representatives in the Bank and officers of the Bank are specifically reminded of our interest in this.

Senator HUMPHREY. I am very grateful to you. Thank you.

Senator CHAVEZ. The greatest success of cooperatives is in your area—Minnesota, the Dakotas, Colorado, Nebraska. The Farm Bureau Federation has done a terrific job of cooperatives.

We could get a lot of local help to help out.

Senator HUMPHREY. I want to particularly thank Mr. Berle today for the comment he made in reference to the Cuban situation. I think it was very helpful.

I agree. I think this is beginning to manifest itself.

To my mind this is the best testimony we have ever had.

Mr. BERLE. Thank you, Senator. I probably will have more to say about that to the Senate Committee on Foreign Relations.

Senator CHAVEZ. I am glad that you appeared before our committee. It is very nice to go before the Foreign Relations Committee, but we have to furnish the money.

Mr. BERLE. That is why I was here, sir.

Senator CHAVEZ. We will next hear from Mr. N. R. Danielian, president of the International Economic Policy Association.

INTERNATIONAL ECONOMIC POLICY ASSOCIATION

STATEMENT OF N. R. DANIELIAN, PRESIDENT

PREPARED STATEMENT

Senator CHAVEZ. Give your full name and address and your official position.

Mr. DANIELIAN. May I just put my statement in the record?

Senator CHAVEZ. Yes; we are a little late. So please put your statement in the record and you may proceed. We are late. That is why we asked you to put your statement in the record.

(The statement referred to follows:)

THE INTER-AMERICAN FUND FOR SOCIAL PROGRESS

Provisions and objectives

Congressional appropriation of \$600 million to launch a program of economic help and social progress for Latin America was requested by President Kennedy on March 14, 1961, and approved by the House of Representatives on April 25, 1961. This program includes \$500 million, authorized on September 8, 1960, for the Inter-American Fund for Social Progress, and \$100 million, authorized in the same bill, for the long-term reconstruction and rehabilitation of areas in southern Chile recently devastated by fire and earthquake.

It was on the basis of establishment of the Inter-American Fund that the United States subscribed to the Act of Bogotá along with 18 other American Republics.

The Act of Bogotá was adopted on September 13, 1960, by the Committee of Twenty-one by a vote of 19 to 1 (Cuba being opposed and the Dominican Republic not voting). The act recognized that "the interests of the American Republics are so interrelated that sound social and economic progress in each is of importance to all and the lack of it in any American Republic may have serious repercussions in others."

Measures for social improvement

Measures to be undertaken for social improvement will be directed to conditions of rural living and land use, housing and community facilities, educational systems and training facilities, public health, and mobilization of domestic resources.

In the words of the President, the Inter-American Fund is "an effort to create a social framework within which all the people of a nation can share in the benefits of prosperity * * * overcoming barriers of geographical and social isolation, illiteracy and lack of educational opportunities, archaic tax and land-tenure structures, and other institutional obstacles to broad participation in economic growth."

Criteria for administration of the funds by the Inter-American Development Bank and the International Cooperation Administration will reflect not merely need, but also the "demonstrated readiness of each government to make institutional improvements which promise lasting social progress."

Housing for middle income groups will benefit from improved credit mechanisms. Self-help school construction will call for an entire village contributing labor. Agricultural production will be encouraged through establishing rural credit facilities, helping to finance resettlement in new land, constructing access roads to new settlement sites, conducting agricultural surveys and research, and introducing agricultural extension services.

Allocation of funds

Of the total of \$500 million, \$394 million will be assigned to the Inter-American Development Bank, to be administered under a special trust agreement with the United States. The Inter-American Development Bank will apply most of these funds on a loan basis with flexible terms, including low interest rates, or repayment in local currency. International Cooperation Administration will administer \$100 million, to be applied mainly on a grant basis for education and training, public health projects, and the strengthening of general governmental services in fields related to economic and social development. Up to \$6 million more will be used to help strengthen the Organization of American States (OAS).

According to the President, both the Inter-American Development Bank and the International Cooperation Administration are ready to begin operation immediately when funds are in hand.

Inter-American cooperation for economic and social progress will not be confined to governmental action. Private foundations and universities and U.S. business concerns are expected to continue their significant role in development of healthy and responsive private enterprise within the Latin American nations. The inflow of private capital will continue to serve as an important stimulant to Latin American development.

COMMENTS ON THE INTER-AMERICAN FUND

The objectives of the Latin American aid program are splendid and deserve wholehearted support.

The fiscal management of the moneys involved create certain problems. In the very nature of the assistance promised, the U.S. dollars made available to recipient governments will be in the nature of budgetary assistance to undertake public works and social reform projects which otherwise the local governments, presumably, would not be able to afford on the basis of their internal revenues. As this budgetary assistance is given to these countries, they will acquire dollar exchange abroad. This, then, would be a balance-of-payments contribution to the recipient countries. Whether the projects approved by the Inter-American Development Bank or the International Cooperation Administration are specific projects or not, the net effects of the assistance given to these countries will be, on the one hand, a budgetary assistance and, on the other hand, a balance-of-payments foreign exchange assistance.

Use of dollar contributions

Since dollars are freely expendable anywhere in the world, it would seem that the best use of dollar contributions would be for that portion of approved projects which require procurement abroad, because, if the recipient countries undertake the recommended fiscal and tax reforms, the local currency requirements of approved projects would not really require dollars; they could be financed through internal resources. Dollars are good mainly for procurement abroad.

This being the case, then the question is raised—what use will be made of the dollars that are made available to these countries? If they are spent anywhere in the world outside of the United States, then the balance-of-payments deficit of the United States will be aggravated. As three-fourths of the funds will be managed by the Inter-American Development Bank, it is important to examine the charter provisions of this Bank relating to the control it is empowered to exercise over expenditures of its loans.

Article III, section 9a of the charter of this Bank provides that it shall impose no condition that the proceeds of a loan shall be spent in the territories of any particular member or members. In other words, the \$394 million that will be turned over to this Bank for administration cannot be subjected to the Presidential directives of November 16, 1960, and Secretary of State's directive of December 16, 1960, later reaffirmed by President Kennedy on February 6, 1961, that emphasis be placed upon U.S. procurement, and that foreign aid funds may not be spent in 19 designated countries.

These provisions are inconsistent with the charter of the Inter-American Development Bank, and would be inapplicable, unless a specific reservation is made in the proposed agreement between the U.S. Government and the Inter-American Development Bank; such conditions being allowed under the charter of the Bank for any supplemental funds that are made available to it.

Handling of educational funds

There is no question that one of the greatest needs of Latin America is the training of teachers, school facilities, and particularly, technical and high school training programs. The United States should support large-scale constructive efforts in this direction, but care must be taken that the institutions selected to undertake this program are not infiltrated by unfriendly elements.

Another aspect of the Latin American aid program that requires careful scrutiny is the manner in which the funds devoted to encouragement of education are handled. In many of the Latin American educational institutions, there is a hard core of anti-American, nationalist or pro-Communist feeling, both in the teaching staff and the student body. If U.S. funds are channel through these institutions, the United States may find itself in the position of subsidizing anti-American and antidemocratic elements.

This is a matter for astute administrative handling of educational funds, and cannot be corrected by legislative devices. It behooves us, therefore, to keep a watchful eye on the use made of funds in this area.

Encouragement of private investments

There is no indication in the President's message on the Latin American aid program that a serious emphasis is being placed upon the development of job-creating, wealth-producing, taxpaying, productive industrial and agricultural

enterprises. By its own terms, the Latin American aid program and the Act of Bogotá will emphasize public works and social projects. What Latin America needs, in massive amounts, is productive enterprises to put people to work, producing the things they need. No amount of public capital that can be obtained from Congress in the foreseeable future can possibly meet this need.

Most of the savings of the free world are in the hands of private individuals and institutions. If a breakthrough is going to be made in Latin American economic development, ways and means must be found to unleash the enormous amounts of private savings, as well as to utilize the unemployed productive capacity, of the United States. This can only be done through increase of private investments, which means giving the necessary incentives, encouragements, and elimination of risks by way of guarantees to private investors. The alliance in progress will be a disappointing experience if limited to the modest amounts of public capital that the U.S. taxpayers and the Congress may be willing to make available in the foreseeable future.

The task of the business community is still to sell to the new administration the concept that some way must be created for the mobilization of private resources to undertake the necessary developmental work in Latin America.

GENERAL STATEMENT

Mr. DANIELIAN. My name is N. R. Danielian, I appear here in support of the appropriation.

Our organization is composed of a number of companies that have a vital interest in the welfare of Latin American countries.

Senator CHAVEZ. When you say companies, do you mean investment companies?

Mr. DANIELIAN. Both in trade and investment.

Senator CHAVEZ. Equipment?

Mr. DANIELIAN. Yes. It is a facet of American companies.

We are very much in favor of this program. Our organization has developed a set of standards for the evaluation of the foreign economic programs of the United States, with a view to making them as effective as possible.

We are, of course, very much concerned about the maintenance of the deterrent power of the United States in order to secure the welfare of this country as well as our allies.

We are concerned, of course, at the same time with continued strength and vitality of the American economy and a substantial rate of growth in order to permit us to maintain the various budgetary requirements, both military and civilian, as well as foreign aid.

We are concerned equally with the welfare of our allies and the independent nations within the orbit of the free world and, of course, we favor economic aid programs to achieve that.

We are very much interested in seeing that institutions of private ownership be advanced because we feel that fundamentally the disbursed ownership of property is the basis of economic institutions.

REPRESENTATIVE GOVERNMENT IN THE WESTERN WORLD

Historically representative government in the Western World has developed on the basis of widespread ownership of property. Those who have a stake to defend will take care of the constitutional requirements for the establishment of institutions of representative government.

In the history of England and France as well as this country that has been true.

We try to evaluate each program that is brought before Congress in the light of whether these objectives are achieved.

I think in reading the Act of Bogotá one must be pleased with the emphasis placed on the widespread ownership of farms, by individual farmers, upon the program of home ownership.

I think the Senate Foreign Relations Committee, particularly Senator Aiken's report, of his trip in 1959 throughout South America as well as Prime Minister Beltran's program which was finally approved by the administration last year, which we supported, has been a sort of example for this program, as Mr. Dillon stated before the Foreign Relations Committee last year.

I think it is all in the right direction.

I do want to emphasize three points today with a view to improving the performance and the direction in which our Latin American programs will proceed.

EFFECT OF PROGRAMS ON U.S. ECONOMY

The first point, of course, is with regard to the effect upon the U.S. economy and our balance of payments.

I would like to bring to the attention of the committee the fact that under the charter of the Inter-American Bank the Bank is not entitled to indicate what procurement should take place with certain exceptions.

The charter also provides that supplementary contributions may be subject to conditions.

This comes under that project.

Now, assuming this is going to be a continuing program and anticipating the possibility that we may still continue to have balance-of-payments problems in the long run, it may be desirable to pay attention to those provisions of the Inter-American Bank.

I do not recommend a reservation by the committee but perhaps a recognition of this problem in the report of the committee might be desirable.

Senator CHAVEZ. You mean reservation or limitation?

PROCUREMENT POLICY

Mr. DANIELIAN. No, I mean just an expression of intent in the administration of this program over the long run that attention be paid to the balance-of-payments position of the United States.

Senator CHAVEZ. I understand.

Mr. GORDON. Mr. Chairman, could I make one comment, if I may interrupt Mr. Danielian?

We were conscious of this problem in the drafting of the trust agreement with the Bank. It is provided there in section 406 that U.S. dollar funds made available under this agreement shall be used for the purchase of goods or services from the United States or for the acquisition of goods or services of local origin in a country where the assistance is received.

There is also a provision that funds may be used for acquisition of goods and services in other countries which are members of the Bank.

This, therefore, limits the procurement to the United States for Latin America and excludes procurement in other parts of the world.

Senator CHAVEZ. Just as you have stated prior to this, the example you gave of Brazil, where they have a certain commodity that you can purchase with local currency and probably transfer to Argentina.

Mr. GORDON. That is exactly right.

Mr. DANIELIAN. Mr. Chairman, I am delighted with that provision. I did not have access to the contract. I am very happy with it because last year I did have correspondence with the State Department and it was not quite clear at that time that the State Department understood the problem.

I am delighted that this problem has received recognition.

Senator CHAVEZ. If you had been with us this morning you would have found out that they have a well thoughtout plan and program.

Mr. DANIELIAN. Fine.

In the second place I have traveled extensively in Latin America. My latest trip was a survey of Mexico. A year and a half ago I went to most of the countries of South America.

EDUCATIONAL PROGRAM

With respect to the educational program embodied in the Act of Bogotá, there is no question that the greatest contribution can be made to the advancement of Latin American countries in this field of education.

Perhaps the starting point is the training of teachers because there is a lack of teachers.

But I think a word of warning should be given.

Senator CHAVEZ. Now, ICA, with the limited availability of funds, has done a tremendous amount of work in that respect in training teachers.

UNIVERSITY GROUPS UNFRIENDLY TO UNITED STATES

Mr. DANIELIAN. A word of warning may be raised because I think certainly news reports indicate that many of these institutions have elements which are not always friendly to the United States.

Senator CHAVEZ. You do not have to go out of the country to find that situation.

Mr. DANIELIAN. Only last week the U.S. Economic Commission was invited out of the University of Venezuela to go to Santiago because they were afraid of incidents.

CHANNELIZATION OF EDUCATIONAL FUNDS

This brings up the question of channelization of the educational funds.

I personally would feel happier if in the development of this educational program more attention was paid to the philosophical orientation of the students and that the training would take place possibly in normal schools and other institutions that are created for that purpose, perhaps three in the continent, one in Brazil, one in the southern part of South America, and one in the northern part of South America, where native language teachers can be trained for employment in the school systems of these growing nations.

If the funds are channelized to some of the existing institutions we may be subsidizing elements that may not turn out to be too friendly to the United States.

I am sure that the administration will have this factor in mind when they administer the program.

Senator CHAVEZ. I feel confident of that.

Mr. DANIELIAN. In the third place—

Senator CHAVEZ. And I am for you in this teaching business.

Mr. DANIELIAN. I think we should put this program in its quantitative perspective. We tend to expect too much from the things we undertake and in this field we cannot afford to delude ourselves, because in the next 10 years the decision may be made whether these countries will remain friendly to the United States, or not, on the basis of the forces that will come into power in those countries.

Two hundred and fifty million dollars a year is only about a dollar and a quarter per capita. I don't think we ought to expect that this is going to educate every single one of them toward democratic principles or that we are going to develop a great economic strength and economic growth by a dollar and a quarter per capita investment on such things as social projects and so on.

We must not expect that this is going to solve the Latin American problem. I think that what we confront is a much more massive undertaking that is encompassed in this program.

I think that Latin America is a treasure trove of resources and people who are in various degrees ready to take off into tremendous growth and development, but it is going to require much larger amounts of capital and institutions to instill in these people the desire for self-improvement.

Senator CHAVEZ. Also willingness on their part?

Mr. DANIELIAN. Yes, very much so.

Senator CHAVEZ. To try to get to that point.

Mr. DANIELIAN. Yes.

This is where the element of self-interest comes in. This is the point I think perhaps needs much greater thought.

The point is that the resources of the free world are in the hands of private individuals.

They lie in my little bank balance and your little bank balance and the savings banks—

Senator CHAVEZ. If it is little you are talking about me.

Mr. DANIELIAN. In building and loan associations and various retirement funds and so on.

ATTRACTING PRIVATE INVESTMENTS

Now, if there is, say, \$30 billion of annual savings in the United States in these institutions that compared with the foreign aid program is so much capital available and if we can find ways of tapping those resources to put to work in the economic development of Latin America, I think perhaps we can help them over the crisis.

Senator CHAVEZ. I have made this statement before. One of the problems that these good folks have is that in many countries of Latin America there is money there, millions, but instead of investing it in their own country for the welfare of their own country, they will send the million dollars to New York, or Switzerland.

Mr. DANIELIAN. Yes.

Senator CHAVEZ. So it is quite a problem that they have.

Mr. DANIELIAN. In this field I would like to make two specific suggestions for the consideration of the Congress.

EXPROPRIATION GUARANTEE AGREEMENTS

One, of course, is a favorable consideration of the State Department's several proposals for these tax-sparing agreements and extension of the program to Latin America, but over and beyond that I think we should have a more aggressive program for concluding expropriation guarantee agreements with South American countries. I have talked about this with the top officials of many of these governments, they say it is the leftwing, the revolutionary groups, that are preventing the legislatures of these countries from approving these agreements—some of them have come to the position that ultimately we may have to give private investments unilateral guarantees in order to unleash this tremendous reservoir of private capital.

Senator CHAVEZ. And I think every American is in favor of private capital and private enterprise, but that means a legitimate reasonable return on the investment.

Mr. DANIELIAN. Right.

Senator CHAVEZ. But it does not mean exploitation.

Mr. DANIELIAN. I agree with you. I think that once we solve this problem of making private capital available the administration or the President may have to sit down with the business community and perhaps agree on a code of behavior, on a voluntary basis so that the private investors abroad do not work at cross-purposes with the national policy and national interest.

But we cannot arrive at that point until we have the roadblocks eliminated to the investment of substantial amounts of private capital.

I have concluded my statement, Mr. Chairman.

Senator CHAVEZ. We are glad to have heard from you.

We are glad to get your views.

Please bear in mind every American is a capitalist at heart. He might be in debt, but he is still a capitalist.

Thank you.

Mr. DANIELIAN. Thank you, Mr. Chairman.

Senator CHAVEZ. We will conclude the hearing now.

(Thereupon, at 1:30 p.m., Friday, April 28, 1961, the hearing was concluded.)

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