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FOREIGN OPERATIONS APPROPRIATIONS FOR 1964

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON FOREIGN OPERATIONS APPROPRIATIONS

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

[1] Temporarily assigned.

PART 4

ECONOMIC ASSISTANCE PROGRAM

Latin America
Near East and South Asia
Administrative Expenses
American Schools and Hospitals Abroad
Contingency Fund
International Organizations and Programs
Interregional Expenses
Surveys of Investment Opportunities
Testimony of Organizations and Interested Individuals

(PAGES 1133 TO 2729)

Printed for the use of the Committee on Appropriations

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FOREIGN OPERATIONS APPROPRIATIONS FOR 1964

WEDNESDAY, JULY 17, 1963.

NEAR EAST AND SOUTH ASIA

WITNESSES

WILLIAM S. GAUD, ASSISTANT ADMINISTRATOR, NEAR EAST SOUTH ASIA, AGENCY FOR INTERNATIONAL DEVELOPMENT
PHILLIPS TALBOT, ASSISTANT SECRETARY OF STATE FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS
CHARLES F. FLINNER, OFFICE OF THE CONTROLLER
GUY A. LEE, DIRECTOR, REGIONAL OFFICE, BUREAU OF NEAR EAST-SOUTH ASIAN AFFAIRS, STATE
ALFRED WHITE, DIRECTOR, OFFICE OF DEVELOPMENT PLANNING, NEAR EAST-SOUTH ASIA REGION, AID
CLARENCE J. MARTIN, CONGRESSIONAL LIAISON STAFF, AID
CHARLES W. QUINN, JR., NEAR EAST, SOUTH ASIA, AND AFRICA REGION, OASD/ISA
LEIGH M. MILLER, LEGISLATIVE PROGRAMS COORDINATOR, AID
STANLEY B. SCHEINMAN, LEGISLATIVE PROGRAMS COORDINATION STAFF, AID

Mr. PASSMAN. The committee will come to order.

The members of this subcommittee are certainly sorry to learn of the illness of Mr. Tennant. We hope his condition is not serious, and that his illness will not be of long duration. We have much respect and high regard for the controller.

The committee will take a brief recess.

(Short recess.)

CONTINUING PROJECTS FOR WHICH NO ADDITIONAL FUNDS ARE REQUESTED

Mr. PASSMAN. The committee will come to order.

I should like to ask Mr. Flinner, assistant to Mr. Tennant, to provide us a statement as to the number of projects in each area for which you are not requesting any funds to be used in fiscal year 1964, but which have unliquidated funds to their credit.

It is true that some projects may be terminating, but also there are projects which are not terminating and will require funds in future years. We request a listing on those also.

(The information supplied follows:)

AGENCY FOR INTERNATIONAL DEVELOPMENT

Number of projects with unliquidated obligations as of Mar. 31, 1963, for which no funds are being requested in fiscal year 1964

[Dollar amounts in thousands]

Region	Total		Terminating projects		Continuing projects	
	Number of projects	Unliquidated obligations, Mar. 31, 1963	Number of projects	Unliquidated obligations	Number of projects	Unliquidated obligations
Latin America	362	32,736	273	17,604	89	15,132
Far East	155	30,439	152	29,997	3	442
Near East/south Asia	123	19,150	117	16,926	6	2,224
Africa	153	14,914	143	12,876	10	2,038
Total	793	97,239	685	77,403	108	19,836

INCREASE OF PROJECT FUNDING THROUGH PRESIDENTIAL DETERMINATION

Mr. PASSMAN. Presidential determinations are usually made, I suppose after the agency has justified to the President the need for Presidential determination so that funds may be made available for a project?

Mr. GAUD. That is right, sir.

ADDITIONAL FUNDS FOR LAOS

Mr. PASSMAN. It would appear that on June 29, there was a Presidential determination to make additional funds available to Laos.

Could you tell us whether or not you funded this item, with which some of you are familiar, out of the regular Military Assistance Program, or out of some other account?

Mr. MILLER. There was a modification, was there not, an increase from $——— to $———.

Mr. PASSMAN. Maybe you could term that action a "modification." I would term it a "straight-out increase" at the end of the year, from $——— up to $———. Out of what account were the funds obtained?

Mr. MILLER. My recollection is, it was an increase of $——— out of 1963 funds.

Mr. PASSMAN. Out of military assistance, or some other account?

Mr. MILLER. I do not have the determination with me. I would have to check it for the record. I would be glad to provide the information.

(The information follows:)

The additional funds were made available from funds appropriated for military assistance.

Mr. PASSMAN. We were told many times in previous years that we would not be blackmailed into providing aid. But it would appear that we are getting a bit soft on this point.

I have another document here, and I quote:

We have been informed by the ——— government that while it would prefer not to accept military assistance from Communist countries, it will do so if Western countries are not willing to provide adequate assistance.

That is either blackmail or Webster has changed the definition of the word since I looked it up last.

We have with us today Mr. William S. Gaud, Assistant Administrator, under Mr. Bell, testifying for the Near East and south Asian region, and also the Honorable Phillips Talbot, Assistant Secretary of State for Near Eastern and South Asian Affairs, the same region that is under Mr. Gaud's administration.

You gentlemen will have to tell me which one would like to testify first.

Mr. GAUD. Mr. Talbot, why do you not lead off?

Mr. PASSMAN. All right, we shall first hear from Mr. Talbot.

STATEMENT OF ASSISTANT SECRETARY OF STATE FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS

Mr. TALBOT. Thank you very much.

I am glad to appear before you in support of the requested appropriations for the foreign assistance program, and to discuss with you political and economic developments of the past year in the Near East and south Asia.

Since we met a year ago this important part of the world has been touched by far-reaching and sometimes dramatic developments. Perhaps most significant was Red China's assault on India last October and India's determined resistance, assisted by the free world. In Iran the Shah's sweeping reform program is being pressed ahead and should substantially strengthen that crucial Soviet border area. In the Arab world Communist prestige and influence are at their lowest point in years.

The political and social movements in the area are generally forward and in the direction of those objectives that we and the nations of the region share. This favorable situation can be ascribed in part to the encouragement and assistance given by the people of the Western World, notably the United States. Without that assistance many of the political developments would undoubtedly have been less favorable or might have taken a different direction. We must frankly recognize that large problems remain, problems of political instability, inadequate development planning, and intraregional animosities, and so forth—but the peoples of the area, by and large, now have new hopes, plans, objectives, and a substantial part of the tools for constructive development. Our patient but firm cooperative and dependable assistance can be a continuingly significant factor in determining whether the gains already made are to be consolidated and assured or are to be allowed to wither away.

SOUTH ASIA

The Communist Chinese attack on India during the past year removes any doubt that south Asia is a prime target of Communist expansion and that what is now at stake is the entire balance of power in Asia and the political system that will dominate half of mankind. It is essential that the countries comprising the indivisible whole of this strategic area remain free and independent, that they are enabled to continue and succeed in their heroic efforts to maintain political freedom and to resist the inroads and pressures of a powerful force dedicated to the destruction of their way of life.

In terms of military and political strategy the subcontinent is indivisible. India and Pakistan are the heartland, and neither country could long endure in freedom if communism or chaos should penetrate the area. Afghanistan and Nepal are sensitive northern extremities that for political, economic, and strategic reasons are highly important if the area as a whole is to have security and an opportunity for political and economic development.

In south Asia strongly held antagonisms between groups (that is, linguistic or religious rivalries) and between countries (India and Pakistan) enormously complicate the task of these young governments, drain their resources, and invite Communist exploitation. They and we have recognized the threat of these divisive currents, and we are using all the diplomatic tools available to us to help compose differences, notably in the Kashmir dispute, in order that our energies and theirs may be concentrated on the threat of communism and on building strong societies capable of meeting the vast human aspirations in the area.

The Communist Chinese attack on India came at a time when all efforts were being strained toward achieving the goal of self-sustaining growth. The attack and the larger threat which lies behind it create a new challenge and have had far-reaching effects. On the positive side, the dramatic response to the Chinese challenge clearly revealed that Indians, in a time of crisis, would put aside their differences and work together to defend India's territorial integrity.

India, over the past decade, has been effectively using the large input of U.S. aid in achieving social and economic accomplishments that have been remarkable, in view of the great difficulties which she has had to overcome. The Chinese threat has now forced India to assume an added burden of building its defenses at the same time it continues its development efforts. While the ability of the countries of the area to meet the Communist threat will be very materially influenced by the willingness of the West to provide strength and steadfast support, the countries recognize that the battle is largely theirs. Their strong sense of nationalism fortifies them in their task, even though it sometimes makes it difficult for others to help them.

Pakistan continues to be allied with us, both bilaterally and by virtue of her association in CENTO and SEATO. It is anti-Communist, it cooperates with us in military affairs, and against great odds it has significantly improved economic conditions and social and political institutions. Under a carefully worked out development plan, Pakistan is using our assistance effectively to increase agricultural production, strengthen industry, extend its transportation system, and improve the effectiveness of public administration.

The Government of Pakistan has taken advantage of Communist overtures following the October attack on India to conclude trade and boundary agreements and to consider a civil air agreement with Red China. We have made clear our concern and our belief that, even if marginal benefits may accrue to Pakistan from these measures, the political effect is to give advantage to an enemy against which we are formally allied. Here, as elsewhere, we must seek to accomplish our objective without infringing upon the sovereign rights of another government. We continue to believe that our national interests and those of Pakistan coincide and that this is recognized by Pakistan as

well. The recent agreement to reopen the Pak-Afghan border and to resume political and trade ties is a hopeful and constructive development that reflects credit on the governments immediately concerned, justifies our policy of patient assistance, and augurs well for the future.

GREECE, TURKEY, IRAN, AND CYPRUS

Greece, Turkey, and Iran constitute an important defense line for the free world. Stanchly independent, they hold a long, exposed border and thwart any Communist dream of easy expansion through the Mediterranean, the Persian Gulf, and the Arab world. The firm CENTO–NATO corridor provides a protective screen behind which the peoples of the Near East can, in times such as the present, work out their own destiny with some assurance that there will not be direct interference from the U.S.S.R.

These nations were prompt and firmly in support of the United States at the time of the Cuban crisis. During the past year they have loyally fulfilled their NATO and CENTO obligations, and, over and above that, have continued to provide us bases, facilities, and services designed for our mutual protection. In the U.N. and in other international forums they have, as in the past, stood up for measures designed to favor free world interests. They have not hesitated to resist repeated Soviet trade and aid blandishments, despite their real material need.

Countries that elect to pursue such a dangerous course in the face of great odds entail burdens that are often commensurate. Each of these countries has peculiar defense problems because of long common borders with Communist nations. Each must maintain a military posture that will discourage Soviet attempts to support either direct or indirect aggression against it. The large military cost burdens are imposed upon economies and social structures that are desperately trying to modernize in order to meet the rising expectations of the people and the survival requirements for modern nationhood. Achievements in reaching satisfactory goals vary from country to country according to the resources available and the complexities of the problems that have to be solved in order to modernize institutions. All three countries have taken encouraging steps forward during 1962–63 and have successfully withstood internal challenges that illustrated both their essential strength and the problems with which they must continue to cope. I refer to the recent religious riots in Iran, the attempted military coup in Turkey, and the fall of the Caramanlis cabinet in Greece.

Iran has been the scene of exciting and encouraging change during the past year. The Shah of Iran has accelerated the momentum of a reform program he calls the "White Revolution." Included in it are land distribution, better profit sharing for workers, women's suffrage, and a literacy drive by a domestic peace corps. He has taken the program to the people and in a referendum in January received an overwhelming vote of approval. The elections now being readied for early fall will be held under a new electoral law under which for the first time in history there will be a registration procedure, positive identification of voters, and other reforms enabling the illiterate voter to express his political preferences.

These changes truly constitute a peaceful revolution. The combination of the landed elite and various extremely conservative forces has lost its dominant position. No doubt such groups will remain forces to be reckoned with for some time, but they no longer constitute a high but weak dam back of which a mounting flood of demagogic discontent could rise. There is now real hope for dynamic new leadership and constructive national unity.

In the past there has been criticism of the military force level which was established by a United States-Iranian agreement of July 1958. Our goal has been an optimum balance between the economic development requirements of the economy and the need for adequate forces to provide internal security and defense against limited external aggression. In order to assure ourselves that this goal was being reached, our Joint Chiefs, working with the Iranian Government, made a thorough review of military programs. As a result, the projected force levels are being reduced by 33⅓ percent and the army is being reformed and modernized under a carefully worked out schedule. Our commitments have been reduced, and our ally is strengthened both economically and militarily.

Throughout this subregion there are close relationships with Europe. Greece and Turkey are members of NATO; Greece is associated with the Common Market; Turkey is negotiating for association; and trade and cultural relations are close and important. All of the countries have received loans from various European countries and there is an increasing recognition of the desirability of multilateral devices. International consortia have been arranged for providing external financing to Turkey and Greece. Within the past few years the European states have provided an increasing proportion of the total external assistance. We are fully aware of the desirability of increased European participation and are working toward that end. In doing so, we are mindful, of course, of our own peculiar and essential security requirements in the area, and of the sensitive but highly valuable political and psychological relationship between ourselves and the countries of the area.

NEAR EAST

In the past year, there have been dramatic developments in the Near East that will undoubtedly affect the course of events there and the execution of our own policies and programs, including those relating to foreign assistance. The revolutions of September 26, 1962, in Yemen, of February 8 in Iraq, and of March 8, 1963, in Syria, and the emergence of a Ba'thist-nationalist coalition government in each of the latter two, have affected the political dynamics in the region as a whole. The manifest desire of the Arab peoples for closer relations has resulted in serious reconsideration of unity and an agreement in principle for closer political association among the United Arab Republic, Syria, and Iraq. In the area generally there are encouraging indicators that economic and social progress, requisite for any real political stability, has accelerated in recent years.

Although no substantial progress has been made in resolving the Palestine problem, serious incidents along Israel's borders have been few, relative to previous years, and have been settled through the

United Nations peacekeeping machinery, fully supported by our bilateral efforts with the parties involved. United States and United Nations efforts to facilitate a solution to the problem raised by intervention in Yemen have borne fruit and liquidation of the conflict is underway.

The Near East, unlike the other two subregions, does not directly confront the Communist world on a common border. The area is, nevertheless, a prime Communist target as evidenced by the massive aid provided by Communist states to the countries of the Near East. The United Arab Republic has received considerable amounts of arms aid as well as being a focal point of Communist propaganda. The Soviets have taken advantage of poverty and instability to further their own long-range goals, and they are obviously displeased with tactical reverses, such as their major setback in Iraq, where thousands of Communists are now in jail.

For the West, it is of signal importance that the nations of the Near Eastern area continue to maintain their strength to resist subversion, that Communist domination or subversion be thwarted, that the West continue to have peaceful passage through and intercourse with the area, that there be a continuing flow of oil from the Persian Gulf, that the Palestine problem be contained, and that there develop free modern societies, able and willing to meet the aspirations of the people.

The United States therefore is interested in the integrity and well being of all the states of the area, and our bilateral relations are premised on the need for impartiality and objectivity as between them. Assistance to the United Arab Republic, much the most populous state of the Near East, has been largely in the form of Public Law 480 foodstuffs. This assistance has helped support a rate of economic growth somewhat in excess of the rate of growth of the population. In addition to contributing to the stability and economic growth of the country, U.S. assistance has provided the United Arab Republic with an alternative to reliance on the Soviet bloc and has made easier the carrying out of the United Arab Republic's determination to follow an independent, albeit nonalined foreign policy.

In Jordan, the Government is now moving ahead on programs of modernization, reform, and economic development. It is important that we continue assistance to Jordan and assure its continued progress toward economic and political viability. Its location makes Jordan's stability a linchpin for maintenance of the relative peace and security of the entire Middle East.

Lebanon, with growing prosperity, has moved out of the foreign-aid category. In Israel, as in Greece, the combination of foreign assistance and self-help has rapidly raised the per capita gross national product. Both countries have moved away from dependence upon grants; they are now receiving limited development loans and are attracting foreign private investment; and hopefully, they will soon be able to utilize regular commercial sources of credit.

Political instability has been endemic in the Near East for the past several decades. Despite this, there has been considerable economic and social development which gives promise of providing a basis for greater political stability. In our day-to-day relations with the states of this area, we seek to maintain a strictly objective and impartial

posture, to avoid, insofar as possible, becoming involved in inter-Arab disputes, and to use our influence in support of U.N. efforts to maintain the peace in the Arab-Israel conflict. By maintaining cordial and fruitful relations with each state in the area, we are able effectively to protect and advance our interests. We believe that U.S. policy is now well understood by the governments and peoples of the area and that our relations generally are better now than they have been at any time since the years immediately after World War II. In this time of fundamental and fast-moving change in the Near East, there will be opportunities for us to assist and encourage the peoples and states of the area to our mutual advantage. To seize those opportunities we must remain firm and patient, and we must have an aid program that is sufficiently flexible to meet the new circumstances in a timely way.

CONCLUSION

In international affairs the nations of the area have taken increasingly realistic positions during the past year. Our allies have generally cooperated fully and firmly. The so-called nonalined nations have not changed their doctrine, but they have repeatedly and increasingly voted or otherwise acted in such way as to show that they know the hollowness of Communist professions in such matters as colonialism, disarmament, and freedom of trade.

Change, both violent and evolutionary, has been remarkably great in the Near East and south Asia during the past year. Outwardly at least it has been much greater than in the preceding year. The new situations that now confront us do not call for new goals. In an interdependent world we still have need for access to and passage through the area; we need strong and dependable allies in that part of the world; the resources of the area are a necessary supplement to those of the rest of the free world; we have mutual interests in trade; and we know that our kind of world could not tolerate the enslavement of such a large proportion of the world's people. The external threat remains; and the internal weaknesses still invite Communist exploitation. A continuing mutual effort to develop and sustain free and independent states is a necessity.

Encouragement and material and technical assistance from the United States, though a small part of the total resources required, have played and will continue to play a decisive role in the speed and certainty with which we and the people of the area achieve our goals.

Mr. PASSMAN. Thank you very much, Mr. Talbot. We shall have some questions to ask after Mr. Gaud has made his statement.

DEVELOPMENT LOAN TERMS

However, let me note from your remarks:

> Development loans account for 87 percent of our request for fiscal year 1964.

That refers to the so-called development credits, does it not, 40 years, 10-year grace period, no interest, and three-quarters of 1 percent service charge?

Basically, is that what you are referring to?

Mr. GAUD. Most of our loans are made on the terms you just referred to. Some are harder.

Mr. PASSMAN. I believe Mr. Fowler Hamilton said these things were half grant to begin with if you figure in the cost of the money. Are you familiar with his statement?

Mr. GAUD. I do not recall his statement.

Mr. PASSMAN. Here is what Mr. Hamilton said at page 235 of the hearings for last year:

Mr. HAMILTON. * * * It is more than half grant to start with if you figure in the cost of the money.

I asked Secretary Dillon:

In your professional position as a banker, would you actually call these things loans, if there is no interest?

Would they come under the category of hard loans?

Mr. Dillon responded:

They call them development credits, and I think it is a good name for them.

Mr. Hamilton again:

I never told anybody I thought this was a loan in any sense that a banker uses the term.

We shall be pleased, Mr. Gaud, to hear your statement.

Mr. GAUD. Thank you, sir.

STATEMENT OF ASSISTANT ADMINISTRATOR, NEAR EAST AND SOUTH ASIA

Mr. Chairman and members of the committee, I am glad to appear again before this committee to discuss the aid program of the Near East and South Asia region.

FISCAL YEAR 1964 REQUEST—NEAR EAST AND SOUTH ASIA

The total amount requested for fiscal year 1964 compares as follows with actual obligations in fiscal year 1962, and our present estimate of obligations in fiscal year 1963:

[In millions of dollars]

	1962 actual	1963 actual	1964 proposed
Development loans	756.2	779.5	890.0- 950.0
Supporting assistance	250.0	110.8	76.2
Development grants	62.5	58.3	62.4
Total	1,068.7	948.6	1,028.6-1,088.6

DEVELOPMENT LOANS

This table shows that the Near East-South Asia program is primarily a loan program. Development loans account for 87 percent of our request for fiscal year 1964. Supporting assistance accounts for 7 percent, and development grants make up the remaining 6 percent.

As the committee knows, development loans are made for specific purposes, they are usually spent wholly within the United States, and they are all repayable in dollars. During fiscal year 1963 we made development loans to 9 of the 18 countries in the region. Much the largest amounts went to India ($396 million), Pakistan ($177 million), and Turkey ($71 million). Israel, Greece, Iran, the United

Arab Republic, Cyprus, and Afghanistan also received loans in lesser and varying amounts. The pattern for fiscal year 1964 will be substantially the same, with the lion's share again going to India, Pakistan, and Turkey.

SUPPORTING ASSISTANCE

Of the $76.2 million requested for supporting assistance, $7.2 million is required for CENTO and Yemen projects, compared to $7.4 million obligated for these programs in fiscal year 1963. The rest will go to two countries: Turkey———as against $55 million in fiscal year 1963, and Jordan———compared with $36 million in fiscal year 1963.

Until fiscal year 1962, Afghanistan, Pakistan, Greece, and Iran also regularly received this type of aid. It is our judgment that only Turkey and Jordan still require supporting assistance—Turkey to help maintain its economy while carrying out its military commitments to NATO, and Jordan because it is not yet able to meet its ordinary operating expenses without grant assistance.

DEVELOPMENT GRANTS

For development grants, we are seeking $62.4 million. These funds will be used to finance programs—mostly technical assistance services—in 12 countries. In fiscal year 1962 we were carrying on such programs in 15 countries. But Greece, Israel, and Lebanon no longer require development grant assistance.

CONCENTRATION OF ASSISTANCE

If all three types of economic assistance are taken together—development grants, supporting assistance, and development loans—3 of the 18 countries in the region (Lebanon, Saudi Arabia, and Kuwait) are expected to receive no economic aid from the United States in fiscal year 1964. The same may be true of Ceylon because of the application of the Hickenlooper-Adair amendment. The 14 other countries in the region will receive economic assistance of one kind or another. Three of them (India, Pakistan, and Turkey) will receive about $828 million, or over 80 percent of the region's aid funds.

Because so much of the region's aid program is concentrated in these countries, I would like to consider them in some detail. But before doing so let me say a word as to why we place such great emphasis on development loans in this part of the world.

There is good reason for this. Most NESA countries—not all of them, but most of them—have for a number of years been committed to economic development programs of their own. India is well into its third 5-year plan. Pakistan is nearing the end of its second 5-year plan. Israel, Greece, Turkey, the United Arab Republic, Iran, and other countries in the region are, and for some time have been, devoting substantial energy and resources of their own to development.

The quality of this effort varies. Some countries have greater capacity and know-how than others, some have more resources, some have a more favorable political climate within which to work. But there exists in most parts of the Near East and south Asia a deep-rooted urge for development and a relatively high capacity to achieve devel-

opment. In short, those countries to which we are extending the bulk of our aid are independently committed to the proposition that economic development is essential to their strength, security, and independence.

ASSISTANCE TO INDIA

India is a prime example of a country committed to a course of economic development which it is in our interest to encourage and promote.

India adopted its first 5-year plan in 1951. Since then considerable progress has been made on the immense development problem presented by India's 450 million population and great poverty. National output has risen about 50 percent. Industrial production has doubled. India now produces hundreds of new products. Capacity in power, coal, steel, cement, transport—the ingredients for further growth—have all expanded substantially.

The resources for India's development have come largely from within India. India financed 84 percent of the investment made in its first two 5-year plans. This financing included use of some $1.5 billion of its foreign exchange reserves. India expects to finance from her own resources 75 percent of the much larger third plan, the second year of which has just ended. It is nonetheless true that foreign assistance provided the decisive margin which enabled India over the past decade to enlarge its production base, expand its health and education services, and progress toward self-sustained economic growth.

In the coming year India faces the task of maintaining the momentum of its development program while expanding its defense effort. Until the Chinese invasion, India had given economic development a clear priority over defense. But the new budget nearly doubles defense expenditures while limiting the increase in development expenditures to about 14 percent. Taxes have been increased sharply to help finance defense outlays.

Our aid to India has for the past several years been pledged through the consortium organized by the World Bank. The consortium met in Paris early in June to consider India's foreign exchange needs for the current year of the third 5-year plan and will meet again in July for a final pledging session. Total pledges to date amount to $914.8 million against India's stated requirement of $1,250 million. The United States has thus far pledged $375 million and has stated its willingness to pledge a maximum of $450 million depending upon the amounts of aid pledged to India by others.

The development lending level planned for India for fiscal year 1964 is ——— deemed necessary to cover the U.S. pledge for the current year of India's third 5-year plan (which ends on March 31, 1964) plus a sum which will enable AID to continue to make development loans to India for the first quarter—that is, from April 1, 1964, to June 30, 1964—of the fourth year of the plan.

Our loans in fiscal year 1964 will be substantially similar to those made during the current fiscal year. They will be of two kinds. Some loans will finance the imports of capital equipment, machinery, commodities, spare parts, and critically needed raw materials. It is estimated that about 75 percent of the items financed by these loans go into the private sector. Loans will also be made for projects in power, transport, coal, and other industries to help break bottlenecks now limiting industrial expansion.

ASSISTANCE TO PAKISTAN

Pakistan, with a population approaching 100 million, is another country whose development efforts deserve continued U.S. support in order to further Pakistan's economic development at a rate which will maximize its prospects for internal stability and its contribution to the defense of the Asian subcontinent.

Pakistan's second 5-year plan went into its fourth year on July 1. Pakistan has been making effective use of its own resources and of the assistance it has received from others. Central Government investment is estimated to have increased 80 percent since the start of the second plan. Industrial output has grown on average about 14 percent a year in the first 2 years of the plan. The Government is determined to help itself, and in its budget for fiscal year 1964 proposed new taxes to increase revenues by $63 million—the largest increase ever requested of the national assembly.

The most recent meeting of the consortium, which has been helping to finance Pakistan's development program, was held early in May. The consortium considered requirements for the fourth year of the plan (corresponding to our fiscal year 1964). The total pledges came to $425 million. One-half of this amount was pledged by the United States. The World Bank and IDA pledged $80 million while Canada, Japan, and the European countries pledged the remaining $132.5 million.

It is expected that the U.S. pledge of $212.5 million will be fulfilled to the extent of approximately $25 million by the Export-Import Bank and to the extent of $187.5 million by AID. In addition, AID will continue to make available $50 million which remains unobligated from its previous pledge. Therefore total AID lending to Pakistan in fiscal year 1964 is expected to reach $237.5 million. This is more than the $225 million shown in the presentation. Pakistan's project preparation has accelerated and improved in quality in recent months. It was the judgment of the consortium that Pakistan was in a position to use effectively all the new funds pledged plus the carryover of the unobligated portion of previous pledges.

Fiscal year 1964 loans to Pakistan will finance both projects and the import of specified commodities, capital equipment, and the like needed to increase agricultural and industrial production. Project loans will be concentrated in the field of water control and water resources development, transportation, power, and industry. The proposed development grant program of $9.9 million will be focused on the priority objectives of raising agricultural and industrial output and improving education.

ASSISTANCE TO TURKEY

We have a continuing national security interest in a strong Turkey. Continued economic improvement will enhance Turkey's political stability and its long-term value as an ally.

Turkey's determination to get on with development is symbolized by a 5-year plan which went into effect this year and by a number of policy decisions taken by the Government in support of it. These show a clear recognition of the need to follow economic policies which will foster development. Illustrative of these decisions are measures to reform budgetary and monetary practices, to improve tax enforce-

ment, reduce price controls and subsidies, and to modify controls on trade. Tax collections increased 25 percent in 1961–62 and a further 17 percent in 1962–63 in line with Turkey's intention to finance about 75 percent of the development program from its own resources. These steps furnish a reasonable basis for U.S. support of Turkish development efforts.

During the past year a consortium was formed under the Organization for Economic Cooperation and Development (the OECD) to assist Turkey in the financing of foreign exchange requirements created by its 5-year plan. The member countries have pledged a total of $154.5 million. The U.S. portion amounts to $63 million.

The consortium is also now studying Turkey's 1964 and longer term development needs in the light of the 5-year plan. It is hoped that this study will lead to greater willingness on the part of member nations to meet the volume of assistance Turkey requires to carry its development forward, and to provide the better terms of aid Turkey needs if it is to carry out a development program without again assuming a crippling burden of short-term foreign debt.

Our proposed aid program for Turkey in fiscal year 1964 includes three elements. First, a supporting assistance program at a reduced level ——— to help Turkey maintain the economy while providing military forces under its defense commitments. Second, a development grant program of $4.7 million to carry forward Technical Assistance Programs chiefly in the fields of agriculture, development planning, and education. Third, a development lending program for power, transport, water development, and industrial projects as well as for commodity imports required to support the 5-year plan. Development lending is proposed as a range —— inasmuch as the number and volume of loans to be made will depend partly upon how rapidly Turkey succeeds in implementing the 5-year plan and partly upon the amounts pledged by other members of the consortium.

The three countries discussed above—India, Pakistan, and Turkey—account for 80 percent of the funds requested for this region. Six countries—Greece, Israel, Jordan, Iran, Afghanistan, and the United Arab Republic—account for almost all of the balance.

ASSISTANCE TO GREECE

Our economic aid program to Greece is in a period of transition. A shift from grants to loans has already occurred. We are proposing less aid for fiscal year 1964 than in the past year. ———. The interest rate will be at least 3½ percent. Terms will be in the 20- to 30-year range. We envision these terms as a transition to Greek reliance on normal sources of capital to finance its development needs. We also expect the Western European countries to continue their support of Greece's development effort through a recently formed OECD consortium.

The changes in our aid program for Greece have created in Greece the fear that it foreshadowed a fundamental change in U.S. interest. This is not the case. Greece's relative economic growth was made possible in considerable part by the generous U.S. aid program of the past 16 years. Conditions have now improved to such an extent that we can foresee a closing out of AID economic aid. However, Greece will continue to need military assistance for some time to come.

ASSISTANCE TO ISRAEL

Israel's growth rate of about 10 percent is the highest in the world. Israel is rapidly reaching the point of no longer needing development loans on concessional terms. In recognition of this, development loans made to Israel in fiscal year 1963 bore a 2-percent interest rate as against the fiscal year 1962 figure of three-fourths of 1 percent. In fiscal year 1964 the interest rate is expected to move up to 3½ percent. The term of the loans will be 20 to 30 years. The loan level for fiscal year 1963 was $45 million. It is planned to reduce this to $20 million in fiscal year 1964 as a transitional step to future termination of AID lending. Its improved economic position should enable Israel to obtain the foreign exchange it needs for development from the World Bank, the Export-Import Bank, Western Europe, and conventional lending sources.

ASSISTANCE TO JORDAN

Jordan's existence is essential to the stability of the Middle East. But its existence is dependent upon the continuation of United States and United Kingdom cash subsidies. Jordan's own resources are insufficient to pay for ordinary government services, let alone meet development expenses which could eventually reduce its dependence on outside assistance. The Jordan economy has grown stronger, however. It has been possible to reduce our financing of the Government's operating expenses from $40.5 million in fiscal year 1960 to $36 million in fiscal year 1963 largely because domestic revenues have begun to show an encouraging though erratic increase. A further reduction ——— is proposed in fiscal year 1964.

Jordan has prospects for increasing its earnings from tourism, exploitation of its mineral resources, and irrigated agriculture. Our development grant program is concentrated on projects in fields which will in time improve Jordan's capacity to earn or save foreign exchange, manage its own resources better, and raise more resources internally.

ASSISTANCE TO IRAN

Iran no longer receives supporting assistance grants. Economic aid to Iran now consists of development loans for selected projects, Public Law 480, and development grants. Although Iran now nets over $300 million a year in foreign exchange from oil sales, it is a poor and largely underdeveloped country. Iran has nevertheless been financing over 80 percent of its development program from its own resources. During its second plan, one-half of its oil earnings financed development.

The Shah's land reform program is now at the center of the Iranian development effort. The proposed fiscal year 1964 program can help Iran weather economic and political dislocations resulting from that revolutionary program. Public Law 480 can play a crucial role as an offset to a potential drop in agricultural output. It can also be an important source of the local currency needed to strengthen the financial position of the new agricultural cooperatives and the agricultural bank. The proposed $4 million Development Grant Program, in addition to carrying on a number of important projects in the fields of private enterprise encouragement, development and manpower train-

ing, can provide advisory services to help the Iranians work out the many administrative and organizational problems related to creating new services to the farmers.

The concentration of government effort on the reform program has slowed its work in developing and implementing a comprehensive economic development program. Project preparation has been slower than expected. Loans in fiscal year 1963 came to $17.4 million. We are programing a higher lending level for fiscal year 1964 ——— in the expectation that Iran will accelerate its project preparation and move forward somewhat faster with its development program. These loans will bear 3½-percent interest.

ASSISTANCE TO AFGHANISTAN

Our policy for Afghanistan has been under continuing review this past year. The Afghan-Pakistan border has remained closed, although there is every likelihood that it will soon be open. We have continued our aid program despite the difficulties created by the closed border, but we have modified the program in order to absorb the increase in costs resulting from the use of the more expensive Iranian delivery route in place of the cheaper route through Pakistan. For example, because the border had remained closed for an extended period and its reopening could not be predicted, the specifications for the Kabul-Kandahar Road were changed so that two-thirds of the road will have a gravel rather than a black top. We also reduced by $4.3 million the amount of commodities initially planned for support of the fiscal year 1963 development grant program because of the difficulty and expense of shipment.

The proposed program for fiscal year 1964 consists of both development grants and development loans. Most of the funds requested will be used to carry out existing program commitments and complete projects now well underway. The major loan under consideration is for the improvement of the Herat-Islam-Qala Road. This is an 84-mile link between the Afghan road net and Iranian border where connection can be made to the railhead at Meshed, Iran. An improved road will increase Afghanistan's access to the free world.

ASSISTANCE TO UNITED ARAB REPUBLIC

The purpose of our United Arab Republic aid program is to prevent excessive United Arab Republic reliance on the Soviet bloc for its development needs, ——— and to help the United Arab Republic focus increasing attention on its development needs. The United Arab Republic's growing preoccupation with development is indicated by the fact that government investment increased 21 percent in the past 2 years.

Our support to the United Arab Republic development program will continue to be mainly in the form of Public Law 480. The United Arab Republic does not produce enough food to feed its rapidly growing population. Public Law 480 food supplies are an important element in maintaining the stability of the country and the economy. Inasmuch as the United Arab Republic is much the largest of the Arab States, its stability is of prime importance for the entire area.

We provided a $10 million supporting assistance loan financed from the contingency fund in fiscal year 1963, following the successful efforts of the United Arab Republic to raise funds in Europe for its stabilization program. In my testimony before this committee last year, I explained that we would probably make this loan (p. 219, HAC, pt. 3). We also made two development loans amounting to $36.3 million. The principal project, accounting for $30.6 million of the total, was a thermal plant which will provide power for the city of Cairo. Our fiscal year 1964 planning figure for development loans is smaller. It would allow for financing a few selected development projects. The proposed development grant program of $2.2 million will help the United Arab Republic improve agricultural production, industrial management and planning, and public administration.

REQUESTS FOR INDUS WATERS AND UNRWA TO BE EXAMINED LATER

I understand that the justification for the $43.1 million for Indus waters and $17.2 million for UNRWA will be examined by the committee at a future date as part of its consideration of the total appropriation request for international organizations. I shall be happy to appear with Mr. Cleveland, Assistant Secretary for International Organization Affairs, in support of the request for the Indus Basin works.

So much, gentlemen, for the highlights of the NESA program. I will be happy to answer your questions about those features of the program on which you would like more information.

TERMINOLOGY OF DEVELOPMENT LENDING-DEVELOPMENT CREDITS

Mr. PASSMAN. It has been admitted many times that the so-called development loan is a disguised grant, and it was put on that basis to make it more palatable for the American people. However, Mr. Gaud, in his brief statement, has mentioned development lending 31 times, by my count.

For that reason, I shall read now from page 40 of the hearings of 1962:

Mr. PASSMAN. In your professional position as a banker, Mr. Secretary, would you actually call these things loans, if there is no interest? Would they come under the category of hard loans?

Secretary DILLON. No.

Then the Secretary said:

They call them development credits and I think that is a good name for them.

And Mr. Hamilton, then the AID Administrator, again:

Mr. HAMILTON. * * * It is more than half grants to start with if you figure in the cost of money.

And again:

Mr. HAMILTON. I never told anybody that I thought this was a loan in any sense that a banker uses the term.

These transactions are development credits, but I suppose you can label them as loans if you want to.

In addition to what has already been pointed out about these transactions, no repayments on these development credits come back into the general fund of the U.S. Treasury to be applied to the public debt

or for other use in our country. Repayments, if any, go back into the foreign aid program, do they not?

Mr. GAUD. That is true.

Mr. PASSMAN. Thank you.

Mr. GAUD. I don't want to belabor the point, Mr. Chairman, but I am sure you are aware of the point that the statute which authorizes us to engage in these transactions characterizes them as development loans.

Mr. PASSMAN. The committee is well aware of that fact, sir, but it does not change the actual character of the transactions.

Now, with reference to these development credits, the nations receiving them will repay, if ever, only after they have built up their economies and foreign exchange reserves. If after the 10-year grace period has expired, they have not been able to build up their economies and dollar reserves they would not even be able to start paying the 1 percent a year that would be coming due, would they?

Mr. GAUD. If they haven't got the money they can't pay it.

Mr. PASSMAN. They do not have the money now, do they?

Mr. GAUD. To handle the amount of loans we are giving now.

Mr. PASSMAN. If they had the money they would not need these credits, would they?

Mr. GAUD. If they had the principal they would not need the credit.

Mr. PASSMAN. If they had dollars to their credit they would not need this type of arrangement?

Mr. GAUD. The lack of foreign exchange makes these loans necessary.

Mr. PASSMAN. In some of these situations—there is no real indication the economy is going to greatly improve. We have gone into nations where there has been less than one-quarter of 1 percent increase in the gross national product after 10 years of aid. In some countries it looked even a little bit worse.

Mr. GAUD. If we can do in the other countries what we have done in Lebanon, Israel, and Greece, we will have no problem.

Mr. PASSMAN. Lebanon went for years without an aid program, and they have the greatest bankers on the face of the earth there. They have a strong economy in Lebanon and we have been without an aid program there for a long period. We could fuzz it up a little bit as to why we started the aid program but I suppose there is no point in going into it at this time.

U.S. FOREIGN POLICY IN NEAR EAST AND SOUTH ASIA

Mr. Secretary, in your statement you said:

> We believe the U.S. policy is now well understood by the governments and peoples of the area, that our relations generally are better now than they have been at any time since the years immediately after World War—

now that part—

> we believe the U.S. policy is now well understood by the governments and peoples of the area * * *.

Could you tell us what our policy is? If these people understand our policy—whatever it is, beyond spending money—they know more about it than a lot of Americans.

Mr. TALBOT. I might talk about our policies in each of the 18 countries.

Mr. PASSMAN. You do not have to go into 18 countries. You made a general statement here, so just give us a general answer: What is the U.S. foreign policy in this area?

Mr. TALBOT. We are seeking in the countries of the Near East and South Asia to strengthen the world pattern of viable states having objectives roughly comparable with ours in such a way that the totalitarian states of the world do not extend their influence further than they have, and that these people in the underdeveloped parts of the Near East and South Asia may find ways to progress toward a more modern type of society. Our theory is that we can live as Americans comfortably and effectively in a world in which there are a number of nations that have the structure for taking independent positions; we are trying to strengthen these countries.

Mr. PASSMAN. We could not be accused of meddling, could we, in this general area? Do any of the countries think that we might possibly at times be, shall we say, playing both ends against the middle?

Mr. TALBOT. Well, sir, we are not playing both ends against the middle in countries that I am concerned with.

DISPUTES BETWEEN COUNTRIES IN REGION

Mr. PASSMAN. Have Egypt and Israel worked out their differences? Are they getting along very nicely now?

Mr. TALBOT. No, sir.

Mr. PASSMAN. With reference to Yemen and Jordan, I do not think they are sleeping in the same bed either, are they?

Mr. TALBOT. No, sir. One of the strongest characteristics of the area of the Near East and South Asia is that there are a number of area disputes within the area.

Mr. PASSMAN. And this kind of situation has been so practically since the beginning of history, has it not?

Mr. TALBOT. Many of them are very deep, indeed.

There have been different kinds of disputes. Some of them get solved and occasionally new ones arrive.

Mr. PASSMAN. From time immemorial they have had these kinds of differences in that part of the world, have they not?

Mr. TALBOT. They have had a variety of differences, not necessarily the same differences.

Mr. PASSMAN. Going far back in history?

Mr. TALBOT. Not necessarily the same differences.

Mr. PASSMAN. But going way back in history?

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. Thank you.

Mr. TALBOT. The history of man is the history of war in a good many parts of the world, and has been.

In terms of these area disputes which are very serious matters——

Mr. PASSMAN. Certainly they are.

Mr. TALBOT (continuing). For the people of those countries and for our interests in those countries.

Our concern is, where possible, to help ameliorate them, help keep them within bounds so that they don't flare out into war and to support the peoples of the region so that they can move toward more modernized positions in which some of these disputes may be resolved.

This year I suppose one could point to the dispute between Pakistan and Afghanistan.

Mr. PASSMAN. Or the one between Pakistan and India, for that matter.

Mr. TALBOT. Pakistan and Afghanistan have a dispute which has been resolved to a large extent, as you know. They have agreed to open the border between the two countries. Their ministers met in Teheran under the aegis of the Shah of Iran and last year when we came to you, Mr. Chairman, there was a very critical dispute that was causing a breakdown of the free world intercourse with Afghanistan and it has now been resolved.

Mr. PASSMAN. Do we take credit for solving that situation, do we?

Mr. TALBOT. No, sir; we don't take credit for solving it but we think our efforts were not unhelpful.

I think that in varieties of these other disputes—our concern, for example, in the Arab countries, is to help these Arab peoples to move forward in their economic and political viability in spite of the fact that they do have these disputes at the present time. This is why we are assisting, as you know, Jordan; we are assisting Syria; we have given some local assistance to Iraq; we have given assistance to the United Arab Republic; we are giving assistance to Israel, building toward a greater viability which will help these people, we hope, get past some of these disputes.

FOREIGN ASSISTANCE AS PART OF FOREIGN POLICY

Mr. PASSMAN. I would not want to interrupt you but I think we could say this is something in the nature of a worldwide WPA type of program. I think we are in 104 out of 112 nations, if we take the foreign aid program beginning with the Marshall plan and coming up to the present time.

Mr. TALBOT. As Mr. Gaud pointed out, in this area 80 percent of our aid goes to three countries.

Mr. PASSMAN. It might be 90 percent unless we can check this steel-mill and some of the other things for India.

This is a new concept in foreign policy, though this is a nation giving its wealth to other nations, hoping that these things that you have enumerated can be accomplished. We had diplomatic relationships with many, if not most, of these countries prior to the AID program but as we think of our foreign policy, this is a new concept, is it not?

Mr. TALBOT. Mr. Chairman, we did not have diplomatic relations with countries that were under colonial rule and one of the greatest changes in our——

Mr. PASSMAN. Did we have diplomatic relations with these countries in the Middle East?

Mr. TALBOT. In the Near East and South Asia we had relations before World War II with a much smaller number than we now do.

I think it was something about half before World War II.

Mr. PASSMAN. Is this not actually a new concept in foreign policy; that is, giving aid?

Mr. TALBOT. By and large it is; yes, sir.

Mr. PASSMAN. How do we know these people are sincere when we enter into these agreements, if we have to make an aid commitment

at the time we enter into the agreements? What would be the position of a lot of these countries if you did not attach aid to these agreements we have with them?

Mr. TALBOT. I am sorry, sir, what sort of agreements do you mean?

Mr. PASSMAN. The diplomatic and foreign policy relationships.

Mr. TALBOT. As far as I know an AID agreement has never come at the same time as an agreement to establish diplomatic relations.

Mr. PASSMAN. You indicated in advance that they are going to get aid. As you know, Mr. Secretary, we were out in the various countries when they were possessions, setting up machinery, putting personnel in, giving some token aid to get them all set for a big aid program. We are in there all dressed up and ready to go before they get their independence.

Mr. TALBOT. In the Near East and South Asia, sir, the situation has not been that way.

Mr. PASSMAN. You are with the State Department and I am referring to the overall policy.

Mr. TALBOT. In our area, for example, we established diplomatic relations with India and Pakistan when they became independent in 1947 and there was no aid program for some time thereafter. Similarly with Ceylon.

Mr. PASSMAN. You didn't have an aid program when India began her independence?

Mr. TALBOT. No, sir.

Mr. PASSMAN. We got in as quickly as we could after she gained her independence, did we not? Is that same observation not also true with relation to Pakistan?

Mr. TALBOT. The AID program was started when there was a feeling there was an essential part of our foreign policy in these countries.

Mr. PASSMAN. But we actually do not know where we stand with a lot of nations, would you say, until the time comes when we would have to negotiate with them without an aid program?

Mr. TALBOT. I am not sure what you mean, sir, by "we don't know where we stand." We have our relations with these countries.

Mr. PASSMAN. We have our relations but there is always a checkbook handy. We are in 104 nations, and I am concerned about it. I think a lot of other people share this concern, too.

TAXING OF DEFENSE FACILITIES IN TURKEY

I understand that despite a NATO agreement to the contrary, our defense facilities in Turkey are taxed. The estimate is made that we have paid about $800,000 in taxes on gasoline and utilities used by American forces in Turkey. Is that assertion true?

Mr. TALBOT. I don't know, sir.

Mr. QUINN. I don't know whether that is true or not, sir. I will check it.

Mr. PASSMAN. Where could you get your information? We would excuse you while you do so.

(The following information was subsequently supplied:)

There is no evidence that the U.S. Government has paid Turkey $800,000 in taxes on gasoline and utilities used by U.S. forces in Turkey. NATO agreements and bilateral U.S. agreements with Turkey do provide relief from taxes, duties and fees for U.S. defense facilities in Turkey, and there is no evidence of Turkish

violation of the agreements. In certain instances, however, the U.S. Government has reimbursed commercial suppliers for taxes paid on aviation petroleum purchased at remote installations for use by U.S. military aircraft. The petroleum subject to this tax is a small percentage of the total consumed by the U.S. military in Turkey.

Members of the U.S. forces in Turkey are subject to individual tax on petroleum if purchased from commercial sources and official travel is not involved. Also, tax is paid on utilities if they do not live on facilities which are required for common defense. Although relief from this individual tax is considered possible under existing agreements, the benefit to be derived is considered to be too small to warrant the cumbersome and costly administrative machinery that would be required to provide this exemption.

AID AS PART OF U.S. FOREIGN POLICY

Mr. PASSMAN. May I say respectfully I still do not understand our foreign policy. But thank you for your efforts.

Mr. TALBOT. As you well know, the foreign policy is a complex of our relations with these different countries. We have particular approaches to each of these countries.

Mr. PASSMAN. I read again:

We have been informed by the government that while it would prefer not to accept military assistance from Communist countries it will do so if Western countries are not willing to provide adequate assistance.

At page 9 of your statement, you say:

The United States assistance has provided the United Arab Republic with an alternative to reliance on the Soviet Bloc and has made easier the carrying out of the United Arab Republic's determination to follow an independent, albeit nonalined foreign policy.

With reference to the first statement I read, is it not obvious that this is bordering on blackmail?

What sort of answer should people be given who make a statement like that, a foreign country?

Do you have any countries such as that one in your area?

Mr. TALBOT. The United Arab Republic did come to the United States to ask for military assistance from the United States.

Mr. PASSMAN. I did not mention the United Arab Republic with reference to the statement I was discussing.

Mr. TALBOT. I know, but it was only after the United States refused to give military assistance to the United Arab Republic that it turned to the bloc. Similarly, in Afghanistan. Afghanistan asked the United States for military assistance and it was only after the United States refused to give military assistance to Afghanistan that Afghanistan took military assistance from the bloc.

So far as the balance in the United Arab Republic is concerned, the reference to its American aid helping it to carry out the United Arab Republic's determination to follow an independent, albeit nonalined foreign policy this is correct, sir, and I think we have the evidence in a whole series of actions that the United Arab Republic has taken in the international field.

Mr. PASSMAN. Concerning the statement I read, Mr. Secretary, in this case their threat worked. That is why I asked if you had any nations such as this in your area, where this type of blackmail could succeed in getting aid.

You read that statement, did you not?

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. They got the military aid on that basis.

Mr. TALBOT. I looked at this statement.

Mr. PASSMAN. In your area would they get military aid on such a basis?

Mr. TALBOT. My statement was that in these two countries in my area, the situation was different.

Mr. PASSMAN. Do you know of any countries in your area that could use this type of blackmail and get aid, by just outright threat?

Mr. TALBOT. No. sir; I don't happen to know of any.

I would say this, Mr. Chairman, that it is not necessarily in the American interest to refuse on every occasion and under every circumstance military assistance to any country which has received such assistance from the Soviet Union or the bloc.

Mr. PASSMAN. We had determined we were not going to give military aid, then the country made the bold statement that I just read into the record, "If you don't do it, here is what we are going to do." Almost immediately thereafter, by Presidential determination, they got what they wanted. That is why I asked you if we actually had a foreign policy which was not attached to the giveaway program.

Mr. TALBOT. That country is not in my area and I don't know the circumstances that lay behind the decision.

Mr. PASSMAN. If it works in one area and others find out about it, do you not think they, too, might use the same tactics?

Mr. TALBOT. I would say I am confident judgments of that kind are made in terms of American national interests.

Mr. PASSMAN. I thought every decision was supposed to be made on that basis.

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. This action came on June 29, too. I hope these nations have not gotten wise that you have some uncut pies and if they just come in strong enough with their threats on the very last day of the fiscal year they can get a slice or two.

NUMBER OF COUNTRIES RECEIVING AID

In how many countries of your area, Mr. Secretary, do we not have some type of aid program?

Mr. TALBOT. There are 18 countries in the area.

Mr. PASSMAN. In how many countries of the 18 in the area do we have some type of aid program?

Mr. GAUD. We have no Economic Aid Program——

Mr. PASSMAN. Do you know of any countries out of your 18 where we do not have one or more types of aid programs?

Mr. GAUD. Kuwait and Lebanon.

Mr. PASSMAN. Lebanon is getting aid. We can establish that fact for you, I believe.

Mr. GAUD. In 1964? I don't think so, Mr. Chairman. We have had in the past.

Mr. PASSMAN. You are asking for money for Lebanon in fiscal 1964 and the amount is classified.

Mr. GAUD. Is that military aid?

Mr. PASSMAN. Yes.

Have you ever had any aid for Kuwait?

Mr. GAUD. No, sir.

Mr. PASSMAN. That is a new country?

Mr. GAUD. That is right.

Mr. PASSMAN. The per capita income there is possibly as high, or higher, than in the United States; is it not?

Mr. GAUD. I don't know.

Mr. PASSMAN. That is because of the oil. I hope you can succeed in keeping an aid program out of there so we can point to one nation in the so-called "free world" for which we do not have an aid program.

Mr. Montoya?

LEVEL OF U.S. ASSISTANCE TO INDIA

Mr. MONTOYA. You mentioned the figures and how much Pakistan and India were sharing in the total foreign aid program for this region. Will you state the exact figure for India in Public Law 480 and the total other aid aspects? Can you give me that?

Mr. TALBOT. Yes, sir.

Mr. MONTOYA. I see the figure ——— total for 1964. That is classified. But I would like to find out does that contemplate Public Law 480 too?

Mr. GAUD. Did you say a ——— figure?

Mr. MONTOYA. The figure ———.

Mr. GAUD. That does not include Public Law 480, Mr. Montoya.

The country use portion of the Public Law 480 program we project for 1964 in India is about ———.

U.S. SHARE OF EXTERNAL ASSISTANCE TO INDIA

Mr. MONTOYA. Now, Mr. Talbot, what particular benefit are we getting by assuming the more than our just share of the burden with respect to India that we would not get by reducing our help to a fair proportion in comparison with the contributions made by other countries in this consortium?

Mr. TALBOT. I suppose the first question is whether our proportion which is—do we have the percentage of that?

Mr. GAUD. For the last 2 years our proportion of the consortium pledges was 41 percent. We have no final figures yet for this year.

Mr. MONTOYA. And we have quite a few nations participating in that consortium.

Mr. GAUD. This is the U.S. share of the consortium aid to India.

Mr. PASSMAN. Will the gentleman yield?

Mr. MONTOYA. Yes.

Mr. PASSMAN. We have a copy of a statement showing nine members of the consortium, and we find that in some cases the loans are for as short a term as 8 years; the interest is high, 6 and 6½ percent, for example, and I think the United Kingdom's portion in some instances is at the regular Treasury rate plus one-quarter of 1 percent. It would appear that they are taking the same type of good, hard loans that nations have always had with other nations, from a reasonable to a high rate of interest.

Mr. TALBOT. Governor, if I may respond to your question, taking the figure of 41 percent of the contributions to the Indian development program——

Mr. MONTOYA. I understood that the 41 percent only applied to our participation in the consortium. Not the total aid.

Mr. TALBOT. This is our contribution to the Indian development program; yes, sir.

Mr. MONTOYA. Under the consortium but there is another aspect other than the consortium.

Mr. TALBOT. The Public Law 480?

Mr. MONTOYA. Yes.

Mr. TALBOT. As you know, Governor, we have been working most vigorously to draw those European countries which have gained prosperity very considerably over the last several years, partly as a result of our former aid program for them, into the aid donor field. Now quite clearly this calls for major policy decisions on their part and it is a procession, if you will, of education in one country after another.

Our efforts, it seems to me, are bearing fruit as compared with, say, 3 years ago or 4 years ago. The contributions by other nations to the particular needs of such a country as India have increased. We are continuing these efforts. We believe that the viability of India, and its general success in proceeding with this development is very much in the national interest of the United States. We also believe this is in the interest of the Western European countries and Japan, so we are pressing upon them to contribute also. Now, our own contribution is made, of course, in response to our own calculation, as to the importance of that major country and its neighbor Pakistan, on the southern rim of Asia, to the general peace of Asia and to the balance of power between the Communist world and the rest of the world.

EFFECTS OF U.S. AID TO INDIA

Mr. MONTOYA. My point, Mr. Talbot, is that we are spending too much money in India and we shall never be able to fill the exact needs which India needs to rehabilitate itself at the rate that we are going. Our money is being spread too thinly and I can't see any direct results.

Now, the picture today may seem better than it was a year ago but that is because Red China gave us an assist in bringing India closer to us. I don't attribute the closer ties with India today to the amount of foreign aid that we have extended to it.

Mr. TALBOT. Well, sir: I certainly agree that it was the attack by the Chinese which caused a lot of people in India to reappraise India's relationship to other countries in the world and as a result of that reappraisal a good many of them have felt that they needed to strengthen their relations with the United States. Over, take a period of 10 years, it seems to me the Indian development program to which the United States had contributed a marginal amount has considerably strengthened the capability of India to manage its own affairs and to maintain a democratic political structure as contrasted with China which started out with great claims and which has gone through very serious difficulties in recent years, as you know. China and India are the two great population countries of Asia or, indeed, of the world, and there is a certain inevitable competitiveness as to which system is going to work out in the end. There are a lot of people watching to see how these two go. It is very much to our

interest to give this assistance to help India move in this direction.

Now, I would agree that in terms of the needs it isn't a great deal.

Mr. MONTOYA. But it is a lot of money for our taxpayers.

Mr. TALBOT. Yes, sir. Our aid program is a lot of money for our taxpayers. Our aid program invests this money in terms of strengthening the security of the United States, as you know. We put in something less than 10 percent of our national defense budget through these channels to give an extra increment of security to the United States and this 10 percent marginal amount I think does increase our national security.

Mr. MONTOYA. This is what I am referring to, Mr. Talbot. When you start explaining the program for India to the American taxpayers—and I think I represent the same kind of thinking taxpayers as any other member on this committee, they cannot understand why we have expended billions of dollars in India and India up to now has been a neutralist, although today it might pretend to be alined with the West. And the money certainly has not contributed much to the development of India and we are assuming a great deal of the burden in trying to help India out of its doldrums.

Now, another thing that I would like to call for an answer on is, Why are we extending any aid to Egypt?

Mr. TALBOT. Yes, sir. May I respond first to the question about India. India has not pretended to be alined with us, even in this period after the Chinese attacked. However, it is quite evident that the patterns of thinking in India have been considerably closer to our patterns of thinking than they had been in earlier times. This is an investment in the security of the free countries of the world which, if it were to be ended, could cause, I think, a great distress in the long run to us as well as to a vast number of people in Asia who are not today under Communist control.

Mr. MONTOYA. Well, isn't that true of all our foreign policy with respect to almost every country in the world?

Mr. TALBOT. Yes, sir; it is.

Mr. MONTOYA. But we are trying to justify this foreign aid as an investment in trying to nurture freedom to all countries, all of these countries and to perpetuate it? Isn't that the stock answer to these problems?

Mr. TALBOT. This is a very important reason for what we are trying to do.

COMPARISON OF TERMS OF UNITED STATES AND OTHER COUNTRIES' LOANS TO INDIA

Mr. MONTOYA. Now, why is there such disparity in the repayment and the loan provisions in the consortium in respect to the United States vis-a-vis the other participating countries?

Mr. TALBOT. Mr. Gaud, would you like to speak to that one?

Mr. GAUD. The disparity, I think, is primarily because many of the other nations that belong to this consortium don't share our view of what is the best way to do the job. India's basic problem in terms of these loans is the lack of foreign exchange, the balance-of-payments situation——

Mr. MONTOYA. But the other countries are extracting foreign exchange from India in repayment; are they not?

Mr. GAUD. That is correct and we have been working on these other countries to soften their terms and we have been making a good deal of progress.

At the present time, for example, the German loans are 20 years. They used to be 8 to 10.

Mr. PASSMAN. What is the interest rate?

Mr. GAUD. Some of them are 3 percent, some are 5½. They used to be universally at the higher rate.

Mr. MONTOYA. I think this is a matter of policy and I think it comes under the Secretary's domain here: Why do we have such soft terms and the other participating countries in the consortium are doing it on a banking basis, a strictly banking basis.

Mr. GAUD. Well, it isn't really a banking basis, Mr. Montoya.

Mr. MONTOYA. Three or five percent on those large loans is pretty good banking.

Mr. GAUD. If you looked at India from the standpoint of a credit risk and you were a banker, you wouldn't lend to India for 20 to 25 years at 3 percent.

Mr. MONTOYA. That is just the point. That is why I am surprised that we are lending any money to India on any basis.

Mr. GAUD. The terms of these other countries are getting more and more generous. The British have now moved to 25 years. They have reduced the interest rate from 6½ and 6¾ to about 3.2 percent.

Mr. MONTOYA. How about ours?

Mr. TALBOT. Ours is three-quarters of 1 percent.

The Dutch are now providing some 25-year money. A number of other countries are providing 15- to 20-year money.

Mr. MONTOYA. At what rates of interest?

Mr. TALBOT. Most of it is still at a fairly high rate. Some at 3 percent but most at 5 and 5½ percent.

Mr. PASSMAN. Do the Germans have some 6¾-money in there?

Mr. GAUD. The Germans do not any more. No, sir.

Mr. PASSMAN. On their continuing project?

Mr. GAUD. The date of the loan?

Mr. PASSMAN. A loan in 1963 at 6¾ percent. This is a sheet you gave to us.

Mr. GAUD. This is on the part of an old project committed several years ago.

Mr. PASSMAN. I said a continuing project. They did have loans going in at 6¾ percent.

Mr. GAUD. All of the new loan money——

Mr. PASSMAN. This is in fiscal year 1963 that you gave us. Am I correct?

Mr. GAUD. You are correct; but that is to be refinanced to 5¾ percent.

Mr. PASSMAN. Thank you.

Mr. MONTOYA. I think you have laid a proper premise for my question now: Why doesn't the State Department negotiate a better type of loan with India and why should we extend these loans to India at three-quarters of 1 percent when these other countries are getting 3 percent and above?

Mr. TALBOT. The reason for this is that the basic need for assistance that India has is because of its very considerable poverty, its difficulties with balance of payments and it is in our interest that this development program go forward.

Mr. MONTOYA. I understand that, Mr. Secretary, but you are looking at that basic need with the same type of eyes that the Germans, the Japanese, and the other countries are looking and they can't with that kind of vision justify the propriety of making these loans at a rate of interest which does not compensate them for the use of that money. Why should we do it?

Mr. TALBOT. We do it because we think that India needs this money if its development program is to continue. At the same time, we do emphasize to these other countries which have more recently come into the development lending the importance of their getting their interest rates down and their terms lengthened. And as compared with 3 years ago they are doing this. They are improving in that progress.

Mr. PASSMAN. Mr. Montoya, will you yield?

Mr. MONTOYA. Yes.

Mr. PASSMAN. I know you want to keep the record straight and I am going to assist you in doing so. Here is the Indian News dated July 1, 1963. I think you are familiar with this publication.

Mr. TALBOT. Yes, sir; I know of the publication.

Mr. PASSMAN. Let me read from this publication with respect to West Germany:

> Considerable pressure is understood to have been brought to bear on West Germany to improve her performance which has fallen steeply from $225 million in the first year of the plan to $139 million in the second year and to $65.35 million this year.

This has all been on banker-type terms.

Mr. TALBOT. As I was saying, the problem in India is to keep that large country in its very important strategic position moving in a direction that will avert calamity and will make some progress possible and at such a speed that we don't have to give aid there forever.

Mr. MONTOYA. I know what your assigned purpose is and what the Department's assigned purpose is in making these loans but that kind of reasoning does not satisfy our taxpayers here to whom we have to answer, Mr. Talbot. That is the point I am trying to make. If the other participating countries cannot be convinced by that type of reasoning, by virtue of their high interest rates, why should we as a government when our own taxpayers don't agree with that kind of thinking? That is the point that I am trying to make.

Mr. TALBOT. Yes, sir. Without speaking for the other countries and what they regard as their portion of the responsibility of free countries to maintain conditions of peace in the world, we have our own responsibilities to try to contribute to those conditions that maintain peace and if some other countries decide they can't come in all the way but will come in part of the way for the time being, we would rather have it come in part of the way than not come in at all. While we keep up this pressure, we hope the other countries will see more clearly year by year the importance of giving assistance which is genuine assistance and not "bankable terms" to some of these countries such as India which are beginning to come toward viability.

Mr. MONTOYA. Now, Mr. Talbot, let's go into Egypt.

Mr. PASSMAN. Would you yield?

Mr. MONTOYA. Let me state before I yield, Mr. Talbot, you haven't convinced me. Your story is very plausible but you haven't convinced me.

Mr. TALBOT. I would be glad to make another try at it.

U.S. BORROWING FROM CONSORTIUM MEMBERS

Mr. PASSMAN. With respect to India and some of these countries that are a part of the consortium, making bankable loans with a medium to high rate of interest, whereas we are in on an easy-term basis, we are now borrowing money directly from some of those countries who are in on a bankable basis, are we not?

Mr. TALBOT. The U.S. Government borrowing from these countries?

Mr. PASSMAN. You are familiar with the fact that we are borrowing directly from some of the nations?

Mr. TALBOT. Are you referring, Mr. Chairman, to the purchase of U.S. paper by foreign governments?

Mr. PASSMAN. I am speaking of actually borrowing dollars directly from foreign nations and in the agreeement we repay, I believe, in the currency of their country. There are several of them. You are not familiar with those transactions?

Mr. TALBOT. No, sir; I am not.

Mr. PASSMAN. It is an interesting story and I recommend it for your study.

FORM OF GOVERNMENT IN PAKISTAN

Is there still a military dictatorship in Pakistan?

Mr. TALBOT. No, sir; it is not a military dictatorship.

Mr. PASSMAN. Earlier witnesses have referred to it as a "military dictatorship."

Mr. TALBOT. Earlier this year a new constitution had been adopted and under the new constitution there were elections through organisms called basic democracies. Then from the basic democracies in the villages there were elections of their representatives to go to higher councils and then to higher councils so that by a pattern of indirect election the Parliament was elected and the President was elected.

Mr. PASSMAN. Does that procedure follow somewhat the Soviet system?

Mr. TALBOT. I don't believe it is the Soviet system. These elections were fought out with opponents.

Mr. PASSMAN. Other people refer to its as a "military dictatorship."

I think that only recently we were somewhat concerned when the President of Pakistan entered into a civil air agreement with Red China.

U.S. RELATIONS WITH PAKISTAN

Do you see any improvement in our relationships with this man?

Mr. TALBOT. Our relationships with Pakistan are basically firm. Pakistan is allied to us.

So far as we know the Pakistan International Airways is proceeding with an agreement which would give landing rights to PIA in Communist China and reciprocal landing rights in Pakistan.

Mr. PASSMAN. Our concern notwithstanding?

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. How about the economic pact that was entered into last fall after the Chinese-India border incident?

Mr. TALBOT. Are you speaking of a trade pact?

Mr. PASSMAN. Yes, sir. That is in effect, too.

Mr. TALBOT. This trade pact is in effect. As far as we can estimate it will have small import.

Mr. PASSMAN. The trade pact is in effect?

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. Thank you.

REASON FOR CURRENT UNITED STATES LOAN TERMS TO INDIA

Mr. TALBOT. I might make one further comment on the Indian question, Governor. If we were to decide to give our loans at an interest rate and in terms comparable to those of other countries, make that the criterion, this would be a very different decision than assisting India in relation to its own needs. Our estimate is that the economic growth of India is likely to support the repayment of the heavy loans they are taking over a generation's time at this level. Our present estimate is that the economy is unlikely to grow rapidly enough so if India were to get these large amounts at bankable levels the repayment would be feasible. In other words, if we went to bankable terms as they have been described around this table this afternoon, they would, I think, have the result of saddling India with obligations that in our best judgment they are unlikely to be able to repay.

Mr. MONTOYA. Why should we be the guinea pigs? That is my argument.

Mr. TALBOT. Because we are the leading country in the free world.

Mr. MONTOYA. You mean because we are the leading guinea pigs in the world.

Mr. TALBOT. Because it is to our interest today that India's structure, which is still fragile, though improving, does not break down.

RATIONALE FOR UNITED STATES ASSISTANCE TO EGYPT

Mr. MONTOYA. Let's go to Egypt. On what premise are we giving aid to Egypt?

Mr. TALBOT. We are giving aid to Egypt on the premise that it has a very severe shortfall of food grains and other, certain other commodities which are surplus to our requirements and which are given under Public Law 480 and on the premise that our development loans for particular projects will be helpful to Egypt in building up its domestic economy and concentrating on its domestic economy.

Mr. MONTOYA. What diplomatic or political advantage are we deriving from this?

Mr. TALBOT. On the political front we are giving assistance to the United Arab Republic because we believe that several results favorable to the United States will come out of the kind of relationship that we are developing with the United Arab Republic.

Mr. MONTOYA. How long have we been extending this type of aid to Egypt?

Mr. TALBOT. Is it since 1958 or 1959? This type of aid has been about 5 or 6 years.

Mr. MONTOYA. What political advantages are discernible since that time insofar as Egypt is concerned?

Mr. TALBOT. So far as Egypt's posture in world affairs generally, broadly, outside its own region, we have found a moderation in the Egyptian position, in the Congo, for example.

Mr. MONTOYA. Can you trace it to this aid or has it been because of other circumstances or world events?

Mr. TALBOT. Well, sir, I would say that it has been the result of what I would describe as the normalization of our relations with United Arab Republic which is included in this aid program. I mentioned the Congo. There are a variety of other things.

Mr. MONTOYA. They are still orienting their propaganda against the United States in a very intense manner, aren't they?

Mr. TALBOT. No, sir; there has been a very considerable reduction in the propaganda against the United States.

Mr. MONTOYA. It is still going on, is it not?

Mr. TALBOT. I have not happened to see any of late, but as compared to 3 years ago it is very greatly decreased.

UNITED ARAB REPUBLIC–ISRAELI RELATIONS

Mr. ANDREWS. If the gentleman will yield, I notice on page 51 you state the United States objective is a stable and neutral United Arab Republic amicable to Western interests as the best guarantee of stability in the Near East and the survival of the smaller states in the area, including Israel.

Mr. TALBOT. Yes, sir.

Mr. ANDREWS. Those countries are bitter enemies, are they not?

Mr. TALBOT. There is a lot of stress and strain in the Near East as there has been for some time.

Mr. ANDREWS. Have we secured from the Egyptian Government officials any kind of guarantee that they will not oppress Israel in any way?

Mr. TALBOT. No, sir; we have not.

Mr. ANDREWS. Have we guaranteed in our aid to Egypt the security of Israel?

Mr. TALBOT. This is an area very hard to document. I would say the stresses between Egypt and Israel were greater when there was no aid program to United Arab Republic than they have been in the last several years.

Mr. ANDREWS. Is this aid in any way a bribe to keep them from oppressing against Israel?

Mr. TALBOT. No, sir; I would not describe it as a bribe. I would say the United Arab Republic was by far the largest country in the whole area. It is doing a good deal on its domestic front in development and it is in our interest that it should focus even more in development. The Governor asked about broader questions. I was going to say that there seems to us to have been some change in United Arab Republic attitudes with respect, for example, to nuclear testing where they stood against the Soviet resumption of tests, with respect to economic development where they have taken quite a balanced line as compared with the line that they had taken somewhat earlier, vis-a-vis with the Western countries. On the broader front I think one can see a number of changes.

CHANGE IN UNITED ARAB REPUBLIC ATTITUDE TOWARD SOVIET UNION

Mr. MONTOYA. Don't you attribute these changes in attitude toward the Soviet Union to the fact that the Soviet Union has been trying to meddle in the affairs in that region? Isn't that the greatest reason?

Mr. TALBOT. I think that has been a very important factor; yes, sir, and I think the Soviet Union has had real setbacks in that area, especially in this past year as compared with the position that it would have had before. Certainly if I had been a Soviet official in 1956, let's say, I would have assumed that by 1963 that the Soviets would take over the Near East, because they had everything going with them, so it looked. They were giving military aid to the Arab countries and the United States was not. They were supporting the Arab countries wholeheartedly against Israel, the United States was not. They must have felt they were moving rapidly forward. In point of fact, as you see, their influence in the area now is restrained.

Mr. MONTOYA. Isn't that the sole factor that has driven Egypt away from the Soviet bloc and not our foreign aid?

Mr. TALBOT. No, sir. I would say there are more factors than that. For example, Egypt this last year came into GATT. It clearly has a desire to link itself in with the Western trading countries, more than it did several years ago. I would have said that in the last couple of years or so the Egyptians have consciously been seeking to broaden their normal relations with Western countries and it is in our interest that they should continue to do so.

Mr. MONTOYA. What kind of military aid are they getting from the Soviet bloc?

Mr. TALBOT. They are getting very considerable military aid from the military bloc. I do not know what the types are, some of them I do not.

Mr. MONTOYA. Are they getting any military aid from us?

Mr. TALBOT. No, sir.

Mr. CONTE. Would the Governor yield?

Mr. MONTOYA. Yes.

UNITED ARAB REPUBLIC–ISRAELI RELATIONS

Mr. CONTE. Does the Secretary have any objection to a restriction in the aid program for the United Arab Republic should she attack Israel, Jordan, any other border country, aid should be cut off automatically? The United States contributes 25 percent of all food products to United Arab Republic.

Mr. TALBOT. Sir, I think certainly we all wish and expect that the United Arab Republic will not attack another country. I do not believe that writing such a restriction into the act is the best way to accomplish this objective.

Mr. CONTE. What is the best way?

Mr. TALBOT. A whole variety of actions intended to normalize our relationship with the United Arab Republic, to broaden our field of influence with the United Arab Republic. After the middle 1950's, we had very little opportunity even to talk with the United Arab Republic about our interests in the area or how we thought their actions in the area affected the outside world. Now we have a much broader opportunity to talk about these things.

Mr. CONTE. There are border conflicts right now between the United Arab Republic and Israel?

Mr. TALBOT. Between the United Arab Republic and Israel there is, as you know, a United Nations Emergency Force which has been there since the fighting of 1956. There have been virtually no border incidents between the United Arab Republic and Israel since that time.

Mr. CONTE. I thought I read some newspaper reports about 6 months ago that there was some shooting on the border.

Mr. TALBOT. May I amend my statement, if you please? During the period that Syria was part of the United Arab Republic there were border incidents between the Syrian portion of the United Arab Republic and Israel, and since Syria has broken away from the United Arab Republic in 1961 there have continued to be border incidents between Syria and Israel but in the past year—more than a year now—none of these has been serious enough so that the Security Council has had to get involved and the U.N. peacekeeping machinery has managed to look into each incident and the situation has been generally quieter on the border than it was earlier.

Mr. CONTE. Thank you, Governor.

Mr. PASSMAN. Will the Governor yield?

Mr. MONTOYA. Yes.

EFFECT OF SUEZ CRISIS ON UNITED STATES AID TO UNITED ARAB REPUBLIC

Mr. PASSMAN. Is it not true that we had an aid program in Egypt and then later we suspended the aid program and it remained dormant for several years, but we did, nevertheless, continue carrying in an obligated status certain credits to Egypt?

Then, finally, we resumed the aid program to Egypt, notwithstanding the fact that Nasser's pronouncements and plans remained about the same?

Mr. TALBOT. Some of the events you are speaking of occurred 11 years ago. I would want to look up the record to see what the situation was at that time.

Mr. PASSMAN. You recall we had an aid program. Later we suspended the aid program.

Mr. TALBOT. I am sorry, sir, I would rather not comment until I look up the record.

Mr. CONTE. That is right. We had some bloc commitments to United Arab Republic and we froze them at the time of the Suez crisis.

Mr. PASSMAN. We had certain credits to Egypt, and although most people thought we were out altogether, we only suspended the aid. At a later date we resumed the program and then we liquidated those credits. I think that possibly this latter action would go back 4 years, not 11.

Mr. GAUD. I have some facts on that that I would like to put in the record. As I remember, Nasser came in in 1952. We had an aid program in 1953, 1954, 1955, and 1956. Then Suez came along. We had no aid in 1957 and 1958.

Mr. PASSMAN. It was after Suez that we suspended the aid program?

Mr. GAUD. That is right.

Mr. PASSMAN. We did carry the amount we had unliquidated to the credit of Egypt. We never canceled it. We carried it completely intact. Then, when we got on either better or worse terms with Nasser, we resumed dispensing the aid. We started increasing it, for that matter.

Mr. GAUD. I do not know the facts for that.

Mr. PASSMAN. The record, then, will make good reading for you.

Mr. MONTOYA. I yield to the gentleman from Michigan.

Mr. FORD. As I recall a few minutes ago, Mr. Secretary, you said at the time of the midfifties the United States could hardly talk with the United Arab Republic. Is this substantially what you said?

Mr. TALBOT. My understanding is we had a very limited basis for discussion; yes, sir.

Mr. MONTOYA. According to what Mr. Gaud just said we had an aid program in United Arab Republic from 1953 through 1956. It was abandoned or canceled or not supplemented in 1957 and 1958.

Mr. TALBOT. I was speaking of the period 1956 to 1958.

Mr. MONTOYA. It was resumed in 1959 and was carried forward through fiscal year 1964, based on the recommendations now; is that right?

Mr. GAUD. That is right.

LEVELS OF U.S. ASSISTANCE TO UNITED ARAB REPUBLIC

Mr. FORD. Now what is the trend in United Arab Republic programing, starting with 1959 when you got back to the business? What was the amount of aid in 1959, 1960, 1961, 1962, 1963, and what are you proposing in 1964?

Mr. GAUD. In fiscal year 1959 the total economic aid was $49.2 million.

Mr. FORD. Would you repeat that again?

Mr. GAUD. In fiscal year 1959 the total was $49.2 million.

Mr. FORD. Excuse me. I still did not hear it. What I want is the total aid including Public Law 480 and the like.

Mr. GAUD. Sorry, Mr. Ford, the total figure for economic aid in 1959 is $49.2 million. That includes Public Law 480. In 1960, the total was $92.9 million. In 1961, the total was $106.4 million. In 1962, the figure was $224.1 million and the request for 1963 is $195.1 million. All these figures include Public Law 480.

Mr. FORD. The request for 1963?

Mr. GAUD. I beg pardon. The actual program for 1963 is $195.1 million.

Mr. FORD. What are you programing for 1964?

Mr. GAUD. A total for AID, $2.1 million of development grant, development loans of $——— and then Public Law 480, $132 million, which would be a total of roughly $———.

Mr. FORD. The figures that you have just recited showing that beginning in 1959 with the figure of $49.2 million, the figure of $92.9 in 1960.

Mr. GAUD. Yes, sir.

Mr. FORD. $106.4 million in 1961?

Mr. GAUD. Yes, sir.

Mr. FORD. $224.1 million in 1962.

Mr. GAUD. Right.

Mr. FORD. And $195 million in 1963, and the proposed $——— in 1964. The increases since 1959 could lead someone to the conclusion that we have been able to talk with the United Arab Republic beginning with the midfifties to the present time, primarily because of the increase in our financial support.

Someone could come to that conclusion. Is that a fair analysis?

Mr. TALBOT. Well, I think——

Mr. MONTOYA. Pretty expensive talk, indeed.

Mr. FORD. I just raised the question. I am not coming to any conclusion myself. It could be a valid conclusion.

EFFECT OF UNITED STATES ASSISTANCE TO UNITED ARAB REPUBLIC

Mr. TALBOT. I think the aid has been an important part of the process of normalizing our relations with the United Arab Republic. I also think that the aid——

Mr. GARY. It looks like the money has been doing most of the talking, has it not?

Mr. TALBOT. I think the aid is an important part of moving the United Arab Republic into a broader relationship with the West than it had had and thereby moving it rather away from the U.S.S.R. I think this has been an important factor in it; yes, sir.

Mr. PASSMAN. Is it a matter of talk is cheap, but it takes money to try to buy so-called friends?

Mr. TALBOT. Well, sir, it is not a question of buying friends. It is a question of getting the largest country in the Near East into a posture which is healthier for our interests——

Mr. PASSMAN. We hope.

Mr. TALBOT (continuing). Than the posture in which it was in the 1956 to 1958 period.

Mr. MONTOYA. In other words, since the Suez situation we have contributed in foreign aid to Egypt a little over $750 million and we still cannot claim them as our friends.

Mr. TALBOT. Well, sir, I would say we have contributed to the United Arab Republic over the long pull about $26 per capita, against say, 192 per capita for Jordan, or about $400 per capita for Israel. We have, I think, in this program, helped to bring about a situation in the Near East in which our interests are better protected than they were at a time in 1956–58 period when, you will recall, the Suez Canal was nationalized; Arab-Israel hostility was greatly intensified; the Iraq Petroleum Pipeline Co. was destroyed. There was an exchange of cultural things toward the Soviet bloc and the Communist Party activity in the area increased very substantially.

Mr. MONTOYA. You just stated a few minutes ago that you could not positively trace the better atmosphere in Egypt toward us to any part of the foreign aid program; that it might have been influenced by meddling by the Russians in the area there rather than our aid.

Mr. TALBOT. Well, sir, I would say that foreign relations encompassed the whole complex of factors. I think that the Russian meddling has been demonstrated to be a mistake from their point of view. I also think that we have been able through a fairly flexible policy to take advantage of some of the mistakes that they made.

Mr. MONTOYA. I think we have been giving them too much aid for what they have been doing for us.

Mr. PASSMAN. Will the gentleman yield?

Mr. MONTOYA. Yes.

I am through, Mr. Chairman.

DEVELOPMENT LOANS TO INDIA PER CAPITA

Mr. PASSMAN. Of the credits you are giving India I think you have indicated it was $1 per capita?

Mr. TALBOT. The development loans——

Mr. PASSMAN. Development credits.

Mr. TALBOT. For this year will be roughly $1 per capita.

TOTAL ASSISTANCE TO UNITED ARAB REPUBLIC

Mr. PASSMAN. What has been the total amount that we have given to Nasser's Egypt?

Mr. GAUD. Since 1952, Mr. Chairman, we have given the United Arab Republic roughly $784 million worth of aid.

Mr. PASSMAN. That is over three-quarters of a billion that we have given to the United Arab Republic?

Mr. GAUD. That is right.

Mr. TALBOT. And 75 to 80 percent of that in recent years has been in Public Law 480.

Mr. PASSMAN. Which is the same thing as dollars. They have to take their dollars and buy food. We take the American taxpayer's dollars and pay for the food. So far as they are concerned it is the equivalent of dollars, is it not?

Mr. TALBOT. I think not. They would not have the dollars. They would not buy food from the United States.

Mr. PASSMAN. You do not know whether they would or not. They would either buy food someplace or starve, would they not?

Mr. TALBOT. That is correct.

Mr. PASSMAN. So far as the American taxpayers are concerned, this aid represents dollars, does it not?

Mr. TALBOT. Public Law 480 costs dollars.

Mr. PASSMAN. Yes.

Mr. TALBOT. Yes, sir. Public Law 480 costs dollars.

POLITICAL SITUATION IN INDIA

Mr. GARY. What is the political situation in India right now?

Mr. TALBOT. The Congress Party maintains a majority in the Central Parliament and it controls all of the State governments. The leader of the Congress Party continues to be, by all odds, the strongest figure on the political scene. There have in the past year been several changes in the Cabinet and the people around the Prime Minister including, as you know, sir, the resignation of Khrishna Menon and much more recently the resignation of the Petroleum Minister. This has reflected a shift in the overall political leadership of the country.

The political process in India is democratic in the sense that they have had three general elections over the past 12 or 13 years and the

most recent one more than 100 million people went to the polls to vote. There has been, of course, competition between the parties.

Mr. GARY. Has there been a real break between Nehru and Menon or is Menon still wielding a great deal of influence in the background?

Mr. TALBOT. The estimates that we receive is that Menon is not wielding a great deal of influence in the background. He is not in the Cabinet councils, of course. We understand he has a limited role in the party councils. He is, of course, still a member of Parliament. There have been no elections since he left the Cabinet. He does have an interest in a newspaper and in perhaps some other publications but the estimate that we have is that he does not have great influence.

Mr. GARY. What do you know about Nehru's health?

Mr. TALBOT. Well, sir, he continues to function on a full-time basis. As far as I know it is good for a man of his age.

Mr. GARY. I was alarmed at one time when he was having some trouble with his health that we might have a situation where Menon would be in power. Do you think there is any prospect of that now?

Mr. TALBOT. No, sir. I do not.

Mr. GARY. I had hoped that was not true because I think Menon is a very dangerous man so far as we are concerned. There is no question about the fact that he is very hostile to our country. I am not too well satisfied with Nehru's activities but Menon's I think are very menacing.

Mr. PASSMAN. They still parade as neutrals.

Mr. TALBOT. They are not formal allies of ours in any sense.

Mr. PASSMAN. They have possibly been a little friendlier on account of the military aid that we have been giving them since the Red China incident?

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. Mr. Natcher?

EFFECT OF U.S. AID ON DIFFICULTIES BETWEEN PAKISTAN AND INDIA

Mr. NATCHER. Will this program as submitted for 1964 bring about differences between Pakistan and India?

Mr. TALBOT. We hope that the differences between Pakistan and India would be moderated. I do not think that economic assistance, that we are discussing here today, will bring about additional differences between the Pakistan and India.

Mr. NATCHER. Do you agree with me that heretofore on more than one occasion money appropriated under this program has caused considerable trouble between these two countries?

Mr. TALBOT. I think if I might, sir, I would turn it around, that there has been considerable difficulty between the two countries and that there have been protests especially in Pakistan about United States economic assistance to India on the grounds that this assistance frees external resources so that India could buy arms. As you know, sir, the assistance on the military field that we are now giving India to strengthen its defenses against the Chinese Communist attack has caused serious concern in Pakistan.

Mr. NATCHER. Did you read the speech made before the joint session of Congress by the President of Pakistan some 2 or 3 years ago?

Mr. TALBOT. Yes, sir.

Mr. NATCHER. Do you remember the admonition that he made to the Members of Congress and those assembled at that time concerning friendship and the leaving of true and tried friends and going over to the side of the neutrals who were always against us in every crisis? This was a part of his speech. Do you remember this part?

Mr. TALBOT. Yes; I do recall that portion.

Mr. NATCHER. Did you agree with any part of that?

Mr. TALBOT. Agree that this was Pakistan's policy?

Mr. NATCHER. No; did you agree with this part of his speech.

Mr. TALBOT. I would agree that at that time he believed very strongly that he was supporting the friendship and the alliance between Pakistan and the United States; yes. I think he still supports this, though he has as you know, or his Government in this past year has, increased its relationships with the Communist Chinese.

POLITICAL SITUATION IN PAKISTAN

Mr. PASSMAN. A person high in our Government said since we started the hearings that it was, in effect, a military dictatorship in Pakistan. For how long is the president elected?

Mr. NATCHER. Six years.

Mr. TALBOT. Yes, sir.

Mr. MONTOYA. Would you yield, Mr. Chairman?

Mr. PASSMAN. Yes.

Mr. MONTOYA. The President himself stated it was a military dictatorship when he addressed the Congress and that perforce it had to be that for a while.

SOVIET RUPEE-GOLD MANIPULATION

Mr. PASSMAN. It is still that way. I shall read from a newspaper article:

Russia getting our gold. Siphons off $25 million U.S. stock since last August and makes $5 million profit.

We are going to get into examining on India, but this is some kind of a skin game it would appear they are using.

Mr. TALBOT. Mr. Chairman, may I say, first with respect to Pakistan, that Pakistan was under martial law for some time after President Ayub took over.

Mr. PASSMAN. He did take over?

Mr. TALBOT. Yes, sir. It is now under a constitution which was adopted by the legislature of the country.

Mr. PASSMAN. Did you say by indirect elections? It was a rather unique system by which he became President.

Mr. TALBOT. This was by indirect elections.

Mr. PASSMAN. I shall continue reading from the newspaper article:

According to the financial jigsaw puzzle pieced together by intelligence authorities, the Soviet is obtaining U.S. gold by obtaining dollars in exchange for Indian rupees. These rupees marketed in Chicago and New York by individuals working for the Russian Government were originally obtained in New Delhi in payment for Soviet gold sold to the Indian Government to help stabilize its currency. This financial wheeling and dealing is paying off handsomely for the Soviets. By selling its gold to India at the world price, which is considerably above the $35 an ounce the United States pays, the Kremlin makes a fat windfall profit by selling rupees for dollars in the United States and then exchanging the dollars for gold at the lower U.S. profit.

Are you familiar with that system they are allegedly using?

Mr. TALBOT. No, sir. I do not believe that system occurs between the Government of India and the Soviet Union.

Mr. PASSMAN. You do not believe?

Mr. TALBOT. No, sir.

Mr. PASSMAN. Can you disprove what this says?

Mr. TALBOT. I believe, sir, the evidence can be presented to you.

Mr. PASSMAN. Are you familiar with this charge?

Mr. TALBOT. I have heard you, I have read testimony in which you made this charge once before.

Mr. PASSMAN. Did you pick the information up from the testimony or did you know anything about the allegation earlier?

Mr. TALBOT. No, sir; I did not.

Mr. PASSMAN. How can you disprove the allegation? I hope that you can.

Mr. TALBOT. I can tell you how the arrangement works, sir.

Mr. PASSMAN. Did you check into this particular transaction that I had also read into the record earlier?

Mr. TALBOT. Yes, sir. The arrangement by which this financial transaction occurs between India and the U.S.S.R. is as follows: The U.S.S.R. receives rupees in payment for its exports to India and as repayment for aid but these can be used only for the purchase of Indian goods. Since the rupees are in a Government account they could not be used for other purposes without the Indian Government's knowledge.

Some Indo-Soviet trade-and-aid agreements provide for payment in sterling under certain conditions. The Indian Embassy assures us that no payments in sterling and no conversions of Soviet-owned rupees have occurred.

Mr. PASSMAN. You made a statement, and that is all.

Did you see this article?

Mr. TALBOT. No, sir; I did not see the article.

Mr. GAUD. May I state for the record at this point, sir, that the U.S. Treasury advises us that the last sale of gold to the Soviet Union took place in 1939.

Mr. PASSMAN. You are discounting the indirect method by which they might have come into possession. There is nothing indicated here about Russia buying gold from the United States.

You said you picked your information up from what I had said before?

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. You never heard of this matter before I picked it up?

Mr. GAUD. That is correct.

Mr. PASSMAN. Let us go a little deeper into this matter and not just discount it. It is certainly worth investigating.

Mr. GAUD. We certainly have no objection to any investigation you make.

I want to call the committee's attention to the insert put in after Mr. Bell's testimony which shows the results of his investigation of this situation. The committee has it on hand here. Mr. Bell reports that after his investigation he is satisfied that there is absolutely nothing to the story.

Mr. PASSMAN. We are not yet ready to close the case.

Mr. GAUD. We are happy to have you make any investigation you like.

Mr. PASSMAN. We asked Mr. Shriver to investigate a certain matter, and he said he was going to get into it right up to his eyeballs. We found out later however, he only got into it up to his ankles. Maybe Mr. Bell looked into this thing similarly, rather superficially, although we hope, of course, that was not the case.

Mr. Rhodes?

UNITED STATES-PAKISTAN RELATIONS

Mr. RHODES. Are you familiar with a newspaper published in Karachi by the name of "Dawn"?

Mr. TALBOT. Yes, sir.

Mr. RHODES. I sent a copy of "Dawn" which was sent to me by a constitutent, to a representative of the Department of State. I do not know whether it has come to your attention or not. It deals with a quesion brought up formerly by the chairman concerning the rights of the Chinese Communists to land in Pakistan and in it there are various quotations from high officials of the Pakistani Government, including General Ayub, which, all rolled together, mount up to a feeling that Pakistan will do as it pleases about this and all other questions involved and it will not be influenced by anyone.

In effect, it tells the rest of the world to go to hell. Mentioned rather prominently in several instances was the fact that the United States is giving too much aid to India, and that India is the natural enemy of Pakistan. First, can you tell me what the political tinge of the newspaper is, and second have you heard these statements attributed to high officials. Third, in light of all this what do you think of the present relationships and the probable future relationships between our two governments?

Mr. TALBOT. First, "Dawn" is edited by a man who was close to the Pakistan independent movement before 1947 and it has consistently since 1947 taken a very strong and often rigid nationalistic view, attacking the United States quite a bit, attacking also President Ayub for his pro-Western policies on occasion. Second, so far as the Pakistani attitude on this question goes, I think a good many of the Pakistanis feel very strongly that the United States has hurt Pakistan's security by giving military assistance to India. I may say that we went through some years, as you will recall, of criticism in India whose people felt that we were hurting Indian security by giving military assistance to Pakistan, so this is the other side of the medal, as it were, and the Pakistan feelings have been running fairly high in recent months as the new U.S. programs have developed and I think the attitude expressed in this article, which has been expressed by other people in Pakistan, reflects a sense that whereas Pakistan felt that it had a privileged relationship with the United States for some years it now believes that American military assistance to India is undermining that privileged relationship.

We have, of course, been at great pains to explain to Pakistan what we are doing and why we are doing it in India and we have——

Mr. RHODES. Would you mind explaining to the committee right now what we are doing and why we are doing it?

Mr. TALBOT. On the military side?

Mr. RHODES. Military, economic, or whatever you want.

Mr. TALBOT. After the Chinese attack occurred last October the Indians appealed to us for military assistance. For a good many years they had been concentrating their resources very largely on the economic development side and they had not been purchasing military equipment. They had not be modernizing their forces for this period. When the Chinese attacked they found of course that they were short on a whole variety of items that they needed to strengthen their defenses in the Himalayan region.

Mr. RHODES. Mr. Secretary, isn't it true that the Indian armed services were trained to fight a war with Pakistan and never once thought of fighting a war in the Himalayas? They were completely unequipped to defend that border.

Mr. TALBOT. That is right, sir. As you know, the invasion route to the Indian subcontinent had been through the northwest frontier. That had always been defended. During World War II the Chinese demonstrated the northeast border was defendable, the northern range was penetrable and therefore that whoever was south of the Himalayas had to work out a defense arrangement for that whole northern region. This obviously was a much larger defense job than India had ever anticipated. They came to us for assistance. We reached an agreement with the Indians that any military assistance we gave would be directed exclusively at the defense of India against the Chinese Communists and we told the Pakistanis what the terms of this would be.

Mr. RHODES. May I stop you there briefly? Isn't that rather difficult? If you give India a fighter plane, can you fix the plane so that it won't shoot if it is shooting at Pakistani but will shoot if shooting at the Chinese?

Mr. TALBOT. We haven't given India any fighter planes.

Mr. RHODES. I used that as an example.

Mr. TALBOT. What we did by the Nassau agreement whereby the British and we agreed to give $60 million each of military assistance to India, was to work out plans to reequip about six mountain divisions. These mountain divisions will be equipped with those items that are portable and easily movable and are not at all comparable to the divisions we have equipped in Pakistan under MAP. There are not heavy tanks for example; a good deal of other sort of equipment that we have been giving to the MAP divisions in Pakistan are not on this list. We have focused on assistance which would be useful in mountain areas and we have not been giving assistance which would strengthen India to move across the plains against the West, Punjab, for example.

We have been very much conscious of this and very much concerned with how a program could work out which would give some reassurance to India, strengthen its defense capacity in relation to the Chinese Communists and which at the same time would not be a concern to Pakistan. Our program has been based on these consid-

erations, and we have moved it forward step by step and at each step we have discussed what we were doing with the Pakistan Government. We have made clear the reasons for our doing it in terms of strengthening a major country outside the bloc against attack by the Chinese Communists.

REACTION OF PAKISTAN GOVERNMENT TO UNITED STATES MILITARY AID TO INDIA

Mr. RHODES. But apparently the Pakistan Government has not bought it?

Mr. TALBOT. The Pakistan Government has been very agitated about it, this is correct, just as I say the Indian Government was when we began giving military assistance to Pakistan. But just as we felt at that time right after the Korean war, that it was important to give military assistance to Pakistan and certain other countries around the perimeter and that we would in our interests do it in spite of criticism from India, so the appraisal this year has been that it is important to give this clear signal to the Chinese Communists to do this in spite of the difficulties that it causes in Pakistan. We are convinced ourselves that there is no increased threat to Pakistan. India is a status quo country. There is nothing in Pakistan that India really wants. India knows if it were to move into Pakistan our whole relationship would break and this is a major factor.

Mr. GARY. Would the gentleman yield?

Mr. RHODES. The gentleman from Virginia.

EFFECT OF U.S. MILITARY ASSISTANCE TO INDIA

Mr. GARY. What was the alternative?

Mr. TALBOT. For——

Mr. GARY. Not helping India when it was attacked by China?

Mr. TALBOT. The alternative could well have been continuation of the Chinese attack not only in India but once it had demonstrated its capacity to move freely there against the Himalayan Kingdoms of Nepal and the areas of Sikum and Bhutan and against southeast Asia. The Chinese have demonstrated that they are in an aggressive expansionist period and that this was a part of what they were doing last winter.

Mr. GARY. And the Indians did not have the power to stop them?

Mr. TALBOT. That is right.

Mr. GARY. So without the help of the United States they could not have stopped the attack?

Mr. TALBOT. They did not have the power to stop the attack. The Chinese stopped themselves at one point.

Mr. RHODES. Nobody stopped the attack but the Chinese.

Mr. TALBOT. The Chinese did stop, this is correct, and of course, they then gradually withdrew. Military men will argue as to whether they had run to the end of their line of communication and could not have gone any farther or what the reason may have been.

Mr. RHODES. The fact remains that India did not stop them and our aid did not stop them. They stopped of their own accord.

Mr. TALBOT. Some bits of our aid were flown in during the active fighting.

Mr. RHODES. I understand that.

Mr. TALBOT. It will be a little while before our assistance really strengthens their defensive capability.

Mr. MINSHALL. Will the gentleman yield?

Mr. RHODES. The gentleman from Ohio.

EFFECT OF U.S. MILITARY ASSISTANCE TO INDIA ON PAKISTAN

Mr. MINSHALL. Aren't you painting with a pretty fine brush when you say the kind of weapons you are using in India cannot be used against the Pakistanis?

I realize you are not giving them heavy tanks. There are still other weapons of warfare that are indigenous to even a mountain division or an ordinary artillery division. Couldn't these be used against the Pakistanis with a little help of their own?

Mr. TALBOT. Of course, if one has a .22 rifle he can aim it in any direction.

Mr. MINSHALL. That is exactly the point I make.

Mr. TALBOT. We have a whole range of assurances.

Mr. MINSHALL. These are not .22 rifles. There is artillery, mortars, all types of equipment.

Mr. TALBOT. That is right.

Mr. MINSHALL. They could be pointed to the west just as easily as they could be to the north.

Mr. TALBOT. Well, sir, but if India were to move them pointing to the West, that would bring into effect a whole chain of consequences which could only be adverse to India. In other words, for India to attack Pakistan would be a total violation of the commitments that India has given to us and the reactions to that that we would have both within the U.N. and outside I think would be rapidly effective.

Mr. PASSMAN. Mr. Secretary, what would our position be if, and I want to be sure we put in "if," we should agree that the President of Pakistan is in the right and we attempted to undo these commitments to India? Then could Pakistan undo the commitments that she has made with Red China?

Mr. TALBOT. Well, sir, if I understand your question, I would say that the Pakistan Government is still a firm ally of the United States despite these actions.

Mr. PASSMAN. Thank you.

Mr. RHODES. The gentleman from Alabama?

Mr. ANDREWS. Mr. Minshall asked the question I had in mind.

Mr. RHODES. Mr. Secretary, you completed your statement concerning the rather lengthy question I asked?

Mr. TALBOT. Yes, sir.

PROBABLE FUTURE UNITED STATES-PAKISTAN RELATIONS

Mr. RHODES. Let's take up the future part of it now. What is the prognosis for the relationship between the United States and Pakistan in the light of the disappointment shown by the Pakistani Government to our stepped-up aid to India, both economic and military?

Mr. TALBOT. They certainly have expressed concern about the economic aid even though as you know our aid to Pakistan is at a much higher rate on the basis per capita or in terms of the total size of the economy than is our aid to India.

In the future our principal concern will continue to be to help these two countries to reduce and contain the disputes between them. We have, of course, been very much concerned about the Kashmir incident which has generated all kinds of emotions between these two countries. We were encouraged last winter when they began ministerial talks. These ministerial talks explored a certain amount of the difference between the two, but they did not get to a point of agreement. In recent weeks we have been talking with the two Governments about the possibility of their selecting an outside mediator who could deal privately with the two Governments to explore what possible areas of agreement there are.

It seems to us very important that both Governments keep working on the problem of resolving the differences between them, including Kashmir and other matters.

POSSIBILITIES OF RAPPROCHEMENT BETWEEN INDIA AND PAKISTAN

Mr. RHODES. Do you see any indication we are being the least bit successful in trying to bring about a rapprochement between these two countries?

Mr. TALBOT. I find this hard to judge. Both countries are still working at the questions of how to proceed in the resolution of their disputes. If in the near future some sort of mediation is accepted by the two countries, I would say yes, that promises some progress.

This obviously is a very deep emotional issue, and I would expect, like some other international issues which have taken a long time to settle such as Trieste, this is going to be a difficult, arduous effort.

Mr. RHODES. I would interpret your statement to mean that we have not seen our efforts crowned with any great and startling success so far.

Mr. TALBOT. The two countries are not having as good relations as we wish they were. Certain of the disputes between them have been ameliorated. Some of them that were very dangerous have been, such as the Indus waters dispute.

Mr. RHODES. That occurred some time ago?

Mr. TALBOT. 1960, yes.

POPULATION GROWTH IN SOUTH ASIA

Mr. RHODES. Mr. Secretary, one of the big problems in this part of the world is the population explosion?

Mr. TALBOT. Yes.

Mr. RHODES. It seems very difficult for the economy to grow fast enough to keep the per capita Gross National Product even, and not have it go down?

Is there any hope for any solution of this problem?

Mr. TALBOT. The several governments in the area are developing programs now in the demographic population control field. Some are putting in a fair amount of resources at different stages.

India, for example, as part of its 5-year plan is working on population control. Pakstan has population control projects, and there are several other countries in the region that do as well. Demographically, it is going to take either a further technological breakthrough, or a

good deal of time, I think, as a personal view, but there is very substantial progress on this problem.

In the last several years since the major development programs have been functioning in India and Pakistan and others countries, the per capita rate of growth has continued to be above the rate of population growth.

I should amend that last statement. The per capita rate of economic growth has continued to be above the rate of population growth.

Mr. RHODES. Though it is a pretty tight race?

Mr. TALBOT. Yes; it is.

U.N. RECORD OF NEAR EAST AND SOUTH ASIA COUNTRIES

Mr. FORD. How many nations are in this area we have before us today?

Mr. TALBOT. Eighteen, sir.

Mr. FORD. How many of them are members of the United Nations?

Mr. TALBOT. All of them.

Mr. FORD. You are familiar, of course, with the financial problems of the United Nations as far as the funding of its peacekeeping operations is concerned?

Mr. TALBOT. Yes.

Mr. FORD. In the last month or two, there has been an effort in the United Nations to try and work out some arrangement for the financing of these peacekeeping operations. The last I read, there was a compromise which was agreed to. It was not a unanimous agreement.

Is my observation correct, or reasonably so?

Mr. TALBOT. Yes; that is my understanding.

Mr. FORD. Speaking for myself, this was not a satisfactory arrangement, but it was a compromise.

How did the nations in this area vote, or how did they act in seeking an arrangement on this problem?

Mr. TALBOT. The situation in our area is that most of the nations do pay their regular contributions, but on special contributions the situation has been substantially less satisfactory.

As you know, a number of states have refused to pay for UNEF. On this most recent vote, my recollection is the countries of this area were deeply split.

If I may, sir, introduce an insert to give the voting record.

Mr. FORD. Will you put in the record how these nations in this area did vote on this last compromise, both those for and against?

Will you also indicate in the record at this point the status of each of these countries as far as their regular assessments and their special assessments to the U.N. are concerned?

Mr. TALBOT. I would be very glad to.

(The information follows:)

Voting record of Near Eastern and south Asian countries at the 4th special session of the United Nations General Assembly—Financing U.N. peacekeeping operations

Country	I	II	III	IV	V	VI	VII
Afghanistan	Yes	Yes	Yes	Abstain	Yes	Yes	Yes.
Ceylon	Yes	Yes	Yes	Yes	Yes	Yes	Yes.
Cyprus	Yes	Yes	Yes	Yes	Yes	Yes	Yes.
Greece	Yes	Yes	Yes	Yes	Yes	Yes	Yes.
India	Yes	Yes	Yes	Yes	Yes	Yes	Yes.
Iran	Yes	Yes	Yes	Yes	Yes	Yes	Yes.
Iraq	Yes	Abstain	Abstain	Abstain	Yes	Yes	Yes.
Israel	Yes	Yes	Yes	Yes	Yes	Yes	Yes.
Jordan	Yes	Abstain	Abstain	Abstain	Yes	Yes	Yes.
Kuwait	Yes	Abstain	Abstain	Abstain	Yes	Yes	Yes.
Lebanon	Yes	Yes	Yes	Yes	Yes	Yes	Yes.
Nepal	Yes	Yes	Yes	Yes	Yes	Yes	Yes.
Pakistan	Yes	Yes	Yes	Yes	Yes	Yes	Yes.
Saudi Arabia	Yes	Abstain	Abstain	Abstain	Yes	Yes	Yes.
Syria	Yes	Abstain	Abstain	Abstain	Yes	Yes	Yes.
Turkey	Yes	Yes	Yes	Yes	Yes	Yes	Yes.
United Arab Republic	Yes	Abstain	Abstain	Abstain	Yes	Yes	Yes.
Yemen	Yes	Abstain	Abstain	Abstain	Yes	Yes	Yes.

NOTES

I. General principles to serve as guidelines for the sharing of the costs of future peacekeeping operations involving heavy expenditures (A/RES/1874).

II. United Nations Emergency Force: Cost estimates and financing for the period of July 1, 1963, to Dec. 31, 1963 (A/RES/1875).

III. United Nations operation in the Congo: Cost estimates and financing for the period July 1 to Dec. 31, 1963 (A/RES/1876).

IV. Payment of arrears in respect of assessed contributions to the United Nations Emergency Force Special Account and the ad hoc account for the United Nations operation in the Congo (A/RES/1877).

V. Terms and conditions governing the issue of the United Nations bonds (A/RES/1878).

VI. Establi hment of a peace fund (A/RES/1879).

VII. Continuation of the working group on the examination of the administrative and budgetary procedures of the United Nations reestablished under General Assembly resolution 1854 B (XVII) (A/RES/1880).

Near Eastern and south Asian countries—Balance due, 1962, and prior years' June 30, 1963

Country	Regular budget	UNEF	UNOC	Balance due 1962 and prior years
Afghanistan		$39,322	$34,366	$73,688
Ceylon				
Cyprus				
Greece	$6,634			6,634
India				
Iran			99,281	99,281
Iraq		76,598	75,744	152,342
Israel				
Jordan		34,108	33,664	67,772
Kuwait [1]				
Lebanon		19,845	12,108	31,953
Nepal	2,291	935	6,503	9,729
Pakistan				
Saudi Arabia		55,309	52,095	107,404
Syria	32,356	32,667	7,955	72,978
Turkey				
United Arab Republic	82,269	284,742	258,155	625,166
Yemen	26,885	34,108	33,664	94,657

[1] Kuwait's assessment has not yet been established.

U.S. AID VERSUS U.N. POSITIONS OF AID RECIPIENTS

Mr. FORD. I am very apprehensive, and extremely concerned, about what nations will or will not face up to this problem that will undoubtedly be on the agenda of the U.N. on whether or not a country will lose its right to vote in the General Assembly if they have not met their financial obligations.

I suspect this vote last month on the compromise is some indication of how they would vote. Is that a fair assumption?

Mr. TALBOT. It certainly would be an indication of how they are feeling at this stage. How they will vote when the issue comes up, I of course have no idea.

Mr. FORD. What would your reaction be to language in the appropriation bill which would say that economic and/or military assistance would not be available if a country did not vote to suspend the right of a nation to vote if it has not paid its U.N. assessment?

Mr. TALBOT. There have been several suggestions, as I understand it, of clauses or sections which would have the effect of eliminating aid to countries which do not follow one or another of the U.N. resolutions.

I think my general reaction to these would be that while it is very important for the United States that the U.N. remains a healthy organization, at the same time we do not want to hand over our foreign policy actions and our national interests to a decision of the Security Council or of the General Assembly.

Mr. FORD. Of course, this would be a decision of the General Assembly. It would not be a decision of the Security Council, as I understand it.

Mr. TALBOT. Yes, sir. In other words, what I am saying is that for reasons extraneous to our national interests a particular country may decide to vote for or against a particular U.N. proposal, or indeed a particular country may decide either to accept and adhere to a U.N. action, or not to do so. It is not necessarily the fact that if such a situation should develop, our own interest would be served by cutting off assistance to that country.

Mr. FORD. It is a little confusing, however, when we continue to give aid, both military and economic, to countries that by their failure to support the Constitution of the United Nations in effect vote to destroy the United Nations by not forcing member nations to pay their bill. This is disturbing.

Mr. TALBOT. And it is a matter of great concern to us; do not misunderstand me.

As you know, we have been working quite vigorously with other countries to get them to see this point of view. At the same time, it occasionally happens that a nation may be condemned by the United Nations for such an action and we find it in our national interest to continue to give assistance to that nation.

Similarly, a nation may fall behind in its assessments. We may have national reasons—"we may have," I say—to continue our relations and assistance to that nation.

All I am suggesting is, there is no question about the objective of getting all nations to recognize the financial implications of keeping a viable U.N. But I would raise substantial questions as to whether that objective is best achieved by the kind of limiting amendment you suggest, sir.

Mr. PASSMAN. Mr. Conte?

POLICY ON FUNDING BOKARO STEEL MILL

Mr. CONTE. Mr. Secretary, in this appropriation you are asking for, is there any money for the Bokaro steel mill?

Mr. TALBOT. The answer is, we do not know there is any money. I think Mr. Gaud might speak to this.

Mr. GAUD. The agency has not decided whether to go forward with that project.

Mr. CONTE. That is the reason I am asking the question. I want to know what your policy is on this project?

Mr. GAUD. He asked me to state the facts.

Mr. TALBOT. The answer on the money is, We do not know whether funds appropriated for development loans might be used for one loan or for another yet. Each loan application comes and is examined and a decision is made in the course of a year, so in our proposals for development loan funds, we are not at this time able to specify which particular development loan application will be accepted.

Mr. PASSMAN. You are saying this is an illustrative program. Even though you should justify funds for this project, you could always transfer them over to another project, and if you did not request funds for the steel mill project, you could take it out of some other part of the total; is that correct?

Mr. GAUD. The amounts we are asking for development are not committed to any project.

Mr. PASSMAN. That is what I say. It is an illustrative program. Even though you may have no specific plans for the steel mill, at some subsequent date, after you receive the funds, you may decide it is more advantageous to build the steel mill than carry out some other project?

Mr. GAUD. No. We are not asking money for specific projects.

Mr. PASSMAN. That is what I said, Mr. Gaud.

Mr. GAUD. It is not a question of shifting from projects we are asking you to finance and then moving to Bokaro. We are asking for so much for lending applications, and if we decide to go forward with Bokaro, in 1964, it is conceivable some of this money will be devoted to that.

Mr. PASSMAN. That is certainly what I said, it is an illustrative program.

Mr. CONTE. The reason I am asking you is because I think this is a policy question, Mr. Talbot. Let's get back to it again.

What is the policy with regard to the Bokaro steel mill if there is a policy?

Mr. TALBOT. There has been no decision on the loan application for the Bokaro steel mill. I think you are familiar with the record.

An application was made—a proposal was made—maybe I better get this straight—the question of Bokaro has come up and the U.S. Government financed a study of the feasibility, which was undertaken by the United States Steel Co.

This study indicated that the Bokaro steel mill would be feasible, subject to favorable answers to a number of questions which, in the opinion of United States Steel, had not been adequately answered by the evidence yet available.

The study further indicated that the steel mill would not be profitable in the first period, but in the second and succeeding periods would be profitable.

The proposition is that the questions which were raised in the United States Steel report are being examined, and a decision cannot be made on the Bokaro steel mill until these have been examined.

Mr. MINSHALL. Could you outline briefly what those questions are for the record?

Mr. TALBOT. I am sure Mr. Gaud can specify.

Mr. MINSHALL. What are they?

Mr. GAUD. The first question is the question of whether raw materials exist in appropriate quantities and in appropriate locations and in appropriate quality.

Mr. MINSHALL. That seems rather basic. Why do you have to have a feasibility study on that?

Mr. GAUD. We have to find out whether they exist or do not.

Mr. MINSHALL. Do you mean you think you are putting up a steel mill and you have no knowledge of that?

Mr. GAUD. I do not mean anything of the sort.

Mr. MINSHALL. What do you mean then?

Mr. GAUD. We have been asked if we will finance a steel mill.

Mr. MINSHALL. Who asked you?

Mr. GAUD. The Indian Government.

Our reply has been, the first thing we want to find out is whether there are sufficient raw materials to make this steel mill sensible. We have not yet gotten an answer to that question. That is one of the questions we are going into.

The next question is, we will have to work out satisfactory arrangements with the Indians as to the construction of the mill under American supervision, as to its design under American supervision, and as to its management for the first 10 years of its operation. This we would have to straighten out with the Indians before we would go forward with it. These are the two main areas that have not yet been explored.

The third area is whether it makes sense from an economic standpoint to devote as much foreign exchange as this plant will take to this project. That, of course, entails a study of the Indian requirement for steel, of their steel capacity, of other uses to which the money can be put and the like.

We are likewise studying these propositions.

Mr. MINSHALL. It surprises me you would not know whether or not there is sufficient ore over there to run a steel mill.

Mr. GAUD. We have not decided to go forward with this. We have been asked if we will go forward.

Mr. MINSHALL. It surprises me you would not have that information readily available—the Indian Government, or someone.

Mr. GAUD. The Indian Government says there is no question about the raw materials. We want to be satisfied on that.

Needless to say, I do not have in my office a complete index of all raw materials under the Indian real estate. We have to look into this to answer the question whether we are going forward with the project.

The same thing would be true in this country.

Mr. CONTE. Is there an application pending at the present time?

Mr. GAUD. There is no loan application pending at the present time. It is a proposition being discussed between the Indian Government and ourselves.

Mr. CONTE. Mr. Talbot, you cannot tell me one way or the other whether you have decided as Under Secretary for that area of the world whether the United States should invest money in a steel mill in India?

Mr. TALBOT. I would like to see the full evidence before making a decision.

Mr. CONTE. How long do you think it will take you to get the full evidence before you render a decision?

Mr. TALBOT. I do not know.

Mr. GAUD. No one knows the answer.

Mr. CONTE. Could you give us a ball park guess?

Mr. GAUD. As I pointed out, the principal factual problem to be settled here is the existence of the raw materials. We are sending two people out to India this week who are going to find out what information the Indian Government already has available on this question, and if it is not all there, what else has to be done to get the information we need. We do not know whether this is going to take weeks, months, or possibly even years, as has been suggested.

If you want me to make a guess, and it would be purely a guess, it would be a matter of a good many months.

Mr. CONTE. I think you ought to make some determination in the near future because there is a cloud of suspicion in the Congress. You have a bill coming out of the Foreign Affairs Committee, and you may find yourself faced with a dilemma where aid to India will be tied down restrictively because there are some Members of the House that cannot buy the Bokaro steel mill.

INDIAN STEEL NEEDS

Mr. GAUD. We cannot go ahead with the project until we know more about it than we know today. We are not prepared today to say we will not go ahead with it, because if you examine the Indian picture, the need for steel is unquestionably enormous. The demand for steel is there.

India is spending many hundreds of millions of dollars to import steel today, and India in the future needs further steel capacity. This is not a proposition you can dismiss out of hand. It is a proposition you have to investigate carefully before you come to a decision. This is what we are now engaged in.

Mr. CONTE. Mr. Talbot, is this Indian News a reliable newspaper?

Mr. TALBOT. It is issued by the Indian Embassy in Washington.

Mr. CONTE. Is it reliable?

Mr. PASSMAN. As much so as India.

Mr. CONTE. Would you say it is fairly reliable?

Mr. TALBOT. I would say it reflects the views of the Indian Government.

Mr. CONTE. In answer to Mr. Gaud's statement saying there is a shortage of steel, this publication of July 12 says:

> In spite of having six steel plants—two in the private sector and four in the public sector—altogether producing about 4 million tons of steel, the country imported annually 1 million tons of steel, its value being of the order of about $210 million.
>
> The new plants are being put up to increase the output of the Bhilai steel from 1 million tons to 2½ million tons by the end of 1965.

If this is reliable, they will have more steel in India than they can use.

Mr. GAUD. That is not a correct conclusion.

The United States Steel report which Mr. Talbot referred to a few minutes ago states quite categorically, and this confirms our own feeling on the subject, that despite the fact that India's existing mills are being expanded to their capacity, there will still remain, by the time this Bokaro mill would come into production, a very substantial shortage of steel which in fact will not be wholly met by the Bokaro production. This is the United States Steel conclusion after studying the Indian economy, and this conforms with our own judgment.

Mr. CONTE. That does not coincide with the Indian News.

Mr. GAUD. I beg your pardon.

Mr. CONTE. The Indian News says they are importing 1 million tons of steel a year, and with these new plants they will increase their production from 1 million to 2½ million.

Mr. GAUD. But their imports——

Mr. CONTE. They should have a surplus of about half a million a year.

Mr. GAUD. Their imports by no means meet their requirements. If India had more foreign exchange——

Mr. CONTE. You read the paper.

Mr. GAUD (continuing). She would be importing a good deal more steel than she is.

Mr. TALBOT. The Indian gross national product is rising fairly steadily, of course. It was on the average of about $1 a week per person, and now it is up to $1.75, something like that. Perhaps that is a bit high. As this gross national product rises, the demand for steel also rises, and the industrial complex that comes around a new steel mill increases very greatly so the uses of steel in a going economy obviously increase.

India is today using more steel than it was 3 years ago, or 4 years ago, and 5 years from now it will be using still more steel. Of course, the military program now adds new requirements for steel.

POSSIBILITY OF RESTRICTIVE AMENDMENT LIMITING ASSISTANCE TO BOKARO PROJECT

Mr. RHODES. Mr. Gaud, since it is going to take quite a while to get the information to make a decision on this, would it be out of line to suggest that there be a limitation on the appropriation this year, to the effect that no funds be spent, or obligated, for construction of this project until the Appropriation Committees have had a chance to take a look at the information you will get.

As one member of the committee I would hate to feel money we appropriate this year would go into this steel mill with as little information as you are able to give us about it right now.

Mr. GAUD. I could tell you a good deal about it right now. I have been listing the main problems still left open.

We have a great deal of information on this mill, sir, and we would be glad to make it all available to the committee.

I would personally not be enthusiastic about any restriction which would prevent the administration from going forward with any specific project, which I think is what you are suggesting.

Mr. RHODES. That is correct.

Mr. GAUD. It seems to me that would be a mistake, that kind of a restriction in the bill.

Mr. RHODES. I asked the question, and I got the answer.

Mr. TALBOT. I agree with that answer.

BASIS ON WHICH FISCAL YEAR 1964 REQUEST FOR AID TO INDIA IS MADE

Mr. PASSMAN. Upon what basis are you requesting money for India, 202(b), or some other plan?

Mr. GAUD. No, sir. We are in the process of making a commitment, or a pledge, through the Indian Consortium, subject to the appropriation of funds, we will finance development loan projects up to *x* millions of dollars next year.

We are in the course of making that pledge through the Consortium.

Mr. PASSMAN. It is an illustrative program. Everyone from your side of the table has said that it is.

When you submit your plan in detail, when we get around to India on direct questioning, are you going to be able to tell the committee how much money you want for India, and what you propose to spend the money for in fiscal year 1964?

Mr. GAUD. I will certainly tell the committee how much money we would like for India. I cannot tell on what projects we will spend it.

Mr. PASSMAN. When you get the money, you can spend it on whatever project you want to?

Mr. GAUD. Whatever projects we think are sensible, and those included in the plan.

Mr. PASSMAN. You are now telling the committee you will want *x* number of dollars to do *x* number of projects, and you estimate this is what they will cost?

Mr. GAUD. Yes.

Mr. PASSMAN. You get a lump sum?

Mr. GAUD. Yes.

Mr. PASSMAN. After you get the money, you will determine what projects you will do?

Mr. GAUD. That is correct.

POLICY ON FINANCING BOKARO PROJECT

Mr. CONTE. This bill could go through the House and the Senate, and by the time it gets to the President you could make the decision on the Bokaro plant and it might be favorable?

Mr. GAUD. Yes.

Mr. CONTE. And there is nothing the Congress could do?

Mr. GAUD. As the legislation stands, that is true.

Mr. CONTE. I want to be helpful.

Unless you take a more positive step on this, you may be in serious trouble.

Mr. GAUD. The only decision we could possibly reach at this point would be a decision to reject the proposition out of hand.

Mr. CONTE. Or give the commitment here today if you go ahead with an approval of the Bokaro steel mill plant, you will not do it out of

1964 funds. That would at least give the Congress an opportunity next year to take a crack at this project. Otherwise, you may be cut short.

There are many members who come up to me because they know I am on this committee and hope there will be no funds given to the Bokaro plant.

Mr. GAUD. I know there are feelings to that effect. I think it is due in considerable part to the proposition this is not understood. I hope we can clarify people's understanding of this project.

Mr. CONTE. We will go into detail when we go into the country projects. I wanted a policy decision here today if I could get one.

Mr. GAUD. Right.

Mr. CONTE. I have not been convinced from the discussion we have had here there is a need for one. You are projecting this way into the future. I think there are more immediate needs in India that are of much greater importance than this steel mill.

Mr. TALBOT. We will talk in detail about the steel mill when we come back.

Mr. CONTE. You will not be here. That is why I am trying to nail you down because you are the head man for that part of the world. If we could get a commitment from you, it would certainly be helpful to know you are not going to use any funds in the 1964 appropriation for the Bokaro steel mills.

Mr. TALBOT. Perhaps I better come back for that discussion.

Mr. PASSMAN. Can you give us an answer at this time, that you will not use the funds?

Mr. TALBOT. I would rather participate in the full discussion of the Bokaro funds when we get to India.

Mr. PASSMAN. It has been indicated that you have inspectors out there. Could you go into full detail?

Mr. GAUD. That is correct.

Mr. PASSMAN. That detailed information will not be available as quickly as we would like to have it, will it?

Mr. GAUD. My own guess is, and I said a moment ago it is a guess, I do not think we will know the answer to this question before the committee finishes its consideration of this bill.

Mr. PASSMAN. Did Mr. Hamilton, when he was AID Administrator, take a positive position on this question?

Mr. GAUD. Mr. Hamilton did not know any more than I know today the details of the proposition.

Mr. PASSMAN. Did he take a position regarding the socialistic features, it being public rather than private?

Mr. GAUD. Mr. Hamilton did not object to the plant.

Mr. PASSMAN. I withdraw the question, if you refuse to answer it.

Mr. GAUD. Let me answer the question.

Mr. PASSMAN. You are not answering it.

Mr. GAUD. Mr. Hamilton took the position the fact this mill was in the public sector should not debar our going into it if it made sense as an economic project. That is the position we take today.

Mr. PASSMAN. Has the President taken a position on this matter?

Mr. GAUD. The President made a statement at a press conference some time ago that, provided the plant made technical and economic sense, he thought India needed it and we ought to build it, but he recognized that the Congress may have other views.

Mr. CONTE. I hope that you can give this a lot of thought between now and the time this committee finishes its hearings and come up with a more constructive and positive decision. Your answer is much too hazy.

Mr. GAUD. It seems to me you want a negative position rather than a positive position.

Mr. CONTE. For your sake, I do. Come out and say you are going to build it or not.

Mr. GAUD. We cannot. How can we possibly say that?

Mr. CONTE. I think after the little I have discussed with you, you are going to build it. I have come to that conclusion.

Mr. GAUD. Mr. Bell has made it perfectly clear, I think, it is his position if this thing pans out, if the raw materials are available, and if we work out an appropriate contract, the AID is in favor of this mill on the ground that India needs the mill, she needs the capacity. We do not believe from all the information that we have available that it can be built in the private sector.

We believe the only way it can be built is in the public sector, and if the plant is built under American control, managed under American control for the first 5 or 10 years, it will be a credit to the United States and the aid program.

This is a statement of principle made by Mr. Bell.

We cannot go further than that because of these uncertainties I have spoken of in the facts.

Mr. CONTE. I think you should get together with the Indian Ambassador and the editor of that newspaper.

Mr. GAUD. I have read this paper, this excerpt, and it seems to me he is talking about imports rather than requirements.

The information on requirements is quite clear. I would be happy to produce that to the committee when we discuss it in detail later.

Mr. MINSHALL. Mr. Chairman, are we going to go into this Bokaro steel mill in some detail?

Mr. PASSMAN. We certainly intend to do so.

Mr. MINSHALL. I think all the members of the committee should be here when we discuss it.

I have a lot of questions on these matters, not only the socialistic aspect of it, but some of the other matters that Mr. Gaud brought up, such as raw materials being in sufficient supply.

Mr. PASSMAN. I assure the gentleman he will have full opportunity to inquire into the matter.

Mr. MINSHALL. I want to assure you from the little I found out about it today, I for one am going to oppose this project. If necessary, I am going to offer amendments to do it. This is a socialistic program that could cost the taxpayers of America over $1 billion. I am amazed that this project is even proposed—it should by all means be deleted from further consideration.

Mr. PASSMAN. We will go into this question quite thoroughly.

We shall adjourn until tomorrow at 1 o'clock.

THURSDAY, JULY 18, 1963.

INCREASE REQUESTED FOR FISCAL YEAR 1964

Mr. PASSMAN. The committee will come to order.

I believe the estimate for your region, Mr. Gaud, for fiscal year 1964, is $1,088,945,000; is that correct, sir?

Mr. GAUD. You are speaking of the total, including such matters as the——

Mr. PASSMAN. I am speaking of the total that will be handled through this subcommittee for your area, excluding military.

Mr. GAUD. $1,088,945,000.

Mr. PASSMAN. That is an increase of $105,030,000 over fiscal year 1963, I believe?

Mr. GAUD. I will accept that, sir.

UNEXPENDED BALANCE, JUNE 30, 1963

Mr. PASSMAN. What is the amount of the unliquidated funds as to the credit of your area, the estimate as of June 30?

Mr. GAUD. Yes, sir.

The figure is $1,820,956,000.

Mr. PASSMAN. That is the amount if money carried over and represents the same accounts that the $1,088,945,000 represents?

Mr. GAUD. I don't think it includes anything for the Indus. I am not sure that it includes the UNRWA funds.

Mr. PASSMAN. The same categories of funds as the $1,088,945,000?

Mr. GAUD. That is right, except for Indus and UNRWA.

U.S. PLEDGE TO PAKISTAN CONSORTIUM

Mr. PASSMAN. Under the category of "General consortiums," what was the amount of the U.S. pledge to Pakistan for fiscal 1963?

Mr.GAUD. The total U.S. pledge was $500 million for 2 years, or about $250 million for fiscal year 1963.

Mr. PASSMAN. Can you tell us the amount that you have obligated against this pledge so far?

Mr. GAUD. Yes, sir. The AID share of the fiscal year 1963 amount was $225 million. The Export-Import Bank was $25 million. AID has obligated $176,850,000 against that figure of $225 million.

Mr. PASSMAN. Could you tell us specifically the purposes for which you obligated the $176,850,000?

Mr. GAUD. Yes, sir.

There were 19 development loans included in that, sir.

Mr. PASSMAN. Development credits.

Mr. GAUD. I call them loans, you call them credits.

Mr. PASSMAN. I merely want to keep the record straight.

Mr. GAUD. There was a total of 19 loans, what I call development loans.

Mr. PASSMAN. Please put in the record a list of the 19 development credits that you just indicated and also furnish the committee with a copy of the listing.

Mr. GAUD. I will be glad to do that.

(The information supplied follows:)

PAKISTAN, UNITED STATES DEVELOPMENT LOANS AUTHORIZED, FISCAL YEAR 1963

This list shows development loans authorized for Pakistan in fiscal year 1963. Terms for repayment to the United States for all of these loans are 40 years, 10 years' grace, at three-fourths of 1 percent. One of these loans, "Sawmill and timber extraction," is a "two step" loan and is repayable to the Government of Pakistan by the East Pakistan Forest Industries Development Corp. in rupees in 10 years, 3 years' grace, at 5¾ percent.

Date authorized	Title and description	Amount authorized (millions)
Dec. 1, 1962	Sawmill and timber extraction. To expand harvesting of available timber from the Chittagong Hill tracts and to erect a sawmill at Kaptai, East Pakistan.	$2.2
Dec. 3, 1962	Malaria eradication program. To finance the foreign exchange costs for equipment and materials required for the 3d year of the on-going Government of Pakistan malaria eradication program.	3.8
Feb. 11, 1963	Chalna Anchorage. To increase the capacity of the anchorage and also to improve efficiency and safety of port facilities at Khulna, East Pakistan.	3.6
Do	General comodity imports (2d loan). To assist Pakistan in meeting its requirements for sustaining and nonproject imports necessary for maintenance and expansion of industry and agriculture.	30.0
Feb. 16, 1963	Salinity control and reclamation project (SCARP No. 2). To reclaim and properly irrigate 686,000 acres in the northern half of the Chaj Doab (the flat land between the Chenab and the Jhelum Rivers) of West Pakistan by pumping and drainage works.	10.8
Do	Airport and airway service. To improve air traffic control by procurement of communications and ground service equipment for aviation facilities in East and West Pakistan.	2.1
Feb. 22, 1963	Feasibility studies. To evaluate the feasibility of proposed development projects in the fields of water and power, agriculture, water and sewage, transport, communications and industry.	2.0
Mar. 14, 1963	Coastal Embankments, East Pakistan. To finance foreign exchange costs of materials, equipment and consulting services to construct and strengthen dikes against monsoon and tidal flooding in four coastal districts of East Pakistan	6.5
Mar. 16, 1963	Dacca jet airport. To construct an airport at Dacca suitable for commercial jet operations.	4.3
Mar. 25, 1963	Services of general consultants, East Pakistan. To provide consulting and engineering services to the East Pakistan Water and Power Development Authority in preparing a master water and power development plan. To also privide consulting and engineering services to EPWADA on specific water and power projects. To strengthen overall capacity of EPWAPDA.	4.4
Apr. 1, 1963	Operation of salinity control and reclamation project (SCARP No. 1). To provide consulting services to assist in training Pakistani operators of the nearly completed SCARP No. 1 project, and to provide spare parts required for maintenance of the newly installed equipment.	0.8
June 19, 1963	General commodities imports (3d loan). To assist Pakistan in meeting its requirements for sustaining and nonproject imports necessary for maintenance and expansion of industry and agriculture.	70.5
June 28, 1963	Services of general consultants, West Pakistan. To provide consulting and engineering services to the West Pakistan Water and Power Development Authority (WPWAPDA) in preparing a master water and power development plan. To also provide such services on specific projects, strengthening the capacity of WPWAPDA.	5.6
June 28, 1963	Public health, engineering, East Pakistan. To finance a health engineering assistance team and professional equipment. The team will be concerned mostly with water supply and to some extent with sewage disposal.	1.5

Date authorized	Title and description	Amount authorized (millions)
June 29, 1963	Machinery pool, West Pakistan. Provision of additional equipment and spare parts for the machinery pool organized, managed, and maintained by the West Pakistan Water and Power Development Authority (WPWAPDA) for use in capital development projects.	$5.0
Do	Telecommunications equipment. To improve and expand telephone and telegraph communications facilities of East and West Pakistan including provision for training facilities.	4.7
Do	Pakistan railways (5th loan). To assist Pakistan in modernization of its railroad facilities, particularly rehabilitation and replacement of rolling stock, track renewals, maintenance and service improvements and terminal facilities.	14.5
Do	Water supply and sewage disposal, Karachi. For expansion of Karachi's existing bulk water supply and sewage disposal facilities including distribution mains.	3.1
Do	Machinery pool, East Pakistan. To finance a machinery pool for the East Pakistan Water and Power Development Authority.	1.5
	Fiscal year 1963 U.S. development loans to Pakistan total	176.85

Loans made to Pakistan by the Export-Import Bank during fiscal year 1963 are as follows:

Date authorized	Title and description	Terms	Amount authorized (millions)
Sept. 21, 1962	Diesel electric locomotives for East Pakistan railways.	5¾ percent, 16 semiannual payments beginning June 1, 1964.	$11.9
Feb. 7, 1963	Pakistan Services, Ltd.: Hotel construction Dacca.	5¾ percent, 36 semiannual payments beginning 1 year after operations commence.	3.4
Feb. 14, 1963	Industrial development bank: Bank sublending to smaller private enterprises.	5¾ percent, 10 semiannual payments after 2 years' grace period.	2.5
Apr. 18, 1963	Helicopters and spare parts	5¾ percent, 5 years	2.9
	Total		20.7

Mr. PASSMAN. It would appear that approximately $49 million of the 1963 pledge has been carried over?

Mr. GAUD. That is true.

Mr. PASSMAN. Will you need any more than $176 million in fiscal year 1964, as this was the total amount that you obligated in fiscal year 1863?

Mr. GAUD. Yes, sir; we think we will.

Mr. PASSMAN. How much are you requesting for fiscal 1964?

Mr. GAUD. We are requesting for fiscal year 1964 $225 million.

Mr. PASSMAN. Did the $49 million lapse?

Mr. GAUD. No, sir; it did not.

Mr. PASSMAN. Then you would actually have for fiscal year 1964 a total of $274 million, against $176 million obligated in fiscal year 1963?

Mr. GAUD. No, sir; and I would like to explain why.

Mr. PASSMAN. You are requesting $225 million for fiscal year 1964?

Mr. GAUD. That is correct.

Mr. PASSMAN. You have a $49 million carryover, do you not, out of your $225 million for last year?

Mr. GAUD. We have this commitment to complete, yes.

Mr. PASSMAN. We know you have that commitment, but if you add the $49 million to the $225 million it will mean that you could then have $274 million for fiscal year 1964?

Mr. GAUD. May I——

Mr. PASSMAN. We first want an answer and then you may explain.

Mr. GAUD. The answer is "No."

Mr. PASSMAN. Let us find out why it is "No."

Mr. GAUD. The pledge we have made to the Pakistan consortium for fiscal year 1964 on behalf of the United States is $212.5 million; $25 million, roughly, of that will presumably come from the Export-Import Bank so that means that AID will do $187.5 million. We have the balance—$49.7 million—of the earlier commitment to complete. If you add those two together you get $237.2 million, and that is AID's total commitment to Pakistan for fiscal year 1964.

Mr. PASSMAN. Then what good are these books here? If we go to page 41 of the justifications the $225 million figure is not correct?

Mr. GAUD. The $225 million figure was put in there before the meeting of the consortium and before the end of the fiscal year 1963, so that when this figure was put in here we were not able to know either what our pledge to the consortium would be or the exact amount of any carryover.

Mr. PASSMAN. In the 9 years that I have been chairman of this subcommittee I have found these items largely a guess. You put a lot of figures in and at a subsequent date the determination is made as to what amounts will be obligated.

Mr. GAUD. The guess is on the low side, I would like to call to your attention.

Mr. PASSMAN. I think the President's request is $4.5 billion. Has the President again reduced his request in keeping with these reductions since the meeting that you had?

Mr. GAUD. Mr. Chairman, our request is for $225 million. Our needs are $237.2 million. We have not asked to increase our request.

Mr. PASSMAN. You did ask for $225 million in the justification book?

Mr. GAUD. And we need $237.2 million.

Mr. PASSMAN. That is your estimate, including the carryover of funds that you presently have; is that correct?

Mr. GAUD. That is our pledge, including the carryover.

Mr. PASSMAN. What is the total amount of your pledge?

Mr. GAUD. $212.5 million which——

Mr. PASSMAN. Let us take off the $49 million.

Mr. GAUD. Of which $25 million will be taken care of by the Export-Import Bank.

Mr. PASSMAN. How much should that leave?

Mr. GAUD. The AID part would be $187.5 million.

Mr. PASSMAN. Let us take off the $49 million carryover.

Mr. GAUD. From the $187.5 million?

Mr. PASSMAN. Surely.

Mr. GAUD. That you cannot do, sir.

Mr. PASSMAN. Do you have the funds?

Mr. GAUD. The pledge of $212.5 million is in addition to our commitment to fulfill the shortfall from last year; so the total commitment is $237.2 million.

Mr. PASSMAN. Shortfall?

Mr. GAUD. New money.

A shortfall on our pledge.

Mr. PASSMAN. What I am trying to find out is if you are not going to need the total of $225 million why the President does not again reduce his budget request, in keeping with the reductions that we are running into around the world?

Mr. GAUD. I am sorry to say I can only deal with this on a regional basis.

The requirement for Pakistan for next year is $237.2 million, which is more than the $225 million. Now, how much of that will come out of funds carried over from last year and how much out of new money is beyond my province.

Mr. PASSMAN. Your pledge is $237.2 million?

Mr. GAUD. From AID.

Mr. PASSMAN. In the event that you do have that kind of shortfall again, where would you get the funds to fund the $237.2 million? How much out of new money, how much out of the carryover?

Mr. GAUD. I don't know. This isn't my department. I have no idea. I am coming up with the requirement for Pakistan.

Mr. PASSMAN. I am speaking of Pakistan, if you please.

Mr. GAUD. So am I. The agency is given a total of money that it can use and my region will be allocated its proportionate share by the Administrator and, as far as I am concerned, I will have to meet Pakistan's requirements out of whatever is allocated to my region.

Mr. PASSMAN. Nevertheless you envision a program here of $237.2 million?

Mr. GAUD. That is right.

Mr. PASSMAN. How much of that amount will be funded out of the carryover funds?

Mr. GAUD. I don't know. I cannot answer the question.

Mr. RHODES. Mr. Chairman, will you yield at that point?

Mr. PASSMAN. Yes, I yield.

Mr. RHODES. Am I to understand the Agency has actually budgeted an underpayment of what they call a commitment? The only figure we have here that I see for this proposed program for this next fiscal year is $225 million of new money. Now the chairman is asking you as I understand it if this is what you expect to get in the form of new money, and where you will get the rest which you will need to finance your program. You should be able to answer that.

Mr. GAUD. Before you came into the room, perhaps, I pointed out this $225 million figure was our best estimate when these books were made up of what we would need.

The Pakistan consortium was held subsequent to the date these books were prepared. Likewise, the fiscal year ended subsequent to that date. We now know what our pledge to the consortium is. We now know what the carryover is. We pledged $187.5 million and in addition to that, there was a carryover in the Pakistan consortium of $49.7 million. Add those together and you get $237.2 million.

Mr. RHODES. $49 million is the shortfall that you mentioned from last year?

Mr. GAUD. That is correct.

It is my understanding, Mr. Chairman, that we reduced our appropriation request by the estimated development loan carryover, which would include this $49 million.

Mr. PASSMAN. If that is the question I asked you—we are dealing with a request and again we are dealing with a particular figure, an actual figure. You did commit $176 million to the consortium for Pakistan in fiscal year 1963?

Mr. GAUD. Yes.

Mr. PASSMAN. That gives you a recoupment of $49 million that is carried over. You carry it over, do you not, in a protected status?

Mr. GAUD. I carry over the obligation to the consortium but the amount of the President's request for an appropriation was reduced by that $49 million.

Mr. PASSMAN. You plan to commit $237.2 million in fiscal year 1964?

Mr. GAUD. If I have it.

Mr. PASSMAN. You propose to submit to the consortium $237.2 million in fiscal year 1964. Presently that is your plan; is it not?

Mr. GAUD. The new pledge plus the carryover from last year; yes.

Mr. PASSMAN. What amount does AID propose to commit for fiscal year 1964, as of this time?

Mr. GAUD. For Pakistan?

Mr. PASSMAN. Yes.

Mr. GAUD. On development loans, $237.2 million.

Mr. PASSMAN. Now, if you have a carryover of funds, unencumbered, of $49 million, that will apply against the $237.2 million?

Mr. GAUD. If we have it; yes, sir.

Mr. PASSMAN. You do have it. It has not been obligated. It is carried over.

Mr. FLINNER. This is part of the Development Loan Fund which is no-year——

Mr. PASSMAN. It carries over.

Let's subtract the $49 million from the $237.2 million.

Mr. GAUD. And you get $188.2 million.

Mr. PASSMAN. And actually what you need for fiscal year 1964 to fund your program according to present plans, if there are no more shortfalls, is $187.5 million?

Mr. GAUD. That is right, provided I have the other $49 million in the bag. The carryover is not earmarked for any particular country.

UNOBLIGATED BALANCE OF DEVELOPMENT LOAN FUNDS, FISCAL YEAR 1963

Mr. RHODES. Can we determine now what the figure worldwide will be for the carryover for the Development Loan Fund?

Mr. PASSMAN. Can you give us that information, Mr. Assistant Controller, in the development credit category?

Mr. FLINNER. I don't believe we have the final figure.

Mr. PASSMAN. Can you give us an estimate?

Mr. FLINNER. Yes, sir.

I have the unexpended——

Mr. PASSMAN. We want the amount of unencumbered funds, the unobligated, the unpledged, the uncommitted.

Mr. FLINNER. The estimate we submitted previously is $71 million.

Mr. PASSMAN. $71 million unobligated; is that correct? With $49 million of it being in this one country?

Mr. FLINNER. This estimate was probably made before this final Pakistan figure was determined.

Mr. PASSMAN. I recommend you do more research because it is paying off.

Mr. RHODES. Mr. Chairman, I understand Mr. Gaud expects to get $49 million of this $71 million to make up for his shortfall in Pakistan.

Mr. PASSMAN. It would appear that the figure may be substantially above what you gave us because it was $71 million before you found the $49 million; is that what you said, sir?

Mr. FLINNER. It was $71 million, at the time we prepared the estimate.

Mr. PASSMAN. That figure did not include the $49 million?

Mr. FLINNER. I can't say whether it included the $49 million at the time or not.

Mr. RHODES. As I understood, the 49 was not obligated. There is probably nothing included for the 49. You are probably going to take the 49 out of the 71.

Mr. PASSMAN. Can you tell us how to find out what we want to know?

Mr. FLINNER. Yes, sir. We are preparing a table——

Mr. PASSMAN. Could you go to the telephone and find out from your office the present estimate of what is being carried over in the development credit category—sometimes referred to as loans—uncommitted?

Mr. FLINNER. Sir, this is the last figure that we have, and the office is preparing a new estimate right now, but it is not available yet.

Mr. PASSMAN. Are you saying that out of the $71 million, $49 million will be the unpledged commitment to Pakistan and the other $22 million will be in the other parts of the world?

Mr. FLINNER. The $71 million will include $49 million in Pakistan.

Mr. PASSMAN. I thought you said previously they uncovered this $49 million after the earlier estimate?

Mr. FLINNER. No, sir. The $71 million was estimated some time ago and I do not know the exact amount as to how much was estimated as to be unobligated for Pakistan at that particular time.

Mr. PASSMAN. It could be that the $49 million, or a substantial part of it, might be added to the $71 million?

Mr. FLINNER. It could be.

Mr. PASSMAN. That is a fair statement; is it not?

Mr. FLINNER. Yes, sir.

(NOTE.—Additional information may be found on p. 1298.)

OTHER CONSORTIUM MEMBER COMMITMENTS TO PAKISTAN

Mr. PASSMAN. Could you tell us the status of the commitments of other countries to the consortium to Pakistan?

Mr. GAUD. The present status of their commitments?

Mr. PASSMAN. For fiscal year 1963. Did they oversubscribe or did they underfund?

Mr. GAUD. Overall, there was undersubscription.

Mr. PASSMAN. How can we find out what they did? Can you get that information?

Mr. GAUD. I haven't got it yet. It has to come from these various capitals and it is too close to June 30 for me to have it all.

Mr. PASSMAN. Some of them are on a calendar basis out there, are they not?

Mr. GAUD. This particular consortium is on the same fiscal year as ourselves.

Mr. PASSMAN. How much did these other nations agree to originally?

Mr. GAUD. For last year?

Mr. PASSMAN. Yes, sir.

Mr. GAUD. Our figure was $500 million, for a 2-year commitment out of a total consortium commitment of $945 million.

Mr. PASSMAN. Can you give us the name of the countries?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. All right, sir.

Mr. GAUD. The United States——

Mr. PASSMAN. The United States is already in.

Mr. GAUD. IBRD; that is, the World Bank and its soft-loan affiliate, IDA—International Development Association. The United Kingdom——

Mr. PASSMAN. What is the amount for the United Kingdom?

Mr. GAUD. The amont of the pledge?

Mr. PASSMAN. Yes.

Mr. GAUD. The amount of their pledge was $48 million.

Mr. PASSMAN. For 2 years?

Mr. GAUD. For 2 years.

Mr. PASSMAN. That is $24 million a year. Who is next?

Mr. GAUD. Canada.

Mr. PASSMAN. For how much?

Mr. GAUD. $23 milion in grants; $15 million in loans.

Mr. PASSMAN. That is $38 million, or $19 million per year.

Mr. GAUD. Germany, a total of $80 million.

Mr. PASSMAN. That is $40 million for 1 year.

Mr. GAUD. France, $25 million.

Mr. PASSMAN. That is $12.5 million for 1 year.

Mr. GAUD. Japan, $45 million.

Mr. PASSMAN. That is $22.5 million for 1 year.

Now we are in the other two organizations that you named, the World Bank and IDA.

TERMS OF LOANS OF OTHER PAKISTAN CONSORTIUM MEMBERS

Are these hard loans with interest the other countries are making? Tell us about them.

Mr. GAUD. I am talking now about 1962 and 1963 and not 1964.

Mr. PASSMAN. What are the terms?

Mr. GAUD. The United Kingdom, a 25-year loan, 5 to 7 years grace, 5½ to 6¾ percent interest.

Mr. PASSMAN. 5½ to 6¾ percent interest?

Mr. GAUD. That is correct.

Canada, $23 million out of the $38 million was a grant. The $15 million which was a loan was from 15 to 20 years, a 5-year grace period, 6 percent interest.

Mr. PASSMAN. Six percent interest. They are drawing interest during that grace period, are they not?

Mr. GAUD. Yes.

Germany, $80 million. $60 million of this was 20 years, 5 to 7 years grace. Three to 5½ percent interest.

Mr. PASSMAN. How much does the 3 percent apply to and how much is at 5½ percent?

Mr. GAUD. The three I think was one-third.

Mr. PASSMAN. Two-thirds of the total would be 5½ percent?

Mr. GAUD. That is correct.

Mr. PASSMAN. And they, too, collect the interest on the capital during the grace period?

Mr. GAUD. As do we.

Mr. PASSMAN. We do not collect any, unfortunately. We get three-quarters of 1 percent service charge.

What is the next country?

Mr. GAUD. France. $25 million, 12 to 15 years, 6 percent.

Mr. PASSMAN. They get a lot of interest in those countries. And where a grace period is involved, they are also collecting high rates of interest until Pakistan starts paying.

Does France permit a grace period?

Mr. GAUD. Only until delivery of the materials and supplies.

Mr. PASSMAN. What you are saying is, Pakistan does not have to start paying back until it gets the money?

Mr. GAUD. That is right.

Mr. PASSMAN. Would it not be unusual if they had to start paying before receiving the money?

Mr. GAUD. That is right.

Mr. PASSMAN. Is Japan next?

Mr. GAUD. Japan, 15 years, 5-year grace period, 6 percent interest.

Mr. PASSMAN. They, too, collect their interest during the grace period?

Mr. GAUD. That is true.

Mr. PASSMAN. Thank you, sir.

Those are the original pledges and notwithstanding the high rate of interest in most instances they are short on their pledges?

Mr. GAUD. The pledges have all not been converted into specific commitments.

Mr. PASSMAN. Could you tell us what percentage has been converted——

Mr. GAUD. I haven't that information.

Mr. PASSMAN. When will you have it?

Mr. GAUD. I talked to the World Bank about it just the other day. I hope to have it soon and I will submit it.

(The information supplied follows:)

Pakistan consortium pledges and commitments for the second and third years of Pakistan's second 5-year plan, status of commitments as of June 30, 1963

Consortium member	Amount pledged (millions of dollars or equivalent)	Amount committed	Percentage of pledge committed
United States	500	432.4	86.5
AID grants	(23)	(23.0)	100.0
AID loans	(427)	(377.3)	88.5
Export-Import loans	(50)	(32.1)	64.2
IBRD/IDA	209	90.5	43.2
IBRD	(70)	(58.0)	82.9
IDA	(139)	(32.5)	23.4
United Kingdom	48	48.0	100.0
Canada	38	35.4	93.2
Germany	80	63.3	79.1
France	25	----------	0
Japan	45	45.0	100.0
Total	945	[1] 714.6	75.6

[1] Percentage of total pledge committed, 72.2 percent.

Mr. PASSMAN. Some of them are reducing substantially, are they not, according to the information you get?

Mr. GAUD. I honestly don't know.

Mr. PASSMAN. You have no indications?

Mr. GAUD. No.

Mr. PASSMAN. It is too bad you cannot get better cooperation, Mr. Gaud. It is bound to worry you, that you are in here making all these commitments and you do not have any idea about what the others are doing.

Mr. GAUD. We were supplied with information on this up to the meeting of the consortium in May. I don't know anything about what has happened in the intervening 60 days.

Mr. PASSMAN. Could you give us an indication of the situation up to May?

Mr. GAUD. I could give it to you up to June 30, in a day or two.

Mr. PASSMAN. Do you have any idea whether they cut it in half or made it 80 percent off or something?

Mr. GAUD. Some are behind; some are pretty well up. I don't recall by country, but no member cut its pledge.

Mr. PASSMAN. Not even in May?

Mr. GAUD. No.

Mr. PASSMAN. Could you give us the totals up to May?

Mr. GAUD. No.

Mr. PASSMAN. How about December?

Mr. GAUD. I don't remember it; no, sir.

Now, would you be interested in the 1964 pledges?

Mr. PASSMAN. Let us wait until you get some more information. You have it downtown, do you not?

Mr. GAUD. I do not have the final figures downtown.

Mr. PASSMAN. I am talking about up to May.

Mr. GAUD. I have that——

Mr. PASSMAN. Then wait until you get it, if you will, and at time we shall pick this up and get into fiscal year 1964. Is that arrangement fair enough?

Mr. GAUD. Yes.

U.S. PLEDGE TO INDIAN CONSORTIUM

Mr. PASSMAN. With reference to the consortium pledge to India, what is the amount of the U.S. pledge?

Mr. GAUD. The U.S. pledge to India——

Mr. PASSMAN. For fiscal year 1964.

Mr. GAUD. India does not run on the same fiscal year that we do. For the plan year ending March 31, 1963—is that what you are interested in, Mr. Chairman?

Mr. PASSMAN. Could you give us the amount of our commitments to the consortium for India for 1963?

Mr. GAUD. As far as the consortium goes, the consortium year runs from April 1 to March 31.

Mr. PASSMAN. Do you get your money on a calendar year basis?

Mr. GAUD. On a U.S. fiscal year basis.

Mr. PASSMAN. What amount have you committed out of fiscal year 1963 funds?

Mr. GAUD. $396 million of development loans.

Mr. PASSMAN. $396 million in the development credit category. What amount did you request last year?

Mr. GAUD. Do you mean last year's congressional presentation?

Mr. PASSMAN. That is right.

Mr. GAUD. We asked for $450 million.

Mr. PASSMAN. And you committed——

Mr. GAUD. $396 million.

Mr. PASSMAN. Could you tell us at this time, or put in the record, with reference to the development credits, the commitments we have made that are firm?

Mr. GAUD. During 1963?

Mr. PASSMAN. Yes. Does $396 million represent the total?

Mr. GAUD. Yes, it does.

Mr. PASSMAN. Could you tell us whether or not you have any unobligated short fall carryover funds to the credit of India?

Mr. GAUD. AID met its portion of the U.S. consortium commitment which ended on March 31, 1963.

Mr. PASSMAN. What do you do with the difference between the amount allocated to the region and then to India and the amount of the commitment?

Mr. GAUD. There wasn't any more allocated to my region for——

Mr. PASSMAN. You committed all the money allocated to you for India?

Mr. GAUD. That is correct.

(The information supplied follows:)

INDIA, UNITED STATES DEVELOPMENT LOANS AUTHORIZED, FISCAL YEAR 1962

Terms for repayment by the Government of India for all loans authorized in fiscal year 1962 are 40 years, 10 years' grace, interest three-fourths of 1 percent. Some of these projects also have terms set in accordance with the nature of the project, repayable to the Indian Government in rupees by the ultimate recipient of the loan. Where such terms apply they are indicated below.

Date authorized	Title and description	Amount authorized (millions)
July 28, 1961	Cambay thermal powerplant. To finance dollar exchange cost of constructing a 250-megawatt thermal electric power station in the state of Gujarat and to provide associated transmission lines and substations. Terms to the ultimate recipient of the loan (State of Gujarat) are 20 years, with interest at 3½ percent.	$33.6
Nov. 30, 1961	Bandel thermal powerplant. To finance dollar exchange cost of constructing a 300-megawatt thermal electric power station with associated facilities at Bandel, West Bengal. Terms to the ultimate recipient (state of West Bengal) are 20 years and interest at 3½ percent.	38.0
Dec. 18, 1961	Premier Automobiles, Ltd. (second loan). To finance dollar exchange costs of importing automobile and truck dies to be used in the production of truck and auto sheet metal components. Terms to ultimate recipient are 15 years with interest at 5¾ percent.	3.0
Jan. 24, 1962	Patherdih coal washery. To finance dollar exchange costs of constructing a coal washery at Patherdih, state of Bihar. Terms to ultimate recipient of the loan are 15 years and interest at 3½ percent.	4.2
Mar. 23, 1962	General Commodity Imports. To finance a level of commodity imports necessary to the running of the economy and to the success of development efforts.	200.0
Do	Industrial Finance Corporation (2d loan). To finance dollar exchange to the Industrial Finance Corporation of India, a lending institution, which lends foreign exchange to industrial concerns. The IFC is lending to private entrepreneurs who plan to establish new industrial concerns, or who wish to expand existing plants. Terms to the IFC are 15 years with interest at 5 percent.	20.0
Do	Pamba-Kakki hydroelectric powerplant. To finance dollar exchange costs of establishing a 300-megawatt hydroelectric power generating station and associated facilities in Kerala, including dams on the Pamba and Kakki Rivers. Terms to the ultimate recipient of the loan are 15 years with interest at 3½ percent.	20.2
Mar. 28, 1962	Rayon tire cord factory. To finance dollar exchange costs of establishing (*a*) a plant to produce filament yarn and rayon tire cord fabric and (*b*) a related plant to produce rayon grade pulp from cotton linters. The plants are to be owned and operated by Delhi Cloth and General Mills, Ltd., and terms to this company are 12 years with interest at 5¾ percent.	9.8
May 29, 1962	Trombay thermal powerplant. To finance dollar exchange costs of purchasing and installing a 4th thermal electric generating unit of 125-megawatt capacity at Trombay. The ultimate recipients of the loan are 3 subsidiaries of Tata Industries Ltd., and terms to them are 18 years with interest at 3½ percent.	17.9
May 31, 1962	4th railway loan. To finance dollar exchange for the Government of India to expand and improve the railway system through dieselization.	43.0
June 26, 1962	Hindustan Motors. To finance dollar exchange costs of expanding the company's truck and automobile plant near Calcutta. Terms to Hindustan Motors, Ltd., are 10 years with interest at 5¾ percent.	15.8
Do	TELCO truck plant expansion. To finance dollar exchange costs for the Tata Engineering and Locomotive Co., Ltd. (TELCO) to (*a*) expand the capacity of a truck plant from 12,000 to 18,000 vehicles a year and (*b*) increase the proportion of domestically produced components for the trucks. Terms to TELCO 10 years with interest at 5¾ percent.	13.7
June 29, 1962	Delhi "C" thermal power plant. To finance dollar exchange costs of establishing a thermal electric generating station including three 60-megawatt thermal electric generating units and related equipment. Ultimate recipients of the loan are the Punjab State Electricity Board and Delhi Electric Supply Undertaking. Terms to these are 15 years, with interest at 3½ of 1 percent.	16.0
Do	Ramagundam thermal powerplant. To finance dollar exchange for the State of Andhra Pradesh to add a 60-megawatt turbine generator unit and ancillary facilities to the Ramagundam thermal powerplant. Terms to the State of Andhra Pradesh are 15 years, with interest at 3½ percent.	
Do	NAPCO Bevel Gear. NAPCO Bevel Gear of India, Ltd., is affiliated with NAPCO Industries of the United States. The loan is to finance dollar costs of moving and reconditioning machinery from the United States as well as the purchase of new equipment in order to set up a complete precision gear plant. Terms to NAPCO are 9 years, with interest at 5¾ percent.	2.3
	Fiscal year 1962 U.S. Development Loans to India total	445.9

NOTE.—One loan was made to India in fiscal year 1962 by the Export-Import Bank: Apr. 19, 1962, line of credit to finance procurement from United States $25,000,000 of equipment for communications, transport mining and industry. Terms were 15 years, 3 years grace, 5¾ percent.

India, U.S. Development Loans Authorized, Fiscal Year 1963

Terms for repayment to the United States for loans authorized in fiscal year 1963 are 40 years (10 years grace) at three-fourths of 1 percent. Some of these projects have terms set in accordance with the nature of the project, and repayable to the Indian Government in rupees, or to the U.S. Government, if foreign exchange is available. These terms are indicated below:

Date authorized	Title and description	Amount authorized (millions)
Oct. 17, 1962	West Coast Paper Mills. To provide dollar exchange for expansion of the papermill at Dandeli in Mysore. The expansion will increase the rated capacity of the plant and produce a wide variety of paper. Units will be constructed for the manufacture of rayon grade pulp, caustic soda, and chlorine. Terms to the West Coast Paper Mills: 13½ years, 3½ years, grace at 5¾ percent.	$6.3
Do.	Satpura thermal power. This loan will assist in financing the foreign exchange costs of equipment, materials, and services necessary to construct and place in operation a 300-megawatt thermal powerplant with ancillary facilities at Satpura, State of Madhya Pradesh. Loan terms call for ultimate recipient of loan funds to repay loan in no more than 20 years, including no more than a 3-year grace period. Interest is to be no less than 3½ percent.	25.1
Dec. 28, 1962	Central ropeway. This loan is to finance the erection of plant, machinery, and auxiliary equipment for extraction and transportation of sand by aerial ropeway from the Damodar River to the Jharis coalfield, Bihar State. This will ultimately increase the production of metallurgical or good coking and blending coal in India, essential for the steel industry. Loan terms call for ultimate recipient of loan funds to repay loan in no more than 15 years including no more than a 2-year grace period. Interest is to be no less than 3½ percent.	7.7
Jan. 11, 1963	2d nonproject (commodities). This loan is for the purchase in the United States of a wide range of commodities. This is a "1-step" loan with 1 set of terms.	240.0
Mar. 11, 1963	Chandrapura electrical thermal power, stage II. This project involves the construction and placing into operation of a 125- to 140-megawatt thermal unit as an extension to the station presently being constructed at Chandrapura with the assistance of DLF loan No. 125. Relending or other financial arrangements shall be in accordance with terms and conditions satisfactory to AID.	16.0
Mar. 30, 1963	Railway (loan V). To provide dollar exchange to purchase diesel locomotives for the Indian Railway System. This is a "1 step" loan with 1 set of terms.	15.9
May 6, 1963	Dugda coal washery II. To provide washed coking coal to the steel plants of Hindustan Steel Co., Ltd. Loan terms call for the Hindustan Steel Co., Ltd., to repay loan to the Government of India in no more than 15 years, including no more than a 2-year grace period. Interest is to be no less than 5¾ percent.	5.1
June 28, 1963	Tarapur nuclear power. To finance the dollar costs of a 380-megawatt atomic powerplant near Bombay. The U.S. Atomic Energy Commission will furnish an initial supply of fuel. This is a "2 step" loan with 2d step terms of 25 years, 5 years' grace, 3½ percent.	80.0
	Total, fiscal year 1963 U.S. development loans to India	396.1

Loans to India made by the Export-Import Bank during fiscal year 1963 are as follows:

Date authorized	Title and description	Terms	Amount authorized (millions)
Jan. 7, 1963	Union Carbide: Expansion of chemical facilities.	13 years; 3 years' grace; 5¾ percent.	$7.65
Mar. 28, 1963	Hindustan Almuinum: Aluminum fabricating plant.	do	5.0
Do.	Locomotive manufacturing: Diesel locomotives and parts.	15 years; 3 years' grace; 5¾ percent.	19.0
Apr. 4, 1963	Indian Rayon Corp., Ltd.: Expansion of yarn manufacturing plant; addition of cotton linter pulpmill.	8 years; 3 years' grace; 5¾ percent.	4.7
Do.	Bharat Forge Co., Ltd.: Forging and crankshaft facility.	9 years; 3 years' grace; 5¾ percent.	3.9
Total			40.25

WORLD BANK STUDY OF INDIA PLAN

Mr. PASSMAN. I shall read from Barron's, a national business and financial weekly. I am picking this out of a complete article dealing with India:

Yet the action taken there may echo across the continents. For 10 nations, which in recent years have joined under World Bank auspices to finance a huge program of grants and loans to India, came to a drastic decision. They slashed their annual contribution to the Asian subcontinent by no less than 25 percent, from some $1.2 billion to $900 million. Prompting the cutback was a secret World Bank study of New Delhi's faltering third 5-year plan, which apparently shocked the donors with its frank documentation of waste and mismanagement. The report, excerpts of which were leaked to the London Economist 10 days ago, details a dreary mixture of inflationary finance, price distortions, diversion of resources to nonproductive uses, and reckless Government controls. To date, despite the Economist's scoop, the bulky survey still bears a top-secret stamp, and the World Bank is forbidden to publish it without India's consent. The facts, however, by this time are known to U.S. diplomats and agencies, and to at least nine foreign governments. As the biggest single contributor of funds to India, the U.S. taxpayer surely has a right to be told just how his money has been used, and misused. Nor could there be a more appropriate time for such a disclosure than now, as Congress once again comes to grips with the perennial pros and cons of foreign aid.

I might also read this one sentence:

Unhappily, the billions already lavished on the land of the sacred cow have brought the free world but scant return.

Are you familiar with the reported catastrophe that has befallen the consortium arrangement?

Mr. GAUD. I have read that article, if that is what you mean.

Mr. PASSMAN. That is not what I mean. Have you gone behind the article?

Mr. GAUD. I was at the meeting in Paris.

Mr. PASSMAN. Is the World Bank document secret?

Mr. GAUD. My recollection is that it is classified by the World Bank.

Mr. PASSMAN. It is classified by the World Bank?

Mr. GAUD. It is confidential.

Mr. PASSMAN. Could this committee get hold of it, since we have to recommend the funds? Would we be off limits?

Mr. GAUD. I would be happy to find out, sir.

Mr. PASSMAN. If it were favorable I doubt if it would be off limits, or confidential, would it, Mr. Gaud?

Mr. GAUD. I prefer not to answer that question.

Mr. PASSMAN. I shall not push you for an answer.

We hope you can find out whether or not the document is too confidential for a copy to be made available to this subcommittee.

Mr. GAUD. I will look into it.

STATUS OF CONSORTIUM COMMITMENT TO INDIA

Mr. PASSMAN. The "India News" is published, is it not, by the Embassy here in Washington?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. I should think Nehru would call the Ambassador home if he should put out information that was not properly documented.

Therefore, I shall read from the "India News" for July 12:

Considerable pressure is understood to have been brought to bear on West Germany to improve her performance which has fallen steeply from $225 million in the first year of the plan to $139 million in the second and $65 million this year.

This gives me an indication that this world document may be a most interesting document.

The "Washington Post," in an article entitled "Consortium Pledges Aid on India Plan," has this to say:

The consortium for aid to India decided to cut credits of a minimum of $914,800,000 at India's disposition for the third year of its 5-year development plan. The period covered will be in 1963–64.

U.S. COMMITMENT

The United States, which will cover $375 million of the total decided on today, expressed willingness to increase this amount to $450 million if other nations will increase their contributions.

Did you read this article?

Mr. GAUD. I don't recall the article, but that is an accurate statement.

Mr. PASSMAN. That we are going to push ourselves up to $450 million?

Mr. GAUD. Depending on the amounts and the terms of additional aid coming from others.

Mr. PASSMAN. Who is making the pledge for the United States?

Mr. GAUD. At Paris I was the leader of the American delegation. The consortium is meeting again today in Washington.

Mr. PASSMAN. Did you have the authority when you were over in Paris and working on these things to jump an amount from $375 to $450 million?

Mr. GAUD. No, sir.

Mr. PASSMAN. Who made the decision?

Mr. GAUD. In this case the decision was made by Mr. Bell after consulting with the President.

Mr. PASSMAN. The President does not have much opportunity to go into a great deal of detail on matters such as this, does he?

Mr. GAUD. On this one he did.

Mr. PASSMAN. Tell us about it.

When did the President of the United States agree to increase the commitment from $375 to $450 million?

Mr. GAUD. There hasn't been any agreement to increase it beyond $375 million. It is a statement depending on what happens, we might be willing to go up as far as $450 million.

Mr. PASSMAN. If the others follow in 1964 as they did in 1963 and drop theirs, then could we too drop ours under the $375 million?

Mr. GAUD. The $375 million pledge is firm.

Mr. PASSMAN. If the others drop their pledges, ours is still firm?

Mr. GAUD. The other pledges are also firm.

Mr. PASSMAN. It seems obvious that they are not living up to their commitments, Mr. Gaud.

If they lower their contributions we are committed to go through with ours anyway?

Mr. GAUD. Mr. Passman, I think we have to distinguish between abandoning pledges and pledging more or less money each year.

Now, it is perfectly true, as that article says, that some of these countries have pledged less money to India this year than they did last. That is not true of a great many of the countries that belong to the consortium.

There is not, as far as I know, any case in which a country has failed to live up to its pledge or its commitment.

Mr. PASSMAN. How are we going to reconcile what you are saying with what these people say here:

Considerable pressure is understood to have been brought to bear on West Germany to improve her performance which has fallen steeply from $225 million in the first year of the plan to $139 million in the second year and $65 million this year?

Mr. GAUD. The Germans, like ourselves, had no commitment as to how much they would put up for the current year of the plan. This is a matter which is reviewed each year and each country decides for itself how much aid it thinks it ought to give India.

Now, it is true, as I said, that Germany has given less in each of these 3 years, but this is not a breach of a commitment or walking away from a commitment because there was no commitment as to what they would do in the future.

Mr. PASSMAN. You say here that we made a commitment for $375 million.

Mr. GAUD. And the Germans have made a commitment for $65,350,000.

Mr. PASSMAN. Where are we if the Congress does not allow you the $375 million.

Mr. GAUD. What do you mean?

Mr. PASSMAN. If the Congress does not appropriate the $375 million. You just said——

Mr. GAUD. I beg your pardon. I say it was subject to appropriation of funds.

Mr. PASSMAN. You did not say that a while ago. It is all right, though. We knew it belonged there.

Mr. GAUD. I said it when we were talking about Pakistan and I assume you would understand it applied to India and its consortium.

Mr. PASSMAN. If the other countries fail to make commitments to an extent that is sufficient to make this plan work, are we privileged to lower our $375 million substantially?

Mr. GAUD. If they don't live up to their commitments.

Mr. PASSMAN. If they do not make a commitment that is enough to accomplish the objectives of which this $375 million is a part, then what is our position?

Mr. GAUD. We made the commitment at $375 million at a time when that would bring the total pledges to India to $915 million; $375 million from us out of a total of $915 million. This is a firm commitment.

Now, there is going to be another meeting of the Indian consortium to see how much more these other people are willing to put up. We may go higher, depending on what they put up, but to date there are firm pledges of $915 million of which we have pledged $375 million.

Mr. PASSMAN. I read from the India News:

Since unlike last year the matching formula is to be applied rather loosely to the $75 million held in reserve by the United States, it is taken for granted this sum would be forthcoming anyhow.

Do they think we are that gullible?

Mr. GAUD. They are quite wrong. It is not going to be forthcoming.

Mr. PASSMAN. I yield to Mr. Andrews.

UNITED STATES POLICY ON AID TO INDIA

Mr. ANDREWS. I wanted to ask Mr. Gaud if he noticed in this morning's paper that one of the first if not the first thing Mr. Bowles said yesterday when he was greeted by quite a group at the airport upon his arrival in New Delhi was, "We are going to give you more aid." Did you see that in the paper?

Mr. GAUD. No; I didn't.

Mr. ANDREWS. I wanted to know if you knew what he meant by that. It was in this morning's Post.

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

Mr. ANDREWS. I think he said, "We are going to give you more aid," and he was greeted by cheers, of course.

Mr. GAUD. Was this with reference, perhaps, to the military situation, that we were going to continue to give them military aid?

I am only guessing. I have no idea.

Mr TALBOT. It is the policy of this Government to give further aid to India.

PAKISTAN CONSORTIUM

Mr. RHODES. The shortfall in Pakistan—it seems to me to consist of some failure to keep the pledge which we made to Pakistan. Am I wrong in that assumption?

Mr. GAUD. I wouldn't characterize it that way. Our pledge to the consortium is to come up with—in this particular instance—for AID—$225 million provided they come up with projects that meet our criteria.

Now, when the fiscal year ended, a purely arbitrary date of June 30, we had approved $170-odd million of projects.

We had in the shop $81 million worth of projects from Pakistan on which we were working and which hadn't reached the final point of decision as to whether we would go through with them. So it was more a matter of not finishing by a specific date than letting up on a commitment.

That is why I say, and all consortium members agreed, that the shortfall in translating the pledges to specific loans in that plan year carries over to the next. In other words, they don't lose our $49 million.

Mr. RHODES. Since these are no-year funds, what significance does the shortfall have? It doesn't seem to me there is any significance at all to this shortfall. You didn't obligate the money because they hadn't complied with the conditions which you had set forth. Isn't it that simple?

Mr. GAUD. They wouldn't say it was that simple. They would say we took too long to study the projects or we were being too finicky or what have you. It is a question of the mechanics, if you will, not being finished by a specific date.

Mr. RHODES. Have we deobligated any funds that were previously obligated to Pakistan or the Pakistan consortium?

Mr. GAUD. At any time?

Mr. RHODES. Yes.

Mr GAUD. Yes, we have. We had made a loan to a development bank in Pakistan and it wasn't being used. We determined that the bank didn't need that much money and we deobligated it.

Mr. RHODES. Was that in this last fiscal year?

Mr. GAUD. It was in this last fiscal year.

Mr. RHODES. How much money was involved?

Mr. GAUD. $7.5 million.

Mr. RHODES. Is this one of the reasons that General Ayub was unhappy with the United States at this time?

Mr. GAUD I don't think this plays a very large part in it, no. We have made it quite clear to Pakistan, as have other members of the consortium, that this shortfall doesn't lapse. Certainly Pakistan has been critical of us over the past year. They say our standards are too tough, our criteria are too tough, that we spend too much time analyzing these applications, that we ought to be able to put the projects through sooner.

Mr. ANDREWS. Who said that?

Mr. GAUD. The Pakistanis.

Mr. ANDREWS. They are telling us we are too slow about giving them money?

Mr. GAUD. In dealing with projects which they think are important.

Mr. ANDREWS. Well, they are all important, I assume.

Mr. GAUD. But I don't think this is a major source of irritation.

Mr. ANDREWS. We found a country the other day, Mr. Gaud, that had planned about 29 projects and it was the assumption of those who made the plans that those projects would be helpful to the people but on the 26th day of June they deobligated funds for those 29 projects and took the amount involved—approximately $5.25 million—and on the last day of the fiscal year, June 30, put that money in a New York bank to the credit of that country. We asked whether or not that money was in a savings account and drawing interest for the country. They haven't supplied that information yet.

PURCHASE OF U.S. GOLD BY AID RECIPIENT COUNTRIES

Do you know of any countries in your areas that have taken grants from us and put them in the bank or bought gold with them?

Mr. GAUD. No, sir; I do not. There is only one country in our region to whom we give cash grants and that is Jordan. We give supporting assistance to Jordan to pay her governmental expenses. There is no other country in the region to which in the past year we provided money in this way.

Mr. PASSMAN. In that connection, let us deal with recent history, a report dated December 31, 1962.

Lebanon is in your area?

Mr. GAUD. That is true.

Mr. PASSMAN. I believe that we were giving them aid in 1962—we had some unliquidated credits. They bought $12.5 million worth of our gold.

Is Saudi Arabia in your area?

Mr. GAUD. Yes.

Mr. PASSMAN. They got $12.6 million worth of gold in 1962.

Syria got $1.3 million of our gold.

Turkey got $1.1 million.

Iran purchased $16.1 million of our gold in the last quarter of 1961, shortly after receiving a special allotment of $15 million in aid.

I could have named more nations but I shall not belabor the point.

However, I will say that in the first quarter of 1963 Egypt got $400,000 in U.S. gold; Iran, $5.9 million in gold; Syria, $100,000, and Turkey, $8.5 million.

It looks as if they are dealing pretty freely with their gold purchases from the United States.

Mr. GAUD. As to the 1961 purchase of $16 million worth of gold by Iran, that gold was used for a payment to the International Monetary Fund, which Iran was required to make under a stabilization agreement.

Mr. PASSMAN. We gave them a grant of $15 million. Then they buy our gold. Why did they not buy it from somebody else?

Mr. GAUD. May I finish my statement?

Mr. PASSMAN. Yes.

Mr. GAUD. As far as the first quarter of 1963 is concerned, the chairman is quite correct. There were four gold purchases by countries in this region. Turkey bought $8.5 million worth of gold in order to make a required payment to the IMF.

Iran bought $5.9 million worth of gold in order to make a required payment to the IMF.

United Arab Republic bought $400,000.

Syria bought $100,000.

Over the last 4 years, plus the first quarter of 1963, Mr. Chairman, the figures will show that the countries in this region which received economic aid purchased from the United States $271.6 million worth of gold and $92.9 million worth of that was purchased for payments to the IMF.

Of the remaining $178.7 million, all but $11.9 million was purchased by Greece, Lebanon, Iraq, and Israel.

Now, the point of that is this: Lebanon is no longer receiving economic aid from us.

Mr. PASSMAN. Do they not get back into the old grab bag for fiscal year 1964?

Mr. GAUD. No.

Mr. PASSMAN. Is not $——— proposed in military grant aid?

Mr. GAUD. I spoke of economic aid. May I continue?

Mr. PASSMAN. There are 16 aid spigots and it all depends on what spigot you use.

Mr. GAUD. The other countries, in addition to Lebanon, that made fairly large purchases of gold are: Greece, Israel, and Iraq. As the committee knows, we are reducing our aid to both Greece and Israel and because of their improved conditions, and our interest rates to them are going up to at least 3.5 percent. With Iraq we have a very small, almost marginal program. Apart from these four countries, you will find that in the last 4 years plus, only $11.9 million worth of gold has been bought by the other countries of the region.

Mr. PASSMAN. Other than the ones you have just named?

Mr. GAUD. That is right.

Mr. PASSMAN. I never did say every aid-recipient country bought our gold. Nevertheless, those are aid-recipient countries and if we go around the world in calendar year 1962 the net amount of gold pulled out of our Treasury reserves was $832.9 million.

It then follows that these nations you named are recipient nations of foreign aid.

GOLD PURCHASES FOR IMF REQUIREMENTS

Does the IMF Charter require that they buy their gold from the United States?

Mr. GAUD. I do not know.

Mr. PASSMAN. Would you try to find out if it is a requirement that they cannot buy the gold from any country but the United States?

Mr. MILLER. It is my understanding, Mr. Chairman, that gold supply from their own reserves with reference to their——

Mr. PASSMAN. I want to find out about what I asked.

Mr. MILLER. It is not required.

It is my understanding, Mr. Chairman, that the IMF rules require that the gold be sold and purchased at the standard price, so that it may be purchased from any country that sells or produces it at the world price. With respect to 1962 on a worldwide basis, as you brought up, it is my understanding that of those countries now receiving assistance during calendar 1962——

Mr. PASSMAN. We have already put that information in the record. We spent an hour and ten minutes on it the other day. Do you remember the exchange?

Mr. MILLER. Mr. Chairman, I think you were speaking about worldwide.

Mr. PASSMAN. That is what you are speaking of now?

Mr. MILLER. Yes, sir.

Mr. PASSMAN. Thank you.

ECONOMIST'S VIEW OF U.S. AID TO BOKARO STEEL PROJECT

Off the record.

(Discussion off the record.)

Mr. PASSMAN. Before we answer a quorum call, let me read an item from Newsweek for July 8, 1963:

> Would a subsidized Government steel industry be good for India itself? It is doubtful. Writing in the Indian magazine Swarajya, the American economist Milton Friedman declares: "The Achilles heel of the Indian economy at the moment is the artificial, unrealistic exchange rate * * *. So long as the exchange rate is as far as it currently is from a realistic rate, foreign assistance will simply be poured down a bottomless well."
>
> He adds, "India has become a protected economy in which items are produced domestically at a multiple of the cost at which they could be obtained from abroad."
>
> India wants a subsidized steel mill largely because a new privately financed mill at Bokaro simply would not pay. Aid for such a steel mill would be a direct American subsidy for foreign socialism. But it does not follow that our foreign aid program would be desirable even if it abstained from such follies. The principal reform needed in our foreign economic aid program is to abolish it.

We shall take a short recess to answer a rollcall.

(Thereupon, a short recess was taken.)

Mr. PASSMAN. The committee will come to order.

U.S. PLEDGE TO INDIAN CONSORTIUM

Under present plans, would our pledge to India for fiscal 1964 be $375 million?

Mr. GAUD. The Indian consortium is meeting this afternoon, Mr. Chairman, and we should know by tomorrow exactly what our final pledge is.

Mr. PASSMAN. What if we had held these hearings 90 days ago? What would have been your answer?

Mr. GAUD. I would have gone by the figure in the book, ——— million which is our best estimate.

Mr. PASSMAN. Have you at any time used the figure of $375 million as the estimate for fiscal year 1964?

Mr. GAUD. Have I at any time?

Mr. PASSMAN. Has the Agency done so?

Mr. GAUD. No, sir; it is not a final figure. When was it, about a month ago, we had a meeting of the consortium in——

Mr. PASSMAN. What is the consortium pledge at this time?

Mr. GAUD. The U.S. pledge?

Mr. PASSMAN. Yes.

Mr. GAUD. $375 million, to which was coupled a statement that, depending on what other countries in the consortium do in addition to their present pledges——

Mr. PASSMAN. If they did less?

Mr. GAUD. They cannot do less than what they have already pledged.

Mr. PASSMAN. Why can you not tell us what your plans are, if you know what they are going to do?

OTHER MEMBER PLEDGES TO PAKISTAN CONSORTIUM

Mr. GAUD. I know what they have done to date, but prior to today's meeting the pledges of other members of the consortium total $539.8 million.

Mr. PASSMAN. Is that the information which was read into the record earlier today?

Mr. GAUD. No, sir.

Mr. PASSMAN. We want a copy of the terms, amounts, and interest rates that you read into the record.

If we may, let us have that information before giving the other, let us deal with India for fiscal year 1963.

Mr. MILLER. Mr. Chairman, did you want that for Pakistan or India, the request?

Mr. PASSMAN. Pakistan.

Mr. GAUD. Mr. Chairman, 1962 and 1963, together, is it OK?

Mr. PASSMAN. Yes.

Mr. GAUD. I am talking about terms.

(The information supplied follows:)

Consortium pledges and loan terms for second and third years (fiscal years 1962 and 1963) of Pakistan's second 5-year plan

Consortium member	Total pledge (Millions of dollars or equivalents)	Interest rate (per cent)	Grace period (Years)	Duration (Years)
United States	500			
AID grants	(23)			
AID loans	(427)	¾	10	40
Eximbank loans	(50)	5¾	1 to 2	7 to 18
International Bank for Reconstruction and Development	70	5½ to 5¾	2½ to 5	10 to 25
International Development Agency	139	¾	10	50
United Kingdom	48	[1] 5½ to 6¾	5 to 7	25
Canada	38			
Grants	(23)			
Loans	(15)	6	5	15 to 20
Germany	80			
Loans	(60)	3 to 5½	5 to 7	20
Loans	(20)	6½		10
France	25	6		[2] 12 to 15
Japan	45	6	5	15
Total	945			

[1] Interest rate is the British Treasury rate plus ¼ of 1 percent. Hence there is a fluctuating interest rate as Treasury rate fluctuates.
[2] 10 years from time of delivery of equipment or completion of project.

LOANS TO INDIA FROM COUNTRIES OTHER THAN UNITED STATES

Mr. PASSMAN. I am talking about the same thing. You gave us a copy last year as an insert for the hearings.

Mr. GAUD. That is dated June 12, 1962, but it does not cover loans made in 1962 because it goes back as far as 1958.

Mr. PASSMAN. That statement was brought up to date as of June 12, 1962. That is as far as they could take us at that time.

Mr. GAUD. The only point I was making was that maybe I misunderstood you. Those are not the terms of aid only for 1962. They go back to 1958.

Mr. PASSMAN. We want now the latest information that is available.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Let us bring it up to date, through June 30 by year, and pick it up with July 1, 1962, which is the first day of the fiscal year, and give it to us on that, too.

Mr. GAUD. Loans?

Mr. PASSMAN. Loans. With the amount, terms, and the rate of interest.

Mr. GAUD. Right.

Mr. PASSMAN. That is information we want.

(The information follows:)

Loans to India from countries other than the United States

[Dollars in millions]

Country—Free World	Loan value	Date authorized	Interest rate (percent)	Grace period (years)	Maximum maturity (years)
UNITED STATES, FISCAL YEAR 1962					
West Germany:					
Balance of payments	42.50	Sept. 14, 1961	3	7	20.
Rourkela refinancing [1]	21.30	May 4, 1962	5½	4	13.
Commodity aid	25.00	June 29, 1962	3	7	20.
United Kingdom:					
Capital goods	14.00	Nov. 10, 1961	Treasury rate +¼.	6½	25.
Do	28.00	May 23, 1962	do	7	25.
Durgapur expansion	61.60	do	do	7	25.
Japan: General loan	80.00	Aug. 18, 1961	6	5	15.
France: 3d plan loan, I	30.00	Feb. 5, 1962	5		10.
Italy: Petroleum projects [2]	45.00	Aug. 29, 1961	6		12.
Canada: 3d plan projects	[3] 10.60	Sept. 22, 1961, Jan. 19, 1962.	6	Up to 5	15 to 20.
UNITED STATES, FISCAL YEAR 1963					
West Germany:					
Maintenance support	18.75	Dec. 12, 1962	3	7	20.
Rourkela rel abilitation	14.00	do	3	7	20.
Projects	26.75	do	6¾ [4]	5	15.
Do	20.50	do	3	7	20.
Development banks	12.50	do	5½	5	20.
Rourkela expansion	100.00	Apr. 25, 1963	5¾	5	20.
Rourkela refinancing [1]	15.35	do	5¾	4	13.
United Kingdom:					
Capital goods	14.00	Sept. 4, 1962	Treasury rate +¼.	7	25.
Do	36.40	do	do	7	25.
Steel, etc	9.80	Apr. 9, 1963	do	7	25.
Japan: Textile machinery	10.00	July 20, 1962	6		10.
France:					
3d plan loan, II	20.00	Nov. 19, 1962	5		10.
Industrial Finance Corp	10.00	do	6		13.
Italy: Madras Aluminum [2]	8.80	Nov. 7, 1962	6	5	12.
Austria: Capital goods	5.00	Nov. 23, 1962	6	2	12.
Canada: 3d plan projects	[3] 14.40	Oct. 15, 1962	6	Up to 5	15 to 20.
Belgium: Capital goods	10.00	(5)	(5)		10 to 12.
Switzerland: Capital goods	11.40	July 13, 1962	Discount rate plus 3¾.		10.

[1] Original loan for Rourkela steel mill of about $157 million made in 1958 was for 3 years. This is being refinanced for longer periods as portions of the credit come due. Original credit loans and refinancings should not be added together since they represent essentially the same credit.

[2] Part of a general agreement singed Aug. 29, 1961, for extension of credits up to $96,000,000. Latter figure represents a commitment but not an actual loan.

[3] Canadian loans given in Canadian dollars, which are worth a little less than U.S. dollars. The total for the 2 years (Canada, $25,000,000 or about United States, $23,100,000) is believed correct, but the division between U.S. fiscal year 1962 and U.S. fiscal year 1963 is estimated. Canada has also given India substantial grant aid ($36,000,000 for 2 years, April 1961 to March 1963) as part of its consortium commitment.

[4] Rate charged by bank consortium which advanced the funds. It is expected that the German Government will subsidize the interest payments, reducing the rate to about 5¾ percent.

[5] Not available.

Loans to India from Soviet bloc countries

[Dollars in millions]

Country	Loan value	Date authorized	Percent interest rate	Grace period (years)	Maximum maturity (years)
DURING U.S. fiscal year, 1963					
Poland, mine equipment, etc	32.6	Nov. 16, 1962	2½		8

NOTE.—Other classified information was submitted to the committee.

U.S. PLEDGE TO INDIAN CONSORTIUM

Can you foresee any condition whereby our pledge to India for fiscal 1964 could be less than $375 million?

Mr. GAUD. No, sir.

Mr. PASSMAN. What are the possibilities you will hold it at $375 million?

Mr. GAUD. The meeting is actually going on at this minute. There is no decision yet as to what we are going to do. It is going to depend on what these other countries do.

Mr. PASSMAN. If they pledge a low figure——

Mr. GAUD. My best guess, Mr. Chairman, is that we will end up somewhere between $400 million and $425 million, but that is only a guess.

Mr. PASSMAN. That is based upon whether or not you get that much money? Would that be a fair statement to make?

Mr. GAUD. That is right.

PAKISTAN'S RELATIONS WITH COMMUNIST CHINA

Mr. PASSMAN. Ever since the United States went to India's aid when the Red Chinese invaded, Pakistan has been flirting with the Communist regime in Peiping. We discussed this briefly yesterday, but is the situation just about as it has been?

Mr. TALBOT. The situation, as far as I know, today is much the same as it was yesterday; yes, sir.

Mr. PASSMAN. I did not ask you if it had changed since yesterday. Would you say that Pakistan is "pouting."

Mr. TALBOT. I would say that Pakistan is troubled by some of our actions.

AID TERMS OF INDIAN CONSORTIUM

Mr. PASSMAN. Going back to 1964 and the consortium for India, I believe you said this would not be final until after they had concluded the present meeting?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. As you understand it presently, Austria is to be included for $3,850,000?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What are the terms?

Mr. GAUD. Austria has not declared any specific terms.

Mr. PASSMAN. The next country?

Mr. GAUD. Belgium $10 million, not to exceed 12 years.

Mr. PASSMAN. What is the rate of interest?

Mr. GAUD. Unknown.

Mr. PASSMAN. Next country?

Mr. GAUD. Canada, $30.5 million.

Mr. PASSMAN. Terms?

Mr. GAUD. $18 million is a grant and $12.5 million will be loans, 15 to 20 years, with a 5-year grace period, and the interest will be at the Canadian borrowing cost, plus a charge. They reckon it will be from 5 to 6 percent.

Mr. PASSMAN. This will be the going rate plus a bonus?

Mr. GAUD. That is right.

Mr. PASSMAN. I would assume that all of these are about the same as we discussed earlier. That they draw interest as long as the loan is outstanding, covering the grace period?

Mr. GAUD. That is right.

Mr. PASSMAN. It is usually to the lender's advantage if he can have his money invested at a high rate of interest, is it not, speaking now with reference to an individual?

Mr. GAUD. That is right.

Mr. PASSMAN. And it usually is not a disadvantage to a nation to lend its money at interest rates of that type.

What is the next country,

Mr. GAUD. France, $20 million, 12 to 15 year terms, no grace period, partly 5 percent and partly 6 percent.

Mr. PASSMAN. Next?

Mr. GAUD. Germany, $65.35 million. One-third of this is for 20 years with a 7-year grace period at 3 percent.

The other two-thirds are 20 years, 5-year grace period, 5.5 percent.

Italy, $35 million. 12-year period, no grace period, and the market rate of interest, roughly 6 percent.

Japan, $60 million, 15-year terms, 5-year grace period, 5¾-percent interest.

Mr. PASSMAN. Next?

Mr. GAUD. The Netherlands, $11 million, two-thirds at 25 years, 7-year grace, 5 to 5.5 percent interest, remaining one-third at 10 years, no grace period, 5.5 to 6 percent interest.

The United Kingdom, $84 million, 25 years, 7-year grace, a waiver of interest payments during the grace period. Therefore there is an effective interest rate of about 3¼ to 3½ percent.

There is a very substantial amount of interest subsidy. This waiver of interest in the grace period cuts their interest rate in half.

For 1964, the United Kingdom has embarked on a new policy of subsidizing the interest to the extent of about one-half.

Mr. PASSMAN. 3¼ to 3½ percent, but the future will have to determine whether or not they are subsidizing anything. Any time you are above 3 percent you are dealing in a fairly substantial rate of interest, are you not?

Mr. GAUD. As far as their past policy is concerned, it is a very sharp turn downward.

It might interest you to know that on this $84 million pledge the difference between the prior British rate and this 3¼ to 3½ rate will mean a saving of about $30 million to the government.

Mr. PASSMAN. Interest rates in England may have gone down, but in America are they not going up?

Mr. GAUD. The interest rates have not gone down much in the United Kingdom.

Mr. PASSMAN. The fact is that they will be getting 3¼ to 3½ percent interest on these new loans?

Mr. GAUD. Correct. Still not as good as we would like but better than they were doing before.

On the United States the bulk of this will be AID loans at 40 years; 10-year grace period, three-fourths of 1 percent.

Roughly 10 or 12 percent will be Export-Import Bank loans.

The Export-Import rate is 5¾ percent.

Mr. PASSMAN. Let us also talk about AID.

Mr. GAUD. I put that in the record.

Mr. PASSMAN. We want to know about these credits.

Mr. GAUD. Forty years. Ten-year grace period.

Mr. PASSMAN. With three-fourths of 1 percent annual service charge?

Mr. GAUD. How much will that be?

Mr. PASSMAN. Yes.

Mr. GAUD. What?

Mr. PASSMAN. The amount of AID credits.

Mr. GAUD. Of the $375 million?

Mr. PASSMAN. Yes.

Mr. GAUD. We have not worked that out. We assume that is a partial figure.

Mr. PASSMAN. When can we be informed?

Mr. GAUD. After today, when the Indian Consortium finishes.

Mr. PASSMAN. Can you tell us under what conditions these hard loans, at from reasonable to high interest charges, are to be carried out?

Mr. GAUD. May I finish giving the list?

Mr. PASSMAN. You have other nations?

Mr. GAUD. Other pledges?

Mr. PASSMAN. Are there other nations?

Mr. GAUD. I would like to finish with the statement of the U.S. pledge and IBRD and IDA.

I have the AID part of it and the Export-Import part of it. There will be maturities from 8 to 12, possibly 8 to 15 years. Up to 3 years' grace.

Mr. PASSMAN. How much money is involved?

Mr. GAUD. Excuse me—I said a minute ago that has not been worked out until we know the total amount of the pledge.

Mr. PASSMAN. Eight to fifteen years and the rate of interest?

Mr. GAUD. 5.75 percent, grace period from 6 months to 3 years.

Mr. PASSMAN. Is that during the time they are withdrawing it or is it after they have completely withdrawn the funds.

Mr. GAUD. The grace period?

Mr. PASSMAN. Yes.

Mr. GAUD. It is from the very beginning.

Mr. PASSMAN. So, it may require 6 months for them actually to liquidate the commitment on shipments and therefore there would not be any grace period; is that right?

Mr. GAUD. That is, in effect, what it amounts to.

Mr. PASSMAN. Next?

Mr. GAUD. IBRD, $80 million, 15 to 25 years, 3- to 5-year grace period, interest rate of 5¾ percent.

Finally, IDA, $140 million, 50-year loan, 10-year grace period, and three-fourths of 1 percent.

That is the total.

SOURCE OF IBRD FUNDS

Mr. PASSMAN. What percentage of the total are we putting into IBRD?

Mr. GAUD. IBRD money which goes into the consortium is raised by the sale of securities by the Bank. No Government money is in that.

Mr. PASSMAN. We do not buy any of these bonds at all?

Mr. GAUD. The Government does not. Individuals may buy them as an investment.

Mr. PASSMAN. We have no investment in the IBRD?

Mr. GAUD. That is my understanding, in these funds that are lent to developing countries.

Am I wrong on that?

Mr. MILLER. It is my understanding there are two kinds of capital of the IBRD. There is callable capital and then there was an initial subscription. Mr. Gaud's statement is correct that the funds at the present time that IBRD uses are raised by public subscription for securities of the World Bank.

These funds cannot be attributed to anything except the public.

INTERNATIONAL MONETARY FUND LOANS

Mr. PASSMAN. The 80 members of the International Monetary Fund are eligible for IMF loans, are they not?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Would either India or Pakistan be eligible for a loan from the International Monetary Fund?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Is that fact taken into account in figuring the amount in the consortium?

Mr. GAUD. No, sir.

The IMF arrangements are quite separate from this.

Mr. PASSMAN. Would this be in addition to whatever loans they get from the International Monetary Fund, the things we are discussing today?

Mr. GAUD. Correct. IMF loans are short-term loans to meet immediate balance-of-payments problems. It isn't development money.

U.S. INVESTMENT IN IDA

Mr. PASSMAN. What portion of IDA's capital is provided by the United States?

Mr. GAUD. The U.S. percentage in IDA is roughly 40 percent of the hard currency subscription.

Mr. PASSMAN. Whenever we are involved in anything we get very liberal with the money? We have a pretty big part in IDA if we are in at 40 percent. Should not the record also show that if we are in for 40 percent of that account, this means it is $56 million more money actually coming from the U.S. taxpayer? Have I figured that correctly?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Gentlemen, I believe you are going to give us some more information tomorrow on the consortium arrangement?

Mr. GAUD. The Indian consortium; yes, sir.

ILLEGAL CHANGES OF GOVERNMENT IN NEAR EAST AND SOUTH ASIA

Mr. PASSMAN. Mr. Gaud, how many countries in your area—and I believe you said there are 18 of them—have had a change in government through some form of illegal procedure since you appeared before us last year?

Mr. GAUD. I never totted that up, Mr. Chairman.

Mr. PASSMAN. Is it not important? Money is usually involved and then the "outs" want to get in.

Mr. TALBOT. There have been three coup d'etats——

Mr. PASSMAN. Name the countries.

Mr. TALBOT (continuing). In the area, since we were here last year. That is, all countries which happened to have relatively small aid programs as compared with other ones.

One is in Yemen, one is in Iraq, and one is in Syria.

UNITED STATES RECOGNITION OF AND AID TO NEW IRAQ GOVERNMENTS

Mr. PASSMAN. I believe the King of Iraq was killed about 3 or 4 years ago; was he not?

Mr. TALBOT. The King of Iraq was assassinated in 1958.

Mr. PASSMAN. How long did we wait to recognize the new regime in Iraq?

Mr. TALBOT. We recognized the regime which took over in Iraq from Prime Minister Qasim in a matter of about 6 or 7 days, as I recall, after a number of Arab States and other states in the world had recognized them. During the preceding period, when Prime Minister Qasim was in charge in Iraq, I might add.

We had very limited relations with the Government of Iraq.

Mr. PASSMAN. Did we suspend aid in these countries while this was going on?

Mr. TALBOT. In Iraq we reduced our aid to the support of some exchange programs and some American professors at the University of Baghdad in an effort to keep the windows open and keep in contact with some of the ordinary people in Iraq whom we felt might be people of importance to us when the regime changed.

Mr. PASSMAN. Are you not dealing with the Government now?

Mr. TALBOT. We always deal with the Government.

Mr. PASSMAN. What amount did you reduce it to and from what amount did you reduce it?

Mr. GAUD. You are speaking of the reduction, I think——

Mr. PASSMAN. I am trying to find out if you reduced the aid.

Mr. GAUD. I think Mr. Talbot was speaking of a reduction in 1958; were you not?

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. I am speaking about the recent overthrow of the Government.

Mr. TALBOT. There has been no change.

Mr. PASSMAN. They changed the Government by illegal procedure, but the aid program continued; is that correct?

Mr. TALBOT. The aid program has continued to Iraq; yes, sir.

Mr. PASSMAN. Thank you.

Mr. GAUD. It is an $800,000 program.

Mr. PASSMAN. What was the situation with regard to the other two countries?

U.S. AID TO NEW SYRIAN GOVERNMENT

Mr. TALBOT. In Syria, where a coup d'etat occurred in March 8 of this year, the new regime that has come in was recognized by us also after several days.

Mr. PASSMAN. Did we cut off aid to them?

Mr. TALBOT. No, sir. We did not cut off aid.

Mr. GAUD. In Syria we made two loans in fiscal 1962.

Mr. PASSMAN. Are you talking about these development credits, 40 years, no interest, three-quarters of 1 percent service charge, 10-year grace period?

Mr. GAUD. I am answering your question.

Mr. PASSMAN. You did not answer my question. Is that the typical type of credit?

Mr. GAUD. No.

Mr. PASSMAN. Tell us what kind——

Mr. GAUD. I was about to.

Mr. PASSMAN. There is no reason you cannot answer my questions.

Mr. GAUD. I am ready to answer.

Mr. PASSMAN. Then please do.

Mr. GAUD. In fiscal year 1962, we made two loans to Syria.

Mr. PASSMAN. You are speaking of fiscal 1963, Mr. Gaud?

Mr. GAUD. In fiscal year 1963, the total program for Syria was $200,000 for AID. I beg your pardon; fiscal 1963?

Mr. PASSMAN. Yes.

Mr. GAUD. The total program is $200,000. In fiscal year 1962, we made two loans to Syria; one of them was a 40-year loan, three-quarters of 1 percent, 10 years.

Mr. PASSMAN. In what amount?

Mr. GAUD. $14.7 million for grain storage. The other was a $9 million loan for 5 years at 5¾ percent.

Mr. PASSMAN. For what purpose?

STABILIZATION LOAN TO SYRIA

Mr. GAUD. That was a stabilization loan. Syria went to the IMF and worked out a stabilization program.

Mr. PASSMAN. Was that money for budgetary support?

Mr. GAUD. No, it was not. It was money——

Mr. PASSMAN. What was the purpose of the stabilization program?

Mr. GAUD. It was to prevent a run on their currency. The IMF came up with $6.6 million in a standby credit. We put up $9 million on the terms I stated and the Export-Import Bank put up a $5 million loan. Germany put up a $16 million loan, and Italy put up a $5 million loan.

As events turned out, Syria survived the financial crisis she was worried about. The time to spend that money expired in the first week of June 1963. They had not spent any of it so we took the $9 million back.

Mr. PASSMAN. We are right back to the old disguised grant—$14.7 million, 40 years, no interest, 10-year grace period? That is one credit and you extended two, but they only used one?

Mr. GAUD. No, sir; they were both used.

Mr. PASSMAN. I thought you said you took it back?

Mr. GAUD. Yes; but what Syria asked money for was to have it on hand in case there was a run on her currency.

Mr. PASSMAN. Did you liquidate the funds?

Mr. GAUD. Not a cent.

Mr. PASSMAN. You made a commitment?

Mr. GAUD. We entered into loan agreements with Syria saying that, pursuant to the program Syria worked out with IMF, together with these other which I listed, we would put up $9 million.

Mr. PASSMAN. An unused commitment?

Do I understand that correctly?

Mr. GAUD. It was used in the sense that they had those moneys——

Mr. PASSMAN. Did we draw a check for a credit to their account anywhere?

Mr. GAUD. We never disbursed any of this.

Mr. PASSMAN. It was a commitment but you did not disburse it? It may have served all kinds of good purposes, but you never disbursed it, and it has since been canceled?

Mr. GAUD. That is correct.

Mr. PASSMAN. How about the other, the disguised grant of $14 million?

Mr. GAUD. The loan of $14.7 million is being used for grain storage.

Mr. PASSMAN. I assume it is being spent for something, but you had one of a development-type assistance?

Mr. GAUD. Syria in 1962.

Mr. PASSMAN. How about 1963?

Mr. GAUD. The total AID program was $200,000.

Mr. PASSMAN. You know, I am going to stop arguing with you, you are too nice a fellow. You came right back and answered my question in the affirmative that you did have for Syria this disguised grant thing, and the other was just something that suited a good purpose but was never liquidated. I am recommending we appropriate all the money you want on that same basis, if you can assure the committee that you will not disburse the accounts. I am for that.

Mr. GAUD. I will make you even happier, Mr. Chairman. That loan of $9 million for stabilization was made from the Contingency Fund as a supporting assistance loan. When we took it back, it went to the U.S. Treasury and it did not come back to AID.

Mr. PASSMAN. It never did go out to start with, did it?

Mr. GAUD. If it had been a development loan and had been canceled, it would have come back to us.

Mr. PASSMAN. If you started disbursing it, could you have given it to them?

Mr. ANDREWS. Did you put that money in a bank in New York?

Mr. GAUD. It never left the Treasury.

Mr. PASSMAN. This was a paper commitment?

Mr. PASSMAN. How could it go back into the Treasury if it was never taken out?

Mr. GAUD. I was drawing a distinction. We had quite an exchange on this last year—on what happens when you cancel a loan. We brought out the fact that if it is a development loan and canceled, it comes back to AID. The chairman is fond of saying that I get it back in my own pocket, but this was not that kind of a loan.

Mr. PASSMAN. We made a commitment?

Mr. GAUD. For a specific purpose.

Mr. PASSMAN. If they had called upon the United States for the $9 million, we would have develivered it, would we not?

Mr. GAUD. That is correct.

Mr. PASSMAN. They could have had it if they had needed it, but it was never disturbed?

Mr. GAUD. It was never disbursed.

Mr. PASSMAN. Never used; so far as taking it out and putting it back? Am I right to that extent, that it was never taken out or returned?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Thank you very much.

I yield to Mr. Rhodes.

Mr. RHODES. Who was making a run on the Syrian currency at the time? What was the genesis of this?

Mr. GAUD. This was the aftermath——

Mr. TALBOT. Congressman, during the period Syria was part of the United Arab Republic there had been a whole series of currency restrictions put on Syria by the combined United Arab Republic Government.

Before that period, the currency in Syria had been freely exchangeable and when the new Government came into power in March of 1962 after Syria had separated itself from the United Arab Republic, one of the major objectives of the new Government was to make its currency convertible again. In other words, to become a strong financial factor in the regional situation rather than a weak one.

It seemed to us that this was a worthy objective and that it would help the situation generally in the area. In order to remove the restrictions on the currency without having the danger of a run at the moment that the restrictions were removed, they wanted a stabilization fund so this would function much as an assurance to a bank in our country when there is a danger of a run; but as soon as the funds are known to be available, the psychological pressure for a run may be substantially decreased.

Mr. RHODES. Actually, there was no run?

Mr. TALBOT. The run did not occur, but it did not occur, we think, to a considerable extent because the financial community in Syria and neighboring countries knew that a stabilization fund was available.

Mr. RHODES. Why was it to the interest of the United States that this currency become convertible?

Mr. TALBOT. Because that was the way in which Syria itself could strengthen its economy.

Mr. RHODES. Is this something we always do? Do we respond to the desires of nations around the world for changes in their status which certainly might be of some advantage to them, but might or might not, in the long range, be of advantage to the American people?

Mr. TALBOT. No, sir; we do not.

Mr. RHODES. I certainly can see why they would want this but I do not know why we would. I am pleased it did not cost us $9 million. I would have been displeased if it had.

Mr. TALBOT. We do not do this in all cases.

In this case we thought it was to our advantage because the newly separated, independent Syria was struggling to get onto its feet. We

thought it was to our advantage that it not collapse, that it not become part of a focal point for wider hostilities in this area.

Mr. PASSMAN. Has not that same Government been overthrown since then?

Mr. TALBOT. Yes, sir; on March 9 of this year; 1 year later.

Mr. RHODES. Do they have a convertible currency at this time?

Mr. TALBOT. They have some limitations on their currency at this time.

Mr. PASSMAN. We are not in with the same type of paper commitment at this time, are we?

Mr. TALBOT. No, sir; we are not.

SYRIAN GOLD HOLDING

Mr. PASSMAN. Is it true that Syria possesses more gold per capita than any other nation in that part of the world?

Mr. TALBOT. I have no information to indicate that that is true; no, sir.

Mr. PASSMAN. This is something we ought to know if we are making these commitments.

We were there, maybe it was in 1961, and I think the head of the Government was a general who was in jail at the time and we saw his home, where he lived. We were told by the Consul General that even with all upsets in their Government out there, nobody ever molested the gold and that they had a substantial amount of gold. They kept the gold intact to support their monetary system. Are you familiar with that situation?

Mr. GAUD. No, sir.

Mr. PASSMAN. Would you have a check made to see whether I am having one of those bad spells, or whether or not there is some justification for the statement?

Mr. GAUD. I can tell you why we basically went into this transaction.

Mr. PASSMAN. I thought you presented a good case.

Mr. GAUD. In reliance on the representation of the IMF that this was necessary.

Mr. PASSMAN. Would you check on what I have said about the large amount of gold they have, in terms of population, and ascertain if that is true, that they have generally kept their gold reserves intact even though they have had turmoil from time to time?

Mr. GAUD. We will check into that.

(The information follows:)

As the table below indicates, the Syrian Central Bank's holdings of gold, after dropping $5 million in 1959, remained constant from December 1959 to December 1962, the most recent date for which data are available. However, total gold and foreign exchange holdings fell sharply in calendar 1961 and have risen only slightly since that time. It was against this background that the Syrian Government first requested IMF, U.S., and European financial assistance in February 1962.

The central bank's foreign liabilities have risen from approximately $4 million at the end of 1960 to $27 million at the end of 1962.

Syrian Central Bank gold and foreign exchange

[In millions of dollars]

	Dec. 31, 1958	Dec. 31, 1959	Dec. 31, 1960	Dec. 31, 1961	Dec. 31, 1962
Total	46	52	50	35	43
Gold	24	19	19	19	19
Foreign exchange	22	33	31	16	24

U.S. RECOGNITION OF AND AID PROGRAM TO YEMEN

Mr. PASSMAN. I believe there is a new government in Yemen?

Mr. TALBOT. There was a coup d'etat in Yemen last September.

Mr. PASSMAN. We supported the old regime, and are we supporting the new regime?

Mr. TALBOT. We had diplomatic relations with the former regime and we had no diplomatic relations with the new regime for a period of about 10 weeks after it had taken over.

Then we established diplomatic relations with the new regime.

Mr. PASSMAN. You had an aid program going for the old regime and an aid program going for the new regime?

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. Did we deobligate any of the funds under the new regime's administration that we had obligated under the old regime's administration?

Mr. GAUD. We continued with the same projects.

Mr. PASSMAN. And in the same amounts?

Mr. GAUD. Just about. We had a short period of inactivity during the revolution.

Mr. PASSMAN. But you did not deobligate any of the funds that had been obligated?

Mr. GAUD. No, sir.

U.S. POLICY ON RECOGNIZING NEW GOVERNMENTS

Mr. PASSMAN. Will we not some day, where they are overthrowing these governments and killing heads of governments, wait more than 3 or 4 days to resume our aid? I think maybe this sets a recent record—10 weeks.

They overthrow a friendly government and we wait 3 or 4 days, and in one instance 10 weeks, and then catch up the slack and go right along with our aid program?

We did not used to follow that kind of a policy, did we?

Mr. TALBOT. Our policy with respect to recognition of a regime is to recognize it when we are satisfied that the region controls the instruments of the state, has the general acquiescence and support of the people and specifically accepts the obligations of the state as those have been accepted by the preceding government.

UNPROGRAMED FISCAL YEAR 1964 DEVELOPMENT LOAN REQUEST

Mr. PASSMAN. Would you give us a brief explanation, if possible, for this request of $20 million in development credits which is unprogramed?

Mr. GAUD. Mr. Chairman, this is to cover the possibility of development loans in a number of countries such as Cyprus, Jordan, Nepal, and Syria, where we have not any specific amounts stated in our programs.

It is sort of a lump sum to cover a number of small possible lending programs.

Mr. PASSMAN. Could this money be used in one area or distributed in all of the small ones?

Mr. GAUD. It could be.

Mr. PASSMAN. It is, in effect, a form of a contingency fund?

Mr. GAUD. It is subject to this qualification: That we are dealing with loan applications from these four countries, from several of these four countries mentioned. The odds are that we will not make loans in anything like the amount of the applications that we have received. Rather than put a few million dollars in each case, we have put this down as a lump sum to cover those countries. It is a fair characterization to say "Contingency Fund."

CLASSIFICATION OF UNPROGRAMED LOAN FIGURE

Mr. PASSMAN. I appreciate your frankness. This is a contingency fund in development credits; yet you are dealing in a very large area and you have a $20 million development credit program, some people say loans, out of a very substantial amount, and the figure is classified. Why would this information be classified?

Mr. GAUD. What?

Mr. PASSMAN. The amount.

Mr. GAUD. All of these amounts are classified on development loan figures.

Mr. PASSMAN. When it is for no particular country, but a contingency account?

Mr. GAUD. For four possible countries.

Mr. PASSMAN. You do not say what countries are involved.

Mr. GAUD. No; we do not identify the amounts for the countries.

Mr. PASSMAN. You have $20 million that could be spent anywhere in your area and this is possibly 2 percent of the total amount you are requesting?

Mr. GAUD. Roughly.

Mr. PASSMAN. Yet you have the information classified?

Mr. GAUD. I agree. I see no reason for the classification.

Mr. ANDREWS. Mr. Chairman, the thought occurs to me that maybe you do not want those countries to know you have this. They might high pressure you into going along.

Mr. GAUD. You are dead right so far as the countries go where there is a figure shown. There are no countries named against the $20 million. He has a point.

Mr. PASSMAN. We know that the $20 million is only a very small part of $1 billion, and we could sit here the rest of the afternoon and, with all of us cooperating, could not give one valid reason why this figure should be classified.

Mr. ANDREWS. I am like you. I do not think any of this material you have classified should be so classified We have been told that the reason for classifying these amounts is to keep down jealousy.

Mr. PASSMAN. Here you are dealing with an area of 18 nations and there is $1 billion requested. There is a $20 million contingency fund in the total, and that is only about 2 percent of the total.

UNPROGRAMED LOAN REQUEST BY OTHER REGIONS

Mr. Controller, do we, by any chance, have this kind of situation repeated in any other areas of the overall program?

Mr. FLINNER. An unprogramed amount of development loans?

Mr. PASSMAN. Development credits. This is a new wrinkle on the old buck's horn, that we are running into contingency provisions within this account when you already have a contingency fund.

Mr. GAUD. I followed the same practice last year in picking a half dozen smaller loan programs.

Mr. PASSMAN. It is a contingency account and the information is classified. We want to find out if you have this kind of arrangement for other areas of the world.

Mr. MILLER. The Alliance for Progress has an amount for smaller countries——

Mr. PASSMAN. Can you tell me how much you have in that contingency account for smaller countries?

Mr. MILLER. In which development lending is contemplated and they have a loan section of $32 to $40 million which as I understand is to be available for the lending that is contemplated in the smaller countries.

Mr. PASSMAN. We are in every Latin American country with the exception of Cuba, and we are indirectly in Cuba, I believe. Do you agree that this is a contingency fund within a development credit account?

Mr. MILLER. You could call it an undistributed loan.

Mr. PASSMAN. You could call it ice cream cones, but that would not make it so. It is, as Mr. Gaud said, characterized as a contingency fund.

Mr. MILLER. In the Alliance for Progress——

Mr. PASSMAN. Thank you very much, Mr. Miller.

Mr. Controller, have you found any others?

Mr. FLINNER. No, sir. The only one I found is for Latin America.

PRIOR YEAR REQUESTS FOR UNPROGRAMED LOANS

Mr. PASSMAN. Mr. Gaud, I am looking at your 1962 and 1963 justifications. Tell us where we are going to find that figure that you had in last year that was classified.

Mr. GAUD. If you will look at that column, I think you will find some asterisks and if you add the figures that are given there they will come up to $810 million, whereas the total is shown as $850 million and that intervening $40 million is represented by the asterisks. The only change between this year and last year is that we have added the line, "unprogramed, $20 million."

Mr. PASSMAN. You could not have read into this last year, could you, that it was a contingency fund? I certainly agree with you that there is no justification that we can see at this time for classifying this information.

Gentlemen, as it is, we walk out of this room and either carry it up here, mentally, or there is no way to get the facts over to the Members of the House. Do you agree, Mr. Miller?

Mr. MILLER. I certainly do.

Mr. PASSMAN. There is so much a person can carry in his head, and that is all.

FISCAL YEAR 1963 DEVELOPMENT LOAN REQUEST, PROGRAM, AND CARRYOVER

Mr. FORD. Would the chairman yield there?

Mr. PASSMAN. Yes.

Mr. FORD. I am looking at the development loan figures which are unclassified at the top, which show that the minimum you propose, assuming the total is made available, would be $890 million and the maximum, $950 million.

Mr. GAUD. That is right.

Mr. FORD. Does that include this item to which the chairman referred?

Mr. GAUD. The $20 million?

Mr. FORD. Yes.

Mr. GAUD. Yes. Doesn't it?

Mr. WHITE. The $890 million does.

Mr. GAUD. The $950 million would also.

Mr. WHITE. Also, yes.

Mr. FORD. How much did you actually request last year at the time you were appearing and justifying? The minimum and the maximum.

Mr. GAUD. For development loans, $850 to $950 million.

Mr. FORD. What did you finally get for execution?

Mr. GAUD. You mean what did we finally obligate?

Mr. FORD. What was made available in the apportionment process?

Mr. GAUD. That varied during the course of the year.

Mr. FORD. You must have had a figure that was available in total during fiscal year 1963.

Mr. GAUD. To work against?

Mr. FORD. Yes.

Mr. GAUD. It was approximately $770 million.

Mr. FORD. That was what you were apportioned to operate against?

Mr. GAUD. Yes; but this figure did not always remain constant because there are requirements in the different regions as requirements varied throughout the course of the year, and as projects came through or fell through the regions might from time to time have their ceilings revised.

Mr. MILLER. Mr. Ford, if I might explain this, on page 2 if you will look it over, under "development loans, estimate, 1963," in the second series of columns there, you will see $770 million at the bottom and then a program adjustment of minus $65 million and the estimates for 1963 above that. This is a technique that was used when they allocated the funds in view of the fact that differing priorities would occur.

Mr. FORD. What did you finally obligate against this program in fiscal year 1963?

Mr. GAUD. $779 million.

Mr. FORD. What major changes took place between what you sought to justify and what you actually executed?

Mr. GAUD. Two principal changes, Mr. Ford. On was that at the time we were here last year the Indian consortium had not met and we were reckoning on a total U.S. pledge of $500 million. Our pledge turned out to be $435 million rather than $500 million so that was a short fall of $65 million. The other one was in the case of Pakistan which we discussed before you came in. Our pledge to Pakistan ended up with about $49 million uncommitted. We were still working on projects, but we had not decided to go through with them. That is about $110 million. Those are the two big ones.

Mr. FORD. 110 in the case of Pakistan.

Mr. GAUD. No; $50 million in the case of Pakistan and $65 million, or $115 million.

Mr. FORD. In other words, I could take the 779 figure which you executed and the 110 figure which you say fell through and that would be $880 million.

Mr. GAUD. This is very rough, obviously.

Mr. FORD. Wait a minute. Let me ask the questions.

Mr. GAUD. Go ahead.

Mr. FORD. So you actually ended up with more than your minimum figure in every country except India and Pakistan; is that correct?

Mr. GAUD. No. If you will look at the individual countries, some were higher and some lower than we estimated in the congressional presentation.

Mr. FORD. But the dollar availability for other than these two countries was up to the minimum of what you requested?

Mr. GAUD. Just about.

Mr. FORD. And any changes in the dollar amounts were an administrative decision. That was not predicated on the lack of dollars?

Mr. GAUD. That is correct.

INVESTMENT GUARANTEE AGREEMENTS

Mr. PASSMAN. Do we have an investment guarantee agreement with each country which is scheduled to receive economic assistance in fiscal 1964, Mr. Gaud?

Mr. GAUD. Not with all of them, Mr. Chairman.

Mr. PASSMAN. With which countries do you have such agreements?

Mr. GAUD. We have guarantee agreements outstanding with India, Pakistan, Greece, Turkey, Iran, Afghanistan, Nepal, Jordan, and Israel.

Mr. PASSMAN. Please name the ones with which we do not have a guarantee agreement.

Mr. GAUD. We do not have one with Ceylon, we do not have one with Cyprus, we do not have one with Iraq.

Mr. PASSMAN. Do you have one with Israel?

Mr. GAUD. Yes; we have one with Israel.

With Lebanon, we do not have one; Nepal, we do; Pakistan, we do; Syria we do not; Turkey, we do; United Arab Republic, we do.

Mr. TALBOT. It has just been signed.

Mr. GAUD. I did not name the United Arab Republic a while ago. We do have one there. We do not have one with Yemen.

I am advised we also have one with Cyprus. That gives us a total of 11.

Mr. PASSMAN. Out of the 18, you have 7 with which we do not have an agreement.

Mr. GAUD. OK.

Mr. PASSMAN. Could you tell us why this is so?

Mr. GAUD. Why?

Mr. PASSMAN. Yes.

Mr. GAUD. I cannot tell you out of hand; no. I cannot, sir, for the seven countries—Ceylon, Kuwait, Syria, Iraq, Yemen, Saudi Arabia, and Lebanon.

Mr. PASSMAN. In working out these agreements do you encounter much difficulty?

Mr. GAUD. I do not know whether there have been any negotiations with these particular countries. I am not posted on that.

Mr. PASSMAN. I am speaking of the ones with which we have had negotiations and have agreements in effect.

Mr. GAUD. As far as my experience has been, we have not had particular difficulty with any of these countries that I have named with which we have agreements.

Mr. PASSMAN. Would you give some thought to it being one of the conditions upon which they would get aid, to enter into one of these agreements? It is merely guaranteeing American business that invests there against expropriation or losses from the manipulation of currency, isn't that correct?

Mr. GAUD. Yes.

Mr. PASSMAN. I think that if a country would not give you the assurance that there would be no dishonest manipulation of currency to break the American businessman and that they will not expropriate unfairly, there is scant reason for giving them aid.

Mr. MILLER. Mr. Chairman, if I might say a word on this. In the last year there has been great progress in signing of investment guarantee agreements.

Mr. PASSMAN. We know that. My suggestion was simply, would you not give some thought to whether or not it would be feasible and advisable to make this type of agreement a part of the contract?

Mr. MILLER. This is what I was suggesting.

Mr. PASSMAN. For them to receive aid.

Mr. MILLER. Because of the rapid progress we have made, 13 signed out of the 52 within the last year, or over 13——

Mr. PASSMAN. You have one-third in Mr. Gaud's area that are not in under the agreement. Six of them are getting aid.

Mr. MILLER. We believe we are making such rapid progress——

NUMBER OF INVESTMENT GUARANTEE AGREEMENTS WORLDWIDE

Mr. PASSMAN. With how many nations, worldwide, do we have such agreements?

Mr. MILLER. Over 52.

Mr. PASSMAN. Does that mean 53 or 98?

Mr. MILLER. We have been signing them so fast——

Mr. PASSMAN. How many did you have the last time you counted them?

Mr. MILLER. The last time I counted them it was 52.

Mr. PASSMAN. That is exactly 50 percent of 104 aid-recipient nations.

Mr. MILLER. Many of those nations included within the 104 are developed nations.

Mr. PASSMAN. If you go into your favorite haberdashery establishment and make a purchase, you count your change when it is handed to you, do you not?

Mr. MILLER. Sir, on the aid program?

Mr. PASSMAN. If you go in and make a purchase in a restaurant say, of a Coca-Cola, you give them $1 bill. Do you usually count your change?

Mr. MILLER. Yes.

Mr. PASSMAN. It is a habit that helps keep some people honest.

Mr. MILLER. I am sorry——

Mr. PASSMAN. Do we have any of these investment guarantee contracts through which we guarantee their nation and they guarantee us?

Mr. GAUD. Not that I know of.

Mr. PASSMAN. I do not know why, if we set forth the purpose of helping them, we should not pledge to each other that we agree we will never take undue advantage of one another.

I think we have been too quick on the draw in the past. We are too anxious to give the money away and we do not get reasonable safeguards.

LOANS TO DEVELOPMENT BANKS

What is the total amount of money that you have committed to date to the intermediate credit institutions in your area?

Mr. GAUD. Going back from the beginning you might say, including the DLF?

Mr. PASSMAN. Yes.

Mr. GAUD. The total figure I believe, sir, is $153.8 million.

Mr. PASSMAN. To intermediate credit institutions. How many in number?

Mr. GAUD. There are——

Mr. PASSMAN. Just put the list in the record. Will you do that?

Mr. GAUD. Yes. There are loans to development banks in 10 countries.

Mr. PASSMAN. Put the pertinent information in the record, if you will, sir.

Mr. GAUD. We will do that.

(The information requested follows:)

Loans to intermediate credit institutions, fiscal year 1959 to July 1963, Near East and south Asia

Country	Borrower	Signed	Amount (millions)
Egypt	Industrial Development Bank	Aug. 31, 1960	$6.0
Greece	National Bank	Nov. 5, 1962	5.0
	Economic Development Finance Organization	do	5.0
Iran	Industrial & Mining Development Bank	Nov. 19, 1959	5.2
Israel	Industrial Development Bank	May 12, 1959	10.0
	do	Sept. 7, 1961	10.0
Lebanon	Agriculture, Industrial & Finance Development Bank.	May 4, 1960	5.0
Syria	Industrial Development Bank	Aug. 15, 1960	.5
Turkey	do	Sept. 12, 1958	10.0
India	Industrial Finance Corp	Dec. 7, 1960	10.0
	ICICI	Mar. 23, 1961	5.0
	National Small Industry Corp	Apr. 10, 1961	10.0
	Industrial Finance Corp	June 28, 1962	20.0
Nepal	Nepal Industrial Development Corp	June 20, 1961	.4
Pakistan	PICIC I	Dec. 4, 1958	4.2
	PICIC II	Jan. 15, 1960	40.0
	PICIC III	May 12, 1961	7.5
Total at July 15, 1963			153.8

SECTION 202(b) COMMITMENTS

Mr. PASSMAN. Have you made any section 202(b) commitments to any country in your area?

Mr. GAUD. Not since 1962.

Mr. PASSMAN. How many did you make in 1962?

Mr. GAUD. One.

Mr. PASSMAN. Was that one to Pakistan?

Mr. GAUD. Pakistan.

Mr. PASSMAN. Do you have any plans for 202(b) commitments in subsequent years?

Mr. GAUD. We have none in process.

Mr. PASSMAN. Thank you.

TOTAL CUMULATIVE AID TO INDIA

Page 21 of the justifications indicates U.S. capital assistance to India during fiscal year 1964 is estimated at approximately ———; is that correct?

Mr. GAUD. Maybe I have the wrong book. I figure ———.

Mr. PASSMAN. It is classified. It is on page 21.

Mr. GAUD. You are quite right, sir, that is AID and Export-Import, and subject, of course, to what happens.

Mr. PASSMAN. I think that on June 30, 1962, our aid to India amounted to $4,265,500,000. Could you add to that——

Mr. GAUD. The fiscal year 1963 aid?

Mr. PASSMAN. Yes; to get a total.

Mr. GAUD. 4 billion——

Mr. PASSMAN. I am speaking now only for fiscal year 1963.

Mr. GAUD. I beg your pardon.

Mr. PASSMAN. I want to add that sum to the figures you gave us last year.

Mr. GAUD. You want the military also?

Mr. PASSMAN. Everything; total.

Mr. GAUD. $828.7 million.

Mr. PASSMAN. Sir?

Mr. GAUD. You heard me right, sir.

Mr. PASSMAN. Get the ammonia, please.

Mr. FORD. What was that figure again, for what purposes?

Mr. PASSMAN. From all spigots.

Mr. GAUD. All purposes.

Mr. FORD. In India?

Mr. PASSMAN. That includes Public Law 480, military assistance, Export-Import Bank, all categories of aid.

That means our total aid to India has been $5,094,100,000?

Mr. GAUD. My figure here is $4,695,800,000.

Mr. PASSMAN. The $828.7 million is correct, is it not?

Mr. GAUD. My 1962 figure was——

Mr. PASSMAN. I am asking you to take your own statement and have a look at it, at your pleasure, to see whether this amount is correct. You recognize this as the Agency statement, I believe?

Mr. GAUD. All right, sir.

Mr. PASSMAN. You do that, if you will.

COMPARISON OF AID LEVELS TO VARIOUS COUNTRIES

Mr. RHODES. Is that the highest amount of aid which the United States gives or has given to any country in the last fiscal year? Perhaps Mr. Miller should answer that.

Mr. GAUD. It sounds safe.

Mr. MILLER. For fiscal year 1963, yes; that is the highest amount.

Mr. RHODES. Have we ever given any more aid than that to any country since the beginning of the program, including the Marshall plan, in any one year?

Mr. MILLER. I would have to check it.

Mr. RHODES. Furnish that for the record, if you will.

Mr. MILLER. I do recall that in the 4-year period 1954 to 1958, more was given to Korea than was given 1958 to 1962 to India. I do not have any figures on that. I will check it.

(The information supplied follows:)

Countries receiving more than $500,000,000 of foreign assistance (military and economic) in any fiscal year, fiscal years 1949–62

[In millions of dollars]

Country	Year	Amount	Country	Year	Amount
India	1960	758		1950	733
	1961	668	Italy	1949	684
	1962	775		1953	521
France	1949	1,313	Japan	1949	502
	1950	716	Korea	1956	610
	1951	781		1957	609
	1952	748		1958	622
	1953	1,507	Netherlands	1949	505
	1954	770	United Kingdom	1949	1,614
	1955	502		1950	958
Indochina	1954	1,112		1953	564
Germany (Federal Republic)	1949	1,257			

Source: Agency for International Development.

Mr. RHODES. There is a difference, though. The Korean people have decided they like us and the Indian people are still trying to make up their minds.

Mr. FORD. How does that $828 million compare with fiscal year 1962?

Mr. GAUD. Fiscal year 1962 with $775 million. There is one difference. In 1963 there was military equipment amounting to $60 million; also the Export-Import Bank loans were higher and the Public Law 480 was substantially higher; 1962 was a low year for Public Law 480; 1962 for Public Law 480 was lower than either 1961 or 1960.

COMPARATIVE AID LEVELS TO COUNTRIES IN NEAR EAST AND SOUTH ASIA

Mr. FORD. Is there any reason we cannot have in the record comparative chart material showing for the last 10 years aid to India by category?

Mr. GAUD. No reason in the world. It is right here on this tabulation.

Mr. PASSMAN. Insert the tabulation in the record, if you will; will you do that, sir?

Mr. GAUD. Yes, indeed.

Mr. PASSMAN. On page 47, it is estimated that you will have a program for Turkey of $———; is that correct?

Mr. GAUD. This is the 1964 program?

Mr. PASSMAN. Yes.

Mr. GAUD. And your figure was——

Mr. PASSMAN. $———.

Mr. GAUD. Right.

Mr. PASSMAN. Page 41 of the justifications would indicate that the fiscal year 1964 estimate for Pakistan is $———; is that correct?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Would you supply for the record the same type of information on Pakistan that was requested on India?

Mr. GAUD. For the 10-year period?

Mr. PASSMAN. Yes.

Mr. GAUD. Yes; we will.

Mr. PASSMAN. Will you also submit to the committee a table showing assistance extended to other countries in your area for the same periods?

Mr. GAUD. Each country?

Mr. PASSMAN. Yes.

Mr. GAUD. For 10 years?

Mr. PASSMAN. Yes.

Mr. GAUD. Yes, sir.

(The information follows:)

Near East and South Asia, Total

U.S. foreign assistance—Obligations and loan authorizations

[In millions of dollars]

Program	U.S. fiscal years													Total
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Economic (total)	670.3	1,544.9	443.1	441.1	670.6	651.9	895.2	1,000.5	1,141.3	1,598.7	1,617.9	2,027.9	1,850.9	14,554.1
Grants	414.2	1,108.7	426.7	422.8	433.4	475.9	462.3	448.8	519.2	773.7	738.4	735.2	601.7	7,561.0
Loans	256.1	436.2	16.4	18.3	237.2	176.0	432.9	551.7	622.1	825.0	879.5	1,292.7	1,249.2	6,993.1
Agency for International Development (total)		1,138.5	374.4	392.7	470.4	448.4	427.6	546.9	633.3	748.7	734.3	1,123.0	948.6	7,986.8
Grants		1,053.5	358.0	392.7	315.9	319.9	261.8	318.5	369.3	396.1	356.8	324.9	169.1	4,636.5
Loans		85.0	16.4		154.5	128.5	165.8	228.4	264.0	352.6	377.5	798.1	779.5	3,350.3
Technical cooperation/development grants		20.0	15.8	79.0	43.1	48.7	34.3	45.6	49.3	57.4	56.3	62.5	58.3	570.3
Development loans								208.4	264.0	352.6	377.5	756.2	779.5	2,738.2
Other AID		1,118.4	358.6	313.7	427.3	399.7	393.3	293.0	319.9	338.8	300.5	304.3	110.8	4,678.3
Food for peace (Public Law 480) (total)		25.9	1.3	28.9	141.7	203.5	467.5	274.3	460.8	823.3	721.1	819.2	800.5	4,767.9
Title I, planned for grants and loans					59.6	72.0	402.2	184.2	384.8	781.7	560.5	658.8	626.7	3,730.4
104c, grants for common defense					27.9	24.5	76.2	20.3		11.5	3.9	15.0	5.0	184.3
104d, grants and loans from triangular transactions							2.5	4.0	1.8	18.9				27.2
104e, grants for economic development					7.5		59.0	15.9	72.1	306.6	217.1	232.3	249.0	1,159.5
104e, loans to private industry								39.9	98.5	70.4	51.0	67.3	45.7	372.8
104g, loans to governments					24.2	47.5	264.5	104.1	212.4	374.3	288.5	344.2	307.0	1,986.6
(Total sales agreements)	(.....)	(.....)	(.....)	(.....)	(81.8)	(97.1)	(522.7)	(232.4)	(459.9)	(892.7)	(650.3)	(767.3)	(704.4)	(4,411.4)
Title II, emergency relief					9.7	46.8	11.5	40.7	25.2	7.3	95.9	92.1	76.7	405.7
Title III, voluntary relief agencies		25.9	1.3	28.9	72.4	84.7	53.8	49.4	50.8	34.3	64.7	68.3	95.5	630.2
Title IV, dollar credit sales													1.6	1.6
Export-Import Bank long-term loans	64.0	161.0		18.3	58.5		.1	179.3	47.2	26.7	162.5	83.1	97.0	897.6
Other U.S. economic programs	606.3	219.5	67.4	1.2								2.6	4.8	901.8

Military (total)	267.2	576.0	300.4	359.9	277.8	370.4	365.7	637.2	506.9	391.6	245.9	264.9	441.6	5,585.2
Grants	267.2	576.0	300.4	359.9	277.8	370.4	365.7	600.9	497.1	394.1	244.8	264.7	441.6	5,537.5
Loans	-------	-------	-------	-------	-------	-------	-------	36.3	9.8	−2.5	1.1	.2	-------	47.6
Military assistance program (MAP) (charge to appropriations)	-------	313.5	300.4	359.9	256.5	370.4	365.7	628.9	493.7	358.4	245.9	264.9	441.6	4,979.5
(Additional grants from excess stocks)	(------)	54.8)	(9.5)	(16.1)	(8.5)	(10.1)	(9.6)	(18.0)	(31.2)	(39.2)	(36.0)	(28.5)	(42.7)	(344.2)
Other military assistance	267.2	262.5	-------	-------	21.3	-------	-------	8.3	13.2	33.2	-------	-------	-------	-------
Total, economic and military	937.5	2,120.9	743.5	801.0	948.4	1,022.3	1,260.9	1,637.7	1,648.2	1,990.3	1,863.8	2,292.8	2,292.5	20,139.3
Foreign Assistance Act program	-------	1,452.0	674.8	752.6	726.9	818.8	793.3	1,175.8	1,127.0	1,107.1	980.2	1,387.9	1,390.2	12,966.3
Other assistance	937.5	668.9	68.7	48.4	221.5	203.5	467.6	461.9	521.2	883.2	883.6	904.9	902.3	7,173.0

U.S. foreign assistance—Obligations and loan authorizations—Continued

AFGHANISTAN

[In millions of dollars]

Program	U.S. fiscal years													
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	Total
Economic (total)		21.4	2.2	20.8	1.9	18.2	20.8	14.1	27.5	16.9	34.2	38.6	18.1	234.7
Grants		.4	.8	2.5	1.9	13.2	15.0	14.1	27.5	16.2	34.2	39.3	15.5	180.6
Loans		21.0	1.4	18.3		5.0	5.8			.7		−.7	2.6	54.1
Agency for International Development (total)		.3	2.2	2.5	1.9	18.2	14.2	7.9	19.9	16.8	12.7	37.7	17.7	152.0
Grants		.3	.8	2.5	1.9	13.2	8.4	7.9	19.9	16.1	12.7	38.4	15.1	137.2
Loans			1.4			5.0	5.8			.7		−.7	2.6	14.8
Technical cooperation/development grants		.3	.7	1.3	1.9	3.0	2.9	2.8	4.1	4.8	9.0	7.3	15.1	53.1
Development loans										.7		−.7	2.6	2.6
Other AID			1.5	1.1	(2)	15.3	11.4	5.1	15.8	11.3	3.7	31.1		96.3
Food for peace (Public Law 481) (total)						(2)	6.6	6.2	7.6	.1	21.5	.8	.2	43.0
Title 1, planned for grants and loans														
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development														
104e, loans to private industry														
104g, loans to governments														
(Total sales agreements)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)
Title II, emergency relief							6.5	6.1	7.5		20.9	.7		41.7
Title III, voluntary relief agencies						(2)	.1	.1	.1	.1	.6	.1	.2	1.3
Title IV, dollar credit sales														
Export-Import Bank long-term loans		21.0		18.3										39.3
Other U.S. economic programs		.1										.1	.2	.4
Military (total)								(2)	.2	.2	.5	.6	.1	2.8
Grants								(2)	.2	.2	.5	.6	.1	2.8

Loans														
Military assistance program (MAP) (charge to appropriation)								(2)	.2	.2	.5	.6	.1	2.8
(Additional grants from excess stocks)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)
Other military assistance														
Total, economic and military		21.4	2.2	20.8	1.9	18.2	20.8	14.1	27.7	17.1	34.7	39.2	18.2	237.5
Foreign Assistance Act program		.3	2.2	2.5	1.9	18.2	14.2	7.9	20.1	17.0	13.2	38.3	17.8	154.8
Other assistance		21.1		18.3		(2)	6.6	6.2	7.6	.1	21.5	.9	.4	82.7
CEYLON														
Economic (total)		(2)	(2)		0.1	5.1	11.4	20.6	17.6	9.4	9.6	5.7	9.2	88.6
Grants		(2)	(2)		.1	5.1	8.9	15.1	8.1	4.9	8.2	5.7	6.6	62.7
Loans							2.5	5.4	9.5	4.5	1.4		2.6	25.9
Agency for International Development (total)		(2)	(2)			5.0	6.1	4.8	1.9	6.2	.1	1.3	.4	25.7
Grants		(2)	(2)			5.0	3.6	1.5	1.9	1.7	1.5	1.3	.4	16.9
Loans							2.5	3.2		4.5	−1.4			8.8
Technical Cooperation/Development grants		(2)	(2)			1.0	1.1	1.5	1.9	1.8	1.6	1.3	.4	10.5
Development loans								3.2		4.5	−1.4			6.3
Other AID		(2)	(2)			4.0	5.0	(2)	(2)	−.1	−.1			8.9
Food for Peace (Public Law 480) (total)					.1	.1	5.3	15.8	15.7	3.2	9.5	4.2	3.6	51.6
Title I, planned for grants and loans								3.1	11.7		4.1		3.5	22.4
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development								.9	2.2		1.3		.9	5.3
104e, loans to private industry									3.5		1.3		.7	5.5
104g, loans to governments								2.2	6.0		1.5		1.9	11.6
(Total sales agreements)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(5.2)	(14.7)	(.....)	(5.1)	(.....)	(4.7)	(29.7)
Title II, Emergency relief								9.3						9.3
Title III, Voluntary relief agencies					.1	.1	5.3	3.4	4.0	3.2	5.4	4.2	5.1	30.8
Title IV, Dollar credit sales														
Export-Import Bank long-term loans														
Other U.S. economic programs												.2	.2	.2

See footnotes at end of table.

U.S. foreign assistance—Obligations and loan authorizations—Continued

CYPRUS [a]

[In millions of dollars]

Program	U.S. fiscal years													
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Economic (total)											8.2	8.7	4.9	21.8
Grants											8.2	8.7	.9	17.8
Loans													4.0	4.0
Agency for International Development (total)											(2)	.7	3.0	3.7
Grants											(2)	.7	.7	1.4
Loans													2.3	2.3
Technical cooperation/development grants											(2)	.7	.7	1.4
Development loans													2.3	2.3
Other AID														
Food for peace (Public Law 480) (total)											8.2	7.9	1.8	17.9
Title I, planned for grants and loans													1.7	1.7
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development														
104e, loans to private industry													.6	.6
104g, loans to governments													1.1	1.1
(Total sales agreements)											(.....)	(.....)	(2.2)	(2.2)
Title II, emergency relief											8.2	7.9		16.1
Title III, voluntary relief agencies												(2)	.1	.1
Title IV, dollar credit sales														
Export-Import Bank long-term loans														
Other U.S. economic programs												.1	.1	.2

See footnotes at end of table.

GREECE

Economic (total)	525.2	733.4	81.2	22.7	58.4	53.0	58.3	61.1	32.3	67.9	43.4	47.9	50.0	1,834.6
Grants	413.9	733.4	81.2	22.7	44.2	33.7	30.4	36.3	32.3	32.8	31.5	29.2	13.9	1,535.5
Loans	111.3	-------	-------	-------	14.2	19.3	27.9	24.8	-------	35.1	11.9	18.7	36.1	299.1
Agency for International Development (total)	-------	706.7	81.1	20.9	33.9	26.6	25.5	27.7	20.7	56.6	20.4	30.3	31.6	1,082.0
Grants	-------	706.7	81.1	20.9	23.9	11.6	15.5	15.7	20.7	25.6	20.4	20.3	-------	962.4
Loans	-------	-------	-------	-------	10.0	15.0	10.0	12.0	-------	31.0	-------	10.0	31.6	119.6
Technical cooperation-development grants	-------	8.1	1.2	.9	.6	.4	.5	.7	.7	.6	.4	.3	-------	14.4
Development loans	-------	-------	-------	-------	-------	-------	-------	12.0	-------	31.0	-------	10.0	31.6	84.6
Other AID	-------	698.5	79.9	20.0	33.3	26.2	25.0	15.0	20.1	25.0	20.0	20.0	-------	983.0
Food for peace (Public Law 480) (total)	-------	.5	.1	1.8	24.5	26.4	32.8	33.4	11.6	11.3	21.2	15.5	14.6	193.7
Title I, planned for grants and loans	-------	-------	-------	-------	11.7	4.3	17.9	12.8	-------	4.1	10.1	6.6	6.5	74.0
104c, grants for common defense	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	5.0	5.0
104d, grants from triangular transactions	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------
104e, grants for economic development	-------	-------	-------	-------	7.5	-------	-------	-------	-------	-------	-------	-------	-------	4.5
104e, loans to private industry	-------	-------	-------	-------	-------	-------	-------	2.9	-------	0.9	2.3	1.5	1.5	9.1
104g, loans to governments	-------	-------	-------	-------	4.2	4.3	17.9	9.9	-------	3.2	7.8	5.1	-------	52.4
(Total sales agreements)	(------)	(------)	(------)	(------)	(14.3)	(6.0)	(25.7)	(18.8)	(------)	(6.3)	(15.6)	(10.2)	(11.2)	(108.1)
Title II, emergency relief	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	3.5	-------	-------	3.5
Title III, voluntary relief agencies	-------	.5	.1	1.8	12.8	22.1	14.9	20.6	11.6	7.2	7.6	8.9	8.1	116.2
Title IV, dollar credit sales	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------
Export-Import Bank long-term loans	14.6	-------	-------	-------	-------	-------	-------	-------	-------	-------	1.8	2.1	3.0	21.4
Other U.S. economic programs	510.5	26.2	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	536.7
Military (total)	198.4	323.5	121.3	95.2	59.2	95.6	62.4	143.4	89.2	116.7	42.8	34.9	89.6	1,664.1
Grants	198.4	323.5	121.3	95.2	59.2	95.6	62.4	143.4	89.2	116.7	42.8	34.9	89.6	1,664.1
Loans	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------
Military assistance program (MAP) (charge to appropriation)	-------	150.8	121.3	95.2	59.2	95.6	62.4	135.1	81.2	91.4	42.8	34.9	89.6	1,251.4
(Additional grants from excess stocks)	(------)	(32.7)	(1.9)	(2.7)	(2.2)	(4.4)	(.5)	(6.8)	(6.8)	(13.4)	(14.2)	(19.7)	(5.2)	(24.9)
Other military assistance	198.4	172.7	-------	-------	-------	-------	-------	8.3	8.0	25.3	-------	-------	-------	-------
Total economic and military	723.6	1,056.9	202.5	117.9	117.6	148.6	120.7	204.5	121.5	184.6	86.2	82.8	138.8	3,497.9
Foreign Assistance Act program	-------	857.5	202.4	116.1	93.1	122.2	87.9	162.8	101.9	148.0	63.2	65.2	-------	2,333.4
Other assistance	723.6	199.4	.1	1.8	24.5	26.4	32.8	41.7	19.6	36.6	23.0	17.6	-------	-------

See footnotes at end of table.

U.S. foreign assistance—Obligations and loan authorizations—Continued

INDIA

[In millions of dollars]

Program	U.S. fiscal years													Total
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Economic (total) [a]	39.9	248.7	45.1	88.9	113.6	92.8	364.8	305.1	366.7	758.4	667.8	775.1	769.6	4,636.7
Grants		58.5	45.1	88.9	68.6	55.3	91.0	36.4	73.9	289.0	213.5	168.0	158.3	1,345.6
Loans	39.9	190.2			45.0	37.5	273.8	268.7	292.8	469.4	454.3	607.1	611.3	3,290.2
Agency for International Development (total)		57.3	44.3	87.2	85.7	60.0	65.3	89.8	137.0	194.6	200.8	465.5	467.3	1,889.7
Grants		57.3	44.3	87.2	40.7	22.5	17.8	14.8	17.0	23.3	20.7	19.6	6.3	371.4
Loans					45.0	37.5	47.5	75.0	120.0	171.3	180.1	445.9	396.0	1,518.3
Technical cooperation/development grants				27.0	13.2	12.8	3.8	14.9	17.6	23.3	21.0	19.6	6.3	159.4
Development loans								75.0	120.0	171.3	180.1	445.9	396.0	1,388.3
Other AID		57.3	44.3	60.2	72.5	47.2	61.5	−.1	−.6	(1)	−.3			342.0
Food for peace (Public Law 480) (total)		.6	.8	1.7	27.9	32.8	299.5	63.5	229.7	550.2	387.5	283.5	326.0	2,203.9
Title I, planned for grants and loans							280.3	45.9	210.3	540.2	368.8	256.6	307.0	2,009.1
104c, grants for common defense														
104d, grants from triangular transactions								4.0		2.1				6.1
104e, grants for economic development							54.0		37.5	253.6	174.1	121.1	132.0	772.3
104e, loans to private industry								12.5	65.0	30.9	20.6	14.4	17.0	160.4
104g, loans to governments							226.3	29.4	107.8	253.6	174.1	121.1	158.0	1,070.3
(Total sales agreements)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(354.6)	(50.0)	(237.9)	(616.9)	(412.8)	(288.3)	(345.0)	(2,305.4)
Title II, emergency relief						3.5	1.4				.3	4.1		9.2
Title III, voluntary relief agencies		.6	.8	1.7	27.9	29.3	17.8	17.6	19.4	10.0	18.4	22.8	19.1	185.6
Title IV, dollar credit sales														
Export-Import Bank long-term loans								151.8		13.6	79.5	25.7	10.3	311.1
Other U.S. economic programs	[7] 39.9	190.8										.4	.9	232.0
Military assistance program													60.0	60.0
Total, military and economic													829.7	4,696.7

See footnotes at end of table.

IRAQ

Economic (total)	0.9	0.5	2.1	2.2	2.9	2.8	3.9	3.1	0.3	0.6	1.3	0.8	0.8	22.3
Grants		.5	2.1	2.2	2.9	2.8	3.9	3.1	.3	.6	1.3	.8	.8	21.4
Loans	.9													.9
Agency for International Development (total)		.5	2.1	2.2	2.9	2.1	3.5	2.8	.2	.4	.7	.7	.8	18.9
Grants		.5	2.1	2.2	2.9	2.1	3.5	2.8	.2	.4	.7	.7	.8	18.9
Loans														
Technical cooperation/development grants		.5	2.1	2.2	2.9	2.1	2.2	2.2	.9	.4	.3	.7	.8	17.4
Development loans														
Other AID							1.4	.5	−.8	(2)	.4			1.5
Food for peace (Public Law 480) (total)		(2)		(2)		.7	.4	.3	.1	.2	.6	.1		2.5
Title I, planned for grants and loans														
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development														
104e, loans to private industry														
104g, loans to governments														
(Total sales agreements)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)
Title II, emergency relief														
Title III, voluntary relief agencies		(2)		(2)		.7	.4	.3	.1	.2	.6	.1		2.5
Title IV, dollar credit sales														
Export-Import Bank long-term loans														
Other U.S. economic programs	.9	(2)												
Military (total)					5.4	6.1	13.1	21.3	.1	.1	(2)	(2)	.1	46.2
Grants					5.4	6.1	13.1	21.3	.1	.1	(2)	(2)	.1	46.2
Loans														
Military assistance program (MAP) (charge to appropriation					5.4	6.1	13.1	21.3	.1	.1	(2)	(2)	.1	46.2
(Additional grants from excess stocks)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(1.8)	(1.0)	(.5)	(-----)	(2)	(-----)	.1	(3.3)
Other military assistance														
Total economic and military	.9	.5	2.1	2.2	8.3	8.9	17.0	24.4	.4	.7	1.3	.8	.9	68.5
Foreign Assistance Act program		.5	2.1	2.2	8.3	8.2	16.6	24.1	.3	.5	.7	.7	.9	65.1
Other assistance	.9	(2)		(2)		.7	.4	.3	.1	.2	.6	.1	.9	3.4

See footnotes at end of table.

U.S. foreign assistance—Obligations and loan authorizations—Continued

IRAN

[In millions of dollars]

Program	U.S. fiscal years													Total
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Economic (total)	25.8	16.5	31.9	84.5	128.8	74.4	51.5	51.9	46.9	38.2	109.7	71.3	59.0	790.5
Grants		16.5	31.9	84.5	43.8	61.9	28.5	11.9	9.2	38.2	35.0	44.8	35.8	442.2
Loans	25.8				85.0	12.5	23.0	40.0	37.7		74.7	26.5	23.2	348.3
Agency for International Development (total)		14.9	31.9	84.4	74.9	65.1	47.1	51.4	46.0	37.5	62.0	53.0	23.5	591.7
Grants		14.9	31.9	84.4	42.9	51.5	24.1	11.4	8.3	37.5	24.8	33.3	6.1	374.8
Loans					32.0	10.0	23.0	40.0	37.7		37.2	19.7	14.4	216.9
Technical cooperation/development grants				23.9	8.3	8.0	4.9	4.9	5.5	5.6	3.5	4.2	3.9	72.6
Development loans								40.0	37.7		37.2	5.7	14.4	137.9
Other AID		14.9	31.9	60.4	66.6	57.1	42.2	6.5	2.8	31.9	21.4	43.2	2.2	381.1
Food for peace (Public Law 4801, total		.1		.1	.9	9.3	4.4	.5	.9	.7	26.3	17.9	35.3	96.5
Title I, planned for grants and loans						8.4					16.1	6.8	5.8	37.1
104c, grants for common defense						5.9								5.9
104d, grants from triangular transactions														
104e, grants for economic development														
104c, loans to private industry											1.7	.5	1.2	3.4
104g, loans to governments						2.5					14.4	6.3	4.6	27.8
(Total sales agreements)	(.....)	(.....)	(.....)	(.....)	(.....)	(12.4)	(.....)	(.....)	(.....)	(.....)	(21.9)	(9.0)	(7.7)	(51.0)
Title II, emergency relief							3.4				8.6	8.2	25.0	45.2
Title III, voluntary relief agencies		.1		.1	.9	.9	1.0	.5	.9	.7	1.6	2.9	4.5	14.2
Title IV, dollar credit sales														
Export-Import Bank long-term loans					53.0						21.4			74.4
Other U.S. economic programs	25.8	1.5										.4	.2	27.9
Military (total)		16.6	27.3	26.5	17.5	23.6	39.0	73.0	90.9	89.1	49.2	33.3	69.7	632.7
Grants		16.6	27.3	26.5	17.5	23.6	39.0	73.0	90.9	89.1	49.2	33.3	69.7	632.7
Loans														
Military assistance program map (charge to appropriation)		16.6	27.3	26.5	17.5	23.6	39.0	73.0	90.9	89.1	49.2	33.3	69.7	632.7

(Additional grants from excess stocks)	(------)	(.7)	(.5)	(10.8)	(3.9)	(1.0)	(4.9)	(1.8)	(6.0)	(7.0)	(10.1)	(1.1)	(3.1)	(53.2)
Other military assistance	------	------	------	------	------	------	------	------	------	------	------	------	------	------
Total, economic and military	25.8	33.1	59.2	111.0	146.3	98.0	90.5	124.9	137.8	127.3	158.9	104.6	128.7	1,423.2
Foreign Assistance Act program	------	31.5	59.2	110.9	92.4	88.7	86.1	124.4	136.9	126.6	111.2	86.3	93.2	1,224.4
Other assistance	25.8	1.6	------	.1	53.9	9.3	4.4	.5	.9	.7	47.7	18.3	35.5	198.8
ISRAEL														
Economic (total)	------	221.5	73.6	74.7	52.6	50.6	41.0	87.1	54.8	56.8	84.0	82.0	82.0	960.9
Grants	------	86.5	73.6	74.7	21.8	15.5	19.1	11.2	10.8	13.2	18.4	6.9	9.2	361.1
Loans	------	135.0	------	------	30.8	35.1	21.9	75.9	44.0	43.6	65.6	75.1	72.8	599.8
Agency for International Development (total)	------	63.7	73.6	54.0	41.4	23.9	26.8	23.9	19.1	23.5	24.3	44.9	45.0	464.2
Grants	------	63.7	73.6	54.0	21.4	13.9	16.8	8.9	9.1	8.5	8.3	—.1	------	278.2
Loans	------	------	------	------	20.0	10.0	10.0	15.0	10.0	15.0	16.0	45.0	45.0	186.0
Technical cooperation/development grants	------	------	------	1.5	1.5	1.4	1.8	1.5	1.6	1.0	.8	(2)	------	11.1
Development loans	------	------	------	------	------	------	------	15.0	10.0	15.0	16.0	45.0	45.0	146.0
Other AID	------	63.7	73.6	52.5	39.9	22.5	25.0	7.4	7.5	7.5	7.5	(2)	------	307.1
Food for peace (Public Law 480) (total)	------	22.7	(2)	20.7	11.2	26.7	14.2	39.0	32.7	32.8	24.3	26.3	25.8	276.5
Title I, planned for grants and loans	------	------	------	------	10.8	25.1	11.9	36.7	31.0	32.3	23.3	24.8	21.7	217.6
104c, grants for common defense	------	------	------	------	------	------	------	------	------	------	------	------	------	------
104d, loans from triangular transactions	------	------	------	------	------	------	2.5	------	------	------	------	------	------	2.5
104e, grants for economic development	------	------	------	------	------	------	------	------	------	4.2	9.1	5.5	5.1	23.9
104e, loans to private industry	------	------	------	------	------	------	------	10.3	9.6	6.0	5.1	5.5	3.8	40.3
104g, loans to governments	------	------	------	------	10.8	25.1	9.4	26.4	21.4	22.1	9.1	13.8	12.8	150.9
Total sales agreements	(------)	(------)	(------)	(------)	(12.7)	(27.6)	(10.5)	(41.0)	(38.3)	(37.6)	(25.9)	(27.5)	(25.5)	(53.0)
Title II, emergency relief	------	------	------	------	------	------	------	------	------	------	------	------	1.5	1.5
Title III, voluntary relief agencies	------	22.7	(2)	20.7	.4	1.6	2.3	2.3	1.7	.5	1.0	1.5	2.6	57.4
Title IV, dollar credit sales	------	------	------	------	------	------	------	------	------	------	------	------	------	------
Export-import bank long-term loans	------	135.0	------	------	------	------	------	24.2	3.0	.5	35.4	10.8	11.2	220.1
Other U.S. economic programs	------	.1	------	------	------	------	------	------	------	------	------	------	------	.1

See footnotes at end of table.

U.S. foreign assistance—Obligations and loan authorizations—Continued

ISRAEL—Continued

[In millions of dollars]

Program	U.S. fiscal years													Total
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Military, total									.4	.5	(2)	(2)		2.6
Grants														
Loans									.4	.5	(2)	(2)		2.6
Military assistance program (MAP) (charge to appropriation)									.4	.5	(2)	(2)		2.6
(Additional grants from excess stocks)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)
Other military assistance														
Total economic and military		221.5	73.6	74.7	52.6	50.6	41.0	87.1	55.2	57.3	84.0	82.0	82.0	963.5
Foreign Assistance Act program		63.7	73.6	54.0	41.4	23.9	26.8	23.9	19.5	24.0	24.3	44.9	45.0	466.8
Other assistance		157.8	(2)	20.7	11.2	26.7	14.2	63.2	35.7	33.3	59.7	37.1	37.0	496.7
JORDAN														
Economic, total		5.2	2.9	12.9	8.9	8.0	22.0	37.4	63.5	51.0	67.8	45.9	54.5	384.8
Grants		5.2	2.9	12.9	8.9	8.0	22.0	37.4	59.8	52.0	66.8	45.3	43.0	364.0
Loans									3.7	−1.0	1.0	.6	16.5	20.8
Agency for International Development, total		4.7	2.9	10.5	7.3	7.4	21.1	32.7	49.1	47.8	47.5	42.8	43.0	316.7
Grants		4.7	2.9	10.5	7.3	7.4	21.1	32.7	45.4	48.8	46.5	43.8	43.0	314.0
Loans									3.7	−1.0	1.0	−1.0		2.7
Technical cooperation/development grants		3.5	2.9	2.3	2.2	2.4	1.1	1.8	2.2	1.8	1.6	6.9	4.0	35.6
Development loans									3.7	−1.0	1.0	−1.0		2.7
Other AID		1.2		8.2	5.0	5.0	20.0	30.8	43.2	47.0	44.9	37.0	36.0	278.4
Food for peace (Public Law 480), total		.4		1.2	1.6	.6	.9	4.7	14.4	3.2	20.3	1.5	10.5	65.2

Title 1, planned for grants and loans														
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development														
104f, loans to private industry														
104g, loans to governments														
(Total sales agreements)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)
Title II, emergency relief								3.5	12.4	1.6	17.4	.2	14.4	49.4
Title III, voluntary relief agencies		.4		1.2	1.6	.6	.9	1.2	2.0	1.6	2.9	1.3	2.1	15.8
Title IV, dollar credit sales														
Export-Import Bank long-term loans												1.6		1.6
Other U.S. economic programs		.1		1.2										1.3
Military, total								8.5	2.2	2.9	1.9	2.6	5.6	29.9
Grants								8.5	2.2	2.9	1.9	2.6	5.6	29.9
Loans														
Military assistance program (MAP) (charge to appropriations)								8.5	2.2	2.9	1.9	2.6	5.6	29.9
(Additional grants from excess stocks)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(.5)	(-----)	(.1)	(.3)	(.2)		
Other military assistance														
Total economic and military		5.2	2.9	12.9	8.9	8.0	22.0	45.9	65.7	53.9	69.7	48.5	65.1	414.7
Foreign Assistance Act program		4.7	2.9	10.5	7.3	7.4	21.1	41.2	51.3	50.7	49.4	45.4	78.6	346.6
Other assistance		.5		2.4	1.6	.6	.9	4.7	14.4	3.2	20.3	3.1	16.5	68.1

See footnotes at end of table.

U.S. foreign assistance—Obligations and loan authorizations—Continued

LEBANON

[In millions of dollars]

Program	U.S. fiscal years													Total
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Economic (total)	1.6	1.8	3.0	8.8	7.6	2.0	11.9	12.9	22.9	4.3	3.3	−0.1	0.2	80.0
Grants		1.8	3.0	8.8	7.6	2.0	11.9	12.9	14.2	3.9	3.3	.4	.2	69.8
Loans	1.6								8.7	.4		−.5		10.2
Agency for International Development (total)		1.7	3.0	8.8	7.6	2.0	11.9	2.5	19.1	1.3	.5	−.1	.1	58.2
Grants		1.7	3.0	8.8	7.6	2.0	11.9	2.5	13.6	.9	.5	.4	.1	52.8
Loans									5.5	.4		−.5		5.4
Technical Cooperation/Development grants		1.7	3.0	2.8	1.9	2.2	1.9	1.5	1.1	.9	.6	.4	.1	18.1
Development loans									5.5	.4		−.5		5.4
Other AID				6.0	5.7	−.2	10.0	.9	12.5	(2)	−.1			34.8
Food for Peace (Public Law 480) (total)								10.4	.6	3.0	2.8		.1	16.9
Title I, planned for grants and loans														
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development														
104e, loans to private industry														
104g, loans to governments														
(Total sales agreements)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)
Title II, emergency relief								10.4	.6	3.0	2.8			16.8
Title III, voluntary relief agencies													.1	.1
Title IV, dollar credit sales														
Export-Import Bank long-term loans									3.2					3.2
Other U.S. economic programs	1.6	.1												1.7

Military (total)							2.1	1.3	3.6	.2	.9	.2	.1	8.6
Grants							2.1	1.3	3.6	.2	.9	.2	.1	8.6
Loans														
Military Assistance program MAP (charge to appropriation)							2.1	1.3	3.6	.2	.9	.2	.1	8.6
(Additional grants from excess stocks)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.2)	(.....)	(.1)	(2)	(.....)	(.....)
Other Military Assistance														
Total economic and military	1.6	1.8	3.0	8.8	7.6	2.0	14.0	14.2	26.5	4.5	4.2	.1	.3	88.6
Foreign Assistance Act program		1.7	3.0	8.8	7.6	2.0	14.0	3.8	22.7	1.5	1.4	.1	.3	66.9
Other assistance	1.6	.1						10.4	3.8	3.0	2.8			21.7

See footnote at end of table.

U.S. foreign assistance—Obligations and loan authorizations—Continued

NEPAL

[In millions of dollars]

Program	U.S. fiscal years													Total
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Economic (total)		0.2	0.5	0.9	2.5	1.9	4.3	7.5	2.7	19.6	4.3	4.0	4.6	52.9
Grants		.2	.5	.9	2.5	1.9	4.3	7.5	2.7	18.6	3.9	4.0	4.6	51.5
Loans										1.0	.4			
Agency for International Development (total)		.2	.5	.9	2.3	1.9	4.3	4.0	2.7	2.8	4.3	3.7	3.9	31.4
Grants		.2	.5	.9	2.3	1.9	4.3	4.0	2.7	2.8	3.9	3.7	3.9	31.0
Loans											.4			.4
Technical cooperation-development grants		.2	.5	.9	.7	1.0	1.2	1.2	1.6	1.7	1.9	3.7	3.9	18.4
Development loans											.4			.4
Other AID					1.6	.9	3.1	2.8	1.1	1.1	2.0			12.6
Food for peace (Public Law 480) (total)					.2			3.5		16.8			.2	20.7
Title I, planned for grants and loans										16.8				16.8
104c, grants for common defense														
104d, grants and loans from triangular transactions										16.8				16.8
104e, grants for economic development														
104e, loans to private industry														
104g, loans to governments														
(Total sales agreements)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)
Title II, emergency relief					.2			3.5					.2	3.9
Title III, voluntary relief agencies														
Title IV, dollar credit sales														
Export-Import Bank long-term loans														
Other U.S. economic programs												.3	.5	.8

PAKISTAN

Economic (total)	0.1	11.1	109.8	23.3	100.9	162.5	170.7	163.3	235.0	301.5	172.0	403.9	410.5	2,264.6
Grants		11.1	94.8	23.3	71.7	134.0	117.8	84.2	132.6	146.6	120.0	126.4	163.4	1,226.0
Loans	.1		15.0		29.2	28.5	52.9	79.1	102.4	154.9	52.0	277.5	247.1	1,038.6
Agency for International Development (total)		10.6	42.0	22.6	62.5	106.5	96.7	92.9	162.7	198.6	124.2	240.1	186.1	1,345.5
Grants		10.6	27.0	22.6	42.5	80.5	54.7	54.3	99.5	96.6	97.0	33.0	9.3	627.6
Loans			15.0		20.0	26.0	42.0	38.6	63.2	102.0	27.2	207.1	176.8	717.9
Technical cooperation development grants				8.2	5.2	8.0	5.5	5.2	5.5	6.7	7.0	8.0	9.0	68.3
Development loans								38.6	63.2	102.0	27.2	207.1	176.8	614.9
Other AID		10.6	42.0	14.5	57.3	98.5	91.1	49.1	94.0	90.0	89.9	25.0	.3	662.3
Food for peace (Public Law 480) (total)		.1	.4	.7	38.4	56.0	74.0	67.1	72.3	99.4	41.4	124.8	192.3	767.0
Title I, planned for grants and loans					24.1	13.5	64.3	57.2	71.6	98.2	39.0	122.2	151.3	641.4
104c, grants for common defense					14.9	11.0	48.4	5.0						79.3
104d, grants from triangular transactions														
104e, grants for economic development							5.0	15.0	32.4	48.8	20.6	89.7	111.0	322.5
104e, loans to private industry								6.4	3.1	8.2	2.5	6.5	8.1	34.8
104g, loans to governments					9.2	2.5	10.9	30.8	36.1	41.2	15.9	26.0	32.2	204.8
(Total sales agreements)	(.....)	(.....)	(.....)	(.....)	(28.7)	(16.9)	(73.3)	(65.4)	(85.9)	(114.6)	(45.2)	(130.0)	(161.0)	(721.0)
Title II, emergency relief					9.5	31.1		8.0					35.5	84.1
Title III, voluntary relief agencies		.1	.4	.7	4.8	11.4	9.7	1.9	.7	1.2	2.4	2.6	5.5	41.5
Title IV, dollar credit sales														
Export-Import Bank long-term loans								3.3		3.5	6.4	37.9	30.0	81.0
Other U.S. economic programs [7]	.1	.4	[8] 67.4									1.1	2.1	71.1
Military (total) [10]														
Grants [10]														
Loans [10]														
Military assistance program, map (charge to appropriation) [10]														
(Additional grants from excess stocks) [10]														
Other military assistance [10]														
Total, economic and military [10]														
Foreign assistance act program [10]														
Other assistance	0.1	0.5	67.8	0.7	38.4	56.0	74.0	70.4	72.3	102.7	47.9	163.8	224.4	914.1

U.S. foreign assistance—Obligations and loan authorizations—Continued

SYRIA

[In millions of dollars]

Program	U.S. fiscal years													Total
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Economic (total)		0.4		0.3		0.1	0.2	0.2	1.2	14.4	35.0	43.9	2.0	97.7
Grants		.4		.3		.1	.2	.2	.2		20.1	8.0	2.0	31.5
Loans									1.0	14.4	14.9	35.9		66.2
Agency for International Development, (total)									1.0	7.2		23.9	.2	32.3
Grants												.2	.2	.4
Loans									1.0	7.2		23.7		31.9
Technical cooperation/development grants												.2	.2	.2
Development loans									1.0	7.2		14.7		22.9
Other AID												9.0	(2)	9.0
Food for peace (Public Law 480) (total)		.4		.3		.1	.2	.2	.2	7.2	35.0	15.0	1.8	60.4
Title I, planned for grants and loans										7.2	14.9	7.2		29.3
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development														
104e, loans to private industry										2.4	2.8	1.3		6.5
104g, loans to governments										4.8	12.1	5.9		22.8
(Total sales agreements)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)	(9.6)	(18.6)	(9.0)	(.....)	(37.2)
Title II, emergency relief											19.9	7.6		27.5
Title III, voluntary relief agencies		.4		.3		.1	.2	.2	.2	(2)	.2	.2	.2	2.0
Title IV, dollar credit sales													1.6	1.6
Export-Import Bank long-term loans												5.0		5.0
Other U.S. economic programs														

Economic (total)	44.5	225.1	58.6	78.7	109.1	128.7	86.3	110.7	204.0	121.1	221.4	191.6	174.7	1,754.2
Grants		140.1	58.6	78.7	83.6	103.7	61.2	87.5	106.8	98.2	87.7	96.9	67.1	1,070.0
Loans	44.5	85.0			25.5	25.0	25.1	23.2	97.2	22.9	133.7	94.7	107.6	684.2
Agency for international development (total)		225.1	58.6	78.7	90.4	108.6	57.7	81.7	141.8	91.5	200.1	71.1	131.8	1,337.0
Grants		140.1	58.6	78.7	70.4	83.6	32.7	71.7	104.3	85.5	82.8	61.1	60.3	929.7
Loans		85.0			20.0	25.0	25.0	10.0	37.5	6.0	117.3	10.0	71.5	407.3
Technical cooperation/development grants		3.4	2.1	2.9	1.6	2.0	3.2	4.8	4.5	4.7	3.8	5.0	5.3	43.3
Development loans								10.0	37.5	6.0	117.3	10.0	71.5	252.3
Other AID		221.8	56.4	75.8	88.7	106.5	54.5	66.9	99.8	80.8	79.0	56.1	55.0	1,041.4
Food for peace (Public Law 480) (total)		(2)		(2)	13.2	20.1	28.5	29.0	24.7	29.6	21.3	120.4	42.3	329.0
Title I, planned for grants and loans					13.0	7.6	27.8	28.5	24.0	28.4	20.3	102.0	36.1	287.6
104c, grants for common defense					13.0	7.6	27.8	15.3		11.5	3.9	15.0		94.1
104d, grants from triangular transactions									1.8					1.8
104e, grants for economic development												2.3		2.3
104e, loans to private industry								7.8	5.2	5.3	2.7	21.0	7.7	49.7
104g, loans togovernments								5.4	17.0	11.6	13.7	63.7	28.4	139.7
(Total sales agreements)	(-----)	(-----)	(-----)	(-----)	(26.1)	(15.1)	(58.6)	(52.0)	(34.7)	(35.0)	(25.4)	(127.5)	(46.6)	(421.0)
Title II, emergency relief						12.2						15.5		27.7
Title III, voluntary relief agencies		(2)		(2)	.2	.3	.7	.5	.7	1.2	1.0	2.9	6.2	13.7
Title IV, dollar credit sales														
Export-Import Bank long-term loans	32.3				5.5		.1		37.5					75.3
Other U.S. economic programs	12.2											.1	.6	12.9
Military (total)	68.8	235.9	151.8	238.2	182.8	191.3	152.4	249.4	201.6	100.5	85.9	156.4	167.9	2,403.2
Grants	68.8	235.9	151.8	238.2	182.8	191.3	152.4	249.4	201.6	100.5	85.9	156.4	167.9	2,403.2
Loans														
Military assistance program, MAP (charge to appropriations)		146.1	151.8	238.2	161.5	191.3	152.4	29.4	196.4	92.6	85.9	156.4	167.9	2,403.2
(Additional grants from excess stocks)	(-----)	(21.4)	(7.1)	(2.6)	(2.4)	(1.8)	(1.5)	(4.9)	(14.8)	(13.2)	(10.1)	(4.9)	(12.6)	(102.3)
Other military assistance	68.8	89.8			21.3				5.2	7.9				
Total economic and military	113.3	461.0	210.4	316.9	291.9	320.0	238.7	360.1	405.6	221.6	307.3	348.0	342.6	4,157.4
Foreign Assistance Act program		371.2	210.4	316.9	251.9	299.9	210.1	331.1	338.2	184.1	286.0	227.5	299.7	3,547.2
Other assistance	113.3	89.8		(2)	40.0	20.1	28.6	29.0	67.4	37.5	21.3	120.5	42.9	610.2

See footnote at end of table.

U.S. foreign assistance—Obligations and loan authorizations—Continued

UNITED ARAB REPUBLIC (EGYPT)

[In millions of dollars]

Program	U.S. fiscal years													Total
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Economic (total)	18.1	1.5	12.9	4.0	66.3	32.9	0.3	−0.2	49.2	92.9	106.4	224.1	195.5	803.5
Grants	.3	1.3	12.9	4.0	58.8	19.8	.3	−.2	9.5	13.9	36.7	65.2	53.2	275.7
Loans	17.8	.2			7.5	13.1			39.7	79.0	69.7	158.9	141.9	527.8
Agency for International Development (total)		.4	12.9	3.3	42.8	2.3	(2)	−.8	.6	21.1	1.9	41.9	48.6	175.0
Grants		.4	12.9	3.3	35.3	2.3	(2)	−.8	.7	5.7	2.1	1.9	12.3	76.0
Loans					7.5					15.4	−.2	40.0	36.3	99.0
Technical cooperation/development grants				3.3	2.8	2.4	.6	−.8	−1.5	1.5	1.5	1.9	2.3	14.1
Development loans										15.4	−.2	20.0	36.3	71.5
Other AID		.4	12.9	(2)	40.0	−.1	−.6		2.0	4.2	.7	20.0	10.0	89.4
Food for peace (Public Law 480) (total)		.8		.7	23.5	30.6	.3	.6	45.1	62.7	86.5	182.2	134.0	567.0
Title I, planned for grants and loans						13.1			36.2	54.5	63.9	132.6	93.1	393.4
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development											12.0	13.7		25.7
104e, loans to private industry									12.1	16.7	12.0	16.6	5.1	62.5
104g, loans to governments						13.1			24.1	37.8	39.9	102.3	88.0	305.2
(Total sales agreements)	(------)	(------)	(------)	(------)	(------)	(19.1)	(------)	(------)	(48.3)	(72.7)	(79.8)	(165.8)	(103.5)	(269.3)
Title II, emergency relief												29.1		29.1
Title III, voluntary relief agencies		.8		.7	23.5	17.5	.3	.6	8.9	8.2	22.6	20.5	40.9	144.5
Title IV, dollar credit sales														
Export-Import Bank long-term loans	7.1	.2							3.5	9.1	18.0		12.5	50.4
Other U.S. economic programs	11.0	.1												11.0

YEMEN [11]

Economic (Total)									5.1	5.7	5.4	6.7	5.8	28.6
Grants									5.1	5.7	5.4	6.7	5.8	28.6
Loans														
Agency for International Development (Total)									.3	3.0	4.0	6.7	5.7	19.7
Grants									.3	3.0	4.0	6.7	5.7	19.7
Loans														
Technical cooperation/development grants														
Development loans														
Other AID									.3	3.0	4.0	6.7	5.7	19.7
Food for peace (Public Law 480) (Total)									4.8	2.7	1.4		.1	8.9
Title I, planned for grants and loans														
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development														
104e, loans to private industry														
104g, loans to governments														
(Total sales agreements)									(-------)	(-------)	(-------)	(-------)	(-------)	(-------)
Title II, emergency relief									4.8	2.7	1.4		.1	8.9
Title III, voluntary relief agencies														
Title IV, dollar credit sales														
Export-Import Bank long-term loans														
Other U.S. economic programs														

See footnotes at end of table.

U.S. foreign assistance—Obligations and loan authorizations—Continued

CENTRAL TREATY ORGANIZATION [11]

[In millions of dollars]

Program	U.S. fiscal years													Total
	1946–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Economic (Total)							12.7	(2)	−1.0	11.4	1.8	2.4	2.2	29.6
Grants							12.7	(2)	−1.0	11.4	1.8	2.4	2.2	29.6
Loans														
Agency for International Development (Total)							12.7	(2)	−1.0	11.4	1.8	2.4	2.2	29.6
Grants							12.7	(2)	−1.0	11.4	1.8	2.4	2.2	29.9
Loans														
Technical Cooperation/Development grants								(2)	.1	.2	.3	.3	.5	1.5
Development loans														
Other AID							12.7		−1.1	11.2	1.5	2.0	1.7	28.1
Food for Peace (Public Law 480) (Total)														
Title I, Planned for Grants and Loans														
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development														
104e, loans to private industry														
104g, loans to governments														
Total sales agreements)							(-------)	(-------)	(-------)	(-------)	(-------)	(-------)		
Title II, Emergency relief														
Title III, Voluntary relief Agencies														
Title IV, Dollar credit sales														
Export-Import Bank long-term loans														
Other U.S. economic programs														

[1] See general notes for coverage and qualifications, particularly for AID and for FAA military programs.
[2] Less than $50,000.
[3] No programs prior to fiscal year 1961.
[4] Includes UNRRA and post-UNRRA, $314,000,000; Greek-Turkish aid, $122,500,000; surplus property credits, $96,600,000; and other, $500,000.
[5] Includes Greek-Turkish aid of $371,100,000.
[6] Does not include $20,000,000 loan in fiscal year 1953 financed by Asian Economic Development Fund. These are included in NESA regional.
[7] Includes the utilization during fiscal year 1946 of $29,200,000 of lend-lease silver credits. During fiscal years 1940-46, a total of $160,700,000 of such credits were extended to British India. After partition, Pakistan agreed to pay $38,000,000, but it is not possible to distribute the fiscal year 1946 portion between the 2 countries.
[8] Public Law 77 wheat to Pakistan.
[9] Included with Near East and south Asia regional.
[10] Confidential.
[11] No program prior to fiscal year 1959.
[12] No program prior to fiscal year 1957.

Near East and South Asia Regional

U.S. foreign assistance—Obligations and loan authorizations

[In millions of dollars]

Program	U.S. fiscal years													Total
	1966–48	1949–52	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
Economic (total)		52.3	17.5	17.6	17.6	18.7	34.9	100.9	12.9	28.6	42.3	75.7	93.7	512.9
Grants		52.3	17.5	17.6	17.6	18.7	34.9	66.4	27.4	28.6	42.3	76.8	80.3	480.6
Loans								34.5	−14.5			−1.1	13.4	32.3
Agency for International Development (total)		52.1	17.5	16.0	17.5	18.7	34.7	100.7	12.2	28.4	29.1	56.7	59.3	442.9
Grants		52.1	17.5	16.0	17.5	18.7	34.7	66.2	26.7	28.4	29.1	57.8	45.9	410.6
Loans								34.5	−14.5			−1.1	13.4	32.3
Technical cooperation/development grants		2.1	1.5	1.0	.8	2.0	3.6	3.3	3.5	2.5	3.1	2.3	2.8	28.4
Development loans								14.5	−14.5				13.4	13.4
Other AID		50.0	16.0	15.0	16.7	16.7	31.1	82.9	23.2	25.9	26.0	54.4	43.1	401.0
Food for peace (Public Law 480) (total)		.2		1.6	.1		.2	.2	.7	.2	13.2	19.0	34.4	70.0
Title I, planned for grants and loans														
104c, grants for common defense														
104d, grants from triangular transactions														
104e, grants for economic development														
104e, loans to private industry														
104g, loans to governments														
(Total sales agreements)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)	(-----)
Title II, emergency relief											13.0	18.8	34.3	66.1
Title III, voluntary relief agencies		.2		1.6	.1		.2	.2	.7	.2	.2	.2	.1	3.9
Title IV, dollar credit sales														

Export-Import Bank long-term loans														
Other U.S. economic programs														
Military (total)					12.9	53.8	96.7	140.3	118.6	81.4	64.7	36.9	70.5	732.9
Grants					12.9	53.8	96.7	104.0	109.2	84.4	63.6	36.7	1.2	687.8
Loans								36.3	9.4	−3.0	1.1	.2		45.1
Military assistance program (MAP) (charge to applicant)					12.9	53.8	96.7	140.3	118.6	81.4	64.7	36.9	1.2	687.8
(Additional grants from excess stocks)	(.....)	(.....)	(.....)	(.....)	(1)	(2.9)	(.9)	(3.0)	(2.9)	(5.5)	(1.2)	(2.6)	.4	37.4
Other military assistance														
Total, economic and military		52.3	17.5	17.6	30.5	72.5	131.6	241.2	131.5	110.0	107.0	112.6	163.1	1,268.9
Foreign Assistance Act program		52.1	17.5	16.0	30.4	72.5	131.4	241.0	130.8	109.8	93.8	93.6	128.7	1,148.9
Other assistance		.2		1.6	.1		.2	.2	.7	.2	13.2	19.0	34.4	70.0

[1] Less than $50,000.

Mr. PASSMAN. There are 18 countries in your area?

Mr. GAUD. There are 18 countries.

Mr. PASSMAN. There is one of these countries, Kuwait, to which we do not give aid?

Mr. GAUD. Yes, sir.

Mr. ANDREWS. Why aren't we giving them any aid, Mr. Chairman?

Mr. GAUD. They are in the aid business themselves, Mr. Andrews.

Mr. PASSMAN. They are about to drown, speaking figuratively, in oil.

Mr. FORD. Have we ever studied their aid program organization chart and setup?

Mr. GAUD. It is somewhat smaller than ours.

Mr. FORD. Dollarwise?

Mr. GAUD. Dollarwise. I thought you meant personnelwise also.

FISCAL YEAR 1963 OBLIGATIONS FOR NEAR EAST AND SOUTH ASIA

Mr. PASSMAN. Page 2 of the justifications indicates that your development credit program for fiscal year 1963 was estimated to be $770 million; however, on page 3 of the project book you indicate that through February 28 you had approved only $414,575,000 of such credits; is that correct?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Did you have to work your people overtime in the closing days?

How did you manage to obligate so much money in such a short period of time?

Mr. GAUD. We did obligate a total of $779.5 million by the end of the fiscal year, sir.

Mr. PASSMAN. In the last 4 months you increased your obligations by $414,575,000, up to the $779 million?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Could you tell us how much you obligated during the month of June?

Mr. GAUD. Yes, sir.

Mr. Chairman, if my arithmetic is right, we obligated in June, $196.7 million.

Mr. PASSMAN. You do not have a limitation with relation to obligations in the development credit section, do you?

Mr. GAUD. In terms of when we can obligate.

Mr. PASSMAN. Yes.

Mr. GAUD. We do not.

CASH TRANSACTIONS

Mr. PASSMAN. I note that you have $34 million as an estimate for cash transaction under the supporting assistance program; is that correct?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What country in your area is scheduled to receive this type of grant assistance in fiscal year 1964?

Mr. GAUD. ————

Mr. PASSMAN. How much?

Mr. GAUD. $34 million.

Mr. PASSMAN. That is more than they collect in revenue from their own people; is it not?

Mr. GAUD. I believe it is.

Mr. PASSMAN. Thank you.

AID TO EDUCATION

What amount do you plan to spend on the education activity in your area in 1964?

Mr. GAUD. The total amount, Mr. Chairman, is $14,577,000.

Mr. PASSMAN. How much do you have in development credits?

Mr. GAUD. For education?

Mr. PASSMAN. Yes.

Mr. GAUD. You are talking 1964? Of course, I cannot tell you how—I cannot tell you exactly how that money will be spent in 1964.

Mr. PASSMAN. If it is in the field of education, you are bound to be able to give us an estimate.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. The others have been able to give similar information to us.

Mr. GAUD. In development loans for 1964?

Mr. PASSMAN. Yes.

Mr. GAUD. I cannot think of a single instance in which we have used development loans for education institutions in this region and I certainly know of no applications for it for this coming year, sir.

Mr. PASSMAN. So far as you know then, the figure that you have just listed, $14,577,000, would be the total?

Mr. GAUD. That is correct.

Mr. PASSMAN. In another area it was $32,913,000 plus $26 million, bringing it to a total of $58,913,000. The development credit part was as much as that listed on the divider sheet. But, as far as you know the $14,577,000 will be the total?

Mr. GAUD. That is right.

Mr. PASSMAN. Thank you.

ILLUSTRATIVE NATURE OF AID REQUEST

Under the development credit part of your request, you can give us an estimate of the total amount that you need for your area, but so far as the amount committed to each country and for what projects, those matters are determined after you get the money?

Mr. GAUD. That is correct.

Mr. PASSMAN. And on all others for development assistance, the several other categories of grant aid, where you are justifying individual projects, that too, is on an illustrative basis?

Mr. GAUD. That is true.

Mr. PASSMAN. You justify the funds from an illustrative standpoint, which means, in effect, that the law is broad enough so that you could substitute a different set of projects than those for which you justified the funds?

Mr. GAUD. That is right, sir.

Mr. PASSMAN. You could even take the funds out of country B, for which you justified them, and transfer then to country X?

Mr. GAUD. That is correct.

Mr. PASSMAN. Then we do agree that this thing is very broad and flexible; is it not?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Thank you.

When we speak of a plan or planning ahead, under section 202(b) of the act you could commit, we shall say, $225 million to a country and only after you get the $225 million, under 202(b), would you then plan as to how you are going to spend it?

Mr. GAUD. You could do that; yes.

Mr. PASSMAN. So we are not speaking of something that has been planned; we are talking of a country plan, and the projects that the money may be spent for are encompassed within a plan to be developed after you get the money?

Mr. GAUD. That is right.

Mr. PASSMAN. Mr. Rhodes?

SECTION 202(B) COMMITMENT

Mr. RHODES. Mr. Gaud, do you have any 202(b) agreements in your area?

Mr. GAUD. No; we had one for Pakistan liquidated the year 1963. We have none from here on—none ahead of us.

Mr. RHODES. Do you have any plans to conclude any?

Mr. GAUD. We have nothing in process at the moment. We do not.

Mr. RHODES. I know you have nothing in process. That wasn't my question. Do you have any plans or do you have any ideas of concluding any?

Mr. GAUD. We have nothing concrete, no. I merely am saving a reservation.

Mr. RHODES. You are reserving, or you have a mental reservation somewhere about 202(b), I gather.

Mr. GAUD. Let me spell it out.

Mr. RHODES. I wish you would.

Mr. GAUD. At the present time we have no prospects, no plans to enter into any 202(b) commitments during this fiscal year. However, we belong to four consortia in this region, India, Pakistan, Turkish, and the Greek. There is continuing pressure on the part of the countries that receive these funds to get long-term commitments, rather than from year to year, and as you know in both India and Pakistan we did make 2-year commitments a couple of years ago. I know that subject will be raised in a number of these cases this year. Whether we will go to a 202(b) commitment in case of any of the consortia I have no idea.

Mr. RHODES. It strikes me as being worthy of comment, that a few years ago there was such a great furor over the necessity for some gadget by which the United States could commit itself to development loan programs at the time of the enactment of authorizing legislation. Yet the enactment which came as a result of that pressure, which is section 202(b), has been used quite sparingly.

I am not complaining. I am pleased that it has been used sparingly but does this not indicate some change in the feeling of the people downtown toward the necessity of having such a gadget, or is it an

increased confidence that Congress really will honor the commitments made by the people in the executive?

Mr. MILLER. I think we could say that it is our view that 202(b) commitments should be used very sparingly and we have. I think we are reasonably satisfied with those commitments that have been made and, in connection with the future, we can only say that we would use it only in those situations in which we really believe that a long-term commitment over a long period of years is necessary. As Mr. Gaud stated, because of the consortia and other situations, we have not found we are in that kind of position at the present time. We always have confidence in the Congress.

Mr. RHODES. I was in hopes you would add that.

It would seem to me, however, that if there was ever a situation in which a device similar to 202(b) might be needed it would be in the event of negotiation through consortia. As I say, I am pleased that the administration has not seen the necessity for using it.

Mr. GAUD. There is another possibility, Mr. Rhodes, which again we might as well throw on the table and that is in the case of a very large project, one might conceivably use the 202(b) power to spread the commitment over a period of years.

Mr. RHODES. Of course, the Indus commitment is really not a very small thing.

Mr. GAUD. But that is made under special legislation.

Mr. RHODES. That is right.

I have no further questions.

AFGHANISTAN

Mr. PASSMAN. The first country in Mr. Gaud's area is Afghanistan, for which the request is ——— for fiscal year 1964, is that correct?

Mr. GAUD. Yes.

Mr. PASSMAN. That figure is ——— over fiscal year 1963.

Mr. GAUD. Fiscal year 1963 was $17,700,000; yes, sir.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

BORDER DISPUTE BETWEEN AFGHANISTAN AND PAKISTAN

Mr. PASSMAN. Do you remember when you were before the committee last year we discussed the border dispute between Afghanistan and Pakistan, and that we had accumulated several million dollars worth of aid goods on the border and we had some difficulty getting Afghanistan to open the border for us to get the aid through?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Then subsequently, in examining the total amount, we found that there was a sizable amount of money out of the contingency fund, if I remember correctly——

Mr. GAUD. That is right.

Mr. PASSMAN (continuing). That went into a total package, and we were told then the reason that you wanted to fund this project years in advance of completion was that we might have trouble getting the materials and the supplies in, so you wanted to accumulate them on the border, and if they should open the border, then we could take them

on in at one time, and if they did not open the border, that we might be able to use the materials elsewhere?

Do you remember that exchange?

Mr. GAUD. No, sir. I do not remember that that was my testimony. May I say it the way I remember it?

Mr. PASSMAN. Yes.

Mr. GAUD. That it is quite true that we funded out of the contingency fund the contract for the Kabul-Kandahar Road.

Mr. PASSMAN. When did you get some of the material across the border?

Mr. GAUD. In February.

The border was open for a 60-day period starting on January 29, 1962.

Mr. PASSMAN. For the purpose I indicated?

Mr. GAUD. Afghanistan agreed to open the border so that we could put across the goods which had been caught there when the border was closed.

Mr. PASSMAN. It was Afghanistan's second part that we were having trouble with. They were the recipients but they were the ones holding up the material.

Mr. GAUD. At that point it was, you might say, a mutual dispute. The border was closed as a result of the mutual dispute. They did agree to open the border and this stuff went through. Now subsequently——

Mr. PASSMAN. Was it Afghanistan who delayed approving the agreement to open the border?

Mr. GAUD. At that point?

Mr. PASSMAN. Yes.

Mr. GAUD. My recollection is that it was mutual. Wasn't it?

Mr. TALBOT. Yes, sir. You will recall there was a very deep dispute between the two countries which led them to break off diplomatic relations and this dispute went on from the beginning of September 1961 until some months ago and you will be pleased to know that the Governments of Pakistan and Afghanistan have now agreed to the resumption of diplomatic relations, including the reopening of the border, so the traffic will be normalized across the border between Pakistan and Afghanistan.

Mr. PASSMAN. Let me read your testimony from the record:

> If the border does not open, if the material is there, and we cannot get it in through Pakistan, there remains a possibility which we are not a bit enthusiastic about of getting it in through Iran. There is also the possibility of using this material in Pakistan where there are a great many construction projects of the same sort, basically.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. That documents what I just said.

Mr. GAUD. The point that I wanted to come to was the earlier point in your statement as to why we obligated the money in June.

The reason that we obligated the money in June was that this contract had certain options in it and we had a right to exercise—it covered six segments of a road, if you will remember.

Mr. PASSMAN. I am quite familiar with the reasons why you did it. I wanted to find out if the material had gotten through.

Mr. GAUD. I know——

Mr. PASSMAN. We went over this last year.

Mr. GAUD. Let me just say, if I may, why I objected to your statement.

Mr. PASSMAN. Why you did what?

Mr. GAUD. Objected to your characterization of my testimony. We did not exercise the option in order to pile the stuff up at the border. As I have testified last year, we exercised the option because the Corps of Engineers told us that if we did not exercise the option by June 14, 1962, it would cost us many millions of dollars more than the option prices and on page 348 of my testimony I give the reasons for that.

Now you are quite right, sir. Having exercised the option I did testify last year that the border was not open and we were considering the possibility of piling this stuff up at the border so that it would be ready so the contractor could go forward when the border opened. Now, in fact, we did not do this.

Mr. PASSMAN. What you have just said was a supplement to what you said previously when someone was sitting by you and whispered the second thought, while you were sitting there last year. I wanted to ask if you did accumulate the material at the border after last year, after you left the committeeroom.

Mr. GAUD. After we left the committeeroom certain material arrived at the border. First, there were 400 tons of equipment and spare parts which had been ordered prior to the dates that we are speaking of. They arrived there after the border closed and they remained there until January 1963, when they were shipped to Afghanistan via Iran. The only other item that we sent to the border after I testified here last year was 1,500 tons of asphalt. That was ordered by the contractor in July 1962, shortly before I testified here. That arrived at the border in the fall of 1962 and it is still there. We did not store anything else at the border.

Mr. PASSMAN. Let me read some of your comment from the record for last year:

> We want to be in position to go forward with the roadwork as soon as we possibly can so we decided to take up the rest of the contract and procure the materials and have them shipped to Karachi, Pakistan, on the assumption that the border in due course will open. If the border does not open, if the material is there and we cannot get it through Pakistan, there remains a possibility, which we are not a bit enthusiastic about, of getting it in through Iran. There is also the possibility of using the material in Pakistan where there are a great many construction projects of the same sort basically. Now we did this, taking a calculated risk that we would be able to get the stuff through Pakistan.

I think it was established that the responsibility was on Afghanistan, the recipient of the aid, to open the border. Pakistan was willing to do this.

Mr. GAUD. That was certainly true.

Mr. PASSMAN. Here is a country that we want to give tens of millions of dollars to, but they are not willing to open their own border to receive our generosity.

Mr. TALBOT. The fact, Mr. Chairman——

Mr. PASSMAN. Let me finish, if I may.

KABUL-KANDAHAR ROAD PROJECT

How much of the total amount of this package that we discussed last year, including the Contingency Fund, did you obliterate for Afghanistan?

Mr. GAUD. The whole amount.

SHIPMENTS INTO AFGHANISTAN THROUGH IRAN

Mr. PASSMAN. How much of the total amount have you gotten into Afghanistan?

Mr. GAUD. For this road project?

Mr. PASSMAN. Yes. That is the only project you had going there then.

Mr. GAUD. We have shipped through Iran 7,549 tons of aid supplies for Afghanistan.

Mr. PASSMAN. What is the value of these supplies?

Mr. GAUD. I am sorry, I haven't got that.

Mr. PASSMAN. Did you increase your aid program to Iran last year?

Mr. GAUD. No, sir.

Mr. PASSMAN. How much did you have for Iran last year?

Mr. GAUD. What was our aid program in Iran?

Mr. PASSMAN. Yes.

Mr. GAUD. The total aid program in Iran last year was $23,410,000.

Mr. PASSMAN. Did that aid have anything to do with the matter of their letting us get there to get the stuff into Afghanistan?

Mr. GAUD. No, sir.

UNLIQUIDATED OBLIGATIONS

Mr. PASSMAN. How much do you have unliquidated of this package we discussed last year?

Mr. GAUD. For this project, roughly $30 million.

Mr. PASSMAN. You have $30 million of the total?

Mr. GAUD. Of the total——

Mr. PASSMAN. The total last year.

Mr. GAUD. Well, I haven't got it broken down by fiscal year.

Mr. PASSMAN. We need that information because we discussed a fixed sum last year. You were funding this project many years in advance of completion date; is that correct?

Mr. GAUD. Yes, that is right.

Mr. PASSMAN. We were even taking money out of the contingency fund to fund projects that might not be completed for 7 or 8 years. Do you believe any more of the money will be liquidated on the project?

Mr. GAUD. Yes, sir. The project is going forward.

AFGHANISTAN-UNITED STATES RELATIONS

Mr. PASSMAN. Is their attitude as hostile now as before?

Mr. GAUD. The Afghan attitude?

Mr. PASSMAN. Yes.

Mr. GAUD. No, sir. It is quite different. I think Mr. Talbot would like to speak about that.

Mr. PASSMAN. All right, sir.

Mr. TALBOT. Thank you, Mr. Chairman.

It is our judgment that the fact we were prepared to continue our assistance program to Afghanistan during the period——

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. You never did stop it so far as I know. You have had an aid program going on in Afghanistan for the past 10 years, have you not?

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. Thank you.

Mr. TALBOT. I said, Mr. Chairman, the fact that we were willing to continue our assistance program to Afghanistan during the period of their dispute with Pakistan, which had led to the breaking of relations between the two countries, has to our mind been a significant and important factor in the current position of Afghanistan, which is dependent much less on the Soviet Union than we think it would have been otherwise and which in recent months has seen a change in the Government and a new Cabinet, which for the first time in Afghanistan history so far as I know is composed entirely of commoners.

Mr. PASSMAN. Who appoints them?

Mr. TALBOT. A Cabinet which is drafting a new constitution, which will broaden the franchise and will I think speed up the processes of modernization in Afghanistan. We feel, therefore, that this program has been very worthwhile.

Mr. PASSMAN. We are in 104 of the other 112 nations, beginning after World War II with the Marshall plan, in Communist nations, neutralist nations, nations who are not on our side, nations who are two-thirds against us, friendly nations—we are in all of them, and, whatever we do, there is always a reason.

Mr. TALBOT. I hope there is a reason for whatever we do.

Mr. PASSMAN. I am not going to tell the story again about me breaking my leg running to the end of the rainbow.

Mr. RHODES. Would the chairman yield?

Mr. PASSMAN. Mr. Rhodes.

Mr. RHODES. Mr. Talbot, is this another reason why Pakistan is displeased with the United States?

Mr. TALBOT. No, sir; this is not, because the opening of the border was agreed to by the Governments in Pakistan and Afghanistan.

Mr. RHODES. I am not talking about that. You said one reason Afghanistan seems to be friendly toward us is our willingness to provide aid during the time they were having their dispute with Pakistan. Now if Afghanistan was happy, is it too farfetched to think that the corollary is that Pakistan was unhappy?

Mr. TALBOT. I do not believe, Mr. Rhodes, that this has been a factor in Pakistan's unhappiness with the United States of any appreciable proportion.

Mr. RHODES. It seems to me that this is a perfect case, this one and India, where we have two nations which have been neutral at the very best, unfriendly at the very worst and in between them a nation which has always been friendly, yet, because of our desire, almost mania, to

make people who do not like us love us, we apparently have alienated the one that had always been friendly to us.

Mr. TALBOT. Well, sir, on the attitude of Pakistan, first may I say that we do have a firm alliance with Pakistan, that we have given Pakistan a privileged position; that as you have noted, our aid program is very much larger to Pakistan than to India in terms of the total size of the economy or the population.

Mr. RHODES. I did not note that. You did. I certainly have not said that.

Mr. TALBOT. The fact is that our aid program to Pakistan is about twice as large.

Mr. GAUD. Relatively speaking.

Mr. TALBOT. As is that to India in comparison with the population of the two countries and our concern in the military assistance that we have been giving India in recent months, has been to strengthen that whole subcontinent against Chinese Communist threat of aggression, and we trust that it will be possible for Indian and Pakistan to compose their differences. We are very glad that Pakistan and Afghanistan have made such progress in composing their differences.

Mr. PASSMAN. It appears to me that our position with Pakistan has become worsened and their interest with Communist China has become better over the past few months.

Mr. TALBOT. In this past year. Yes; this is correct. This is a strain on our relationships and not a break in our relationships.

Mr. GAUD. As far as the Pakistan-Afghanistan situation is concerned, I think it is fair to say that while the Pakistani had their dispute with Afghanistan they would much sooner have Afghanistan independent on their border than have Russia in there and they welcome our aid program to Afghanistan. I don't think there is any question about that.

SHIPMENTS THROUGH IRAN TO AFGHANISTAN

Mr. ANDREWS. If I remember correctly, last year, Mr. Gaud, you said you could get this material into Afghanistan through Pakistan cheaper than through Iran?

Mr. GAUD. That is true.

Mr. ANDREWS. But most of it went in through Iran.

Mr. GAUD. No, sir; I said we had shipped about 7,500 tons in through Iran. That is a very small part of the total amount needed to carry out this contract. We have shipped in through Iran in the past year as little as we could to keep the contractor going. Now, this has cost more money, there is no question about that, and the total amount it has cost to ship that in there is about $369,000 but we have not sent in any more through Iran than was absolutely necessary, hoping for the day when the border would reopen when we could ship the rest of it through Karachi.

Mr. ANDREWS. The border was reopened in January and February of this year?

Mr. GAUD. No, sir; that was 1962 and it isn't open yet again.

Mr. ANDREWS. How much stuff do you have stacked up in Pakistan?

Mr. GAUD. Nothing, except the 1,500 tons of asphalt.

Mr. ANDREWS. Was that there last June?

Mr. GAUD. That got there in the fall of 1962. It was ordered in July 1962.

Mr. ANDREWS. Since you were before the committee last year.

Mr. GAUD. It was ordered just before I testified.

MATERIAL FOR AFGHANISTAN PROGRAM HELD UP IN PAKISTAN

Mr. ANDREWS. Is that all that is stacked up on the outside?

Mr. GAUD. That is all that is stacked up in Pakistan.

Mr. ANDREWS. What is the dollar value of that?

Mr. GAUD. The 1,500 tons of asphalt? About $270,000.

ADDITIONAL COSTS TO SHIP VIA IRAN

Now let me give you the whole story, Mr. Andrews. I said we have 7,500 tons of that stuff that has arrived in Afghanistan through Iran. There is another 6,600 tons en route between here and there.

Mr. ANDREWS. What is the destination of that material which is en route today?

Mr. GAUD. That is en route through Iran into Afghanistan.

Mr. ANDREWS. Adding to the cost?

Mr. GAUD. Adding to the cost and the cost of delivering that we estimate will be—an additional cost, $455,000.

Mr. ANDREWS. What was that first additional cost?

Mr. GAUD. $369,000. The two of them total $824,000.

Mr. ANDREWS. Nearly $1 million?

Mr. GAUD. That is true.

Mr. ANDREWS. What else do you plan to send over there, and when?

Mr. GAUD. Well, everything else that is on order, if the border is reopened, and there is every indication it will be in a few days, because the Afghans and the Pakistanis have agreed to reopen it and they are now about to exchange ambassadors and diplomatic representatives; everything else will be sent to Karachi and go into Pakistan.

Mr. ANDREWS. Now is there any question about brokers or agents entering this picture?

Mr. GAUD. No.

Mr. ANDREWS. With reference to Pakistan?

Mr. GAUD. No. Do you mean to handle our stuff?

Mr. ANDREWS. Yes.

Mr. GAUD. No, sir.

Mr. PASSMAN. I want to read again from the record for last year:

> We want to be in a position to advance the road work as soon as we possibly can, so we decided to take up the rest of the contract and procure the materials and have them shipped to Karachi, Pakistan, on the assumption that the border in due course will open. If the border does not open, if the material is there and we cannot get it in through Pakistan there remains the possibility which we are not a bit enthusiastic about, of getting in through Iran.

Why it is you were not enthusiastic?

Mr. GAUD. Because of the extra cost. We considered that a last resort.

Mr. PASSMAN (reading):

> * * * would not be a bit enthusiastic about getting it in through Iran.

There is no indication there that cost entered into it.

Mr. GAUD. That is why I was not enthusiastic, Mr. Chairman. That is what I meant.

Mr. PASSMAN. Would it not be difficult for us to read into what you said that your lack of enthusiasm had to do with the cost of getting it in through Iran?

Why would it cost more through Iran?

Mr. GAUD. It is a longer route, sir.

Mr. PASSMAN. I wish you would get for us the rate, we shall say, from the port of New York to the border in Pakistan and the rate from New York to the border in Iran.

Mr. GAUD. Do you mean the Afghan border?

Mr. PASSMAN. To the border where you would have the material put across.

Mr. GAUD. It costs considerably more to ship a ton of goods—it costs relatively little as far as the sea package is concerned. When it comes to going overland, you have a much shorter distance from Karachi to Afghanistan than the route through Iran.

Mr. PASSMAN. I want to read again:

> If the border does not open, if the material is there and we cannot get it in through Pakistan, there remains the possibility, which we are not a bit enthusiastic about, of getting it in through Iran.

Mr. GAUD. That is right.

Mr. PASSMAN. Also:

> There is also the possibility of using the material in Pakistan where there are a great many construction projects of the same type.

Those are your own words.

Mr. GAUD. Quite seriously, I don't understand the problem.

Mr. PASSMAN. It is the extra freight cost that contributed to the lack of enthusiasm?

Mr. GAUD. What else could it be?

POLICY AND COSTS OF UNITED STATES EDUCATION PROGRAM IN AFGHANISTAN

Mr. PASSMAN. Page 6 of the project book indicates that you propose to spend, $5,039,000 on the education activity in Afghanistan; is that correct?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. How much have you spent on education activities since we started the AID program in Afghanistan?

Mr. GAUD. I am afraid I haven't got a total figure here, Mr. Chairman.

Mr. PASSMAN. What year did we start the educational activity in Afghanistan?

Mr. GAUD. I think 1956.

Mr. PASSMAN. This is fiscal 1964. That will be 7 years we have had the program in full effect; is that right?

Mr. GAUD. Yes.

Mr. PASSMAN. What was the literacy rate in Afghanistan at the time we started our education program?

Mr. GAUD. I don't believe I know that.

Mr. TALBOT. Mr. Chairman, those figures are not available because the Afghans themselves haven't developed their statistical base to that extent.

Our policy reason, Mr. Chairman, to go ahead is to help build an educated group in the country which can assist in the public affairs and the further development of the country.

Mr. PASSMAN. A lot of Americans feel that foreigners get priority on our funds.

When a nation will not cooperate in giving statistics on many important factors that should be taken into account when we are considering foreign aid—and it is not a lack of knowledge that prompts some of them to take that position, but just a question of not being willing to give accurate statistics—is such a situation conducive of creating confidence between the donor and the recipient?

Mr. GAUD. I wouldn't accept that as a characterization of Afghanistan.

Mr. TALBOT. No, sir.

AVAILABILITY OF STATISTICAL DATA IN AFGHANISTAN

Mr. GAUD. They just don't have the statistics available. They don't know. This is one of the things we are trying to do in Afghanistan.

Mr. PASSMAN. Did you not testify differently on this same subject today?

(Discussion off the record.)

Mr. PASSMAN. Why do you not put in here "Unable to obtain?" Is that a good question?

Mr. GAUD. Yes, that is a good question. We thought we should give you what information we could.

(Discussion off the record.)

Mr. PASSMAN. Let us show for the record that the information on the divider sheet covers the years 1960, 1961, and 1963. The total expenditures for the year is classified. The defense expenditures are classified for the same 3 years. Capital outlay is classified for the same 3 years. Total domestic revenues are classified for the same 3 years. Deficit or surplus is classified for the same 3 years.

Mr. PASSMAN. Do you have the information furnished by the Afghanistan Government covering the same statistics I mentioned?

Mr. WHITE. There is budget information for 1960 and 1961.

Mr. PASSMAN. Do you people have the information?

Mr. GAUD. Why don't we see what we can find out and submit it?

Mr. PASSMAN. Do you have anything covering last year?

Mr. WHITE. I believe we have something.

Mr. PASSMAN. Do you have last year's book there?

Mr. WHITE. No, I don't.

Mr. PASSMAN. You gave the estimate last year and you did not classify it. It is on page 190.

Mr. GAUD. Are the figures the same as those which we have here for comparable years?

Mr. PASSMAN. No, they are much lower.

Mr. GAUD. As I said, we think these are more accurate figures.

(Discussion off the record.)

Mr. GAUD. I think it is probably the lack of a central budgeting system.

Mr. PASSMAN. Had we not better postpone this aid program until they can at least advance far enough to set up some kind of system to record the intake and outgo of funds?

Mr. GAUD. That is one of the things the aid program is trying to improve in many of these countries.

Mr. PASSMAN. You have an aid program going to tens of millions of dollars for this country. Creating a budget system would not require that much; would it?

Mr. GAUD. We are doing other things as well.

U.S. COMMITMENTS TO AFGHANISTAN

Mr. PASSMAN. Page 7 of your justification indicates our aid will concentrate upon fulfilling present commitments. What commitments do we have to this country, other than those given to the committee last year?

Mr. GAUD. We have a number, Mr. Chairman.

EDUCATION PROGRAM

In 1960 the executive branch made a determination to make $16,886,000 available subject to the availability of funds to assist Afghanistan in improving the educational facilities of the country. This obligation is not again wholly fulfilled.

Mr. PASSMAN. Have you testified to that fact in the past?

Mr. GAUD. The education program has always been included in the congressional presentation.

Mr. PASSMAN. This year you are asking for $5,309,000?

Mr. GAUD. That is right. The commitment was to be spread over the period of the second 5-year plan, 1962 to 1967.

Mr. PASSMAN. Do they have one of those things, too?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Can you give us an itemized list of the conditional commitments that we may have to Afghanistan?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Do you have that information with you?

Mr. GAUD. I was going to go right through them.

Mr. PASSMAN. Education is how much?

Mr. GAUD. The total was $16.866 million. Of that, up to 1964, roughly $6.9 million has already been obligated, so that there is approximately $10 million left and we propose to fund $5.3 million of that in fiscal year 1964.

Mr. PASSMAN. You actually have commitments that take us into 1965 and 1966?

Mr. GAUD. That is correct.

Mr. PASSMAN. Have you ever before told the committee about these commitments?

Mr. GAUD. It is a determination by the President in December 1960. Isn't that notified to the committee, Mr. Chairman?

Mr. PASSMAN. How much is this item?

Mr. GAUD. Roughly $10 million is left of the commitment.

Mr. PASSMAN. You indicated last year that education would be $5.672 million.

Mr. GAUD. For this year, for fiscal year 1963?

We obligated $5.3 million in 1963 on education in Afghanistan.

Mr. PASSMAN. You have less than $10 million. What did you do prior to 1963?

Mr. GAUD. On this commitment, we did $2.2 million in fiscal year 1962.

Mr. PASSMAN. How much?

Mr. GAUD. $2.2 million.

Mr. PASSMAN. What is the total amount that we have given for education since the inception of the program?

Mr. GAUD. Under this particular commitment we have done about nearly $7 million.

We have $5.3 this coming year. That takes you up to $12.3. The total commitment is $16.8. That leaves $4.5 million.

Mr. PASSMAN. I did not know you people could make commitments such as this until you got the money.

Mr. GAUD. This is subject to availability of funds.

Mr. PASSMAN. Let us get into the other categories of commitments.

HELMAND VALLEY DEVELOPMENT

Mr. GAUD. In February 1961 the Afghan Government was informed by the Ambassador that the United States was prepared to make available $10 million for irrigation drainage and other land and water development in the Helmand Valley.

Mr. PASSMAN. Who gave the Ambassador that authority?

Mr. GAUD. As far as I know he obtained it from the State Department.

Mr. PASSMAN. How much had we disbursed against that commitment?

Mr. GAUD. Prior to or——

Mr. PASSMAN. Total against the $10 million.

Mr. GAUD. In fiscal year 1962 and 1963 the total is $3.6 million.

Mr. PASSMAN. There is a commitment we did not know anything about. Category three——

POWERPLANT COMMITMENT

Mr. GAUD. In 1957 a project agreement was signed between the Afghan Government and the United States providing $500,000 for the purchase and installation of two diesel generators.

Mr. PASSMAN. Have you disbursed that money?

Mr. GAUD. Yes, sir; they were installed and subsequently in 1958 and 1959 further agreements, amendments, were signed to increase the scope of the project to include the construction of a powerplant.

Mr. GAUD. We have spent on that——

Mr. PASSMAN. How much, total?

Mr. GAUD. There was no figure in that commitment, sir.

Mr. PASSMAN. How much was spent?

Mr. GAUD. We have spent on surveys of that a total, counting $54,000 in 1963 and $70,000 in fiscal year 1964——

Mr. PASSMAN. That commitment has been completely disposed of, then, has it not, if you have already installed the generators?

Mr. GAUD. No, sir; because the project agreement calls for the construction of a powerplant and that powerplant has not been constructed.

Mr. PASSMAN. It is undetermined as to how much the powerplant would cost?

Mr. GAUD. It is undetermined, in fact——

Mr. PASSMAN. Are there any estimates?

Mr. GAUD. No, sir.

Mr. PASSMAN. Are there any other estimates or commitments?

Mr. GAUD. Yes, sir; in 1956——

Mr. PASSMAN. The powerplant is out. You do not intend to construct it out of any funds?

Mr. GAUD. Not for 1964.

Mr. PASSMAN. The reason being that you have not finished the survey and the plans?

Mr. GAUD. We are still struggling over the question of whether we ought to do it and the like. We are not eager to construct it.

Mr. PASSMAN. Why do you not say that we are not going to construct it?

Mr. GAUD. Because an agreement was entered into to construct it back in 1958 or 1959.

Mr. PASSMAN. Without knowing what it would cost? However, that is not your responsibility.

Mr. GAUD. I understand.

Mr. PASSMAN. But it is our responsibility to find out if we had some person out there making commitments to a project for which we had no idea as to what the ultimate cost would be.

Mr. GAUD. I do not know at the moment whether they had a cost estimate or not.

Mr. PASSMAN. Can some of your staff get that information for us?

(NOTE.—Additional testimony may be found on p. 1269.)

Mr. PASSMAN. Are there any more?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. You are serious, too.

Mr. GAUD. I am dead serious.

Mr. PASSMAN. Yes, sir. I am beginning to detect that you are.

Mr. GAUD. Many of these as you will see are continuing projects. In 1956——

Mr. PASSMAN. Continuing from an original firm commitment?

AIR TRANSPORTATION COMMITMENT

Mr. GAUD. The projects which are underway and which have not yet been finished. We entered into in May 1959, after a determination that it was in the U.S. interest to continue to assist Afghanistan in developing its air transportation system——

Mr. PASSMAN. How much is that account?

Mr. GAUD. An agreement was entered into to provide U.S. dollar funding to cover imported equipment and supplies, engineering construction, and the like.

Mr. PASSMAN. Is that language broad enough to cover 707's?

Mr. GAUD. This did not include any airplanes.

Mr. PASSMAN. Can you give us an estimate of what this will cost?

Mr. GAUD. I can tell you what has happened under it. Through fiscal year 1962 a total of $30.6 million was provided by the United States in constructing four airports, procuring necessary air communications equipment, and the like. The future program, which is a training program, to the existing Afghanistan airline, which is carried

on through Pan American Airways, the fiscal year 1963 level was about $4.3 million and for fiscal year 1964 we are proposing $1.1 million.

Mr. PASSMAN. You say Pan American. Is this contract with them?

Mr. GAUD. No, sir. The contract is with Ariana Airlines, which is the Afghan Airlines and they in turn have a contract with Pan American.

Mr. RHODES. Will you yield?

Mr. PASSMAN. Yes, sir.

Mr. RHODES. Pan American has a rather sizable holding in stock.

Mr. GAUD. Yes, sir.

Mr. RHODES. Is it 40 percent?

Mr. GAUD. Close to 50.

Mr. RHODES. Forty-nine, I believe.

Mr. GAUD. Very close to it.

KABUL-KANDAHAR ROAD COMMITMENT

Mr. PASSMAN. Is that all of the projects?

Mr. GAUD. No, sir; we have the Kabul-Kandahar Road which we were discussing earlier.

Mr. PASSMAN. What is the total cost of the road project?

Mr. GAUD. The total cost of that, we have funded I think $41.4 million on that. According to the Corps of Engineers which is handling the project for us, we have funded all the costs except the annual payment that we make to the Corps of Engineers to carry on the job.

Mr. PASSMAN. What is the total cost?

Mr. GAUD. I have forgotten that figure. We have it here?

It is impossible, really, Mr. Chairman, to estimate the total cost.

Mr. PASSMAN. Do you know how much money you would get if you were justifying any type of project in any of the 50 States in the United States on that kind of estimate?

Mr. GAUD. I was going to say a little bit more.

Mr. PASSMAN. You said enough there. You would not get enough ta mail a letter on that kind of testimony, and you are doing the best you can.

Do you have any other projects?

Mr. GAUD. I haven't finished this one.

Mr. PASSMAN. I thought you said it was impossible to give us an estimate. If that is a statement of fact, what else do you have to offer on it?

Mr. GAUD. I testified last year that we had funded $41.4 million to cover the cost of the contract for the road except for the expenses of the Engineers. Since last year we have changed the specifications on that road, reduced them as far as two-thirds of the road is concerned to substitute a gravel top for a paved top. A change order has been signed on that between the Corps of Engineers and the contractor. That reduces the cost of the road by $3.1 million. However, in the course of the time when this border between Afghanistan and Pakistan was closed, the contractor piled up force majeure claims which will be asserted against us.

He was prevented from doing his work by force majeure. We do not know what the claims will come to and until we know that, which will not be until sometime in the future, that is why I say we do not know what it will cost.

Mr. PASSMAN. This is another mess, another one of many.

Mr. GAUD. It is a mess.

Mr. RHODES. Every time we build a road we have a mess.

Mr. PASSMAN. In one country we started a road for $18 million and wound up with a cost of $179 million. I hope we do not have here a repetition of that condition.

We shall adjourn until tomorrow at 1 p.m.

FRIDAY, JULY 19, 1963.

Mr. PASSMAN. The committee will come to order.

I note an indication of two new projects that are supposed to be initiated by the Afghan Government in fiscal 1964.

WORLD BANK REPORT ON AID TO INDIA

Mr. GAUD. Excuse me, sir. Could I deal with a couple of leftovers from yesterday to get them out of the way?

Mr. PASSMAN. Yes.

Mr. GAUD. Mr. Chairman, you asked yesterday about the report issued by the World Bank on aid to India which was mentioned in the London Economist and also in Barron's of July 15.

I would like to make a statement on the record.

I have a copy here which I would like to give you, but I would like to say a few things about it in advance, if I may. This is a report prepared by the staff of the World Bank; it was not approved by the management of the Bank. It is a report, apparently, to India but it was also prepared for the use of the members of the consortium and was distributed to members of the consortium.

The report, as appears from its face, is designated by the Bank that it may not be published or quoted. It is marked "Restricted." Under the practices of the Bank their "Restricted" is equivalent to our "Confidential." We have been furnished this, as we have been furnished other documents of theirs in the past, with the request it not be released to the public. The Bank feels—and I think it is pretty clear why—that if confidential frank reports by its staff on the situations in various countries were made public, the Bank's work would be seriously interfered with.

We have not asked them for permission to give this to you—we did not want to drag them into this—but we are prepared to give it to you for such use as the members of the committee see fit, with the request it be treated as if it was a classified document of the United States. It is not our document, but we want you to use it. This is one of the documents which we considered and which other members of the consortium considered in deciding how much aid could be given to India in 1964.

Mr. PASSMAN. We will keep the information confidential and we will keep the document under lock and key.

Mr. GAUD. And when you are finished with it, may we have it back?

Mr. PASSMAN. Yes.

JUNE LOAN APPROVALS FOR NEAR EAST-SOUTH ASIA REGION

Mr. GAUD. One or two other matters, if I may.

Yesterday you asked me how many or what volume of dollar loans had been approved in the month of June, and I gave you the figure of $196.7 million. In going over my reports of last month I realized I had been looking at the column which showed the loans approved in my office, the regional administrator's office. In addition there was one loan my office recommended for approval in April and three others in May which were not actually approved until June. They total $94.75 million. So, to get a full picture of what the Agency acted on in June for my region, you should add those to the figure.

Mr. PASSMAN. What would these items make the total?

Mr. GAUD. $291,450,000.

Mr. PASSMAN. For June?

Mr. GAUD. Yes.

Mr. PASSMAN. And what was the total for the 12 months?

Mr. GAUD. $779 million.

Mr. PASSMAN. What percentage would $291,450,000 represent of $779 million.

Mr. GAUD. It would be around 35 percent.

Mr. PASSMAN. Approximately 35 percent of the total amount obligated in fiscal year 1963 was obligated in June?

Mr. GAUD. That is true.

Mr. PASSMAN. Thank you.

ARGHANDAB DAM PROJECT IN AFGHANISTAN

Mr. GAUD. One other matter, sir. We were discussing, shortly before we adjourned, the Arghandab project in Afghanistan and you asked what was the amount that had been estimated for that project at the time the project agreement was entered into. That figure was $2.8 million, for the power project.

Mr. PASSMAN. Is that the amount which has been spent on the project?

Mr. GAUD. No, sir. That is the original estimate.

UNITED KINGDOM INDIA CONSORTIUM TERMS

You also asked me to come up with the results of the Indian consortium. The Indian consortium met yesterday afternoon and met again this morning and is now adjourned until Wednesday.

Mr. PASSMAN. That is all right. We will get the information before the year is over.

Mr. GAUD. One more point. I do not remember whether I made this clear or not yesterday. When we were discussing the interest rates on various aid commitments I spoke of the United Kingdom interest rate as being effectively 3.25 percent. The fact of the matter is their interest rate is still the Treasury borrowing rate plus one-fourth of 1 percent, but there is a waiver of interest for the 7 years' grace period. That reduces the effective rate over the length of the loan to 3.25 percent.

Mr. PASSMAN. But the interest is the Treasury rate plus one-fourth of 1 percent?

Mr. GAUD. Yes; that is correct.

Mr. PASSMAN. And of course some of these commitments could take years before they are finally disbursed. I wonder if that fact is taken into account when you are speaking of the grace period? Each time they draw a check, is the 7 years' grace period from the time they draw the check?

Mr. GAUD. That is my understanding.

ALLEGATION OF U.S. DEFENSE SECRETS GOING TO INDIA

Mr. PASSMAN. I have here an article which was placed on my desk this morning. It is headed "U.S. Secrets Go to India—Vital Defense Installations and Military Data To Be Revealed Under Assistance Agreement." I shall read from the article:

The security clearance of these visiting scientists—the vanguard of several hundred others to follow—is being left up to the government of Prime Minister Nehru—despite strenuous objections by Pentagon security officials.

They warn that tremendous security risks are involved because the Indian Government permits known Communists to hold key scientific posts and to work in crucial defense installations.

Mr. Secretary, are you familiar with the article?

Mr. LEE. No, I am not familiar with it.

Mr. PASSMAN. Are you familiar with these visiting people?

Mr. LEE. No. I would prefer to examine the article before commenting.

(The following information was supplied later:)

There is no basis in fact for the allegation in the Allen-Scott newspaper article to the effect that a program exists under which vital U.S. military secrets are being divulged to Indian scientists. Any training the U.S. Government may provide for representatives of the Indian Government in such fields as those described in the article will be undertaken only if full security precautions are observed. That is, participants in any such training would have to be fully qualified in terms of our own security requirements for such participants as well as those of the Indian Government.

Mr. PASSMAN: All right, but I shall read now the last paragraph:

Behind the news: The State Department is picking up the tab for those Indian political leaders touring the United States in support of more aid for India. One of the officials is S. N. Dwivedy, deputy chairman of the Praja Socialist Party. He is saying that a realinement of political forces is certain after Prime Minister Nehru steps out. According to Dwivedy, if the conservative wing of the dominant Congress Party gains control, the Praja Socialists will soon become the major opposition party. If this happens it will pave the way for the return of former Defense Minister Khrishna Menon, the ousted leftist U.S.-hating intimate of Nehru. Menon still is a key adviser of Nehru, according to intelligence.

Mr. LEE. As Mr. Talbot said, that is not our current estimate of the relationship of Mr. Menon to Mr. Nehru.

Mr. PASSMAN. Anyway, we shall put this article, which was published in the Monroe (La.) Morning World, in the record at this point.

(The article follows:)

U.S. SECRETS GO TO INDIA—VITAL DEFENSE INSTALLATIONS AND MILITARY DATA TO BE REVEALED UNDER ASSISTANCE AGREEMENT

(By Allen and Scott)

That expanded military aid agreement the United States is signing with India contains an unprecedented provision for a neutral country—giving her scientists access to vital U.S. defense installations and military secrets.

Arrangements already are underway by White House assistants to bring 50 Indian scietnists here this fall to familiarize them with the development and operation of top-secret rocket launching and radar systems.

Under terms of this still-classified agreement, the Defense Department will roll out the red carpet for the Indian scientists and make available to them the most sensitive details of the Army's Nike-Hercules antiaircraft missile system, the Air Force's ground-to-air communication systems, and other vital details of U.S. radar developments.

The security clearance of these visiting scientists—the vanguard of several hundred others to follow—is being left up to the government of Prime Minister Nehru, despite strenuous objections by Pentagon security officials.

They warn that tremendous security risks are involved because the Indian Government permits known Communists to hold key scientific posts and to work in crucial defense installations.

Also citing the extremely close ties between scientific groups in India and Russia, the Defense security officials noted that under the United States-India Pact there are no effective bars against the Indian scientists' passing on knowledge they gain in this country to Soviet friends.

Squarely in line with this backstage Pentagon fear is the fact that a high-level Indian military mission is en route to Moscow to discuss a similar military agreement with the Soviet. Also, a large group of Indian scientists, among them some slated to come here, recently returned from an extended tour of Russia.

Senate Armed Services Committee members, headed by Senator Richard Russell, Democrat, of Georgia, are planning to summon Deputy Assistant Defense Secretary William P. Bundy, who drafted the Indian agreement, to question him about these disquieting backstage details.

Bundy, a former CIA official who handled the controversial jet fighter sale to Yugoslavia in 1960–61, will be grilled particularly on why he failed to transmit this information to the congressional committees he briefed on the India aid program.

Secret deal? The Senators also contemplate interrogating Bundy and other administration officials about a suppressed intelligence report that the Nehru government is considering permanently surrendering the original target of Red Chinese border aggression.

According to this intelligence document, top members of Nehru's regime favor formally acknowledging Chinese sovereignty over some 15,000 square miles of the Aksai Chin area in northeastern Ladakh. This is the region where Peiping has built a strategic road linking its Sinkiang Province with conquered Tibet.

In return for this reputed backdown—which is directly counter to the announced policy of India—Nehru would seek concessions elsewhere as part of a broad settlement of the long-pending frontier dispute with the Communists.

In recent weeks Premier Chou En-lai is known to have made to Delhi overtures for a border deal. Senate Armed Services Committee members want to know how this development may affect this country's huge military aid program to India.

They are especially bent on ascertaining whether disclosing vital U.S. military secrets to India really is essential to stem Red Chinese aggression, or if the Indian scientists are being brought here as part of an elaborate plan of a small group of administration policymakers to build India into a so-called third force military power in southeast Asia.

Behind the news: The State Department is picking up the tab for those Indian political leaders touring the United States in support of more aid for India. One of the officials is S. N. Dwivedy, deputy chairman of the Praja Socialist Party. He is saying that a realinement of political forces is certain after Prime Minister Nehru steps out. According to Dwivedy, if the conservative wing of the dominant Congress Party gains control, the Praja Socialists will soon become the major opposition party. If this happens it will pave the way for the return of former Defense Minister Khrishna Menon, the ousted leftist U.S.-hating intimate of Nehru. Menon still is a key adviser of Nehru, according to intelligence.

SYRIA

Mr. PASSMAN. A good many years ago we had an aid program in Syria, but then, at the request of Syria, we dropped the aid program and they went for several years without any type of U.S. assistance, even including the technical aid. Is that correct?

Mr. GAUD. Yes; that is true. We had a small Public Law 480 program, but we had very little until 1959 or 1960.

Mr. PASSMAN. So, in effect, we had no aid program in Syria for many years. I think maybe we had $400,000 in 1949 to 1952; then we skipped over to $300,000 in 1954; and skipped over 1955 and had $100,000 in 1956, $200,000 in 1957, and $200,000 in 1958. Those figures will add up to a little over $1 million from the inception to, let us say, 1960. But your aid program really got underway in 1960?

Mr. GAUD. That is correct.

Mr. PASSMAN. It would appear they had peace and calm in that nation during all the years of the giveaway program when we were not in there, and it would appear that when we started going in with tens of millions annually they have had little else but turmoil since we went in. Whether our aid program had anything to do with it, I do not know, but usually when you fill the till the outs want to get in. We went in in 1960 with a $14 million aid program, in 1961 with $14.9 million, in 1962 with $35.9 million, and for 1963 we do not have the figure yet.

Mr. GAUD. I can give you the figures on that. There were $200,000 development grants——

Mr. PASSMAN. Give us the total.

Mr. GAUD. The total is $1.8 million.

Mr. PASSMAN. It would appear they were getting along pretty good until we went in there with aid money and then they started overthrowing governments. Have they overthrown any this week?

Mr. GAUD. They tried.

Mr. PASSMAN. It looks as if they are about to succeed.

Mr. GAUD. My information is no later than this morning's paper which said the revolt had not succeeded.

Mr. PASSMAN. But it would appear that as long as we were not in there with aid they had relative peace and quiet, but as soon as we got in with an aid program they started fighting. I wonder if this is because there is gold in those hills?

Mr. GAUD. As far as 1963 is concerned, our aid program was $200,000 plus Public Law 480 of $1.6 million. There is no tens of millions there. As far as 1964 is concerned———

Mr. PASSMAN. You do not know what you will have in 1964. And you tell us you do not know what you will do with the money.

Nevertheless, it would appear they began to have their trouble in 1960, and that was when we started with $14.4 million, and in 1961 it was $35 million, was it not?

Mr. GAUD. In 1960 they got $14.4 million.

Mr. PASSMAN. And in 1961 they got $35 million?

Mr. GAUD. Yes.

Mr. PASSMAN. And the government toppled, and did it not topple again in 1962?

Mr. LEE. They did have a change of government in 1962, yes.

Mr. PASSMAN. So there is some indication that when you fill up the coffers there is something to fight for and trouble erupts.

Mr. GAUD. There is no doubt that in Syria at the present time there is a government in power and at least two forces eager to overthrow that government.

Mr. PASSMAN. How many governments have they had there since 1960? That is when we really started handing out the aid with a big spoon.

Mr. LEE. I would have to review it. I do not know.

Mr. GAUD. Certainly a number.

Mr. PASSMAN. Since September 1961 there have been, I believe, three changes in government in Syria.

We shall insert this news report in the record:

(The matter referred to follows:)

[From the Washington Daily News, July 18, 1963]

HEAVY FIGHTING IN DAMASCUS—SYRIA REPORTS A NEW REVOLT

BEIRUT, LEBANON, July 18 (UPI).—A revolution was reported in the Syrian capital of Damascus today, with tanks, artillery, and infantry involved in fighting.

At noon radio Baghdad in neighboring Iraq reported an attempt to overthrow the Syrian Government had been foiled.

The Syrian-Lebanese border was sealed this morning.

The British Embassy here said it received a cable from Damascus reporting fighting in the center of the city with small arms, tanks, and artillery in action within sight of the Embassy there.

CURFEW

Damascus radio announced a curfew this morning, warning citizens they risked being shot on sight. Then it suddenly went off the air.

Damascus radio indicated a coup may have been staged by followers of Maj. Gen. Ziad Hariri, former Defense Minister and chief of staff who was forced into exile in Paris this month.

Hariri helped the Baathist government of Syria oust pro-Nasser elements from power, then was purged himself.

Syrian Revolutionary Counsel President Louai Attassi went to Cairo from Damascus today for talks on reviving the United Arab Republic.

UNAWARE

Cairo reported Attassi arrived there, apparently unaware of happenings in his country.

Syria, Iraq, and the present United Arab Republic have agreed to form the new Arab union, but there have been violent dissensions in Syria on the form the union ought to take.

All telephone and telegraph communications between Syria and the outside world were cut off shortly after the British received the cable from their Damascus Embassy.

Damascus broadcast heard in Beirut reported some wounded.

It was not immediately clear who was staging the revolution, which would be the latest in a series of about a dozen uprisings in Syria since the war.

AFGHANISTAN

NEW PROJECTS

Mr. PASSMAN. Page 7 indicates two new projects are being initiated by the Afghan Government in fiscal 1964. How much of the $759,000 estimate would be used on those two projects?

Mr. GAUD. The two new activities are ground water development and self-help irrigation, with projected costs of $224,000 and $69,000, respectively.

Mr. PASSMAN. What is the average cost of the 10 participants under this project?

Mr. GAUD. $8,900 per participant.

Mr. PASSMAN. Is that the cost for 1 or 2 years?

Mr. WHITE. One year.

Mr. PASSMAN. Does that figure not set an alltime record for cost per participant?

Mr. GAUD. I would prefer to check on that.

Mr. PASSMAN. We wish you would do so.

Mr. GAUD. Yes, sir.

(The information follows:)

COST OF PARTICIPANTS, NATIONAL AGRICULTURAL DEVELOPMENT PROJECT, AFGHANISTAN

Five participants are funded for 1 year, and the training of each costs $6,000. Five are funded for 2 years, and the training cost of each of these is $12,000.

HELMAND VALLEY PROJECTS

Mr. PASSMAN. What is the total amount of funds included in fiscal 1964 for the Helmand Valley project?

Mr. GAUD. $304,000.

Mr. PASSMAN. Is that sum for one project?

Mr. GAUD. Yes.

Mr. PASSMAN. Are there not six projects, with a total cost of $1,991,000?

Mr. GAUD. There are other projects involving Helmand Valley, if that is what you mean.

Mr. PASSMAN. It would appear there are six projects. On page 8 there is one project.

Mr. GAUD. Page 10 is another; page 25 is another; and there are three others for which we are requesting less than $100,000 apiece, which are not on separate pages in the printed book. There are six projects relating to Helmand Valley, if that is the question, sir.

Mr. PASSMAN. At a total cost of $1,991,000?

Mr. GAUD. I will accept your arithmetic.

Mr. PASSMAN. Can you give the completion cost for all six of them?

Mr. GAUD. I would have to add it up.

You want to include 1964, I take it?

Mr. PASSMAN. Yes.

Mr. GAUD. $8,327,000.

Mr. PASSMAN. Will that be the amount you will spend through fiscal 1964?

Mr. GAUD. No, sir; to the completion of the project. The fiscal 1964 estimate for these projects is $1,991,000.

Mr. PASSMAN. Can you tell us when the projects will be completed?

Mr. GAUD. All of these projects?

Mr. PASSMAN. Yes.

Mr. GAUD. The Helmand Valley as a complete proposition will not be completed for many, many years. This is a very complicated irrigation and resettlement and development project that will be going on for many, many years. How long we will work on it and what we will spend on it will depend on how much the Afghans contribute, and so forth and so on.

Mr. PASSMAN. Have you used the system of consolidating projects under a capital project, where you had several projects previously scattered, but now they come under one project, and at the bottom of the list you will have the projects listed that are part of the capital project?

Mr. GAUD. We have discouraged that, but we have done some consolidation of development grant projects.

Mr. WHITE. We have noted where this was done.

Mr. PASSMAN. Here we are dealing with projects for which you do not even have an information sheet.

Mr. GAUD. Those involving less than $100,000.

Mr. PASSMAN. But you can start a project with $10,000 and wind up with $5 million.

Mr. GAUD. They are listed on page 28.

Mr. PASSMAN. That is your total, but I am asking about individual sheets. You do not have a sheet showing when it will be completed and what the total cost will be, do you?

Mr. GAUD. We do not.

Mr. PASSMAN. And that is how many of these things get started. You start with $10,000 and later it is $50,000 and the first thing you know we are getting into million-dollar projects. In the future I wonder, even if it is a 65-cent project, if you would not have a sheet for it?

Mr. FLINNER. Mr. Chairman, do I understand you want a separate project sheet?

Mr. PASSMAN. Yes. The first thing you know you begin to step them up and that is how many of these projects get started.

Mr. GAUD. I would be happy to give you the future estimates of funding on these particular three, Mr. Chairman.

Mr. PASSMAN. Let me read from page 322 of the hearings of last year on the Helmand Valley project:

Mr. PASSMAN. What is the total cost of the project to completion, from all categories?

Mr. GAUD. It is very close to $112 million, of which $61 million was the Afghanistan Government's part.

Mr. PASSMAN. How much is our money?

Mr. GAUD. AID and Export-Import Bank about $51 million spent and to be spent.

Mr. PASSMAN. I shall quote:

"The project is regarded by the royal Government of Afghanistan as an American project."

Continuing to quote:

"In view of major financed commitments from U.S. agencies, including the Export-Import Bank which loaned $39.5 million and the fact that an American contractor worked on the project from 1946 to 1959."

Am I reading correctly?
Mr. GAUD. Yes, sir.

Now, what is the figure you gave us a while ago?

Mr. GAUD. For these six?

Mr. PASSMAN. Yes, for the Helmand Valley project.

Mr. GAUD. I gave you a figure of $8,327,000 for these six.

Mr. PASSMAN. Last year you gave us a figure of $112 million.

Mr. GAUD. I beg your pardon. I thought your question was how much money are we going to spend in the future on these projects.

Mr. PASSMAN. I wanted the total.

Mr. GAUD. I misunderstood your question; I am sorry.

Mr. PASSMAN. We are trying to project it to completion. Now, could you project it to completion, the Helmand Valley project?

Mr. GAUD. What page were you reading from?

Mr. PASSMAN. Pages 322 and 323 of the hearings of last year.

Mr. GAUD. Again, we will have to go in the arithmetic, Mr. Chairman.

Mr. PASSMAN. While you are doing those figures, I think it is appropriate to note that this subcommittee could never examine on every project scattered in 104 nations and several possessions which are either continuing, concluding, or starting, when you have upward of 2,200 projects. When you scatter them like this—I do not know if it is by design or not—we cannot possibly go through and examine on every project, and I am wondering why this is done, such as in the case of the Helmand Valley projects, if it is not to cause confusion.

This is the Helmand Valley project, yet you have it scattered in three different places. You have six projects and you have sheets on only three of them. If it were consolidated in one project, then we could get some idea as to the cost.

Mr. GAUD. Mr. Chairman, that is certainly not the reason for having separate sheets, to confuse you.

Mr. PASSMAN. You will admit it is confusing?

TYPES OF PROJECTS IN HELMAND VALLEY

Mr. GAUD. These projects, as you will see, are different types of projects, involving different types of technicians, and different specific objectives.

Mr. PASSMAN. Here you have six projects which are actually one project, the Helmand Valley project. What are the six projects; briefly?

Mr. GAUD. The first one is an agricultural development project.

The next one is the power facilities project.

Mr. PASSMAN. Helping agriculture?

Mr. GAUD. In part; also industry.

Mr. PASSMAN. It is an agricultural valley; is it not?

Mr. GAUD. It is a valley in which they are also trying to promote small industry.

Mr. PASSMAN. Let us hope they succeed.

What is the next one?

Mr. GAUD. The next one is called Helmand Valley development; which is primarily irrigation.

Mr. PASSMAN. It has to do with agriculture?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What is the next one?

Mr. GAUD. Surface water investigation.

Mr. PASSMAN. Does that have to do with agriculture?

Mr. GAUD. Yes; and also water for drinking and water for other purposes.

Mr. PASSMAN. Farmers drink water too.

What is the next one?

Mr. GAUD. The next one is public health and sanitation.

Mr. PASSMAN. That has to do with farmers in the valley?

Mr. GAUD. Yes; and other activities.

Mr. PASSMAN. What other activities?

Mr. GAUD. They are trying to promote light industry down there.

Mr. PASSMAN. What is the next one?

Mr. GAUD. The next one is the Helmand Valley Audiovisual Center which is connected with teaching agricultural techniques, drainage, and the like.

Mr. PASSMAN. It is an agricultural project and to attract small industry?

Mr. GAUD. That is essentially it.

Mr. PASSMAN. Last year the estimate was $112 million. What is the amount this year?

Mr. GAUD. We figure the total cost for completion of this project from the Afghan Government, the Export-Import Bank and AID will be $112 million.

Mr. PASSMAN. That is the same as you told us last year.

Mr. GAUD. There is a little over $8 million still to go.

MINERAL RESOURCES PROJECT

Mr. PASSMAN. The next project is the mineral resources project, on page 9, for which $363,000 is requested. What is the annual cost per participant?

Mr. GAUD. It looks like $11,000, if this is an annual figure.

Mr. PASSMAN. In order to get up to $4.5 billion, it seems that maybe the projects have to add up to that amount. We move from $8,000-plus to $11,000-plus and we are still in the same community.

Mr. GAUD. I do not accept your premise as to how this is made up.

Mr. PASSMAN. How do you arrive at the $4.5 billion if you do not add them up?

Mr. GAUD. We do not start with the $4.5 billion request and build up to that. We add up the projects and arrive at the request.

Mr. PASSMAN. Before even cranking up and moving out of the same chicken yard the participants have moved from $8,000 to $11,000. How do you account for that fact?

Mr. GAUD. I will provide a statement for the record.

(The statement follows:)

COSTS OF PARTICIPANTS, MINERAL RESOURCES PROJECT, AFGHANISTAN

Three participants are funded for 2 years, at a cost of $11,000 each.

AIR TRANSPORTATION PROJECT

Mr. PASSMAN. Page 11 indicates that through 1963 you have obligated $31,109,000 for the Air Transportation project. Is that correct?

Mr. GAUD. Yes.

Mr. PASSMAN. And your estimate for 1964 is $1,124,000?

Mr. GAUD. Yes.

Mr. PASSMAN. Projected to completion, what is the cost?

Mr. GAUD. After 1964 we estimate——

Mr. PASSMAN. Let us get the total cost.

Mr. GAUD. You mean from beginning to end?

Mr. PASSMAN. Yes.

Mr. GAUD. $34,303,000.

Mr. PASSMAN. What are we getting out of that project other than the pleasure of spending money, if you get pleasure out of it?

Mr. GAUD. We are getting several things out of it.

Mr. PASSMAN. Name one.

Mr. GAUD. When this project was first gone into, which was the late 1950's, there was every likelihood that the Soviets would take control of the air transportation system of Afghanistan. Our political specialists felt it was important that this not happen. It hasn't because of our aid program.

Mr. PASSMAN. Can you give us that information indicating whether or not you succeeded?

Mr. GAUD. We succeeded in the sense that their air transportation facilities, the air communication facilities, and so forth, are made in the United States and the traffic is carried on in English and it is a Western system.

In addition, we have built four airports, with a fifth coming up, in Afghanistan to help to open Afghanistan to the West. She has very poor access to the West and very good access to Russia.

In addition, Afghanistan has an airline in which Pan American owns 49 percent and this has enabled us to keep that presence and to develop contacts with the country.

Mr. PASSMAN. Is this a subsidy to Pan American and her subsidiary?

Mr. GAUD. No, sir.

Mr. PASSMAN. They own 49 percent of the airline you mentioned and they use these facilities to carry on their system.

Mr. PASSMAN. What was the primary purpose of the airports?

Mr. GAUD. The primary purpose was to provide Afghanistan an access to the West. Pan American certainly benefits from this, but the purpose was not to subsidize Pan American.

Mr. PASSMAN. But the indirect effect is the same thing, because Pan American goes in there, do they not, and they own 49 percent of the airline?

Mr. GAUD. Pan American does not fly planes in there.

Mr. PASSMAN. But Pan American's subsidiary airlines are domiciled in Afghanistan?

Mr. GAUD. It is an Afghanistan corporation.

Mr. PASSMAN. And the primary purpose of those airports is to make possible the operation of the airline system?

Mr. GAUD. The airlines are the principal users of the airports, yes.

Mr. PASSMAN. So this should be a substantial subsidy to Pan American?

Mr. GAUD. Pan American certainly benefits from it.

Mr. PASSMAN. Thank you.

U.S. ASSISTANCE TO COUNTRIES WITH HEAVY EXTERNAL INDEBTEDNESS TO BLOC

What would be your position—and maybe you or the Secretary have experienced this already—if we should find out some of these so-called friendly people were involved in a scheme to draw off our resources?

Mr. GAUD. I do not think we should give aid to any country unless we felt we were getting some advantage from it.

Mr. PASSMAN. If a nation that we are giving assistance to, prior to the time that we started a substantial aid program in the country had agreements with members of the Sino-Soviet bloc and had created firm obligations for commodities or equipment, would it be our position to try to get them to default on their payments or would we recommend that since they entered into the commitments they should pay their debts? What is your position?

Mr. GAUD. I do not think we have taken any position on that.

Mr. PASSMAN. Would we encourage them to liquidate an obligation to members of the bloc or just stop payment?

Mr. GAUD. If you are speaking to me as an individual, I would not encourage anybody to default on an obligation they had.

Mr. PASSMAN. We do know that Sukarno's government is heavily in debt to Russia. Now we are going in with a fantastically high aid program in Indonesia.

Mr. GAUD. That is not my understanding of the fact.

Mr. PASSMAN. What is not your understanding of the fact?

Mr. GAUD. I did not understand we were going in Indonesia with a heavy aid program.

Mr. PASSMAN. You need to get a better understanding. We are going in there with a superduper program. We know Indonesia is heavily obligated to Russia for commodities and military equipment and we are going in there in 1964 with a ——— program and in 1963 it was $38,100,000. That would be substantial, would it not? And you have another one, Public Law 480, in 1963 it was $63 million and in 1964 it is ——— and military assistance is ——— million. Would that aid not be termed rather substantial?

Mr. GAUD. Yes; but Indonesia is not in my region, and I am not acquainted with all of the facts and judgments.

Mr. PASSMAN. I was just talking about instances where we are getting a fantastically high aid program in nations heavily in debt to Russia.

Mr. GAUD. It is my understanding our policy in Indonesia, except for Public Law 480, is to condition what we do for her on stabilization.

Mr. PASSMAN. The checks go out just the same, no matter what the conditions are. We know Indonesia is heavily in debt to Russia. If they could draw heavily from us they might be able to take what they get from us to pay Russia. So it appears to me we are getting boxed in. Indonesia will earn some money from her exports and if we relieve her to the extent we give her aid, she could pay her debt to Russia.

REGIONAL TRANSIT PROJECT

The next project is on page 13, Afghan regional transit, for which your estimate for 1964 is $780,000, notwithstanding the fact that you have unliquidated as of June 30, $29,907,000.

Mr. GAUD. That $780,000 is primarily to cover the cost of the Corps of Engineers, who are supervising the building of the Kabul to Kandahar road.

Mr. PASSMAN. Here is a project started in 1958 and scheduled to end in 1965 and you have unliquidated $29,907,000 and you are asking for $780,000.

How can you determine you need any money with this much unliquidated funds on hand when you consider the amount that you disbursed in 1963?

Mr. GAUD. The bulk of this money was obligated last year to take up the contract for the construction of the entire road. We cannot use that money to pay the Corps of Engineers, which is supervising the job. We have to request an appropriation to pay the Engineers for doing the supervisory work.

Mr. PASSMAN. Is that the one we agreed yesterday was a mess? That is the word I used and you concurred?

Mr. GAUD. Yes, sir.

Mr. ANDREWS. Mr. Chairman, may I ask a question?

Mr. PASSMAN. Of course.

Mr. ANDREWS. On page 13, with reference to the Kandahar part of the road, you say:

> The decision was taken in January 1963 to continue building the road using the Iranian route to the extent necessary, but to modify the original specifications for segments III–VI from asphalt to gravel.

Mr. GAUD. That is right.

Mr. ANDREWS. I assume you want that road to be a permanent road?

Mr. GAUD. Yes.

Mr. ANDREWS. How long will a gravel road last out there?

Mr. GAUD. We made this decision on the advice of the Corps of Engineers as well as our own people. We were, of course, interested in saving money, because the cost of shipping goods through Iran is higher. They told us if we changed it from asphalt to gravel the road would carry the same traffic, and would be just as serviceable for many years.

Mr. ANDREWS. Is this a rainy area?

Mr. GAUD. No, very dry.

Mr. ANDREWS. Where will you get the gravel? From the locality?

Mr. GAUD. Yes.

Mr. ANDREWS. It looks like that would reduce the cost of the road?

Mr. GAUD. It reduces the cost by $3.1 million.

Mr. ANDREWS. But that is offset by the imported material so that the original estimate of cost is the same?

Mr. GAUD. The reduction of $3.1 million is offset to the extent of several hundred thousands by the added cost of sending goods through Iran. But there are also the unknown costs which may eat up the rest. These are the force majeure claims by the contractor, which have not been formally filed.

Mr. ANDREWS. How much will that road cost per mile?

Mr. GAUD. It is roughly a 300-mile distance and the total cost of the road is around $45 million, roughly. That is about $150,000.

Mr. ANDREWS. $150,000 per mile?

Mr. GAUD. Yes, sir.

Mr. ANDREWS. How does that cost compare with road construction costs in this country?

Mr. GAUD. I am not enough of an expert to know. The contract was let on competitive bids by the Corps of Engineers.

Mr. ANDREWS. Is it an American contractor?

Mr. GAUD. Yes.

Mr. PASSMAN. Did the Corps of Engineers have the project from the beginning?

Mr. GAUD. Yes.

Mr. PASSMAN. How did we make such a mess of it?

Mr. GAUD. It is a mess only in the sense actual construction started in August 1961 shortly before the border was closed. The border was closed 5 months, opened for 2 months, and has been closed since. We have been trying to keep the contractor going there. He has been running up force majeure claims. It just has not worked out well.

Mr. PASSMAN. What is the latest estimate on the unliquidated balance as of June 30? Do you have that information, Mr. Controller?

Mr. FLINNER. No; we do not have a later figure than is in the book.

Mr. PASSMAN. It seems that you would have something later than this. This book was made up last spring.

Mr. GAUD. Early spring.

Mr. FLINNER. We get this report from the field on a quarterly basis.

Mr. PASSMAN. What is the last period you have?

Mr. FLINNER. I do not have with me the project report from Afghanistan. The last period we would have in our office would be March 31.

Mr. PASSMAN. What amount do you show unliquidated as of March 31?

Mr. FLINNER. I do not have that with me.

Mr. PASSMAN. Could you call down and get that information?

EFFECT OF CLOSING OF BORDER ON ROAD CONSTRUCTION

Mr. RHODES. Mr. Gaud, the reason the road is a mess is largely due to the Afghans?

Mr. GAUD. Due to the fact they will not let us put our aid goods across the Pakistan border.

Mr. PASSMAN. Is it not a fact that we had the material at the border and the Afghans would not open their border for us to take the equipment in to build the road, even when it was free?

Mr. GAUD. That is true.

Mr. RHODES. We are building a road for them. It is costing us more than it should cost because of their own intransigence.

In other parts of the world, overruns are charged to the host country. Are you going to charge the overruns to Afghanistan on this road?

Mr. GAUD. We have in effect, we believe, accomplished that by changing the type of road, reducing it from an asphalt to a gravel road, which we believe will cover the additional cost. That is just what we are doing.

Mr. RHODES. Have you gotten any advice from the Bureau of Public Roads on this?

Mr. GAUD. The Corps of Engineers is handling this.

Mr. RHODES. Are they better roadbuilders than the Bureau of Public Roads?

Mr. GAUD. I would not want to say. They have been handling this project for several years, and we look to them for advice on it.

We have executed a formal change order on the recommendation of the Corps of Engineers. This change makes sense, and their estimate is that it will save us $3.1 million.

Mr. RHODES. Originally the Corps of Engineers thought this ought to be an asphalt road?

Mr. GAUD. That is a difficult question to answer for me, because I was not in on it.

I know there were a great many differences of opinion as to what kind of a road this should be. The Afghans wanted one kind of a road. Various possibilities were discussed. Our Embassy was in on it. Whether the ultimate decision was made a technical decision, or another decision, I do not know.

Mr. RHODES. The main reason you made the change is because you did not have the money to build it as originally planned?

Mr. GAUD. I would put it this way: The main reason we made it was we felt since these added costs were due to the Afghans' refusal to open the border, they should in effect pay for the additional cost.

Mr. RHODES. Mr. Gaud, we are making them pay by giving them a less efficient road?

Mr. GAUD. Not according to the advice we have.

Mr. RHODES. What are they paying?

Perhaps we should have planned to build this road that way from the first.

If you read back over the record of your own testimony, I think you will agree with me. It makes no sense at this stage of the game for us to change the type of road merely because of the Afghans' intransigence. We are trying to make them pay for overruns by giving them a road that apparently, according to the Corps of Engineers, is as good as the one you were going to build anyway, even though it is cheaper.

Mr. PASSMAN. You planned some type of hard surface road—asphalt, I believe—to begin with, did you not?

Mr. GAUD. That is right.

Mr. PASSMAN. You are substituting gravel for four segments of the road?

Mr. GAUD. That is correct.

Mr. PASSMAN. Which is an inferior type of road, is it not?

Mr. GAUD. Not necessarily.

Mr. PASSMAN. You mean a gravel road is not inferior to a hard-top road?

Mr. GAUD. Not necessarily. Certainly that is usually so.

Mr. PASSMAN. Where would a gravel road be superior to a hard surface road?

Mr. GAUD. In that country, I am not sure there would be that much difference.

Mr. PASSMAN. Why did you not plan the gravel at the beginning? You are building the gravel road now because it costs less?

Mr. GAUD. We are.

Mr. PASSMAN. You are building the road with gravel because it will cost less than surfacing with asphalt?

Mr. GAUD. The asphalt road was certainly regarded as a more desirable road by the Afghans. How much better it is in this particular situation, I do not know.

Mr. PASSMAN. If you had your way, if you could have built the hard surface road, you would have done so?

Mr. GAUD. I would.

Mr. PASSMAN. This is the first time in all my years that I have heard that a gravel road would equal a hard surface road in quality.

Mr. GAUD. Here is what we were faced with—carrying literally thousands of tons of asphalt over a long railroad haul and then over a several hundred mile truck haul; if we had to do this through Iran, I do not think anyone in his right mind would have done that.

We felt as a matter of policy that we had to continue this road. We could not leave it half finished.

Mr. ANDREWS. Why?

Mr. GAUD. We felt as far as the United States was concerned, its name would be mud in Afghanistan if we left this project half finished.

Mr. PASSMAN. We are building this road for the benefit of the Afghans?

Mr. GAUD. For them to use.

Mr. PASSMAN. Did we accumulate the road material and the machinery and what it would normally take to build this road at a border in Pakistan?

Mr. GAUD. No, sir.

Mr. PASSMAN. What was it we were talking about that the Afghans would not open the border to permit delivery?

Mr. GAUD. They closed their border in September 1961. Over the course of the next few months, material that had been ordered for Afghanistan was at the border. They opened the border for 2 months and that material all went in. After the border was closed again, we accumulated only 1,500 tons of asphalt.

Mr. PASSMAN. It was the Afghans who did not want to open the border to receive our generosity?

Mr. GAUD. That is correct.

Mr. PASSMAN. If we had said, "The American taxpayers are willing to put up their money to do these things for you in order to help your country; now, if you are that stubborn, we are going to forget the entire matter," what would have been their position?

Mr. GAUD. Mr. Talbot said yesterday in the judgment of the State Department it was worth more to the U.S. policy to stay in Afghani-

stan than to get out. Since that time, the Afghanistan Government has changed, has completely reversed its field in many respects. Query: If we had gotten out of Afghanistan at that time, what would be the position there today? It is hard to guess, but it is hard to believe it would have been as favorable to the West as it is today.

Mr. PASSMAN. That is, of course, speculation.

Mr. GAUD. Speculation, but who can tell?

Mr. PASSMAN. I never thought that I would sit across the table from intelligent people and have them tell me we are willing to be generous and give away tens of millions of dollars to a country, something that will help them, but they are not willing to open the border and receive the material and equipment so we can get in and do these things.

If I had ever been told we would reach the position where we are going to force ourselves on a nation to take our aid, as in this situation, I would not have believed it.

Mr. GAUD. Two comments, if I may.

We did not do this merely because we thought this was the best thing for Afghanistan; we did it because we thought it was in our own interest to do it.

Second, they were not refusing our aid. They were asking for our aid. They wanted us to bring it through Iran. It is not that they did not want the aid. It was their difference with Pakistan that was getting in the way. We did this because we thought it was in our own interest to do it.

Mr. PASSMAN. They were the recipients of the aid, were they not?

Mr. GAUD. That is right.

Mr. PASSMAN. They knew it would cost more to get the goods in through Iran than through Pakistan?

Mr. GAUD. They did.

Mr. PASSMAN. They were willing to forego getting the material rather than receive it through Pakistan?

Mr. GAUD. They wanted to get it through Iran.

Mr. PASSMAN. But there was a holdup there, and we had to prevail upon them to let some get in through Pakistan. But we had to take the other in through Iran?

Mr. GAUD. That is what happened.

Mr. PASSMAN. They knew this procedure would cost us more.

Mr. GAUD. Yes, they did.

I beg your pardon. I should not say that. They had disputed all the way through that it would cost more to get material in through Iran than it would to take it up through Pakistan.

Mr. PASSMAN. What if you should find out that you can get it in through Iran for less?

Mr. GAUD. We have not found that out. We have found it is more expensive to go through Iran.

Mr. PASSMAN. Why did you not find that out before you ever got into the matter, before you ever took any of the shipments through Iran?

Mr. GAUD. We did tell them.

Mr. PASSMAN. Why did you not refuse to go in that way?

Mr. GAUD. Because we believed it was to the United States interest to maintain an aid program in Afghanistan, even if we had to pay the extra costs.

Mr. PASSMAN. Notwithstanding their stubbornness.

I yield to Mr. Andrews.

Mr. ANDREWS. I always heard that you should never look a gift horse in the mouth. Maybe that is an oldtime saying. Perhaps that is too old fashioned for these modern days of jets and other things.

Could you take stuff into Afghanistan through Iran without going through some part of Pakistan?

Mr. GAUD. Oh, yes. You go in at the head of the Persian Gulf at the port of Khorramshahr. The material is put on a railroad there which goes up through Tehran and goes east to the railhead at Meshed in northeast Iran. Then it is shipped overland from Meshed to Herat in Afghanistan and on from there either to Kabul, or Kandahar.

Mr. ANDREWS. What kind of road did the Afghans want?

Mr. GAUD. From Kabul to Kandahar—they wanted a high grade, U.S. style, asphalt road.

Mr. ANDREWS. A freeway?

Mr. GAUD. Not a freeway.

Mr. ANDREWS. Did any of your people explain to them that we were willing to give it to them if they would just let us ship the material in through the most economical way, Pakistan?

Mr. GAUD. Yes, sir.

Mr. ANDREWS. What did they say about that?

Mr. GAUD. They put their dispute with Pakistan ahead of that.

Mr. ANDREWS. You still thought they wanted a road?

Mr. GAUD. They still said they wanted the road.

Mr. ANDREWS. I get back to my oldtime expression, you should not look a gift horse in the mouth. If we were going to give them the road, I think someone in the State Department should have been firm enough to say—this is it, take it or leave it.

I agree with what Mr. Rhodes said, this is the most ridiculous case I have seen documented since I have been on this committee for a period of about 8 or 10 years.

REASONS FOR CONTINUING ROAD PROJECT DURING BORDER CLOSURE PERIOD

Mr. GAUD. Here is one of the considerations I had in mind, and I am not talking political considerations. This was a commitment that had been made by the U.S. Government to build this road.

Mr. ANDREWS. I do not care who made the commitment.

Mr. GAUD. Let me finish the story.

It is a commitment that had been in existence for a great many years. It, you might say, represented the U.S. aid program to Afghanistan.

Now, suppose we had followed your suggestion, which is an extremely appealing one. The time would come sooner or later, as we expect it to come in a few days, when the border would be opened. We would be back in Afghanistan with an aid program. We would still have that commitment to finish that road.

By this time, if we had just quit work and not maintained the contractor by shipments through Iran, he would have disbanded his work force, and his equipment and he would have had to start completely afresh. Our advice was it would have cost many more mil-

lions of dollars if we had tried to pick up the construction of the road after the event than if we went along with it the way we did.

Mr. ANDREWS. What is the width of that gravel road? Put it in the record.

Mr. GAUD. I will.

(The information follows:)

WIDTH OF KABUL-KANDAHAR ROAD

The graded width of the gravel road is 32.8 feet with a 23-foot gravel surface.

Mr. ANDREWS. Mr. Natcher tells me, and he knows, that the cost of building a gravel road in this country is about $28,000 a mile, a 30-foot right-of-way gravel road. We figured out this gravel road would cost about $150,000 a mile, and you say they are getting the gravel locally.

Mr. GAUD. Two of the six parts will be asphalt.

I was including the force majeure claims in the cost of the road mile.

Mr. ANDREWS. How does asphalt get into Afghanistan?

Mr. GAUD. The only asphalt to my knowledge that has gone in there yet has gone through Pakistan.

Mr. ANDREWS. Did you build the asphalt section first?

Mr. GAUD. It has not been paved. We only started this road about 2 months before the border closed in August of 1961. There are two sections we are going to pave with asphalt, one section is near Kabul, the other is near Kandahar, the two cities.

The theory is, those will be the two most traveled parts of the road.

Mr. PASSMAN. In the beginning, you envisioned a 300-mile asphalt road?

Mr. GAUD. Yes.

KABUL-KANDAHAR ROAD COST

Mr. PASSMAN. At a cost of what amount?

Mr. GAUD. The contract cost——

Mr. PASSMAN. Your original estimate.

Mr. GAUD. A rough figure, $41.4 million. That excludes the supervisory cost of the engineers, AID financing of some earlier engineering work done on the road by a private contractor and some U.S. excess equipment provided to the contractor. The contract costs $41.4 million.

Mr. PASSMAN. We want the total, sir. That was the original estimate.

Mr. GAUD. That is the contract price.

Mr. PASSMAN. On top of that figure, let us get the estimate.

Mr. GAUD. I do not think I have that figure here, I am sorry.

Mr. PASSMAN. The contract price was what amount?

Mr. GAUD. Roughly $41.4 million.

Mr. PASSMAN. For a 300-mile asphalt road?

Mr. GAUD. Yes.

Mr. PASSMAN. But the latest figures we have here are $54,226,000 plus $760,000, plus $780,000 for a gravel road.

Mr. GAUD. This project on page 13 includes a number of items other than this road. It includes paving the Kandahar, Spin-Baldak Road, constructing a bridge over the Tarnak River, and a railway spur from the Pakistan border to Spin-Baldak.

Mr. PASSMAN. Is that within that 300-mile road?

Mr. GAUD. No.

Mr. PASSMAN. What is the present estimate to complete the road? You have a contract price?

Mr. GAUD. It is the contract price.

Mr. PASSMAN. Is it going to hold firm?

Mr. GAUD. Yes; the contract will, as far as I know. There may be change orders and that sort of business.

Mr. PASSMAN. This is a 300-mile road and it is costing $150,000 a mile to build a gravel road in Afghanistan?

Mr. GAUD. Two-thirds gravel.

Mr. PASSMAN. Are you putting two-thirds gravel and one-third hard surface?

Mr. GAUD. That is what we are doing.

Mr. PASSMAN. It costs $150,000 a mile to build a gravel road? What does it cost to build a hard surface road in Afghanistan, per mile?

Mr. GAUD. The original contract price was $41.4 million for an asphalt road in Afghanistan all the way.

Mr. PASSMAN. For the 300-mile road, how much will be asphalt?

Mr. GAUD. Roughly 100 miles.

Mr. PASSMAN. One-third will be asphalt, two-thirds gravel?

Mr. GAUD. That is the plan.

Mr. PASSMAN. What is your cost estimate on the 100 miles of asphalt?

Mr. GAUD. The Corps of Engineers tell us it will save $3.1 million.

Mr. PASSMAN. I am interested in the cost.

Mr. GAUD. $3.1 million less than $41.4 million brings you down to roughly $38 million. Divide that by——

Mr. PASSMAN. That is not the information we want at all.

You started out to build 300 miles of hard surface roads at a cost of $41.4 million. Now you are going to build 100 miles of hard surface and 200 miles of gravel. Forgetting all about putting it together in this mulligan, what does it cost in Afghanistan to build a hard surface road, as compared to what it costs to build a gravel road, per mile?

Mr. GAUD. I have no figure on the gravel road.

Mr. PASSMAN. Do you have a figure on hard surface, per mile?

Mr. GAUD. I have the contract estimate of $41.4 million.

Mr. PASSMAN. That was for hard surface?

Mr. GAUD. That is right. I have no figure on a gravel road because we never looked into that.

Mr. PASSMAN. Do you know what it costs to build a hard surface road in the United States?

Mr. GAUD. I do not.

Mr. PASSMAN. What is going to be our position when we perhaps give them about 25 percent of what they expect?

When you have a 100-mile stretch of hard surface road and you have the other 200 miles of gravel road, does it not follow that they will want you then to come in and hard surface the other 200 miles?

Mr. GAUD. I would not doubt they will ask.

Mr. PASSMAN. What will be our position?

Mr. GAUD. We have told them we are going to do this two-thirds on the gravel. If the Pakistan border is opened soon, and if we do not incur all the extra expenses we thought we might by virtue of the closing of the border, we would be prepared to look at this.

As far as I am concerned, I would not look at it otherwise.

Mr. PASSMAN. Can you tell the committee that when you liquidate this $41.4 million you are going to stop the work?

Mr. GAUD. No, sir.

Mr. PASSMAN. It may very well be we might get involved in hard surfacing an additional 200 miles at some subsequent date?

Mr. GAUD. It is possible. It is not our present intention.

Mr. PASSMAN. It is not your present intention, but you do not say that you will not do so?

Mr. GAUD. No, sir.

Mr. RHODES. How much extra will it cost to end up eventually with a hard surface road here if you gravel this 200 miles first and later have to hard surface it?

Mr. GAUD. It will cost more than if you do the hard surfacing initially, because of the level of the culverts and bridges.

Mr. RHODES. What do we think we are buying by this?

There ought to be some advantage to the American taxpayer somewhere, and it is not apparent to me.

Mr. GAUD. I do not think we are buying anything specific with this road, Mr. Rhodes. I think the road is important in terms of the development of Afghanistan.

If you are talking in terms of what we are buying with our whole aid program to Afghanistan, and this is an important part of it, it seems to me we are interested in keeping this country, which has a strategic location between Iran and Pakistan, from being wholly dedependent on the Soviet bloc, keeping it directed, at least to some extent, toward the West, and—getting to dollars and cents of it—avoiding getting ourselves into a position where the Russians are on the border of Pakistan and Iran, in which case I think we would be spending far more in military assistance in those countries.

VALUE AND USEFULNESS OF KABUL-KANDAHAR ROAD

Mr. RHODES. I wish you would "get dollars and cents" about it. I feel very much "dollars and cents about it." It disappoints me to find you apparently looking down your nose at this attitude.

Mr. GAUD. I am not looking down my nose at this attitude.

Mr. RHODES. I hope you are not.

To me this foreign-aid program makes little sense anyway, and it makes even less sense if the American taxpayer is not getting anything out of it. That is all I am trying to explore.

Mr. GAUD. Right. I think there is a difference of judgment here perhaps as to whether it is worth having a U.S. aid program in Afghanistan. I think that is the question that you face when you ask whether it is worth going forward with this road.

Mr. RHODES. Last year I think you and I, or someone and I, had a discussion about the possibility that the very existence of this road makes it much easier for the Soviets to get into Pakistan.

Mr. GAUD. You mentioned that last year.

Mr. RHODES. I guess you are still of the same opinion, that balancing interests, you would still build the road, even though last year I think you agreed with me it would possibly provide a better avenue of invasion if the U.S.S.R. wanted to use it.

Mr. GAUD. Yes; I think before the last World War, you might have said any road across France made it easier for the Germans to get to the channel, but that would not stop you from building roads in France.

Mr. NATCHER. Mr. Gaud, what type of traffic would you have on this road?

Mr. GAUD. This road will connect the two main largest cities in Afghaniston. It will be primarily truck traffic. There are no railroads in Afghanistan at all. There are limited air transport facilities. Trucks are the main way of getting around—trucks for freight and buses for people. This will be used primarily by trucks and buses.

Mr. NATCHER. Do you have any type of animals that will be used on this road, animal traffic of any type or description?

Mr. GAUD. They use camels in Afghanistan. Do you mean to carry goods?

Mr. NATCHER. Yes; would you have any type of traffic on this road other than trucks?

Mr. GAUD. I would not know.

Mr. PASSMAN. Did you get the information about the funds for us, Mr. Flinner?

Mr. FLINNER. Our March 31 figures would indicate as of June 30, the uniquidated would be approximately the same as shown in the project statement.

As of March 31, the unliquidated is $32,244,000. We spent in 9 months $6,470,000, or approximately $700,000 a month. At that rate, there would be another $2 million liquidated by June 30.

Mr. PASSMAN. What amount have you spent?

Mr. FLINNER. Through March 31, $22,249,000.

COMPARATIVE ROADBUILDING COSTS

Mr. PASSMAN. Mr. Gaud, we would like for you to find out what it costs to build a gravel road in the United States per mile, what it costs to build a hard surface road in the United States per mile, what it costs to build a gravel road in Afghanistan per mile, and what it would cost to build a hard surface road in Aghanistan per mile.

We want these figures so we might determine what this stubbornness on the part of Afghanistan is going to cost the U.S. taxpayers additionally if we ever resurface the other 200 miles.

(The information supplied follows:)

COMPARATIVE ROAD CONSTRUCTION COSTS, UNITED STATES AND AFGHANISTAN

Comparable per mile construction costs of a gravel road in the United States with the graveled sections III and IV of the Kabul-Kandahar road are: $80,000 to $100,000 in the United States and $122,300 on the Kabul-Kandahar road. For a road similar to the bituminous surfaced sections I and II of the Kabul-Kandahar road, costs in the United States are $100,000 to $120,000 as compared with $137,800 on the Kabul-Kandahar road. The costs for the Kabul-Kandahar road are based on costs prior to the border closure, i.e., force majeure and the added transit costs of the Iranian route are not included. The Kabul-Kandahar road costs do, however, include the higher mobilization costs as well as the higher freight costs of the commodities used in building the road.

U.S. figures on road construction do not normally include the cost of building structures over 20 feet in length, e.g., bridges, whereas the figures for the Kabul-Kandahar road do; therefore, the figures used for the United States have been adjusted to include structures.

Mr. GAUD. I think perhaps the answer is already available from what I have said. We were told by the corps a change order shows, that converting these four segments from an asphalt road to a gravel road will make a difference of $3.1 million.

Mr. PASSMAN. We want to first find out what it costs to build a gravel road. We know it is about $28,000, but let us get it officially, and what it would cost to build an asphalt road. If through their stubbornness they are going to cost us this additional money, and we are going to penalize them for that attitude and action by giving them an inferior road, and then we are going to turn around and give an asphalt road to them after all, we would not be penalizing them.

Mr. GAUD. There is a little more to this than penalizing.

As I said a while ago, if we had to carry 25,000 or 30,000 tons of asphalt through Iran, that would have cost an awful lot of money, quite apart from the contract. This was one of the costs we were trying to avoid.

Mr. PASSMAN. You said you penalized them by giving them a gravel road instead of asphalt. If you turned around later and gave them the asphalt road, they have not been penalized.

Mr. GAUD. We were trying to save the money. We have not had to spend as much money going through Iran.

Mr. RHODES. Mr. Gaud has said it would cost more eventually to have a hard surface road if you do it in two stages. I think we should have, in addition to the figures you asked for, the estimated cost of this road as it would be if you do decide to hard-surface it.

(The information supplied follows:)

ESTIMATED COST TO SURFACE ENTIRE LENGTH OF KABUL-KANDAHAR ROAD

If the decision to change the gravel road to asphalt in accordance with original specifications were made prior to September 1963, the road would cost an additional $3.1 million.

The cost of changing from a gravel to a paved road at a later date would depend on many factors. These would include whether or not remobilization of a contractor would be required, whether all of segments III to VI had been opened to traffic, the amount of traffic on the open sections of the road and the type of maintenance the open sections had received. We can make only the roughest of estimates of additional costs. If, however, the decision to pave is made after all segments have been opened to traffic, a very tentative estimate would be $7 million to $8 million.

Mr. PASSMAN. Do you have other fouled up situations such as this one in your area?

Mr. GAUD. I know of no other project like this in my area, sir.

NATURE OF U.S. COMMITMENT TO AFGHAN REGIONAL TRANSIT

Mr. MONTOYA. When was this project actually finalized and committed to the Government of Afghanistan?

Mr. GAUD. I think in 1956, Mr. Montoya.

Mr. MONTOYA. What was the nature of that commitment?

Mr. GAUD. We entered into a commitment to build in effect this road, to improve or build other roads connecting Pakistan and Afghanistan. The general theory being to provide Afghanistan access to the West.

Mr. MONTOYA. How many bidders did you have on this road project?

Mr. GAUD. I would have to go back in the records to find out. The Corps of Engineers let this contract on competitive bidding I do not know how many bidders bid.

Mr. MONTOYA. Were these other projects which you mention on page 13 included in the original commitment, or are they separate commitments, such as the extension of the railway and the construction of a bridge over the Tarnak River?

Mr. GAUD. Those have all been a part of the project from the beginning.

Mr. MONTOYA. Are they along this road?

Mr. GAUD. No; they are not.

Mr. MONTOYA. What do you mean they are a part of the project?

Mr. GAUD. The project is called the Afghanistan Regional Transit.

Mr. MONTOYA. They are part of the original commitment. They are part of the package?

Mr. PASSMAN. In that connection, on these other projects when Mr. Richards went out—and I always refer to him affectionately as the "black-satchel" man—was this a money commitment, and the road came along later, or was it a road commitment from the start?

Mr. GAUD. I do not know.

Mr. PASSMAN. Will you find out for us?

Mr. GAUD. I will try.

(The information subsequently supplied follows:)

COMMITMENT TO AFGHANISTAN

The United States made a commitment to Afghanistan in a 1956 aide memoire to provide assistance to the following: (1) establishment of a transit zone and warehouses in Karachi for Afghan goods; (2) extension of rail facilities in Pakistan to Afghan border points; (3) setting up within Afghanistan warehousing and customs facilities at or near the Afghan-Pakistan border, and (4) the improvement of existing roads from the proposed warehouses to Kabul and Kandahar. The first project agreement signed in 1958 provided the initial funding for various elements of the project including the Kabul-Kandahar road.

Mr. MONTOYA. You are not going to be satisfied with the completion of this project. You will probably want an alternative route in case this road is rained out, or something happens to it, will you not?

HERAT-ISLAM QALA ROAD PROJECT

Mr. GAUD. No, sir.

Mr. MONTOYA. What is the significance of the project on page 15 where you are starting another road project and it reads:

Project goal, to provide an alternate route to the free world through Iran and to give West Afghanistan a direct western trade outlet?

Mr. GAUD. I can best answer that if you will look at the divider sheet which has a map of Afghanistan on it. You see Kabul and Kandahar. The road we have been talking about runs between those two cities wholly within Afghanistan. The other part, where this bridge is, is from Kandahar down to the border in the direction of the Quetta.

Mr. MONTOYA. In the direction of what?

Mr. GAUD. Quetta. That is in Pakistan. The purpose of that project was to provide access to Pakistan. This Herat-Meshed road, if you look on the same map, Herat is in the northwest part of Afghan-

istan, and the dotted line represents the proposed improved road to Iran. It is alternate in the sense it gives Afghanistan a road to the West other than through Pakistan.

Mr. MONTOYA. Let's get back to this project on page 15, the Herat-Islam-Qala Road. You have only obligated $150,000 on this road. Is this the forerunner for another gigantic project such as we have been discussing before?

Mr. GAUD. I hope it would not be gigantic.

Mr. MONTOYA. Why are we going into any expenditures at all on any survey?

Mr. GAUD. As we say in the text here, this is a survey of the road from Herat into Iran, and we have told the Afghans we would consider a loan to them to improve the present road from Herat to the border which leads to the railhead at Meshed. It is not now a good one.

Mr. MONTOYA. What kind of a loan have you told them we would consider?

Mr. GAUD. We have not told them.

Mr. MONTOYA. Would it be a dollar loan?

Mr. GAUD. Yes.

Mr. MONTOYA. A hard loan?

Mr. GAUD. It would not be a hard loan because of Afghanistan's balance-of-payments situation.

Mr. MONTOYA. In other words, their repayments would still be under the control of their Government?

Mr. GAUD. Presumably it would be a 40-year, 10-year grace, three-quarters of 1 percent loan.

Mr. MONTOYA. So in reality, and for all practical purposes, it would be U.S. taxpayers' dollars down the drain. We would not get them back, would we?

Mr. GAUD. The assumption is we would get them back.

Mr. MONTOYA. When?

Mr. GAUD. I am assuming they would live up to their obligations and pay the loan.

Mr. MONTOYA. You are assuming their currency would be strong enough for international exchange?

Mr. GAUD. I would hope so. There is a 10-year grace period here. Yes, sir.

Mr. PASSMAN. Anything that might ever come back would go back into the foreign aid program, not to the Treasury?

Mr. GAUD. So the law provides.

Mr. MONTOYA. What is the estimate of this particular project?

Mr. GAUD. The Corps of Engineers has not finished the survey. Purely off-the-cuff information is it will run anywhere from $8 to $14 million. It is an 84-mile road.

Mr. MONTOYA. Would this be asphalt or gravel?

Mr. GAUD. We have asked them to give us estimates of various kinds of roads, and until we see them and get their opinion on what is best for that locality, I do not know.

Mr. MONTOYA. Let's say a tentative commitment.

Mr. GAUD. We have told them we would look at it; that is right.

Mr. MONTOYA. Does that not mean a commitment?

Mr. GAUD. I do not call it a commitment.

Mr. MONTOYA. Let's say a tentative commitment.

Mr. GAUD. You can call it that if you like.

Mr. ANDREWS. Who makes those commitments? Who made this one in this particular case?

Mr. GAUD. The Ambassador told the Afghans that we were prepared to survey that route.

Mr. ANDREWS. And pay for the survey?

Mr. GAUD. And pay for the survey.

Mr. ANDREWS. What else did he tell them?

Mr. GAUD. And depending on the results, if it panned out, we would be prepared to consider a loan for that road.

Mr. ANDREWS. Let me ask you this: Is Afghanistan financially able to build the road?

Mr. GAUD. No, sir.

Mr. ANDREWS. Then if we put up the money for a survey and do not plan to finance the road for them, either by gift, grants, or loans, or what not, we are wasting the survey money, are we not?

Mr. GAUD. That is true.

Mr. ANDREWS. Do you not think we have made a commitment out there? Not that I want one.

What is your frank opinion about that? Do you not think a firm commitment has been made?

Mr. GAUD. I think the odds are very heavy we are going to build that road on a loan; yes.

Mr. ANDREWS. If it is a gravel road——

Mr. GAUD. For this reason: Because we think it is important, again from the standpoint of our situation in that part of the world, that Afghanistan not be dependent on Pakistan for its access to the free world. We think it is important to improve its access to Iran.

Mr. ANDREWS. From what I hear about their attitude toward Pakistan, they do not need a road to Pakistan.

Mr. GAUD. They have got that.

POTENTIAL USE OF AFGHANISTAN ROADS TO SOVIET BLOC

Mr. PASSMAN. Would this 300-mile road give Russia improved access to Afghanistan?

Mr. GAUD. No. It is nowhere near Russia.

Mr. PASSMAN. Would it give them access through Afghanistan to Pakistan?

Mr. GAUD. This road, the Kabul-Kandahar Road, runs through the two main cities of Afghanistan. It does not go to any border at all.

Mr. RHODES. Of course, Mr. Gaud, the completion of the road from Kabul to Kandahar does not get the Russians to Kabul, but I would not imagine this would be any great trouble to them. If they get to Kandahar, there is a road which connects to a railroad to Pakistan.

Mr. GAUD. That is true.

Mr. RHODES. If you build the rest of that road, and if the U.S.S.R. wants to base an operation at Kabul, they could go into Iran or Pakistan from there?

Mr. GAUD. If you are assuming the Russians take over Afghanistan.

Mr. RHODES. That would have to be the assumption.

Mr. GAUD. This would certainly facilitate their getting around Afghanistan.

Mr. RHODES. Thank you.

TECHNICIANS UNDER REGIONAL TRANSIT PROJECT

Mr. PASSMAN. How many U.S. technicians will be furnished by your estimate of $745,000, Mr. Gaud?

Mr. GAUD. Which project are we on now?

Mr. PASSMAN. The regional transit project.

Mr. GAUD. Seventy.

Mr. PASSMAN. How much is that per technician?

Mr. GAUD. It is about $10,500 roughly.

Mr. PASSMAN. So you are actually paying as much for participants as your technicians—$11,000 for participants, and you are getting technicians for $10,500.

Mr. GAUD. I am pretty sure we are not getting technicians for $10,500.

Mr. PASSMAN. I thought that is what you said.

Mr. GAUD. I said that is the arithmetical result of this. It may be that some of these——

Mr. PASSMAN. How can we find out?

Mr. GAUD. I beg your pardon. I gave you the wrong figure.

The $745,000 is for 19 Corps of Engineers technicians rather than 70 I mentioned. The 70 are financed under the basic construction contract.

Mr. PASSMAN. What will the 19 technicians cost us, per technician, per year?

Mr. GAUD. About $39,000.

Mr. PASSMAN. What kind of technicians are they?

Mr. GAUD. They come from the Corps of Engineers and that average cost includes the overhead of the Corps of Engineers. That is not all salary, or pay, to the technicians.

Mr. PASSMAN. This figure is, I believe, about the highest we have run into for your technicians.

Could you give us a breakdown of the $745,000 for the 19 engineers? Can you work that item out for us and submit a table?

Mr. GAUD. We will.

(The information supplied follows:)

BREAKDOWN OF TECHNICIAN COSTS, CORPS OF ENGINEERS CONTRACT IN AFGHANISTAN

The estimated obligation of $780,000 for fiscal year 1964 was calculated as follows: $35,000 for the USAID Surface Transportation Division Chief and his secretary, and $745,000 for the Corps of Engineers. For the Corps of Engineers, it was estimated that there would be 10 Americans in Afghanistan, at an average direct cost of $10,900 or a total of $109,000, and 9 third-country employees at an average direct cost of $6,800, or a total of $61,200. Additional costs of the corps in Afghanistan for local employees' salaries, transportation and packing of household effects, local travel, and contingencies, were estimated at $64,400. The remaining $510,400 is to cover the supporting services provided by 34 Americans at corps headquarters in Teheran, and 6 at corps district office in Leghorn, Italy, plus supporting local and third-country staffs in those offices.

HERAT-ISLAM QALA ROAD PROJECT

Mr. PASSMAN. Did you justify last year the $150,000 you obligated for the Herat-Islam-Qala Road project?

Mr. GAUD. No, sir.

Mr. PASSMAN. Why did you not do so?

Mr. GAUD. Because the project did not arise until after we presented the fiscal year 1963 program.

Mr. PASSMAN. It could not have waited until this year?

Mr. GAUD. That was our feeling, yes.

Mr. PASSMAN. What if we fixed it so you would have to wait for authority?

Mr. GAUD. We would wait.

Mr. PASSMAN. You do not think the world would come to an end as a result of such a wait, do you?

Mr. GAUD. No, sir.

Mr. PASSMAN. What is the cost to complete this project?

Mr. GAUD. This is the Herat survey.

Mr. PASSMAN. Yes.

Mr. GAUD. The amount we are asking for 1964, if we go ahead with the loan——

Mr. PASSMAN. Are you going to start it in 1964 and end it in 1965?

Mr. GAUD. We started in 1963.

Mr. PASSMAN. And you will end it in fiscal year 1965?

Mr. GAUD. Yes; unless approval of the loan for the road is delayed for one reason or another.

Mr. PASSMAN. Can you give an estimate of the cost?

Mr. GAUD. The supervisory cost?

Mr. PASSMAN. Give us the total.

Mr. GAUD. I am doing that. The supervisory cost of the Corps of Engineers is estimated at $780,000 for the whole job.

Mr. PASSMAN. All you have when you get through is a survey?

Mr. GAUD. No, sir. This is if we build the road I was talking about with Mr. Andrews.

Mr. PASSMAN. If you do not build the road, you will have to spend $780,000?

Mr. GAUD. No. We will have spent $150,000.

Mr. PASSMAN. What is the $280,000 I am looking at you are requesting for 1964 to add to the $150,000? Let us put the three figures together.

Mr. GAUD. The $780,000 is the total cost to the end of the project.

Mr. PASSMAN. After you get through, what do you have?

Mr. GAUD. The $780,000 will have been spent, as I understand it, only if we make the loan and build the road that I talked about, so you will have the road construction supervised by the corps.

Mr. PASSMAN. You have obligated $150,000?

Mr. GAUD. We have actually obligated $80,000, because there was some delay in starting the survey.

Mr. PASSMAN. You are asking for $280,000 additional for fiscal year 1964?

Mr. GAUD. That is to complete the survey and cover the initial design costs, if we go ahead with the road.

Mr. PASSMAN. You are not going to do anything beyond the $150,000 unless credit is granted?

Mr. GAUD. Correct. A small part of the $280,000 will be required to complete the survey. We have obligated $80,000 this year, in 1963 to the Corps of Engineers for the survey.

Mr. PASSMAN. Are you going to finish your survey before you make the credit?

Mr. GAUD. Yes: we are.

Mr. PASSMAN. What if you finish the survey and you do not extend the credit, then what is the total cost?

Mr. GAUD. We will not obligate the rest of the money.

Mr. PASSMAN. Can you give us an estimate of what the survey will cost, if you do not do the construction?

Mr. GAUD. The total cost of the survey?

Mr. PASSMAN. You agree we should have that information, do you not?

Mr. GAUD. I do.

Mr. PASSMAN. Will you get it for us?

Mr. GAUD. Yes.

(The information supplied follows:)

TOTAL COST OF HERAT-ISLAM-QALA ROAD SURVEY

The original Corps of Engineers' estimate for the feasibility study was $150,000. The corps' most recent estimate is approximately $100,000; $80,000 was obligated in fiscal year 1963 so that $20,000 more will be needed in fiscal year 1964.

Mr. PASSMAN. What is the length of the road?

Mr. GAUD. Eighty-four miles.

Mr. PASSMAN. What is the ball park estimate of the cost?

Mr. GAUD. It depends on the type of road built.

Mr. PASSMAN. An asphalt road?

Mr. GAUD. I have heard figures running from $8 million to $14 million and we have nothing authoritative. That is the range that I have heard.

Mr. PASSMAN. And it will be under one of these disguised grants, 40 years, 10-year grace period, three-quarters of 1 percent service charge?

Mr. GAUD. Those will be the terms.

NATIONAL ROADS IMPROVEMENT AND MAINTENANCE PROJECT

Mr. PASSMAN. What is the cost to complete the national roads improvement project, on page 16, for which you are requesting $170,000 in fiscal year 1964?

Mr. GAUD. I believe I am right in saying the total cost of this project will be $218,000. That is what we now estimate. We obligated $48,000 this year as against that $50,000 shown.

Mr. PASSMAN. What will you have when you spend the money?

Mr. GAUD. Well, we hope the Afghanistan Government will have to show for it a much better ministry of public works than it has today.

Mr. PASSMAN. This is a paper project?

Mr. GAUD. This is to improve the ability of the Afghanistan Government to handle its road maintenance.

Mr. PASSMAN. It is a paper project. There are no actual materials involved?

Mr. GAUD. That is correct.

KABUL-TORKHAM ROAD PROJECT

Mr. PASSMAN. For this Kabul-Torkham Road project, on page 17, you have an estimate of $50,000 for fiscal year 1964. Is that correct?

Mr. GAUD. That is true, sir.

Mr. PASSMAN. What is the annual cost to finance the one contract technician for which you are requesting funds in fiscal year 1964?

Mr. GAUD. That does not appear from this page. I would have to look that up.

Mr. PASSMAN. Let us go to page 17 and see if we do not get the answer. Would it not be $44,000?

Mr. GAUD. I do not think so. That is far above the average cost of technicians.

Mr. PASSMAN. We are trying to find out.

Mr. GAUD. The contract service funds are to finance one contract technician and supporting materials and commodities.

Mr. PASSMAN. Does that cost amount to $6,000?

Mr. GAUD. That is local expenses.

Mr. PASSMAN. What other expenses would you have in connection with this contract technician?

Mr. GAUD. That is what I say, this page does not show that, and I do not know the answer.

Mr. PASSMAN. It could be $44,000?

Mr. GAUD. I think it is very unlikely. The answer seems to be that three third country technicians are also to be financed.

TOTAL OF PROJECTS AMOUNTS COMPARED WITH TOTAL REQUEST

Mr. PASSMAN. When you add up all the projects in these books, including the Contingency Fund, does the amount total the $4.5 billion of the budget request?

Mr. FLINNER. No, sir.

Mr. PASSMAN. How much does it total?

Mr. FLINNER. I have not added it up.

Mr. PASSMAN. Which is the highest, the projects as listed, or the budget?

Mr. SCHEINMAN. The projects.

The request for funds for 1964 is less than the total of programs for every country included in this presentation.

Mr. PASSMAN. If you add up all the projects included in the project books, what do they amount to? What is the total?

Mr. SCHEINMAN. Dollar requests for 1964?

Mr. PASSMAN. Yes.

Mr. SCHEINMAN. You will find that by looking.

Mr. PASSMAN. You find the information for us, will you?

Mr. SCHEINMAN. Yes, sir.

Mr. PASSMAN. The total amount for projects in all the books that you people have come down here with this year.

Mr. SCHEINMAN. Pages 2 and 3 of volume 1.

Mr. PASSMAN. What is the total?

Mr. SCHEINMAN. The estimated program for development grants is $252,670,000.

Mr. PASSMAN. I am asking you for the total amount in these books.

Mr. FLINNER. I do not have the total.

Mr. PASSMAN. You do not have the total. Mr. Scheinman said that you did.

Mr. FLINNER. I do not believe we have the total of the projects in the project books with me.

Mr. PASSMAN. Please get the total for us.

Mr. FLINNER. Yes.

Mr. PASSMAN. If what you have in these justification books does not add up to the budget request, we want to know where the difference is. We think you may be off a half billion dollars.

We want to find out whether you are requesting more money than you need, or expect to get, or whether the total amount of projects equal the President's budget. We want to know how much is guess.

Mr. SCHEINMAN. The appropriation request is less than the total of programs for each country.

Mr. PASSMAN. Then it is obvious you do not expect to get the funds you are requesting.

Mr. SCHEINMAN. No, sir. We have taken into account this year the estimates for carryover, unliquidated funds.

Mr. PASSMAN. Give us the amount of all that. Will you bring us a sheet down Monday morning?

Mr. SCHEINMAN. Certainly. It has been provided.

Mr. PASSMAN. Please provide it again.

(The information follows:)

Summary of fiscal year 1964 economic assistance program appropriation request and estimated program

[In thousands of dollars]

	Estimated recoveries	Carryover of prior year appropriations	Estimated receipts	Appropriation request	Estimated program
Development loans	25,832	71,398	3,000	1,060,000	1,160,230
Development grants:					
General authorization	15,670			257,000	272,670
Special foreign currency programs				2,000	2,000
American schools and hospitals abroad				20,000	20,000
Surveys of investment opportunities		1,000			1,000
Alliance for Progress:					
Loans	4,000	45,800	2,300	550,000	602,100
Grants	5,000			100,000	105,000
Social progress trust fund				200,000	200,000
Inter-American social and economic program					
International organizations and programs				136,050	136,050
Supporting assistance, total program					
Regular appropriation	10,060			435,000	445,060
Contingency fund used for supporting assistance purposes					
Contingency fund, net program					
Total appropriation					
Programed for supporting assistance purposes				300,000	300,000
Administrative expenses (AID)				57,250	57,250
Administrative and other expenses (State)				3,025	3,025
Total	60,562	118,198	5,300	3,120,325	3,304,385

MOTOR VEHICLE TRANSPORTATION PROJECT

I note, on page 18, that we have financed 445 buses and trucks, and, in addition, 150 knockdown buses for a motor vehicle transportation project which is designed to assist the Afghans develop a modern bus system within Kabul, and between the major cities of Afghanistan; is that correct?

Mr. GAUD. That is true.

Mr. PASSMAN. How much have we spent to date on this project?

Mr. GAUD. Our obligations are $4,638,000, plus $53,000 in 1963, which make a total of $4,691,000.

Mr. PASSMAN. If they do not have any roads, how can they use that many buses? Are they using any of them?

Mr. GAUD. They are using those that have been assembled; yes.

Mr. NATCHER. Where were the buses purchased?

Mr. GAUD. In the United States.

Mr. NATCHER. All of them?

Mr. GAUD. Yes.

Mr. NATCHER. Good.

Mr. MONTOYA. Do you have a census on how many motor vehicles you have in Afghanistan and how many you had before this purchase?

Mr. GAUD. We had, or the Afghans had?

Mr. MONTOYA. The Afghans.

Mr. GAUD. I will have to furnish that. This is before we went into this project?

Mr. MONTOYA. Yes.

Mr. GAUD. I will see what we can do.

(The information follows:)

BUSES IN AFGHANISTAN

The Government of Afghanistan's official publication, the Survey of Progress, cites registration figures of 824 buses in 1959–60 before the United States financed the purchase of 150 buses. The bus company in Kabul owned approximately 400 of these, many of which were worn out.

Mr. ANDREWS. Who will operate the bus company or system over there, Mr. Gaud?

Mr. GAUD. It has been operated by an Afghan company.

Mr. ANDREWS. A private company?

Mr. GAUD. Yes.

Mr. ANDREWS. Did they pay for the buses?

Mr. GAUD. My recollection is, and I would like to check this, these buses were sold to the company by the Government of Afghanistan.

Mr. ANDREWS. In other words, we gave the buses to the Afghanistan Government, the Government in turn sold the buses to private operators?

Mr. GAUD. That is my understanding.

Mr. ANDREWS. I wish you would correct the record if your understanding is not correct.

Mr. GAUD. I will.

Mr. ANDREWS. Do you know anything about the fares they charge for riding those buses?

Mr. GAUD. I do not.

Mr. ANDREWS. Are they intercity buses?

Mr. GAUD. Some are used inside the capital city of Kabul, and some are used in the country going from town to town—both.

Mr. PASSMAN. Go back to page 18.

The statement notes that 443 motortrucks and spare parts were procured from the 1957 ICA credit—it says "loan" here—and have been in operation for some time; 150 knockdown buses with spare parts were financed with 1960 funds.

Are they still knockdown, or have they been assembled and put in use?

Mr. GAUD. Well, as of March, which is the last date on which I have information, 36 of these buses were assembled and in operation.

These buses reached the Pakistan border just before the border closed in the fall of 1961 and they got across the border in February and March 1962.

Mr. PASSMAN. Another border incident. At least it was not an emergency order for buses? It could not be termed "emergency," could it?

Mr. GAUD. No, sir.

Mr. NATCHER. Mr. Chairman, will you yield at that point?

Mr. PASSMAN. Yes.

Mr. NATCHER. Do you have buses at the border now that you are trying to get over?

Mr. GAUD. All the buses went in in February and March 1962.

Mr. PASSMAN. How much more stuff do we have involved in this border business?

Mr. GAUD. We have 1,500 tons of asphalt.

Mr. PASSMAN. When these knocked-down buses arrived at the border in 1961, out of 1960 funds, but did not get delivered until 1962, was it again because the Afghans would not open the border?

Mr. GAUD. In that period before February 1962 I think it is fair to say it was a matter involving both the Afghans and the Pakistanis.

Subsequently Pakistan declared its willingness to let the material go into Afghanistan and the Afghans wouldn't let it in.

Mr. ANDREWS. Could you tell us, Mr. Gaud, what is at the border now?

Mr. GAUD. 1,500 tons of asphalt.

Mr. ANDREWS. Anything else?

Mr. GAUD. Not a thing.

Mr. ANDREWS. What kind of storage facilities do you have there for taking care of this asphalt or is any of it walking away? You know what I mean by "walking away"?

Mr. GAUD. I do, indeed. It is my impression it is stored in the open.

Mr. ANDREWS. It would be easy for it to walk away?

Mr. GAUD. It is a lot less likely to walk away than many other things.

Mr. ANDREWS. Is anybody guarding that asphalt?

Mr. GAUD. Yes, sir.

Mr. ANDREWS. Who?

Mr. GAUD. The contractor has local employees there.

Mr. ANDREWS. Are we paying the guards?

Mr. GAUD. Yes; indirectly.

Mr. ANDREWS. How many guards do they have?

Mr. GAUD. I don't know.

Mr. ANDREWS. Would you put that in the record?
Mr. GAUD. I will try to find out.
Mr. ANDREWS. Is it a 24-hour guard?
Mr. GAUD. I don't know, sir.
Mr. ANDREWS. Put as much as you can in the record about it.
Mr. GAUD. All right.
(The information supplied follows:)

PROVISIONS FOR PROTECTING AID COMMODITIES AT AFGHANISTAN-PAKISTAN BORDER

The asphalt is stored in barrels and guarded 24 hours a day by two guards whose salaries total $20 per week. There are no storage costs.

RESALE VALUE OF ASPHALT AT PAKISTAN BORDER

Mr. RHODES. I cannot imagine anybody in that part of the world wanting that road to be asphalt coated except the AID.
Mr. GAUD. We have had two offers to buy it.
Mr. RHODES. I suggest you sell it, especially if you can make a profit.
Mr. GAUD. This asphalt which I speak of as our having stacked up there in fact belongs to the contractor on the Kabul-Kandahar Road and there have been two offers to buy it for use in Pakistan, but it has not been sold on the assumption that it will be used to asphalt the key segments of the road that are still to be asphalted.
Mr. ANDREWS. You are going to have to send it around through Iran.
Mr. GAUD. This border is going to open, you might say, any day. The Pakistanis and the Afghans have already agreed to reopen the border. They are now in the process of exchanging ambassadors.
Mr. PASSMAN. What did it cost to put the asphalt over there?
Mr. GAUD. $270,000.
Mr. ANDREWS. For what could they sell it? Do you know what the market price would be for it? You say there have been several who tried to buy it.
Mr. GAUD. I do not know.
Mr. ANDREWS. If you can find out, put it in the record.
(The information requested follows:)

MARKET PRICE OF ASPHALT STORED AT AFGHANISTAN-PAKISTAN BORDER

The price we offered to prospective purchasers was cost plus freight to Chaman, Pakistan. The asphalt had been prepared to conform with the specifications for the Kabul-Kandahar Road, and was not a standard asphalt. Furthermore, the barrels had leaked somewhat, and mud had gathered on their sides, so that they were difficult to handle. Under these conditions buyers unwilling to pay the price asked.

Mr. GAUD. The asphalt was bought in Iran, presumably at the prevailing local price.
Mr. ANDREWS. In Iran?
Mr. GAUD. Yes, sir.
Mr. ANDREWS. And it is standing at the Pakistan border?
Mr. GAUD. This comes from the oil area down on the Persian Gulf. It is shipped by sea to Pakistan and then goes up the rail line to the railhead near the Afghan border.
Mr. ANDREWS. Do you know what it cost a ton?

materials and demonstration materials, $36,000; and construction commodities for the regional agricultural high school in Baghlan and the commercial high school, $54,000.

2. For major commodity funding beyond fiscal year 1964, approximately $397,000 will be required—about $77,000 for fiscal year 1965 and $320,000 for fiscal year 1966. In both years, the commodities are to consist almost entirely of laboratory and workshop equipment for the Afghan Institute of Technology and vocational agricultural schools; $28,000 is planned for books and demonstrational equipment for fiscal years 1965 and 1966.

Mr. PASSMAN. Is that figure going to be final, the $325,000, or is this going to lead us into other expenditures?

Mr. GAUD. This is our best estimate at the moment.

Mr. PASSMAN. To go into the building?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Have you started construction of the building yet?

Mr. GAUD. No, sir.

Mr. PASSMAN. When do you expect the building to be completed?

Mr. GAUD. We have no contract yet.

Mr. PASSMAN. You are requesting $325,000 for equipment to put into a building that you do not know when it will be built and you have not even got a project going; is that correct?

Mr. GAUD. We expect to start construction during the fiscal year.

Mr. PASSMAN. You do not have a contract and you do not know when it will be completed, but you are asking for money for the supplies to put in the building?

Mr. GAUD. That is right.

Mr. PASSMAN. Thank you.

I note that you plan to have 16 participants at a cost of $165,000. Why is the cost for participant training so high in this country?

Mr. GAUD. I don't know, sir.

Mr. PASSMAN. Try to find out for us, and put the information in the record.

Mr. GAUD. All right.

(The information follows:)

PARTICIPANT TRAINING COSTS—VOCATIONAL EDUCATION PROJECT

The $165,000 requested for participant training covers 16 participants, each of whom will study 18 months. The average annual cost of each participant is $7,000.

KABUL UNIVERSITY DEVELOPMENT PROJECT

Mr. PASSMAN. Page 20 indicates that the budget estimate for Kabul University development project is $1,888,000. Page 20 also indicates that you obligated $3,377,000 to this project in fiscal year 1963. How much did you justify to the Congress last year for this project?

Mr. GAUD. $3,420,000.

Mr. PASSMAN. Could this be true, this statement on page 20 construction of five major university buildings were to be financed under an Afghan-financed contract but because Afghanistan could not meet the foreign exchange costs of this construction the United States contributed the additional $1 million?

Mr. GAUD. It doesn't say "additional." It says "has spent $1 million."

Mr. PASSMAN. Your book says additional—a-d-d-i-t-i-o-n-a-l.

Mr. GAUD. Perhaps I am looking at the wrong place, Mr. Chairman. I apologize. I was looking at the wrong place.

Mr. GAUD. It was 1,500 tons and the cost was $270,000. That would be about $18 a ton.

Mr. MONTOYA. I think Mr. Gaud deserves a raise for trying to sustain the untenable position created by his predecessors.

Mr. ANDREWS. Mr. Montoya inserted in the Congressional Record recently a story about the efforts of some people out in his State of New Mexico pleading vainly, over a period of years, with the Federal Government to build 8 miles of road. The road was badly needed.

Mr. MONTOYA. And it was a Federal reclamation project.

Mr. ANDREWS. To a Federal reclamation project. Being unsuccessful in getting money from any branch of the Federal Government, those local citizens of New Mexico pitched in and collected money from themselves in an amount sufficient to build the 8 miles of road.

Now, Governor, could you tell us how much those 8 miles of road cost and were they gravel or asphalt?

Mr. MONTOYA. Gravel.

Mr. ANDREWS. What did they cost?

Mr. MONTOYA. $180,000.

Mr. ANDREWS. For 8 miles.

Mr. PASSMAN. The local citizens made up the money?

Mr. ANDREWS. They could not get it from the Federal Government, Mr. Chairman.

Mr. PASSMAN. May I recommend that in the future you go through AID?

Mr. MONTOYA. We are trying to incorporate within Pakistan.

Mr. PASSMAN. If you need the money you could get it quicker.

VOCATIONAL EDUCATION PROJECT

The largest project in Afghanistan appears to be the vocational education project for which you are requesting $2,867,000 in fiscal year 1964. Is that correct, sir?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Do you have any commitment to provide the $2,177,000 for construction of the new physical plant for the Afghan Institute of Technology?

Mr. GAUD. Yes, sir. I am not sure of the exact amount.

Mr. PASSMAN. Can you tell us what you expect this project to cost upon completion?

Mr. GAUD. The total cost from the beginning to the end, $8,301,000.

Mr. PASSMAN. What are you going to build?

Mr. GAUD. This is a building for this Afghan Institute of Technology which will house its electrical, automotive, and civil engineering sections. The $8.3 million also includes assistance to other schools.

Mr. PASSMAN. What type of commodity do you plan to procure at a cost of $325,000?

Mr. GAUD. Laboratory and workshop equipment would be covered.

(Information subsequently supplied follows:)

COMMODITIES PROPOSED UNDER VOCATIONAL EDUCATION PROJECT, AFGHANISTAN

1. The proposed fiscal year 1964 funding of $325,000 will cover the following: laboratory and workshop equipment for the Afghan Institute of Technology at Kabul, the vocational agricultural school in Kabul, the regional agricultural high school in Baghlan, the commercial high school and the home economics school for girls at Kabul, at an estimated cost of $235,000; nonlocal books, duplicating

Mr. PASSMAN. You do not need to apologize. It is normal to be off on these things about two-thirds of the time, anyway.

How much did you justify last year?

Mr. GAUD. $3,420,000.

Mr. PASSMAN. How much did you obligate?

Mr. GAUD. $3,851,000.

Mr. PASSMAN. Your book last year showed $1,490,000. This is on page 511.

Mr. GAUD. Perhaps I have a bad entry in here.

Mr. PASSMAN. Here, have a look at the book.

Mr. GAUD. Mr. Chairman, you are certainly right, but we consolidated two projects.

Mr. PASSMAN. Well, that is standard. Thank you.

HOSPITAL FACILITATES FOR AMERICAN PERSONNEL IN AFGHANISTAN

What type hospital facilities do you propose to fund under your technical support project and at what cost?

Mr. GAUD. Our share of operating expenses for a hospital for the U.S. personnel and dependents in Afghanistan. That is for the embassy, USIA, and AID personnel and their families.

Mr. PASSMAN. Are we now paying the cost for these agencies?

Mr. GAUD. We are paying part of the cost of operating that hospital. There are no other facilities to take care of the American community.

Mr. PASSMAN. How many employees are there in the hospital?

Mr. GAUD. I haven't got the number, Mr. Chairman.

Mr. PASSMAN. How many American personnel do you have employed in the hospital? American technicians.

Mr. GAUD. When I was last there, there were two doctors who were also working in the program serving, you might say, double time as doctors and there were one or two nurses.

Now, I will have to give you accurate figures but this was my recollection when I was last there.

Mr. PASSMAN. I believe you referred to this as a technical support project?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Since when did we start building hospitals under AID technical support?

Mr. GAUD. If we go into a country such as Afghanistan or, let us say Yemen, where there are no local facilities to take care of the American community, we have, as a matter of fact, under technical support financed some improvements in those facilities. In Afghanistan it involved renovating a leased building and providing the necessary medical equipment and that sort of thing.

Mr. PASSMAN. If we go to this technical support project, it would appear that the obligations have been $11,488,000; is that correct?

Mr. GAUD. Yes. This covers all technical support costs, not only the hospital, you understand.

Mr. PASSMAN. It says "and hospital facilities are also funded under technical support."

When did we start financing hospital facilities under technical support?

Mr. GAUD. I don't know when we financed the renovation of the building now used as a hospital, but certainly AID has financed a portion of the operating costs in 1962 and 1963.

Mr. PASSMAN. Let us get the cost for 1962 and 1963.

Mr. GAUD. The AID share of the cost of operating the hospital in 1962 was $80,000. In 1963 it is $150,000 and in 1964 we have estimated $150,000.

Mr. PASSMAN. That is the AID share?

Mr. GAUD. Yes.

Mr. PASSMAN. And you have this setup under technical support?

Mr. GAUD. Yes. Support of our program.

LOCAL EXPENSES UNDER TECHNICAL SERVICES PROJECT

Mr. PASSMAN. You have local expenses of $1 million. Will you give us a breakdown on that item?

Mr. GAUD. Of the $1,501,000?

Mr. PASSMAN. Yes, local expenses.

Mr. GAUD. Local labor, supplies and the like, $400,000; third-country nationals, $200,000.

Mr. PASSMAN. Who are the third-country nationals?

Mr. GAUD. Those are non-Afghans whom we employ in Afghanistan largely for clerical work and that sort of thing for which we can't get trained Afghans and they cost us a lot less than sending Americans out there.

Mr. PASSMAN. How many are there?

Mr. GAUD. The number of third-country nationals in Afghanistan I would have to supply you. I haven't got it here.

Mr. PASSMAN. All right, sir.

(The information follows:)

USE OF THIRD-COUNTRY NATIONALS IN AFGHANISTAN (TECHNICAL SUPPORT)

In fiscal year 1964 an estimated 42 third-country nationals will be charged to the technical support costs of the Afghan aid program.

Mr. GAUD. Next is transport cost of project commodities, $330,000. It is primarily to cover transport costs from the port in Iran or Pakistan to the Afghan border.

Mr. PASSMAN. It says local expenses.

Mr. GAUD. Well, it is local expenses in Iran and Pakistan.

Mr. PASSMAN. In what amount?

Mr. GAUD. $330,000.

Mr. PASSMAN. For what commodities?

Mr. GAUD. Whatever commodities are used in connection with a project.

Mr. PASSMAN. Should that cost not have been applied equally to the projects?

Mr. GAUD. The costs to the port are covered under the project.

Mr. PASSMAN. Could it not have been spread over all the projects?

Mr. GAUD. It could have been, but because of the border closure, the mission found it easier to handle financing in a consolidated account.

The normal practice is to fund such costs under the project.

Mr. PASSMAN. What is next?

Mr. GAUD. Housing cost, $420,000.

Mr. PASSMAN. How many people do you house?

Mr. GAUD. Our people in Afghanistan?

Mr. PASSMAN. Yes.

Mr. GAUD. We have 321 Americans in the aid program in Afghanistan.

The U.S. share of the Kabul Hospital cost, $150,000. Those add up to $1.5 million.

Mr. PASSMAN. Do all of the aid people in Afghanistan get housing?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Out of this item?

Mr. GAUD. All of those who are direct hire get it.

Mr. PASSMAN. For the local expense, $1.5 million, that money goes into their economy, does it not?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. And you pay in dollars?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. So, even though we could not claim an export against that sum, it does nevertheless provide them with this much additional money, does it not?

Mr. GAUD. That is true.

Mr. PASSMAN. And this certainly has an effect on our balance-of-payments situation.

We are waiting now for a report from downtown to find out how much money is actually spent abroad through this program, to see how much we pump into their treasury with our spending, flying, hotels, eats, and everything else.

FEASIBILITY STUDIES IN AFGHANISTAN

Of the $200,000 obligation for feasibility studies, how much has been subobligated to date, sir?

Mr. GAUD. $135,000, Mr. Chairman.

Mr. PASSMAN. Tell us when you justified this item to the Congress.

Mr. GAUD. We did not.

Mr. PASSMAN. Could you give us any idea whether or not this $200,000 that you allocated, which you did not justify to the Congress, will finish these feasibility studies?

Mr. GAUD. It will finish these.

Mr. PASSMAN. You are asking for more money for fiscal year 1964?

Mr. GAUD. We are asking for $200,000.

Mr. PASSMAN. You started this project without asking for it and allocated $200,000. Now, since we have it going, you are asking for $200,000 more to add to the $200,000 that you allocated but did not request?

Mr. GAUD. That is true.

PROJECTS BEGUN IN FISCAL YEAR 1963 WHICH WERE NOT PREVIOUSLY PRESENTED TO CONGRESS

Mr. PASSMAN. Can you tell us, from your records, how many projects you started in fiscal year 1963 for which you did not request funds from Congress? Do you have the information there?

Mr. SCHEINMAN. No, sir. I am sure we can examine the books and provide it for you.

Mr. PASSMAN. Does the Controller have the information?

Mr. FLINNER. No, sir; I do not.

Mr. PASSMAN. You do not keep account of such things?

Mr. SCHEINMAN. Well, sir, it has already been testified to here that with respect to new obligating authority——

Mr. PASSMAN. What has been testified to, the number of projects you started without money and the total amount?

Mr. SCHEINMAN. During the course of the year certain priorities occur for which we will use new obligating authority——

Mr. PASSMAN. That is not my question. Mr. Controller, tell us how many projects AID started last year for which justification was not made to Congress. Then give us the amount that you allocated out of fiscal year 1963 funds, then project each one to completion. It will not be unduly difficult to get that information, will it?

Mr. FLINNER. We can get the number. I don't know how long it will take us to get the allocation and completion estimates.

(The information requested follows:)

AGENCY FOR INTERNATIONAL DEVELOPMENT

New projects in fiscal year 1963 not included in the fiscal year 1963 congressional presentation

[In thousands of dollars]

Regions and countries, project titles and numbers	Estimated obligations, fiscal year 1963	Estimated total cost from inception to completion
LATIN AMERICA		
Argentina:		
University of Cordoba, 510-AC-66-AP-5	300	610
Agricultural Economic Institute, 510-AC-14-AG-5	50	250
Labor-Management Institute, 510-AC-44-AN-5	30	125
Housing, 510-AB-84-AA-6	50	50
Statistical services, 510-R-75-AG	65	160
Public safety, 510-S-71-AA	15	15
Fruit production: Rio Negro Valley, 510-AA-13-AI-66	30	190
Subtotal, Argentina	540	1,400
Bolivia:		
Occupational health program, 511-D-51-AD	175	255
Banco Minero, 511-D-21-AF	400	450
Civil aviation technical assistance to LAB, 511-F-37-AF	250	250
Industrial education, 511-N-61-AH	9	387
Support for national planning, 511-R-75-AE	50	50
Cooperative wool marketing, 511-A-15-AZ	90	150
Blanca Flor Oil Mill, 511-J-29-AD	20	20
Support for Codification Commission, 511-Q-72-AJ	43	100
Subtotal, Bolivia	1,037	1,662

New projects in fiscal year 1963 not included in the fiscal year 1963 congressional presentation—Continued

[In thousands of dollars]

Regions and countries, project titles and numbers	Estimated obligations, fiscal year 1963	Estimated total cost from inception to completion
LATIN AMERICA—continued		
Brazil:		
Livestock planning production and marketing and food distribution, 512-AF-13-AA-6; 512-AF-14-AB-6; and 512-AF-13-AC-5 (justified in food and agricultural section of Brazilian presentation at significantly lower funding)	4,435	13,560
Mineral resources survey, 512-AB-21-AB-5	610	1,580
Technical and scientific publications, 512-AC-96-AH-5	415	1,790
Urban community development, 512-AD-81-AD-5	65	235
Subtotal, Brazil	5,525	17,165
For information: Northeast regional development program justified on p. 105 of Brazilian presentation involved implementation in fiscal year 1963 of the following projects:		

	Estimated obligations, fiscal year 1963	Estimated total cost from inception to completion
Basic education, 512-AA-67-BG-5	$200	$1,180
Agricultural education, 512-AA-62-BH-5	900	3,800
Water resources, 512-AA-12-CD-6	110	2,000
Agricultural research and extension, 512-AA-11-CA-5	140	2,065
Resource inventory, 512-AA-21-BA-5	520	6,170
Industrial development, 512-AA-92-BE-6	370	920
Roads, 512-AA-31-BC-2	1,100	1,100
Economic and social research and planning, 512-AA-99-BB-5	260	2,900
Technical support, 512-QQ-99-AA-5	1,000	5,000
Industrial vocational education, 512-AA-61-BI-6	9	675
Colonization and resettlement, 512-AA-12-CE-6	25	1,600
Fisheries, 512-AA-18-CC-6	85	1,685
Community development, 512-AA-81-AD-5	25	930
Food for peace, 512-AA-99-AF-5	10	600
Housing, 515-H-83-AB	40	355
Subtotal	4,794	30,980

Chile:		
Mobile health units and spare parts, 513-AC-53-AK-4	203	203
Customs administration, 513-AC-75-AC	64	285
Educational systems surveys, 513-N-68-AG	60	240
Scholarship program, 513-AB-69-AC-5	25	130
Medical care, 513-P-53-AA	240	240
National Health Service (influenza immunization and pediatrics equipment), 513-P-53-AB	58	58
Subtotal, Chile	650	1,156
Costa Rica:		
Public safety, 512-ZA-71-AE-5	200	715

New projects in fiscal year 1963 not included in the fiscal year 1963 congres ional presentation—Continued

[In thousands of dollars]

Regions and countries, project titles and numbers	Estimated obligations, fiscal year 1963	Estimated total cost from inception to completion
LATIN AMERICA—continued		
Dominican Republic:		
For information: The program justified on p. 195 of the Dominican Republic presentation involved the implementation in fiscal year 1963 of the following projects. (NOTE.—There may be further requests for civic action projects which may include civic action projects listed below.)		

	Estimated obligations, fiscal year 1963	Estimated total cost from inception to completion
Agricultural development and diversification	$781	$2,800
Yaque del Sewer Valley feasibility studies	(100)	
Agricultural development, 517-A-19-AD	(130)	
Agrarian reform, 517-AA-12-AA-5	(125)	
Cooperative development, 517-A-14-AC	(123)	
Forest conservation and management, 517-AA-17-AS-4	(160)	
Forest protection (civic action), 517-AA-17-AS-4	(100)	
Livestock and poultry development, 517-AA-13-AB-5	(43)	
Public safety, 517-AD-71-AA-5	265	1,480
Skilled manpower development center, 517-AC-42-AC-5	184	300
Vocational education, 517-AC-69-AF-5	228	1,050
School construction (civic action), 517-AC-64-AI-4	168	168
Government planning and administrative reform, 517-AD-72-AB-5	477	1,600
Industrial development, 517-AB-95-AA-5	7	785
Dependent education, 517-N-64-AG	51	[1] 51
Credit union cooperatives, 517-AC-49-AA-5	99	99
Education planning and administration, 517-AC-69-AD-5	40	320
Adult education, 517-AC-67-AG-5	41	785
Road repair and construction (civic action), 517-AA-31-AH-4	83	[1] 83
Manpower development and labor administration, 517-AC-45-AB-5	60	1,000
Community water development (civic action), 517-AA-52-AG-4	100	100
English language textbooks, 517-AC-64-AH-3	15	15
Subtotal	2,599	10,646

	Estimated obligations, fiscal year 1963	Estimated total cost from inception to completion
El Salvador: Malaria eradication, 519-P-51-AH	200	200
Jamaica:		
Labor training center, 532-ZA-44-AB-5	180	900
Independence Day scholarship program, 532-Z-99-A	75	75
Subtotal, Jamaica	255	975

[1] A request for additional funds may be made in future.

New projects in fiscal year 1963 not included in the fiscal year 1963 congressional presentation—Continued

[In thousands of dollars]

Regions and countries, project titles and numbers	Estimated obligations, fiscal year 1963	Estimated total cost from inception to completion
LATIN AMERICA—continued		
Nicaragua: American School, Nicaragua, 524-N-69-AB	200	200
British Guiana: Hydropower survey, 504-AA-22-AE-5	350	350
ROCAP: Mobile rural health, 596-AC-53-AC-5	1,550	4,000
(For information: Civil aviation projects of the Central American Republics were combined into a ROCAP project for fiscal year 1963—$400,000.)		
Regional:		
Civil engineering training	500	500
Community development (cooperation with Peace Corps), 598-Z-81-AB	150	150
Women's leadership training—League of Women Voters, 582-Z-67-AB	300	300
Development of commercial standards, 582-Z-95-AE	200	200
Summer teacher institute in science and mathematics—National Science Foundation, 598-Z-66-BH	900	900
National Rural Electric Co-ops, 598-Z-99-BU	150	150
National Academy of Science	285	750
Urban development and problems, 598-Z-87-AA	180	[2] 540
Cooperative advisory service for organization of Co-ops of America, 598-Z-99-CA	345	345
Child feeding program, 598-Z-99-BH	900	3,000
Project Hope hospital ship, 598-Z-59-BJ	1,040	1,040
OAS information program, 598-Z-99-BR	1,600	1,600
Committee for Higher Education in Latin American Academic Journals, 598-Z-66-BM	40	40
Basic resources survey—IAGS, 598-Z-19-BR	50	400
Cooperative advisory service for individual co-ops, 598-Z-99-CB	90	90
Advisory services for Andean Indian development, 598-Z-96-BA	25	775
Commerce Advisory Committee for the Alliance for Progress, 598-Z-99-BK	75	75
Subtotal, regional	6,830	10,855
For information: The American Institute of Free Labor Development project was begun early fiscal year 1963 and justified in testimony before the Subcommittee on Foreign Operations, HAC, pt. 3, pp. 162-163 — Estimated obligations, fiscal year 1963: $1,110; Estimated total cost from inception to completion: [3] 5,000		
Total, Latin America	17,337	38,678
FAR EAST		
Burma: Expansion of teak production, 482-AA-17-AC-2	1,520	4,920
China: Industrial development surveys, 484-AA-93-AC-5	375	875
Korea:		
Improvement of transport capabilities, 489-AE-33-AD-2	128	602
Improvement of communications system, 489-AE-22-AE-2	37	257
Subtotal, Korea	165	859
Philippines:		
Civil aviation assistance, 492-G-37-AB	130	340
Inservice training and pilot schools, 492-N-67-AE	110	358
Subtotal, Philippines	240	698

[2] New country projects may be initiated when this project is completed in fiscal year 1965.
[3] Some of this cost or additional cost of project may be transferred to country programs.

New projects in fiscal year 1963 not included in the fiscal year 1963 congressional presentation—Continued

[In thousands of dollars]

Regions and countries, project titles and numbers	Estimated obligations, fiscal year 1963	Estimated total cost from inception to completion
FAR EAST—continued		
Thailand:		
Portable radio transmitter	225	625
Civic action	100	100
Human resources study, 493-N-69-AD	170	[4] 170
Soil and water development and management in the Near East, 493-AA-12-AC-5	378	1,469
Development of coordinated research and technical assistance for farm production, 493-AA-11-AD-5	235	1,161
Agricultural center for the Near East, 493-AA-14-AE-5	12	167
Development of economic data, services, and institutes, 493-AA-14-AF-6	175	800
Local government administration, 493-AA-79-AA-5	145	678
Feeder road program, 493-AA-79-AA-5	4,500	11,500
Subtotal, Thailand	5,940	16,670
Vietnam:		
Industrial advisory services, 430-AC-21-AC-5	160	900
Improvement of national and local government, 430-AC-79-AH-5	320	1,635
Subtotal, Vietnam	480	2,535
Regional:		
Mekong Pa Mong, 498-AD-12-AI-1	200	693
Spare parts and replacements for Mekong hydrologic system, 498-AD-99-AJ-5	50	220
Role of women in rural development, 498-Y-99-AE	75	75
Subtotal, regional	325	988
Total, Far East	9,045	27,545
NEAR EAST AND SOUTH ASIA		
Afghanistan:		
Herat Islam Kala Road, 306-F-31-FE	80	700
Feasibility studies, 306-ZA-99-AB-5	135	[5] 135
Subtotal, Afghanistan	215	835
Ceylon:		
Agricultural training, 383-AA-19-AD-5	15	15
Manufacturing training, 383-AB-29-AC-5	10	10
Subtotal, Ceylon	25	25
CENTO: Turk-Iran RR. evaluation	35	35
Cyprus: Desalinization feasibility survey, 233-A-52-AC	95	95
India: Export, expansion, 386-J-26-AE	370	525
Iran: Industrial management institutes, 265-AA-91-AD-5	44	44
Jordan: East Ghor rural development, 278-M-99-AA	285	1,128
Nepal:		
Hydrologic investigation, 367-AF-22-AB-5	33	500
Panchayat, 367-AB-81-AH-5	85	444
Subtotal, Nepal	118	944
Pakistan: Malaria eradication, 391-AG-51-AB-5	35	310
Syria: Police training, 276-ZA-71-AA-5	18	18

[4] An estimate of cost in addition to $170,000 obligated in fiscal year 1963 is currently not available pending completion of preliminary assessment.

[5] Since each feasibility study must be considered on its own merit, it is not possible at this time to project estimated future cost beyond $135,000 obligated in fiscal year 1963.

NOTE.—For Indonesia, civic action, 497-ZA-99-AB-5, estimated obligations fiscal year 1963, $1,200,000. The 1963 congressional presentation included $250,000 as part of this project under ex-servicemen's skills training, 497-N-69-AA.

For Vietnam, counterinsurgency services, 430-AA-99-AA-5, estimated obligations fiscal year 1963 $3,900,000, estimated total cost undetermined. Several projects in 1963 congressional presentation, although shown under different project titles, appear under general, counterinsurgency, sector as follows: Rural development, Y-99-AB; railway reconstruction, Y-33-AC; health services development, Y-53-AD; rural roads, Y-31-AE; and public safety, Y-71-AF.

New projects in fiscal year 1963 not included in the fiscal year 1963 congressional presentation—Continued

[In thousands of dollars]

Regions and countries, project titles and numbers	Estimated obligations, fiscal year 1963	Estimated total cost from inception to completion
Turkey:		
Manpower planning, 277-R-46-AJ	36	180
Support of industrial trade associations, 277-J-29-AI	43	125
Subtotal, Turkey	79	314
United Arab Republic:		
Public administration, 263-AC-79-AA-5	77	77
Engineering education, University of Assiut, 263-AB-66-AG-5	340	1,820
Subtotal, United Arab Republic	417	1,897
Total, Near East and south Asia	1,736	6,170
AFRICA		
(Listing excludes projects shown in fiscal year 1964 congressional presentation as estimated obligations in fiscal year 1963 if subsequent to preparation of fiscal year 1964 presentation book it became known that the estimated obligation did not materialize in fiscal year 1963.)		
Algeria:		
Agriculture credit and cooperatives, 638-A-14-AA	25	25
Rural rehabilitation, 638-A-12-AB	940	3,940
Investment management, 638-J-27-AA	25	25
Civil aviation, 638-F-37-AA	15	15
CARE-medico, 638-P-53-AA	753	753
Subtotal, Algeria	1,758	4,758
(While the fiscal year 1963 congressional presentation did not propose specific projects for Algeria, it did include among the contingency requirements in Africa, the possibilities for a sizable requirement for U.S. assistance to Algeria.)		
Kenya:		
Secondary teacher training, 615-N-65-AE	180	305
English language teacher training, 615-N-64-AF	330	600
Expansion secondary education, 615-N-61-AD	55	1,283
Junior college scholarships, 615-Q-66-AE	420	420
Subtotal, Kenya	985	2,608
Tanganyika: Improvement and maintenance of public service, 616-Y-25-AC	190	1,560
Uganda: Independence gift, 617-Y-99-AA	75	75
Liberia: Sewerage system, 669-A-52-AA	200	200
Libya:		
Development administration, 670-R-79-AB	98	708
Development services, 670-R-79-AC	200	200
Subtotal, Libya	298	908
Mali: Health planning (WHO), 688-P-69-AA	100	100
Morocco: Survey team, Nouasseur Air Base, 608-F-37-AA	10	10
Nigeria:		
National telecommunications survey, 620-R-22-AD	300	300
Lagos water supply and sewage service, 620-R-31-AZ	500	500
Subtotal, Nigeria	800	800
Somali Republic:		
Labor training, 649-U-41-AA	40	40
Broadcasting, 649-G-96-AA	40	40
Subtotal, Somali Republic	80	80
Sudan: Development plan participant training, 650-N-99-AK	70	315
Tunisia: Cooperative training institute, 664-A-12-AI	12	12

New projects in fiscal year 1963 not included in the fiscal year 1963 congressional presentation—Continued

[In thousands of dollars]

Regions and countries, project titles and numbers	Estimated obligations, fiscal year 1963	Estimated total cost from inception to completion
UAM:		
Cameroon:		
Secondary and technical education, 694-N-65-AF	70	570
Economic survey, West Cameroon, 694-R-75-AN	180	180
Subtotal, Cameroon	250	750
Central African Republic:		
Endemic disease control, 676-P-55-AC	150	150
Audiovisual equipment, 676-N-67-AB	41	71
Subtotal, Central African Republic	191	221
Chad: Fort Archambault water supply, 677-P-52-AA	569	629
Congo (Brazzaville): Lycee technique, 679-N-61-AB	175	175
Dahomey: Development of agriculture co-ops, 680-A-14-AD	27	200
Gabon: Mechanics school, 678-N-61-AB	41	41
Ivory Coast:		
Sugarcane research and experiment, 681-A-13-AY	50	180
Improvement, livestock production, 681-A-13-AX	80	80
National health planning, 681-P-54-AK	100	190
Subtotal, Ivory Coast	230	450
Malagasy Republic:		
Endemic disease control, 687-P-55-AB	165	165
Industrial development, 687-Y-28-AA	9	21
Minerals and petroleum codes, 687-D-21-AA	25	25
Subtotal, Malagasy Republic	199	211
Niger:		
Moradi River area development, 683-A-12-AC	45	45
National health planning (WHO), 683-P-59-PB	100	100
Technical scholarships, 683-N-61-AA	100	475
Subtotal, Niger	245	620
Togo: Health services, 693-P-53-AB	175	175
Africa regional:		
Labor cooperative leadership, 698-U-41-AB	42	42
Trachoma control, 698-P-51-AA	95	95
Graduate scholarship program, 698-N-66-AS	100	2,100
Supply management, 698-Q-97-AC	25	25
Training for public service, 698-Q-72-AB	30	30
Subtotal, regional	292	2,292
Total, Africa	6,972	17,190

RECAPITULATION

Latin America	$17,337	$38,678
Far East	9,045	27,545
Near East and South Asia	1,736	6,170
Africa	6,972	17,190
Grand total	35,090	89,583

Mr. PASSMAN. Could you tell us how many projects you deobligated in your area in fiscal year 1963 and the total amount?

Mr. GAUD. Yes, sir.

Mr. WHITE. We will have to count them.

Mr. PASSMAN. Suppose you count them while Mr. Natcher examines, and give us the amount.

AGRICULTURE IN AFGHANISTAN

Mr. NATCHER. From time to time, Mr. Gaud, you justify the aid program in different countries to the committee, informing the committee that it is essential that the particular country be placed in a position of producing enough food to take care of the people in that country. Here in Afghanistan I notice in the justifications a statement to the effect that the future prosperity of Afghanistan, which is largely agricultural, depends on its ability to increase exports of agricultural products. Now, this is a right fascinating statement, Mr. Gaud. Do you agree that here in this country we have about $8.5 billion worth of surplus commodities—and the same situation applies in a number of other countries throughout the world. Do you believe Afghanistan would ever be placed in a position of being able to export agricultural commodities?

Mr. GAUD. It does to some extent today.

Mr. NATCHER. In sizable amounts, Mr. Gaud?

Mr. GAUD. In their terms their exports of grapes and dates are sizable, yes. Not sizable in terms of supporting the entire economy but it is one of their important—their fruit and date and nut exports are quite important to them.

Mr. NATCHER. Do you say to the committee that you sincerely believe that in Afghanistan we will be able through the aid program to put this country in a position to export agricultural commodities to the extent that the country can become a prosperous nation?

Mr. GAUD. No, not on that alone, Mr. Natcher.

Mr. NATCHER. I wouldn't think so, Mr. Gaud.

Can you tell me if they produce cotton and tobacco in Afghanistan?

Mr. GAUD. They produce—I frankly don't know about either one of those items. Whether they produce either one of them in any quantity.

Mr. NATCHER. Would any of the other witnesses be able to assist you on that, do you suppose?

Mr. GAUD. Mr. White informs me there is some cotton and a little tobacco for domestic consumption.

Mr. NATCHER. This is a right unusual statement when you base this program to a certain extent on placing Afghanistan in a position where its ability to increase exports of agricultural commodities and products will then place the country in a position where it can survive.

Mr. GAUD. Well, I certainly wouldn't think that this would be enough in and of itself. Their principal crops on which they base their hopes of foreign exchange are nuts and fruits and there is a large demand for that sort of thing in their part of the world. They export a good deal today, both to the Soviet Union and to India and

to Beirut, Lebanon, and to Iran. There is a real chance of improving their foreign exchange position by increasing their exports but I wouldn't think it is going to carry them the whole way.

Mr. NATCHER. I agree with you, Mr. Gaud. There are countries around Afghanistan who can produce the same type nuts and the same type products you have just discussed, isn't that true?

Mr. GAUD. Yes, sir.

Mr. NATCHER. You have an aid program in all of those countries over there. You are not certain at all then that you are going to place Afghanistan in the position where it can export anything in the future from the standpoint of agricultural commodities, are you?

Mr. GAUD. They have no problem in disposing of those crops today and there is much more demand than they can meet. There is clearly room for improved earnings of foreign exchange in these respects, Mr. Natcher.

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. PASSMAN. Are there further questions?

Mr. RHODES. My dear friend from New Mexico said I think facetiously a while ago that you should be congratulated for trying to clean up the mess your predecessor left you and I think——

Mr. MONTOYA. That wasn't facetious.

Mr. RHODES. I was giving you the benefit of the doubt.

Let me proceed further: I think I might have agreed with him a year ago but I don't now. I think this country is a mess. I don't think we ought to be in it at all and in my opinion the best thing that you could do in your position is to get us out just as fast as you can. This is not a country which can be held in the face of an all-out Soviet attack or even a limited Soviet attack. It is a country which is historically an avenue of attack into the Indian subcontinent. You are in the middle of building a road that obviously the Afghans don't particularly want and, in my opinion, if you want to end some of the mistakes which I agree you probably did inherit, then you can do it best by just getting out of this one completely.

Mr. GAUD. I am interested in your views, of course, Mr. Rhodes, and you realize that I don't agree. But there is one factual point here that I would just like to mention and that is your statement that the Afghans don't want this road. That just is not the case. There is no question about that.

Mr. RHODES. I am inclined to think it is the case. If you are putting first things first, as you have to give most people the credit for doing, I think the Afghans put their fight with Pakistan before they do this road and if that is the situation then I have to renew my statement. I don't think they want this road. It certainly, in my opinion, doesn't do the United States any good to be so obsequious as to push something onto people that they obviously don't care much about. This is one of the worst cases of foreign aid I know of.

Mr. ANDREWS. Will the gentleman yield?

Mr. RHODES. Yes.

CLOSING AND OPENING OF AFGHANISTAN-PAKISTAN BORDER

Mr. ANDREWS. I have been under the impression, Mr. Gaud, that Pakistan was perfectly willing for the Afghans to take this material over the border. That is indicated by the fact that the Pakistanis let our people put the material at the border. So then the whole fault

of not opening the border is on the part of the Afghan Government. Is that right?

Mr. GAUD. I think that has been so since the border closed again last March.

Mr. ANDREWS. You speak of the border opening and closing?

Mr. GAUD. Yes, sir.

Mr. ANDREWS. Who does the opening and closing?

Mr. GAUD. The border was closed in the fall of 1961, you might say by mutual disagreement or by mutual agreement. The border was opened in February and March 1962 by agreement between the Pakistanis and the Afghans to allow aid goods through. The question then was should the border remain open and the Pakistanis and the Afghans could not agree on the terms for leaving it open, so it was shut. Thereafter, the Pakistanis said to us that they were perfectly willing to have the aid goods for Afghanistan transit their territory——

Mr. ANDREWS. So it is a correct statement to say that the reason why the roadbuilding equipment and materials didn't get over into Afghanistan is the fault of the Afghan Government?

Mr. GAUD. As I understand the situation, the Afghan Government could have let that material through the border, but if it did that, the Government believed it would compromise its position on the border dispute.

Mr. LEE. At the risk of repeating some of the things Mr. Talbot said yesterday and some of the things Mr. Gaud has said, I would like to try to clarify the answer to Mr. Rhodes' question and yours too. This Afghan-Pakistan quarrel is a quarrel between two nations that goes back a long way and has many features in it and the settlement of this quarrel is not simply at the discretion or the will of one party or the other. So it was a question of coming to some agreement between these two parties. I think it would be unfair to say flatly that the closure at any one time was the fault of one party or the other and we on our part in the United States were careful to avoid taking on our shoulders this quarrel which was their quarrel.

Mr. ANDREWS. Did the Afghan Government refuse to take this material into their country at any time when the border was open?

Mr. GAUD. No, sir.

Mr. ANDREWS. Then I don't understand it.

Mr. RHODES. Mr. Gaud testified previously that the Pakistanis were willing to open the border at one time but the Afghans were not willing to open the border and were not willing to let the material come across.

Mr. ANDREWS. That has been testified to.

Mr. RHODES. If the Secretary tends to disagree with that, I would like to hear him on the subject.

Mr. ANDREWS. I would like to know why this material didn't get into Afghanistan.

Mr. RHODES. If I can take the testimony of Mr. Gaud correctly, it is the fault of both of them now but at one time it was completely the fault of the Afghans.

Mr. ANDREWS. That is the impression I have.

Mr. PASSMAN. I asked the questions and Mr. Gaud was very frank. At one time we had some material there. Pakistan was willing to open the border and let the material through but the Afghans were so

contrary they themselves would not open the border and receive the material.

There is no question about the accuracy of that statement, is there?

Mr. GAUD. Let me see if I can repeat it: As I understand the situation, between September 1961 and February 1962 we had a lot of material moving to Afghanistan which was caught in Pakistan when the border closed or which arrived in Pakistan shortly thereafter. Neither party at that time was willing to open the border. The border was opened by mutual agreement for about 2 months, and that AID-financed material went across.

Subsequent to the end of March 1962 we didn't send anything to Afghanistan except 1,500 tons of asphalt plus a few hundred tons which had been shipped previously and went on through Iran. So except for the asphalt, it wasn't a question after that date of opening up the border and letting AID material in. The dispute between the two countries persisted. The Pakistanis who were unwilling to enter into a full border-opening agreement with the Afghans until certain issues were settled, nevertheless said they were perfectly prepared to let U.S.-aid goods go through their country and go on up into Afghanistan. The Afghans on the other hand wouldn't let anything in unless they had a full border-opening agreement with the Pakistanis.

Mr. PASSMAN. So they would not let the material come in that was available to be taken in. The Pakistan Government was willing but Afghanistan was not willing to receive it; is that correct?

Mr. GAUD. Yes, because they thought it would compromise their position. I am also drawing one slight——

Mr. PASSMAN. You previously said "Yes."

Mr. GAUD. With one slight qualification, that we didn't have a lot of goods there waiting to get in.

Mr. PASSMAN. You had goods.

Mr. GAUD. Fifteen hundred tons of asphalt.

Mr. PASSMAN. And Pakistan said, "Yes, you may move it in." Afghanistan said, "No."

Is that right?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Now the record is straight once again.

Mr. ANDREWS. At the time permission was given by the Pakistan Government to let the asphalt be taken over into Afghanistan; was there a need for that asphalt in Afghanistan?

Mr. GAUD. No, sir. Not at that time.

Mr. ANDREWS. Was there a subsequent need for it?

Mr. GAUD. Yes.

Mr. ANDREWS. That is the same thing, in my opinion. There was a future need for it.

Mr. GAUD. It certainly would have been used on the road before now. A good part of it.

Mr. PASSMAN. We got into this controversy last year and I think it was categorically testified to, yes, that Pakistan would open the border but the Afghans would not open the border and receive what we wanted to give to them. I think we agreed on that matter last year, and we have agreed on it this year.

Mr. GAUD. Yes, sir.

DEOBLIGATIONS UNDER FISCAL YEAR 1963 PROJECTS

You asked how many projects we deobligated money for for 1963. The only information I have in the committee room with me relates to deobligations of more than $10,000 each. We had deobligations on 105 development grant projects totaling $4,263,000.

Mr. PASSMAN. What did you do with that money?

Mr. GAUD. Mr. Chairman, we used some deobligated funds in that region on projects in accordance with the notifications given to you by Mr. Bell. To the extent we did not use this money on those specific projects we turned it back to the Agency.

Mr. PASSMAN. You deobligated over $10,000 from each of 105 projects?

Mr. GAUD. That is correct.

Mr. PASSMAN. You will get us the number under $10,000?

Mr. GAUD. If you like.

Mr. PASSMAN. We would like to have that information.

Mr. GAUD. All right.

(The information requested follows:)

Number of projects in NESA region for which amounts less than $10,000 were deobligated in fiscal year 1963

[In thousands of dollars]

Country	Number of projects	Amount deobligated	Country	Number of projects	Amount deobligated
Total	217	1,104	Jordan	29	104
			Lebanon	11	173
Afghanistan	19	27	Nepal	19	83
Ceylon	13	165	Pakistan	12	63
Cyprus	1	5	Syria	3	13
Greece	8	43	Turkey	31	147
India	21	73	United Arab Republic (Egypt)	3	18
Iran	22	94	Yemen	1	2
Iraq	4	25	CENTO	2	6
Israel	18	63			

Mr. PASSMAN. Regardless of the type legislation you are dealing with, it would have no effect on your deobligating funds for projects if the project was no longer advisable? You would deobligate the funds? You would not just keep the money obligated and outstanding for years if you had no intention of spending it, would you?

Mr. GAUD. I would hope not.

Mr. PASSMAN. Out of these deobligated funds, could you start projects that had not been justified to Congress?

Mr. GAUD. Not according to the ground rules that now exist. Mr. Bell agreed last year——

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Are any of the 105 projects you deobligated funds from, going to receive any new funds for fiscal year 1964?

Mr. GAUD. Yes.

Mr. PASSMAN. May we have a list of them?

Mr. GAUD. We did not deobligate just because we were discontinuing the project.

Mr. WHITE. You might obligate for a particular participant and then deobligate.

Mr. PASSMAN. We ran into one area where you only had two out of dozens. Will you provide for the record—a copy coming to the clerk—the number of projects that you deobligated funds from and for which you are requesting new funds for fiscal year 1964?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. I can understand a participant under the $10,000, but you get into these millions of dollars and you are not dealing with participants.

Mr. GAUD. We will give you the information.

(The information requested follows:)

Number of continuing DG and SA projects in NESA region from which funds were deobligated in fiscal year 1963, and for which NOA is requested for fiscal year 1964

[In thousands of dollars]

Country	Number of projects	Amount deobligated in fiscal year 1963	Country	Number of projects	Amount deobligated in fiscal year 1963
Total	145	3,739	Nepal	19	355
			Pakistan	7	144
Afghanistan	19	555	Syria	2	10
Ceylon	5	240	Turkey	25	337
Cyprus	1	5	United Arab Republic (Egypt)	9	217
India	16	629	Yemen	2	74
Iran	19	246	CENTO	3	16
Iraq	2	168	Regional	1	179
Jordan	15	564			

CEYLON

SUSPENSION OF ASSISTANCE

Mr. PASSMAN. For Ceylon the budget estimate is $825,000, an increase of $295,000 over fiscal year 1963; is that correct?

Mr. GAUD. Our actual obligations for fiscal year 1963 were $442,000. That program, as you know, sir, was suspended February 8 of this year.

Mr. PASSMAN. Could you tell us the amount of unliquidated funds to the credit of Ceylon as of June 30?

Mr. GAUD. $4,060,000.

Mr. PASSMAN. In all categories?

Mr. GAUD. That is correct. That also is suspended, you understand.

Mr. PASSMAN. Can you tell us the total amount of aid to Ceylon since the inception of the program?

Mr. GAUD. $25.7 million.

Mr. PASSMAN. Page 11 of the justifications indicates the Ceylon Government expropriated properties of two U.S. oil companies in 1962 and pursuant to section 620(e) of the Foreign Assistance Act, American aid was suspended because appropriate steps were not taken by Ceylon to compensate the oil companies for the expropriated property. That matter has not been settled?

Mr. GAUD. No, sir.

Our aid is still suspended and the negotiations with the companies have been broken off by the Government of Ceylon.

Mr. PASSMAN. You have over $4 million on hand unexpended to the credit of Ceylon and they have not settled this matter and the negotiations have been broken off.

Why would you be requesting more money for fiscal year 1964 for Ceylon?

Mr. GAUD. This request was prepared, as you know Mr. Chairman, in March, only a few weeks after the suspension.

POSSIBILITY OF RENEWING AID PROGRAM

Mr. PASSMAN. Have you any plans whatsoever to allocate or obligate any additional funds to Ceylon in fiscal year 1964?

Mr. GAUD. Only if the Ceylonese comply with section 620 (e) and take the appropriate steps to compensate the oil companies.

Mr. PASSMAN. Do you think maybe they might do that in order to get the $4 million plus the $825,000 released and then tighten up again?

Mr. GAUD. It certainly doesn't look that way.

Mr. PASSMAN. It is the same Government, is it not?

Mr. GAUD. It is the same Government. As a matter of fact, sir, you may be aware that the Ceylonese Government announced on June 5 that it is going to assign sole rights of distribution of petroleum products in Ceylon to the Government-owned Ceylonese Petroleum Corp. This could mean the expropriation of all the remaining distribution facilities of the oil companies in Ceylon.

Mr. PASSMAN. That is more indication that you will not need the $825,000?

Mr. GAUD. I think it is extremely unlikely that we will need any part of it.

EFFECT OF U.S. ASSISTANCE ON CHANGING ATTITUDES

Mr. PASSMAN. Do you know of one place where the habits of the aid-recipient countries and the way they do business have been changed?

Mr. GAUD. I think this is true in a good many countries.

Mr. PASSMAN. Name one, please.

Mr. GAUD. Where over the years the attitudes of countries and their people change. I think as Mr. Talbot said yesterday, there has been quite a change—not as much as we would like but quite a change in the attitude of the Indian Government.

Mr. PASSMAN. That is diplomatic language.

Mr. GAUD. You are asking for my opinion and all I can do is to give you my opinion.

Mr. PASSMAN. You are quoting Mr. Talbot.

Mr. GAUD. It is my opinion that in recent years the attitude of the Government and the people of India has changed substantially. It is my opinion that in recent years the attitude of the Government and the people of the UAR has changed considerably. I think this is true of a number of countries.

Mr. PASSMAN. I will admit the UAR changed their attitude. They want to take over all of the Middle East, do they not?

Mr. GAUD. That wasn't what I was speaking of.

Mr. PASSMAN. But it is what I am speaking of.

Mr. RHODES. Didn't Mao Tse-tung have more to do with changing the attitude of India than we did? I think as far as change is concerned AID had very little to do with it.

Mr. GAUD. This, of course, is a matter of opinion.

Certainly Mao Tse-tung and the Chinese Communists had a great deal to do with it.

Mr. RHODES. Maybe we should have the Chinese Communists attack a few more people and improve a few more attitudes.

Mr. GAUD. It is a risky business.

Mr. PASSMAN. Believing we will not be stupid enough to give Ceylon anything, I shall suspend with my questioning on Ceylon.

Are there any questions on Ceylon?

Mr. NATCHER. No questions, Mr. Chairman.

Mr. RHODES. No questions.

DEOBLIGATION OF BALANCE OF CEYLON OBLIGATIONS

Mr. PASSMAN. If we should make a specific request, would you deobligate this $4,060,000 so that it can be used elsewhere?

Mr. GAUD. That is one I would have to look into.

Mr. PASSMAN. Will you look into it and let us know what you decide?

Mr. GAUD. All right, sir.

(The information may be found on p. 1329.)

CYPRUS

Mr. PASSMAN. The fiscal year 1964 estimate for Cyprus is $1,000,000. What has been the total amount of aid extended to this country since we started the aid program?

Mr. GAUD. $3.7 million.

Mr. PASSMAN. How much do we have to the credit of Cyprus, unliquidated?

Mr. GAUD. About $3.2 million, Mr. Chairman.

Mr. PASSMAN. What was the total amount of the aid program?

Mr. GAUD. $3.7 million. It started in fiscal year 1962.

Mr. PASSMAN. So you have only disbursed $500,000?

Mr. GAUD. Yes; against the development grant program. Almost all of total aid consists of a single loan of $2.3 million which we made in fiscal year 1963.

Mr. PASSMAN. A hard-dollar loan or one of those crazy things?

Mr. GAUD. This is a 3-percent loan for 20 years.

Mr. PASSMAN. The money has not been disbursed?

Mr. GAUD. Not yet. It was just made.

The loan is for 20 years.

It is $2,275,000.

Mr. PASSMAN. The ——— million for fiscal year 1964, is that grant aid?

Mr. PASSMAN. How does that amount compare with fiscal year 1963?

Mr. GAUD. The grant aid in fiscal year 1963 was $700,000, and then there was the loan of $2.3 million, roughly——

Mr. PASSMAN. I asked just for grant aid.

Mr. GAUD. It compares with $700,000 for last year.

Mr. PASSMAN. Would you comment on your statement, on page 13 of the justifications, that there is a growing Communist influence on the island?

Mr. GAUD. Yes, sir. The island, as you know, is split between a population of Greek origin and a population of Turkish origin.

Mr. PASSMAN. It is not very much bigger than a large farm, is it?

Mr. GAUD. It is a pretty good sized farm in the part of the country I come from.

Mr. PASSMAN. How many square miles?

Mr. GAUD. 4,000 square miles.

There is a large Communist element in the Greek community, particularly in the labor movement.

Mr. PASSMAN. What do you propose to do, buy them off?

Mr. GAUD. No, sir.

We are putting relatively little money into Cyprus. We are trying these things. We have a labor program in Cyprus in which we are helping them develop moderate leaders in the labor movement. We are trying to help correct the conditions which have encouraged the growth of this Communist group. For example, using the proceeds of the first Public Law 480 program we had in Cyprus—this is, you might say, a sufficiently small country—at least one project, fixing a bridge, mending a road, mending a school, or something of that sort was done in every single village in Cyprus, bringing home to the people of Cyprus what our aid program was about. The program in Cyprus is largely of this type.

Mr. PASSMAN. This aid program goes from $679,000 up to $900,000 and up to $1 million. What is the population of Cyprus?

Mr. GAUD. The population is 600,000.

PROJECT ASSISTANCE

Mr. PASSMAN. What is the estimated cost to complete the——— project that will go through fiscal year 1967?

Mr. GAUD. Have you a page number on that, sir?

Mr. PASSMAN. Page 45.

Mr. GAUD. The total estimated cost is $435,000.

Mr. PASSMAN. Of the many projects you have there, could you give us an estimate of the cost upon completion?

Mr. GAUD. In Cyprus?

Mr. PASSMAN. Yes.

Mr. GAUD. The agricultural development program, $1,304,000; the water development program, $398,000; the project on page 45, $435,000; the economic policy and planning, $452,000; the development bank, $915,000.

Mr. PASSMAN. Is that capital for the bank?

Mr. GAUD. None is capital. The capital of that bank is being provided in two ways. One by a loan from the Germans and the other by a stock subscription which took place about the 1st of July to the Cypriots themselves and it is oversubscribed.

Mr. PASSMAN. Is the Germans' grant aid?

Mr. GAUD. The Germans have provided a loan for the capital. The terms are still to be negotiated.

Mr. PASSMAN. For how long a period?

Mr. GAUD. The period is still to be negotiated.

We have another project, desalinization feasibility study, $95,000; labor training project, $504,000; improvement of the central statistics office, $28,000; assistance to the central bank, $142,000.

I think that is it.

Mr. PASSMAN. Would we not make a better impression if we went into a little country like this, 600,000 people and 400,000 square miles, that just gained its independence, and start one or two projects of perhaps $25,000 or $50,000 and do them well, rather than seeing how many projects we can get started? You listed seven or eight just getting underway. The resources of the United States will never hold out for us to be able to keep pouring our dollars and our goods in all these countries.

They gained their independence just a couple of years ago; did they not?

Mr. GAUD. Yes.

Mr. PASSMAN. Why do you not give thought to fewer but better projects?

Mr. GAUD. We have, and I think this particular program is less subject to this criticism than any other.

Mr. PASSMAN. What program?

Mr. GAUD. The Cyprus program.

Mr. PASSMAN. You are talking about 600,000 people who just gained their independence and you have seven or eight projects underway.

Mr. GAUD. They are pretty well tied in together.

Mr. PASSMAN. What about this feasibility study?

Mr. GAUD. Cyprus lacks drinking water, particularly in the area of Famagusta. The problem is how to provide this particular area with drinking water.

Mr. PASSMAN. What did they drink all these years?

Mr. GAUD. Their wells are running dry. We have been working with the Office of Saline Water in the Interior Department as to whether or not it would be feasible to put a reasonable amount of money in a desalinization project.

Mr. PASSMAN. Have we perfected desalinization to the point of effective use in this country?

Mr. GAUD. Yes.

Mr. PASSMAN. Economically?

Mr. GAUD. Not economically from the standpoint of agriculture but there are places where it makes sense.

Mr. PASSMAN. You have two bank projects?

Mr. GAUD. We have a development bank and are giving advice to the Central Bank, which they are just setting up.

Mr. PASSMAN. That is just about as far as you can go?

Mr. GAUD. That is all they need.

GREECE

Mr. PASSMAN. You have a development credit program in Greece for 1964?

Mr. GAUD. Yes.

Mr. PASSMAN. Is that the program of disguised grants?

Mr. GAUD. These loans will be no less than 3½ percent and in the 20- to 30-year range.

Mr. PASSMAN. All of them?

Mr. GAUD. Yes.

Mr. PASSMAN. Repayable in dollars?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What success is Greece having in attracting foreign investors in their country?

Mr. GAUD. Quite a lot. One example of that is the number of requests for Cooley loans we have had this year from American firms wanting to go in business in Greece. Another is an oil refinery and steel plant being put up in Greece with American capital. This will entail an investment of $100 million.

Mr. PASSMAN. What has been our total aid to Greece since the inception of the program?

Mr. GAUD. Since the inception of the program, military and economic, $3,086 million.

Mr. PASSMAN. Does that include Public Law 480?

Mr. GAUD. Yes.

Mr. PASSMAN. Do you have a military program for Greece in 1964?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Is that a classified figure?

Mr. QUINN. Yes.

(Discussion off the record.)

Mr. PASSMAN. If I said, "Our military grant aid assistance to Greece in fiscal 1964 is over [deleted] million," would that figure be classified?

Mr. QUINN. Yes, sir; that figure is classified. You can use the total program 1950 through 1963 unclassified.

Mr. PASSMAN. I am referring to what we will give them in the future.

Do you have a Public Law 480 program in Greece for 1964?

Mr. GAUD. Yes.

Mr. PASSMAN. In what amount?

Mr. GAUD. About $15 million.

Mr. PASSMAN. Will they pay for these commodities in local currency?

Mr. GAUD. Yes. Actually, we have not entered into an agreement yet.

Mr. PASSMAN. It is being negotiated at this time?

Mr. GAUD. Yes.

Mr. PASSMAN. Do you think you can get them to accept this aid?

Mr. GAUD. I think they need it.

They are asking for it.

Mr. PASSMAN. What were the terms of the $50-million commitment in 1962 that the Germans made for the Megalopoulis powerplant?

Mr. GAUD. Twenty years, 5 years grace, 3¾ percent.

Mr. PASSMAN. Mr. Rhodes?

GREECE SHIPPING TO CUBA

Mr. RHODES. Mr. Chairman, the Appropriation Act of 1963 for Mutual Security, section 107(a), reads as follows:

No assistance shall be furnished to any country which sells, furnishes, or permits any ships under its registry to carry to Cuba, so long as it is governed by the Castro regime, under the Foreign Assistance Act of 1961, as amended, any arms, ammunition, implements of war, atomic energy materials, or any articles, materials, or supplies, such as petroleum, transportation materials of strategic

value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war, contained on the list maintained by the Administrator pursuant to title I of the Mutual Defense Assistance Control Act of 1951, as amended.

"(b) No economic assistance shall be furnished to any country which sells, furnishes, or permits any ships under its registry to carry items of economic assistance to Cuba so long as it is governed by the Castro regime, under the Foreign Assistance Act of 1961, as amended, unless the President determines that the withholding of such assistance would be contrary to the national interest and reports such determination to the Foreign Relations and Appropriations Committees of the Senate and the Foreign Affairs and Appropriations Committees of the House of Representatives. Reports made pursuant to this subsection shall be published in the Federal Register within seven days of submission to the committees and shall contain a statement by the President of the reasons for such determination.

Now, the Department of Commerce, Maritime Administration, Report No. 12, "List of Free World and Polish Flag Vessels Arriving in Cuba Since January 1, 1963," lists 39 Greek ships which have gone into Cuba. They are described as being—

exclusive of those vessels that called at Cuba on U.S. Government-approved noncommercial voyages and those listed in section 2.

I am also informed there has been no determination by the President communicated to the Foreign Relations and Appropriations Committees of the Senate and the Foreign Affairs and Appropriations Committees of the House of Representatives that it would be contrary to the national interest to withhold assistance to this country.

Now my question, Mr. Gaud, is, in view of these facts, by law, can we possibly continue to give assistance to Greece?

Mr. GAUD. Mr. Lee, are you briefed on this?

Mr. LEE. I am not briefed fully enough to give you an accurate answer on it. I would be happy to give you a complete answer for the record.

Mr. RHODES. I think we definitely should have an answer. It would appear on the face that by law we would be foreclosed from giving aid to Greece, and perhaps some other countries.

I might say for your information there is a list of 44 British ships; 23 Lebanese ships; 7 Italian ships; 7 Polish ships; 6 Norwegian ships; 5 Yugoslav ships; 2 Spanish ships; 2 Swedish ships; 1 Finnish ship; 1 West German ship; 1 Japanese ship; and 1 Moroccan ship.

Mr. LEE. This is a matter that has been of great concern to us and we do have information on it, but I would prefer to give you a full and complete answer.

Mr. SCHEINMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Why should that comment be off the record?

Mr. SCHEINMAN. I was just giving this for the information of Mr. Rhodes.

Mr. PASSMAN. We do not have people in Cuba watching all these ships being unloaded, do we?

Mr. SCHEINMAN. I am not prepared to answer that.

Mr. GAUD. We will certainly get an answer for you on Monday, Mr. Rhodes.

Mr. RHODES. I would like a very definite answer.

That is all.

Mr. PASSMAN. We shall adjourn until Monday afternoon at 1 o'clock.

MONDAY, JULY 22, 1963.

Mr. PASSMAN. The committee will come to order.

EFFORTS TO REVERSE IMBALANCE OF PAYMENTS

There was an article in the Washington Post for today captioned "Payments Move Recalls J. F. K.'s 'Bankrupt' Remark," and I shall insert it in the record.

(The article follows:)

[From the Washington Post, July 22, 1963]

PAYMENTS MOVE RECALLS J. F. K.'S "BANKRUPT" REMARK

(By Ruth Montgomery)

President Kennedy several months ago warned a handful of legislators: "If France and Germany should present their dollar credits for payment, the United States would be bankrupt."

The dire warning came at a private White House meeting to which J. F. K. summoned members of the Joint Atomic Energy Committee earlier this year.

It assumes particular significance at this time, due to the precedent-shattering action the President has now taken to reduce our balance-of-payments deficit.

Representative Jack Westland, Republican, of Washington, who attended the White House session, said the meeting was prompted by committee reluctance to give approval to the administration's plan for selling a super-secret Polaris submarine to our not-so-ever-loving French allies.

PRESSURE DROPPED

Mr. Kennedy, in arguing for the transaction, said the $150 million sale price would help our balance-of-payments position. The committee, unwilling to turn over one of our most effective secret weapons to the French, decided that the risk was too great, and the administration itself dropped pressure for permission after French President Charles de Gaulle showed little interest in making the purchase.

Westland, a congressional authority on balance-of-payments problems, applauded last week's Federal Reserve Board action in raising its discount rate as a step in the right direction, although numerous Democratic "cheap-money" advocates roared a protest.

A day later, the President said the United States had arranged to borrow $500 million in foreign currencies from the International Monetary Fund, and asked Congress to vote a 15 percent sales tax on U.S. purchases of foreign stocks and bonds.

GROWING IMPATIENCE

The drastic move was triggered by evidence that foreign creditors such as Germany and France are becoming impatient with U.S. pleas not to cash in their surplus dollars for gold. A heavy run on our gold supply could force us off the gold standard, or devalue the dollar.

Westland said Germany has amassed $5.5 billion in dollars and gold since 1961, and France $2.6 billion. These sums are held in central banks and U.S. Government securities, which at any time could be cashed in for gold.

If this occurred, according to President Kennedy, we would be "bankrupt."

Mr. PASSMAN. I want to assure the President that I am going to continue to do my part, limited though it may be, to help improve our extremely serious balance-of-payments situation.

RELATIONS BETWEEN PAKISTAN AND COMMUNIST CHINA

Another article of particular interest, an editorial from the Washington Post for today, will be inserted in the record at this point.

(The article follows:)

[From the Washington Post, July 22, 1963]

NONALINEMENT IN INDIA

Events in Pakistan are proceeding toward a tragedy for the Indian subcontinent, a major defense crisis for India, a dramatic reverse for American diplomacy and a serious blow to the non-Communist world. It is altogether evident, as it was made clear in the dispatch of Selig Harrison to this newspaper Saturday, that major efforts will be required to prevent some very unpleasant things from happening.

There seems to be little real comprehension in India of what it will mean to that country's future if the disaffection of Pakistan proceeds to a point where the Government is coerced into relations with China that literally open the gates of the subcontinent. It simply cannot be said that in India everything has been done that could have been done that might have persuaded Pakistan of the identity of interest of the two nations. The effort has not been commensurate with the stakes involved. The existence of a friendly, cooperative and even allied government is vital to the defense of India. If Pakistan is confirmed in its hostility and persuaded by its own paranoic fears to court a Chinese association, the disaster will make the invasion of last fall, from an Indian point of view, seem like a triviality. India will have saved Kashmir but it will have put a continent in jeopardy.

It is possible to explain away the Pakistan-Chinese border settlement—after all, the rest of China's neighbors along the border have done the same thing. It is possible to understand the Chinese-Pakistan trade agreement signed in January—it is no more than other of our allies have done. It is possible to understand the negotiation for a civil air agreement—particularly in view of British action in denying Pakistan the right to carry traffic through Hong Kong. It is simply not possible to understand the speech of Foreign Minister Z. A. Bhutto, proposing a mutual defense pact with China.

Pakistan seems to be moving into a state of hysteria and frenzy so abnormal that it would be willing to hammer its own head if that would pain India. It is very sad to see a great country in such a mental state that it seems more anxious to frighten its friends than it is to contain its enemies. That it is in this state of mind is no great tribute either to American or Indian diplomacy.

Let the fault be put where it may be, India is in danger of having an active enemy and not just a disgruntled friend on its northern border and the United States is in danger of losing one of its firmest allies.

It seems to be too late to dare even to hope that these two countries might settle the Kashmir dispute and dwell in peace. Failure must be written over this country's efforts since last fall. That failure may compel this country to abandon the posture of a nation dealing with two powers that are friends and take up the posture of a nation dealing with two friends who are enemies. Such a stance, in this country, may compel some very uncomfortable readjustments of policy. But if Pakistan and India are really to embark upon a course of settled hostility—and that seems to be the course upon which they are setting out—the United States, in such a conflict, can only take a leaf from Prime Minister Nehru's book, and pursue a policy of nonalinement. That policy will compel us to give aid to either nation with reserve and caution, to lean to neither side, to confer no military or economic advantage on one prejudicial to the other. It is not a course that is going to be easy. It may be the only course open to us on a subcontinent seething with national rivalries and hostilities that threaten to open the doors of south Asia to the Chinese.

Mr. ANDREWS. Are you familiar with the speech that is mentioned in the editorial, Mr. Secretary?

Mr. TALBOT. Yes, sir.

We had a telegram over the weekend reporting on this speech which was made late last week in a foreign affairs debate before their National Assembly in Pakistan. In the course of this he said that if India should attack Pakistan then, as I recall it, Pakistan would not find itself alone and that the largest country in Asia would also be involved.

When our Ambassador questioned him about this late last week the Foreign Minister stated categorically that there is no agreement, written or implicit, between Pakistan and Communist China that would be in effect a joint defense or mutual defense agreement.

Mr. PASSMAN. From the inception of the aid program through 1963 we had given to Saudi Arabia ——— total assistance. We also have a substantial program for Saudi Arabia for fiscal year 1964, but the category of aid is in the gray so it becomes classified. But I believe I can read a newspaper item which I have here:

KING SAUD REPORTED SETTLING IN AUSTRIA

A Vienna newspaper reported Monday that ailing King Saud of Saudi Arabia will live permanently in Austria. The independent Abendexpress said he has sent for his 80-woman harem and is spending money at the rate of $12,000 a day.

Saud has been undergoing medical treatment here. The newspaper said he would make only periodic trips to his kingdom.

Mr. GAUD. I would like to say, Mr. Chairman, the United States has not given economic aid to Saudi Arabia since 1958. The program for 1964 which you spoke of as being substantial, is only a military program of less than $2 million, considerably less than $2 million.

Mr. PASSMAN. Let me say it is substantial. When you think in terms of ——— to a small country whose king is able to support a harem of 80 women and spend $12,000 a day, I do not think you should give him anything.

Whether he needs that many I am not in position to say, but it would appear that from fiscal 1957 to 1963 he got ——— in aid.

Will you tell us what amount we have unliquidated to the credit of Saudi Arabia?

Mr. TENNANT. $2,211,000.

Mr. PASSMAN. That is the total?

Mr. TENNANT. That is all military, sir.

Mr. PASSMAN. Nevertheless, if the King had used some of the $12,000 a day that he spends in Vienna on his own country we would not need to give that much aid, do you think?

Mr. TALBOT. Mr. Chairman, in Saudi Arabia the oil production now is running something over a million and a half barrels a day.

We are getting in our favor in balance of payments a figure that I do not have precisely, but would estimate to be in excess of $300 million a year. This is a very large and substantial American investment out there. Quite clearly it is an investment that can continue to function in the area so long as the area is moving progressively toward stability.

Mr. PASSMAN. Are we doing business with them because they like us or because they find it profitable?

Mr. TALBOT. They and we find this profitable, Mr. Chairman.

Mr. PASSMAN. Are they doing business with us simply because of their fondness for us or because they find it to their advantage?

Mr. TALBOT. They find it to their advantage.

Mr. PASSMAN. Have we given them, as I said earlier, ——— for the years I have indicated?

Mr. TALBOT. Yes, sir.

Mr. PASSMAN. That is all I want to know.

U.S. VISIT OF MOROCCAN KING

We might also read this item:

HASSAN BUYS FIVE CADILLACS, FIVE THOUSAND BED AND BATH ITEMS

NEW YORK.—King Hassan II of Morocco showed New Yorkers what it means to go first-class this week, making shopping trips seem like something out of "Arabian Nights." The King, who was ending a 10-day visit to this country, Friday, included a little shopping for the royal household on his agenda. So, with one sweep of his arm, he bought more cars than the average American will purchase during a lifetime. With another wave of his hand, he ordered more blankets, towels, sheets, mats, robes, pillowcases and bedspreads than any housewife could ever dream of buying. The whole thing took less than 3 hours.

On Monday night he made his additions to the royal livery. He headed for an auto showroom where 18 cars in the General Motors line were on display, especially for him. They ran the gamut from the most luxurious Cadillac to the simplest compact. The King and his party looked at all of them within a half hour. He placed an order for at least five Cadillacs and an unspecified number of other cars through the firm's overseas division.

"There has never been anything like it," commented George R. Brown, a representative of the agency. The cars were placed so the King and his entourage—about 20 in all—could circulate freely without any congestion.

Friday the King and his party went to a textile house. The fact figures on what he bought still have not been tallied. The estimates range as high as 5,000 of the bedroom-bathroom items, including 150 blankets that will be packed to leave with the royal party. The trip lasted about 1 hour and 45 minutes. But the problems did not end there. The King wanted the royal crest, coat of arms and monograms put on every item, some of which had to be furnished for his departure.

NOTE.—Morocco received $353 million in economic aid from the United States from 1945 through 1962. It also has received military aid but the amount is classified.

It becomes more interesting as you go along. They have been recipients of a tremendous amount of aid.

DEOBLIGATION OF CEYLON PROGRAM FUNDS

Mr. GAUD. Mr. Chairman, at our last session the question came up of our unexpended balances in Ceylon where we suspended aid in February. Since we adjourned, Mr. Talbot and I have discussed this matter with Mr. Bell and we feel that it would be appropriate, as you suggested, to deobligate the amount of money that is now standing in favor of Ceylon.

Mr. PASSMAN. Congratulations. How much is it?

Mr. GAUD. This is the question I cannot answer today. A small amount is under irrevocable letters of credit. A small amount is otherwise tied up. We are trying to straighten out the red tape. I will have a figure for you before many days.

Mr. PASSMAN. Thank you.

GREEK SHIPPING TO CUBA

Mr. RHODES. Could we have a report on these ships from Greece?

Mr. PASSMAN. Yes. Do you have a report on that matter, Mr. Miller, or Mr. Gaud?

Mr. GAUD. Yes. I think the question, Mr. Rhodes, had to do with the Greek ships that have been going to Cuba, is that right?

Mr. RHODES. That is right.

Mr. GAUD. As I am sure you know from your study of this matter, the U.S. Government has been carrying on a campaign with the Government of Greece for some time to eliminate this shipping. It has found the Greek Government quite cooperative. The Greeks first did their best on an informal basis to clean up the traffic. They then issued a decree, I think it was in March, on the subject. There have still been some ships going there, in part because these ships were under charter prior to the time that the whole question came up. Under Greek law, as I understand it, the Greeks cannot abrogate these charters without a change of their Constitution. This in turn requires under their procedure prorogueing Parliament, holding new elections, et cetera, a step which they felt they were unable to take in the political situation that existed in Greece.

Mr. RHODES. I would like to get somebody's legal opinion as to that. I do not doubt your word, sir, for one moment, but I would like to have some documentation of that statement.

Mr. GAUD. All right, sir. The ships that have actually gone to Cuba fall into a number of categories. A certain number were at sea on the effective date of the amendment to the Foreign Assistance Act. The State Department and AID lawyers have ruled that ships which were already at sea were not affected by the act. There are also quite a number of ships to which you referred which went to Cuba in ballast. In other words, they took nothing in and therefore did not violate the act.

There are a number of others where the voyages were taken in fulfillment of contract arrangements entered into before the effective date of the act. Our lawyers tell us those voyages too are not affected by the amendment. There are several others where the ships carried items of economic assistance, pursuit to contracts which were entered into after the effective date of the act. But, in the judgment of our lawyers, the Government of Greece did not permit these voyages, as the act terms it, because of the circumstances that existed. What we come down to in the last analysis is that, except for these categories, there are two voyages of Greek ships to Cuba which our people are still investigating to find out whether or not they do violate the act. If they do, it will be reported to the President and he will have to determine whether or not aid to Greece will be cut off.

Mr. RHODES. There are three tankers listed from Greece. They did not go into Cuba in ballast, did they?

Mr. GAUD. I do not know the details of any of these voyages. I said that only some of these ships went in in ballast, not all of them. A number did not.

Mr. RHODES. I asked about the tankers. I understand.

Mr. GAUD. I just don't know.

Mr. RHODES. I would like very much to have a report as to each of these ships. Obviously it is available; otherwise you would not have been able to testify on this.

Mr. GAUD. It is certainly available.

Mr. RHODES. I think each one of them should be dealt with.

Mr. GAUD. Each voyage?

Mr. RHODES. Yes, sir.

Mr. GAUD. We will certainly be glad to——

Mr. RHODES. Greece is not the only country. I read other nations into the record.

Mr. GAUD. I think you referred to Greece, Lebanon, and the United Kingdom, did you not?

Mr. RHODES. No, I read all of these. I read about the Polish ships, Norwegian, Yugoslav, Spanish, Swedish, Finnish, West German, Japanese, Moroccan, Italian, Lebanese, and British. This is all available in circular No. 12 of the Department of Commerce. It won't be difficult for you to obtain.

Mr. GAUD. It is not that we do not have the information. It is that it is not within my province.

Mr. RHODES. I understand that. My question was intended to be much broader than just this particular area.

Mr. GAUD. I am sorry. I misunderstood that.

Mr. RHODES. I want some sort of an answer from the State Department as to why sections 107(a) and 107(b) of the appropriation bill for last year for mutual security have not been implemented. It appears on the face of it that they have not.

Mr. MILLER. Our position is, as Mr. Gaud indicated, Mr. Rhodes, that they have not yet come into effect with the possible exceptions of several voyages which we are still investigating. We have broken these down into various categories and developed the intelligence information about the ships. It is not a question in our view of it not being implemented but it is a question of the application of it. It has not yet come into application.

Mr. RHODES. Mr. Miller, I am sure you realize that I cannot accept generalizations like that.

Mr. MILLER. We would like to sit down and go over it with you personally.

Mr. RHODES. I do not want you to go over it with me. I want you to supply for the record the facts as to each of these voyages. This is not a matter of personal satisfaction. This involves the enforcement of an act of Congress which I think was rather clear in its intent and in its direction. On the face of it Report No. 12 of the Department of Commerce seems to indicate that this provision of the law has not been complied with. It is possible that the prima facie case can be upset by later developments but I think, sir, the burden of proof is on you.

Mr. MILLER. Of course.

Mr. RHODES. The burden of proof can only be met by dealing with each of these voyages, as I see it.

Mr. MILLER. It will, of course, have to be on a classified basis.

Mr. RHODES. I wonder why it would be. Your Report No. 12 certainly is not classified. If certain voyages must be classified, then, of course, so be it. I cannot very well see, however, how all of them would have to be classified. We will deal with that problem when it arises.

Mr. MILLER. We will only deal with those which involve intelligence information.

Mr. RHODES. We will deal with the problem as it arises. We will be reasonable about it.

Mr. PASSMAN. This is not a classified report?

Mr. RHODES. No, sir.

Mr. PASSMAN. If you have an account of the voyages and countries why would it be classified when we get the information?

Mr. GAUD. The point is how we get the information as to the details of the voyages.

Mr. MILLER. And the cargoes.

Mr. RHODES. I do not think I asked permission to do this before. May I ask permission now that Report No. 12 of the Department of Commerce be printed in the record.

Mr. PASSMAN. The report will be inserted in the record at this point.

(The report follows:)

DEPARTMENT OF COMMERCE, MARITIME ADMINISTRATION

(Report No. 12)

LIST OF FREE WORLD AND POLISH-FLAG VESSELS ARRIVING IN CUBA SINCE JANUARY 1, 1963

Section 1. Pursuant to the National Security Action Memorandum No. 220, dated February 5, 1963, addressed to the Secretary of State, the Secretary of Defense, the Secretary of Agriculture, the Secretary of Commerce, the Administrator, Agency for International Development, and the Administrator, General Services Administration, concerning U.S. Government shipments by foreign-flag vessels in the Cuban trade, the Maritime Administration is making available to the appropriate Departments the following list of vessels which have arrived in Cuba since January 1, 1963, based on information received through July 12, 1963, exclusive of those vessels that called at Cuba on U.S. Government-approved noncommercial voyages and those listed in section 2:

Flag of registry, name of ship	*Gross tonnage*
Total, all flags (139 ships)	1,120,224
British (44 ships)	410,704
Ardgem	6,981
Ardmore	4,664
Ardrowan	7,300
Arlington Court	9,662
Athelcrown (tanker)	11,149
Athelduke (tanker)	9,089
Athelmere (tanker)	7,524
Athelmonarch (tanker)	11,182
Athelsultan (tanker)	9,149
Avisfaith	7,868
Cedar Hill	7,156
Chipbee	7,271
Fir Hill	7,119
Hazelmoor	7,907
Ho Fung	7,121
Ivy Fair	7,201
Kirriemoor	5,923
Linkmoor	8,236
London Confidence (tanker)	21,699
**London Glory* (tanker)	10,081
**London Harmony* (tanker)	13,157
London Independence (tanker)	22,643
London Majesty (tanker)	12,132

Flag of registry, name of ship	*Gross tonnage*
British (44 ships)—Continued	
London Pride (tanker)	10,776
London Splendour (tanker)	16,195
London Victory (tanker)	12,132
Lord Gladstone	11,299
Maratha Enterprise	7,166
Oceantramp	6,185
Overseas Explorer (tanker)	16,267
Overseas Pioneer (tanker)	16,267
Pampas	7,589
Shienfoon	7,127
Silverforce	8,058
Silverlake	8,058
**Suva Breeze*	4,970
Thames Breeze	7,878
Tulse Hill	7,120
Vercharmian	7,265
Vergmont	7,381
West Breeze	8,718
Yungfutary	5,388
Yunglutaton	5,414
Zela M	7,237
Greek (39 ships)	307,638
Aegaion	7,239
Aldebaran (tanker)	12,897
Americana	7,104
**Antonia*	5,171
Apollon	9,744
Armathia	7,091
**Barbarino*	7,084
Calliopi Michalos	7,249
Capetan Petros	7,291
Despoina	5,006
Efcharis	7,249
Eftychia	7,223
Embassy	8,418
**Everest*	7,031
Galini	7,266
Gloria	7,128
Hydraios III	5,239
Kyra Hariklia	6,888
Maria de Lourdes	7,219
Maria Santa	7,217
**Maroudio*	7,369
Mastro-Stelios II	7,282
North Empress	10,904
North Queen	9,341
Pamit	3,929
Pantanassa	7,131
Penelope	6,712
Perseus (tanker)	15,852
**Polaris*	9,603
Pollux	9,956
Polyxeni	7,143
Propontis	7,128
Redestos	5,911
Seirios	7,239
Sirius (tanker)	16,241
Stylianos N. Vlassopulos	7,244
Timios Stavros	5,269
**Tina*	7,362
Western Trader	9,268

Flag of registry, name of ship	*Gross tonnage*
Lebanese (23 ships)	154,521
Akamas	7,285
Aiolos II	7,256
**Anthas*	7,044
Antonis	6,259
Astir	5,324
Carnation	4,884
Dimos	7,187
Giorgos Tsakiroglou	7,240
Ilena	5,925
**Ioannis Aspiotis*	7,297
Kalliopi D. Lemos	5,103
Malou	7,145
Mantric	7,255
Mousse	6,984
Noelle	7,251
Noemi	7,070
Olga	7,199
Panagos	7,133
Parmarina	6,721
Razani	7,253
St. Anthony	5,349
St. Nicolas	7,165
Vassiliki	7,192
Italian (7 ships)	53,415
Achille	6,950
Annalisa	2,479
Arenella	7,183
Cannaregio	7,184
Linda Giovanna (tanker)	9,985
Nazareno	7,173
San Nicola (tanker)	12,461
Polish (7 ships)	44,734
Baltyk	6,963
Bialystok	7,173
Bytom	5,967
Chopin	6,987
Chorzow	7,237
Kopalnia Miechowice	7,223
Piast	3,184
Norwegian (6 ships)	58,359
Benny Viking (now *Benny*)	3,857
Kongsgaard (tanker)	19,999
Lovdal (tanker)	12,764
Ole Bratt	5,252
Polyclipper (tanker)	11,737
Tine	4,750
Yugoslav (5 ships)	35,841
Bar	7,233
Cavtat	7,266
Cetinje	7,200
Dugi Otok	6,997
Trebisnjica	7,145

Flag of registry, name of ship	*Gross tonnage*
Spanish (2 ships)	4,565
Castillo Ampudia	3,566
Sierra Madre	999
Swedish (2 ships)	14,295
Dagmar	6,490
Atlantic Friend	7,805
Finnish (1 ship) **Valny* (tanker)	11,691
German (West) (1 ship) *Adolf Leonhardt*	7,066
Japanese (1 ship) *Meishun Maru*	8,647
Moroccan (1 ship) *Toubkal*	8,748

* Added to Rept. 11 appearing in the Federal Register issue of July 6, 1963.

Section 2. In accordance with the provisions of national security action memorandum No. 220 of February 5, 1963, the following vessels which called at Cuba after January 1, 1963, have reacquired eligibility to carry U.S. Government-financed cargoes from the United States by virtue of the persons who control the vessels having given satisfactory certification and assurance that no ships under their control will, thenceforth, be employed in the Cuban trade so long as it remains the policy of the U.S. Government to discourage such trade:

(*a*) Since last report—Greek (1 ship): *Kin Theseus* 9,153

(*b*) Previous reports—Flag of registry:	*Number of ships*
British	1
Danish	1

Section 3. The ships listed in sections 1 and 2 have made the following number of trips to Cuba in 1963, based on information received through July 12, 1963:

Flag of registry	Number of trips						
	January	February	March	April	May	June	July
British	5	8	8	17	13	13	2
Greek	4	6	8	8	17	9	1
Lebanese	1		2	8	8	6	
Norwegian		2	4		1	2	
Italian	1	1	1	2	3	1	
Yugoslav		2	1	1	1		
Spanish			2				
Danish			1				
Finnish						1	
German (West)					1		
Japanese	1						
Moroccan			1				
Swedish				1		1	
Total	12	19	28	37	44	33	3
Polish	2	1	1	2	2	2	

NOTE.—Trip totals in this section exceed ship totals in secs. 1 and 2 because some of the ships made more than one trip to Cuba.

Dated: July 16, 1963.

DONALD W. ALEXANDER,
Maritime Administrator.

Mr. RHODES. Along with a reprinting of the language of sections 107(a) and 107(b) which are in point in this matter.

Mr. PASSMAN. That likewise will be inserted in the record.

INDIA

Mr. PASSMAN. The next country in this area is India, for which the fiscal year 1964 estimate is ———. Is that the total?

Mr. GAUD. That is correct, sir.

Mr. PASSMAN. I believe we established last week that our aid to India for fiscal year 1963, the amount of the obligation was——

Mr. GAUD. Was $768.7 million, Mr. Chairman.

Mr. PASSMAN. And that we established, subject to any corrections, that the total amount of aid to India through fiscal year 1963 was $5 billion-plus.

Mr. GAUD. We had a slight difference on that. We had a difference on that figure. We will check that one out.

We were going to give you an insert, sir.

Mr. PASSMAN. Let us check what you gave us last year and this year.

The total amount, I believe, was $5,094 million, made up in two parts. Last year you gave us a total of $4,265 million, using round figures, and you told us last Saturday the additional figure was $828,-700,000; is that correct?

Mr. GAUD. That is right.

UNEXPENDED BALANCES

Mr. PASSMAN. Could you tell us the total amount of unliquidated funds to the credit of India from all spigots, including the estimate for June 30?

Mr. GAUD. $873,706,000. This excludes Public Law 480, does it?

Mr. TENNANT. It does not include Public Law 480.

Mr. PASSMAN. Let us get it all. This figure that you gave includes military, Mr. Gaud?

Mr. GAUD. Yes.

But not Public Law 480.

Mr. PASSMAN. You gave us a figure of $——— plus Public Law 480. What is the Public Law 480? Could you give us an estimate?

Mr. TENNANT. The December 31 figure from the Department of Agriculture of $713.2 million: That is the amount of unshipped agreements.

Mr. PASSMAN. Let us get the total. We have on hand to the credit of India unliquidated as of June 30, $1,590,906,000. We are going to add to the ——— the Public Law 480 estimate.

Mr. GAUD. I included the Public Law 480 in my 1964 figure.

Mr. PASSMAN. I thought you said you did not.

Mr. GAUD. I beg your pardon.

I did not include it but I have it here. It is ———.

We add that to the ———.

Mr. PASSMAN. It is ———.

Mr. GAUD. I make it a total of ——— and that is not counting military.

Mr. PASSMAN. What is the amount for the military?

Mr. GAUD. The military figure in the book, sir, is $———.

Mr. PASSMAN. According to the two figures that you gave to us last year and this year, we have given to India $5,094 million. We have on hand unliquidated to the credit of India as of June 30, 1963, $1,590,-

906,000, and including Public Law 480 we have an estimate for fiscal year 1964, $——— not including military?

Mr. GAUD. Yes, sir.

Mr. MONTOYA. What is the total?

Mr. PASSMAN. According to the two figures, Mr. Montoya, it is $5,094 million. That was the total, subject to correction if they find an error. The amount on hand unliquidated, repeating, $1,590,906,000; the amount for fiscal year 1964 is estimated to be $———.

Mr. GAUD. I would like to reserve on Mr. Tennant's figure about $750 million on the Public Law 480 undelivered. I am sure that is a mistake.

Mr. PASSMAN. If it is more, put it in the record.

Mr. GAUD. May I also do it if it is less?

Mr. PASSMAN. I hope that it is less.

Mr. MINSHALL. The record will speak for itself but I think it would be appropriate to have the military fund inserted in the record at this point.

Mr. PASSMAN. It is classified.

Mr. MINSHALL. How much is the military?

Mr. PASSMAN. ———.

Mr. GAUD. For next year.

Mr. MONTOYA. Would it be classified if we include the ——— without specifying it as part of the unobligated total?

Mr. PASSMAN. All 1964 figures are classified, are they not?

Mr. TENNANT. Yes, sir.

Mr. MINSHALL. How about preceding years?

Mr. GAUD. Fiscal year 1963 military aid is $60 million, Mr. Minshall.

Mr. MINSHALL. All together?

Mr. GAUD. Fiscal year 1963 was the first year. That is the only time we ever had it.

Mr. MINSHALL. You got a late start.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Total aid to India has been $5,094 million if the figures given to us last year and this year are correct.

Mr. ANDREWS. Do I understand, Mr. Chairman, that for fiscal year 1964, if the request for ———.

Mr. GAUD. That includes the military.

TOTAL FUNDS AVAILABLE FOR INDIA PROGRAM

Mr. ANDREWS. Talking about overall, if the ——— request is granted, there will be available for expenditure in India during fiscal year 1964 for all programs a total of ———.

Mr. PASSMAN. That is the total.

Mr. ANDREWS. Is there that much available for expenditure in India for all programs?

Mr. GAUD. I think——

Mr. ANDREWS.———

Mr. GAUD. I think Mr. Tennant is about $500 million high on Public Law 480.

Mr. ANDREWS I have listed the unexpended balances as of the 1st of July, $1,590 million.

Mr. GAUD. I think that is about $500 million too high.

Mr. PASSMAN. That total would be subject to verification. The controller gives us a figure of $712 million for Public Law 480. You will make a check on that, Mr. Controller?

Mr. TENNANT. Yes, sir. That was a December figure, December 1962 figure from the Department of Agriculture statistics.

(The following was submitted later for the record:)

Pipeline of U.S. assistance to India as of June 30, 1963

[In millions of dollars]

AID:	
Unliquidated obligations and reservations	785.6
Of which—	
Development grants	17.9
Development loans	767.7
Export-Import Bank	112.1
Military assistance: Unliquidated balances	30.0
Public Law 480, title I: Amounts authorized for purchase but not yet shipped	[1] 60.4

[1] In addition to this amount, roughly $600 million remained unauthorized under terms of a 4-year sales agreement signed in May 1960, which had 1 more year to run on June 30, 1963. The balance of $600 million is equivalent to about 2 year's requirements for wheat and it is clear that the full amount will not be used in the period remaining in the agreement. Authorizations under this agreement are subject to the availability of supplies, and an annual determination as to requirements.

Mr. GAUD. Off the record.

(Discussion off the record.)

Mr. PASSMAN. I think the Controller can straighten it out for us.

Mr. GAUD. May I tell you why I question it? I am the one who is questioning it.

Mr. PASSMAN. You have a right to question it.

I think the Controller should have an opportunity to check his files as to the accuracy of the figure. You are not in position to say he is wrong?

Mr. GAUD. No. Mr. Andrews asked me if that much money would be available in India. My answer is I do not think so because I think it is an overestimate of Public Law 480, my reason being that Public Law 480 has run at the rate of $250 to $300 million a year in the past 2 years. The Public Law 480 authorized each year is drawn down rapidly. In other words, if money is authorized for a powerplant it takes several years to expend it. On the other hand, the Public Law 480 is drawn down each year according to requirements of that year. It seems unlikely to me that as much as 2 full years, more than 2 full years of Public Law 480 would be in arrears.

Mr. PASSMAN. If the figures given to us by the Controller are correct, then there will be on hand, unliquidated, to the credit of India as of June 1, $1,590,906,000?

Mr. GAUD. That is true.

Mr. PASSMAN. Then to get the total that will be available for expenditure, including fiscal year 1964, it would be ———.

Mr. GAUD. That is right.

Mr. PASSMAN. Thank you.

Off the record.

(Discussion off the record.)

Mr. ANDREWS. Mr. Gaud, what projects, if any, would be financed out of this ——— that would be available for expenditure in India during fiscal year 1964?

Mr. GAUD. All the money that is on hand on June 30 is already committed to projects.

Mr. ANDREWS. The $1,590 million?

Mr. GAUD. Let's leave out Public Law 480. Some $717 million of that covers Public Law 480. The figure I gave initially, some $800-odd million, this is the unexpended balances of loans which have been made by the agency and its predecessor, the DLF, for specific projects.

Mr. ANDREWS. Approximately $800 million?

Mr. GAUD. That is correct.

Mr. ANDREWS. And you feel as if there is a firm commitment made on the part of this Government for the financing of projects that will cost $800 million?

Mr. GAUD. Those are all the subjects of specific agreements, Mr. Andrews. The authorization was made either in fiscal year 1963, 1962, 1961, or before; loan agreements were signed and the projects in most instances are already in course of construction.

Mr. PASSMAN. There is a little mixup here. There is no need for it. The $873,706,000 represents money already obligated.

Mr. GAUD. That is right.

Mr. PASSMAN. It is subject to withdrawal as the projects progress?

Mr. GAUD. That is right.

Mr. PASSMAN. But it is on hand unliquidated?

Mr. GAUD. That is right.

Mr. PASSMAN. If the controller's figure is correct, then you have unliquidated $717,200,000 of Public Law 480 aid, making a total unliquidated in the amount of $1,590,906,000.

Adding the two figures together, if you get what you request for fiscal year 1964, you will have a total to be expended in India of ——— whether it is obligated or unobligated. That is in the pipeline to be expended?

Mr. GAUD. That is correct.

Mr. MONTOYA. Plus military assistance?

Mr. PASSMAN. No. That is everything.

Mr. GAUD. But as of this moment, Mr. Andrews——

Mr. MONTOYA. I understood military assistance was in.

Mr. PASSMAN. It is in the total.

Mr. GAUD. The chairman's figures are undoubtedly correct, subject to that one reservation, but the point I think you are driving at as of this moment, we have no funds for India which are not obligated. Until you appropriate some funds, we have no funds for India which are not obligated.

Mr. ANDREWS. In other words, to put it this way, you may not agree, but we have given you money faster than you could spend it?

Mr. GAUD. No, sir. Each year we have obligated money that will be spent over several years.

Mr. ANDREWS. You wound up the fiscal year with $1,590 million that had been reserved; that is a good word, is it not?

Mr. GAUD. I would not agree with that simply because if you enter into a contract to build a hydroelectric plant, which we did, you obviously cannot spend all of the money the day after you enter into the contract, and a lot of this money is being spent on projects like that. It takes time for the expenditures to occur. That is why the money piles up.

Mr. MONTOYA. Would you yield?

Mr. PASSMAN. Yes, when I make this one observation. It could be, for reasons being developed or later to be developed, that much of this could be deobligated, and become available to be obligated for new projects or obligated elsewhere?

Mr. GAUD. I would doubt that, sir.

Mr. PASSMAN. You have substantial funds deobligated every year in the aid program, do you not?

Mr. GAUD. Rarely with reference to loan agreements to build specific projects.

Mr. PASSMAN. This is not merely a loan or credit agreement. This is from all spigots.

Mr. GAUD. The great bulk of aid in this region is loan money.

Mr. PASSMAN. Mr. Montoya?

ESCAPE CLAUSES IN U.S. COMMITMENTS

Mr. MONTOYA. Yes. With respect to these contracts into which you have entered with India, do you have escape clauses whereby you are able to suspend the funding of any commitment?

Mr. GAUD. You mean if under the law we have to?

Mr. MONTOYA. No. Don't you have, under these contracts, a provision that you may at your discretion suspend these commitments?

Mr. GAUD. Before we start building a powerplant for example? No, sir.

Mr. MONTOYA. I am thinking of the commitments which you made, say, on page 60, for an agricultural university development.

Mr. GAUD. Yes, the development grant projects, quite.

Mr. MONTOYA. I am thinking of the agricultural extension.

Mr. GAUD. That is correct.

Mr. MONTOYA. I am thinking of the southern water conservation commitment.

Mr. GAUD. Most of those development grant projects are funded year to year, but they make up a relatively small part of the large amount of money we are discussing. They can be terminated reasonable promptly if we have to.

Mr. PASSMAN. I mentioned that you may have deobligated funds.

Mr. GAUD. We may.

Mr. PASSMAN. And experience certainly is on the side that you will have.

Mr. GAUD. No question about it, but on the loan side it is rarer.

Mr. PASSMAN. Thank you.

Mr. MONTOYA. Assuming that India went all the way with Russia in its international commitments and viewed Russia as a prime ally and us as more or less an orphan child in their bosom, what would you do, continue with these commitments?

Mr. GAUD. We would look at the facts as they then existed and make our decision on the then facts.

Mr. MONTOYA. What could you do?

Mr. GAUD. It would depend on the facts. There are certain circumstances—I can certainly envision circumstances in which we would cut off all of our aid to India.

Mr. MONTOYA. That is the point I am trying to make, that you can cut off all aid.

Mr. GAUD. That can be done.

Mr. TALBOT. You know, sir, the bulk of these contracts are with American corporations, a very large number are.

Mr. PASSMAN. It is a giveaway program just the same.

Mr. MONTOYA. You no doubt have escape clauses in those contracts. GSA in its leases has a 30-day cancellation clause. I assume you are following the same pattern or should in international commitments.

Mr. PASSMAN. Mr. Secretary, did you say that these contracts are with American producers and exporters?

Mr. TALBOT. I believe quite a number are.

Mr. PASSMAN. What difference would it make if a hundred of them were American exporters if we found India or any other nation turning completely against us?

Mr. TALBOT. If we found any nation turning completely against us as Mr. Gaud said we would certainly reconsider the whole situation.

Mr. PASSMAN. You appeared to be shoring up the thing, or endeavoring to do so, by saying contracts are with American business people.

I yield to the Comptroller.

PUBLIC LAW 480 COMMITMENT TO INDIA

Mr. TENNANT. Mr. Chairman, on the figure we were talking about, I picked it up from the report of the Department of Agriculture which keeps the official records. I think it is a question of which way one computes the unshipped amount. As Mr. Gaud indicated, the total multiyear agreements were $2 billion and shipments against that were $1.3 leaving an unshipped portion of $717 million. However——

Mr. PASSMAN. Was the $2 billion a firm commitment to India?

Mr. GAUD. No, sir; it was a 4-year sales agreement providing for annual review of requirement.

Mr. PASSMAN. Let us get this straight. Did we have a $2 billion Public Law 480 commitment to India?

Mr. GAUD. It is subject to annual review, Mr. Chairman.

Mr. PASSMAN. All this is subject to annual review.

Mr. GAUD. But not subject to appropriation of funds. The amount we ship each year is subject to decision each year.

Mr. PASSMAN. I wish you would insert in the record a copy of the agreement with India on the $2 billion in surplus agricultural commodities. Will you get a copy of the contract, Mr. Comptroller?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. I think I remember the controversy and I think that we are committed just as much as we are any place else.

(The following was submitted later for the record.)

AGRICULTURAL COMMODITIES AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF INDIA UNDER THE TITLE I OF THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT, AS AMENDED

The Government of the United States of America and the Government of India;

Recognizing the unique opportunity that now exists for a sustained cooperative effort undertaken by both Governments to ensure the continuing development and progress of the agricultural sector of India's economy;

Recognizing that the United States, by undertaking for the first time a four-year program of sharing its abundance of food grains—while the Government of

India devotes its energies and resources toward achieving agricultural self-sufficiency—can make a significant contribution to India's third five-year plan and to her efforts to meet current food requirements, establish food reserves, increase agricultural production and stabilize food prices;

Considering that the Indian rupees accruing from such purchase will be utilized in a manner beneficial to both countries;

Recognizing the desirability of expanding trade in agricultural commodities between their two countries and with other friendly nations in a manner which would not displace usual marketings of the United States of America in these commodities or unduly disrupt world prices of agricultural commodities or normal patterns of trade with friendly countries;

Desiring to set forth the understandings which will govern the sales, as specified below, of surplus agricultural commodities to the Government of India pursuant to Title I of the Agricultural Trade Development and Assistance Act, as amended (hereinafter referred to as the Act), and the measures which the two Governments will take individually and collectively in furthering the expansion of such trade in such commodities;

Have agreed as follows:

ARTICLE I. SALES FOR RUPEES

1. Subject to the availability of commodities for programming under the Act and issuance by the Government of the United States of America and acceptance by the Government of India of purchase authorizations, the Government of the United States of America undertakes to finance the sales up to the value of $319 million, for rupees to purchasers authorized by the Government of India, of the following agricultural commodities determined to be surplus pursuant to the Act, of the amounts indicated:

Commodity	*Export Market Value (Millions)*
A. For Consumption: Wheat and wheat products	$723.75
B. For Reserves:	
Wheat and wheat products	241.25
Rice	116.00
C. Ocean Transportation	195.00
Total	1,276.00

The provision of this Agreement, as applied to the balance of the amounts indicated in the above schedule, shall not become effective until January 1, 1961, and shall become effective then only in the event that the United States Government on or after January 1, 1961, so notifies the Government of India.

2. Applications for purchase authorizations for $319 million, including $29 million worth of rice for reserves, will be made within 90 calendar days after the effective date of this Agreement for procurement during United States fiscal year 1961 in the case of wheat and prior to December 31, 1960, in the case of rice. The amount for subsequent years will be determined on the basis of annual review to be made by the two Governments prior to the beginning of each United States fiscal year 1962–64. The reviews shall take into account United States stocks position, changes in India's production, consumption, and stocks of food grains, other imports from the United States and countries friendly to the United States, feasibility of barter for strategic or other materials as a means of providing a portion of India's food grain requirements, storage facilities, the extent to which agreement has been reached on the use of grant and loan funds, and other related matters. Purchase authorizations will include provisions relating to the sale and delivery of commodities, including the classes, types and/or varieties of food grain, the time and circumstances of deposit of the rupees accruing from such sale, and other relevant matters.

3. The United States recognizes the desire of India to accumulate, as quickly as possible, a substantial part of the one million ton reserve stock of rice provided for in this Agreement to assist in stabilizing the internal markets for this commodity in India. Under this Agreement the first annual review of rice availabilities will be made in August 1960. At that time consideration will be given to whether in the light of the United States supplies of rice available for Title I disposal, India's production, consumption and stocks of food grains, other imports from the United States and countries friendly to the United States, India's storage capacity, and other related factors, any increase would be possible in the

portion of the total rice programmed which is currently planned for procurement during the first year.

4. The two Governments agree that the issuance of purchase authorizations for wheat and rice providing for purchase after June 30, 1961, shall be dependent upon the determination by the United States Government that these commodities are in surplus supply and available under Title I of the Act at that time. The United States Government shall have the right to terminate the financing of further sales under this Agreement of any commodity if it determines at any time after June 30, 1961, that such action is necessitated by the existence of an international emergency.

ARTICLE II. USES OF RUPEES

1. The two Governments agree that the rupees accruing to the Government of the United States of America as a consequence of sales made pursuant to this Agreement will be used by the Government of the United States of America, in such manner and order of priority as the Government of the United States of America shall determine, for the following purposes in the amounts shown:

(a) For United States expenditures under subsections (a), (b), (d), (e), (f), (h) through (r) of Section 104 of the Act or under any of such subsections, the rupee equivalent of $200 million.

(b) For grant to the Government of India under subsection (e) of Section 104 of the Act, the rupee equivalent of not more than $538 million for financing such projects to promote balanced economic development as may from time to time be mutually agreed.

(c) For loan to the Government of India under subsection (g) of Section 104 of the Act, the rupee equivalent of not more than $538 million for financing such projects to promote balanced economic development as may be mutually agreed. The terms and conditions of the loan and other provisions will be set forth in a separate agreement by the two Governments.

In the event that agreement is not reached on the use of the rupees for grant or loan purposes within six years from the date of this agreement, the Government of the United States of America may use the local currency for any purposes authorized by Section 104 of the Act.

2. In the event the total of rupees accruing to the Government of the United States of America as a consequence of sales made pursuant to this agreement is different from the rupee equivalent of $1,276 million, the amounts available for the purposes specified in paragraph 1, Article II will be adjusted proportionately.

ARTICE III. DEPOSIT OF RUPEES

The deposit of rupees to the account of the Government of the United States of America in payment for the commodities and for ocean transportation costs financed by the Government of the United States of America (except excess costs resulting from the requirement that United States flag vessels be used) shall be made at the rate of exchange for United States dollars generally applicable to import transactions (excluding imports granted a preferential rate) in effect on the dates of dollar disbursement by the United States banks, or by the Government of the United States of America, as provided in the purchase authorizations.

ARTICLE IV. GENERAL UNDERTAKINGS

1. The Government of India agrees that it will take all possible measures to prevent the resale or transshipment to other countries or the use for other than domestic purposes (except where such resale, transshipment or use is specifically approved by the Government of the United States of America), of the surplus agricultural commodities purchased pursuant to the provisions of this agreement, and to assure that the purchase of such commodities does not result in increased availability of these or like commodities for export from India.

2. The two Governments agree that they will take reasonable precautions to assure that all sales or purchases of surplus agricultural commodities, pursuant to the Agreement will not displace usual marketings of the United States of America in these commodities, or unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries.

3. In carrying out this Agreement, the two Governments will seek to assure, to the extent practicable, conditions of commerce permitting private traders to function effectively and will use their best endeavors to develop and extend continuous market demand for agricultural commodities.

4. The Government of India agrees to furnish, upon request of the United States of America, information on the progress of the program, particularly with respect to the arrival and condition of commodities and the provisions for the maintenance of usual marketings, and information relating to exports of the same or like commodities.

ARTICLE V. CONSULTATION

The two Governments will, upon the request of either of them consult regarding any matter relating to the application of this Agreement or to the operation of arrangements carried out pursuant to this Agreement.

ARTICLE VI. ENTRY INTO FORCE

The Agreement shall enter into force upon signature.

IN WITNESS WHEREOF, the respective representatives, duly authorized for the purpose, have signed the present Agreement.

DONE at Washington in duplicate this fourth day of May 1960.

For the Government of the United States of America:

s/ DWIGHT D. EISENHOWER.

For the Government of India:

s/ S. K. PATIL.

4th MAY, 1960.

The Honourable DOUGLAS DILLON,
Acting Secretary of State,
Department of State,
Washington, D.C.

EXCELLENCY: I have the honour to refer to Your Excellency's note of today's date which reads as follows:

"I have the honor to refer to the Agricultural Commodities Agreement signed today between the Government of the United States of America and the Government of India (hereinafter referred to as the Agreement) and, with regard to the rupees accruing to uses indicated under Article II of the Agreement, to state that the understanding of the Government of the United States of America is as follows:

"1. With respect to Article II, Paragraph (a) of the Agremeent:

"(i) The Government of India will provide facilities for the conversions of the rupee equivalent of $4 million (up to a maximum of $1 million per year) accruing under the subject agreement for agricultural market development purposes into currencies other than United States dollars on request of the Government of the United States of America. This facility is needed for the purpose of securing funds to finance agricultural market development activities of the Government of the United States in other countries.

"The Government of the United States of America may utilize rupees in India to pay for goods and services, including international transportation needed in connection with market development and other agricultural projects and activities in India and other countries.

"(ii) The rupee equivalent of $63.8 million, but not more than 5 percent of the currencies received under the Agreement will be used for loans to be made by the Export-Import Bank of Washington under Section 104(e) of the Agricultural Trade Development and Assistance Act, as amended (hereinafter referred to as the Act), and for administrative expenses of the Export-Import Bank of Washington in India incident thereto. It is understood that:

"(a) Such loans under Section 104(e) of the Act will be made to United States business firms and branches, subsidiaries, or affiliates of such firms in India for business development and trade expansion in India and to United States firms and to Indian firms for the establishment of facilities for aiding in the utilization, distribution, or otherwise increasing the consumption of and markets for United States agricultural products. In the event the rupees set aside for loans under Section 104(e) of the Act are not advanced within six years from the date of this Agreement because the Export-Import Bank of Washington has not approved loans or because proposed loans have not been mutually agreeable to the Export-Import Bank of Washington and the Department of Economic Affairs of the Government of India, the Government

of the United States of America may use the rupees for any purpose authorized by Section 104 of the Act.

"(b) Loans will be mutually agreeable to the Export-Import Bank of Washington and the Government of India acting through the Department of Economic Affairs of the Ministry of Finance. The Secretary, Department of Economic Affairs, or his designate, will act for the Government of India, and the President of the Export-Import Bank of Washington, or his designate, will act for the Export-Import Bank of Washington.

"(c) Upon receipt of an application which the Export-Import Bank is prepared to consider, the Export-Import Bank will inform the Department of Economic Affairs of the indentity of the applicant, the nature of the proposed business, the amount of the proposed loan, and the general purposes for which the loan proceeds would be expended.

"(d) When the Export-Import Bank is prepared to act favorably upon an application, it will so notify the Department of Economic Affairs and will indicate the interest rate and the repayment period which would be used under the proposed loan. The interest rate will be similar to those prevailing in India on comparable loans and the maturities will be consistent with the purposes of the financing.

"(e) Within sixty days after the receipt of notice that the Export-Import Bank is prepared to act favorably upon an application the Department of Economic Affairs will indicate to the Export-Import Bank whether or not the Department of Economic Affairs has any objection to the proposed loan.

"Unless within the sixty-day period the Export-Import Bank has received such a communication from the Department of Economic Affairs it shall be understood that the Department of Economic Affairs has no objection to the proposed loan. When the Export-Import Bank approves or declines the proposed loan, it will notify the Department of Economic Affairs.

"2. With respect to Article II, paragraphs 1(b) and 1(c):

"Uses of Section 104(e) and Section 104(g) rupees: The Government of India will use the amount of rupees granted or loaned to it by the United States pursuant to paragraphs 1(b) and 1(c) for projects to promote economic development with emphasis upon the agricultural sector including food reserve storage structures and facilities as may from time to time be agreed upon by the authorized representatives of the United States and the authorized representatives of the Government of India, in the following sectors:

"A. Agriculture

"B. Industry including the production of fertilizer, Irrigation and Power, Transport and Communications, and Credit Institutions.

"C. Public Health Education and Rehabilitation.

"D. Other Economic Development Projects consistent with the purposes of Sections 104(e) and 104(g) of the Act.

"The Government of India further agrees in cooperation with the Government of the United States, to coordinate the use of grant and loan funds provided for in paragraphs 1(b) and 1(c) of Article II with such direct dollar assistance as may be made available by the Government of the United States of America, so that both sources of financing may be channeled to specific and clearly identifiable economic development programs and projects.

"3. It is agreed that any goods delivered or services rendered after the date of this agreement for projects within categories A, B, and C under paragraph 2 above which may later be approved by the United States will be eligible for financing from currency granted or loaned to the Government of India.

"4. With regard to the rupees accruing to uses indicated under Article II of the Agreement, the understanding of the Government of the United States of America, with respect to both paragraphs 1(b) and 1(c) of Article II is as follows:

"(i) Local currency will be advanced or reimbursed to the Government of India for financing agreed projects under paragraphs 1(b) and 1(c) of Article II of the Agreement upon the presentation of such documentation as the United States may specify.

"(ii) The Government of India shall maintain or cause to be maintained books and records adequate to identify the goods and services financed for agreed projects pursuant to paragraphs 1(b) and 1(c) of Article II of the Agreement, to disclose the use thereof in the projects and to record the progress of the projects (including the cost thereof). The books and

records with respect to each project shall be maintained for the duration of the project, or until the expiration of three years after final disbursement for the project has been made by the United States, whichever is later. The two Governments shall have the right at all reasonable times to examine such books and records and all other documents, correspondence, memoranda, and other records involving transactions relating to agreed projects. The Government of India shall enable the authorized representatives of the United States to observe and review agreed projects and the utilization of goods and services financed under the projects, and shall furnish to the United States all such information as it shall reasonably request concerning the above-mentioned matters and the expenditures related thereto. The Government of India shall afford, or arrange to have afforded, all reasonable opportunity for authorized representatives of the Government of the United States to visit any part of the territory of India for purposes related to agreed projects.

"(iii) If the United States determines that any disbursement under paragraphs 1(b) and 1(c) of Article II of the Agreement made by it for agreed projects is not supported by the documentation submitted by the Government of India, is not made in accordance with the terms of this agreement or any applicable agreement or arrangement between the Government of the United States and the Government of India, or is in violation of any applicable laws or regulations of the United States Government, the Government of India, or is in violation of any applicable laws or regulations of the United States Government, the Government of India shall pay to the United States as may be requested by it, an amount in local currency not to exceed the amount of such disbursement which has been charged as an advance under the line of credit established by the loan agreement, the total amount charged as advances under the line of credit shall be reduced by the amount of such payment.

"(iv) The authorized representatives of the United States shall expend funds for agreed projects only in accordance with the applicable laws and regulations of the United States Government. The United States may decline to make further disbursements for any agreed projects if it determines that further disbursements would not fulfill the purpose of paragraphs 1() and 1(c) of Article II of the Agreement.

"5. I wish to confirm my Government's understanding that imports of wheat under Title I of the Act shall be over and above usual commercial imports from the United States and countries friendly to the United States during each United States fiscal year 1961–64 of not less than 400,000 MT. This figure may be adjusted or reduced on the basis of a review of India's good grain supply, financial position, and other relevant factors to be made by the two Governments prior to the beginning of each fiscal year. The first such review will be undertaken in June 1960. In the case of rice it is understood that imports under Title I shall be over and above India's present program of other imports from the United States and countries friendly to the United States during the period January–December 1960 of not less than 400,000 MT. During subsequent years of the Agreement the progress and programs of the Government of India relating to total rice imports shall be taken into account in the annual review.

"6. It is agreed that India shall not export wheat, wheat flour, or rice during the period covered by the Sales Agreement.

"Accept, Excellency, the renewed assurances of my highest consideration."

I have the honor to inform you that the contents of your note represent the understanding of the Government of India.

I would request Your Excellency to accept the renewed assurances of my highest consideration.

(S. K. PATIL)
Minister of Food and Agriculture,
Government of India.

Mr. MONTOYA. Would you, Mr. Gaud, insert the customary stock provision as to the commitment and the stock provision in these contracts which would allow you to escape the fulfillment of the commitment?

Mr. GAUD. Were we talking development grants or development loans or both?

Mr. MONTOYA. Both.

Mr. GAUD. OK.

Mr. MONTOYA. I would like to have a copy personally so that I won't have to wait to see it in the record when the hearings are printed.

Mr. GAUD. Right.

(The matter referred to is as follows:)

TERMINATION CLAUSES IN A.I.D. AGREEMENTS

Development Grant project agreements include the following:

The original Project Agreement shall enter into force when signed. Any revisions of the original Project Agreement shall be effective when signed. Either party may terminate this Project Agreement by giving the other party 30 days written notice of intention to terminate it. Termination of this project agreement shall terminate any obligations of the two parties to make contributions pursuant to Blocks 8 and 9 of this Project Agreement, except for payments which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of the Project Agreement. It is expressly understood that the obligations under paragraph H relating to the use of property shall remain in force after such termination.

Loan agreements include the following:

Termination of Disbursements; Transfer of Goods to A.I.D.: In the event that at any time:

(*a*) An Event of Default has occurred;

(*b*) An event occurs which A.I.D. determines to be an extraordinary situation which makes it improbable that the purposes of this loan will be attained or that Borrower will be able to perform its obligations hereunder;

(*c*) Any disbursement would be in violation of the legislation governing A.I.D./; or

(*d*) A default shall have occurred under any other agreement between Borrower or any of its agencies and the United States or any of its agencies:

then A.I.D., at its option, may (i) decline to issue further letters of commitment, (ii) suspend or cancel outstanding letters of commitment to the extent that they have not been utilized through the issuance of irrevocable letters of credit or through bank payments made other than under irrevocable letters of credit, giving notice to Borrower promptly thereafter, (iii) decline to make disbursements other than under letters of commitment; and (iv) at A.I.D.'s expense, direct that title to goods financed hereunder shall be transferred to A.I.D., if the goods are from a source outside the Borrowing Country, in a deliverable state and have not been offloaded in ports of entry of the Borrowing Country. To the extent that any costs connected with the purchase and transportation of these goods have been financed hereunder, these amounts shall be deducted from Principal.

FILM ON FOREIGN ASSISTANCE PROGRAMS

Mr. PASSMAN. Gentlemen, the Department of State in its newsletter of July 1, 1963, notes that a black and white sound film which tells the story of the U.S. foreign assistance program, would be shown on channel 5, WTTG–TV, on Sunday, July 21, at 8:30 p.m. The film, produced by AID, according to the newsletter, defines the Agency's organization, operation, objectives and also describes shirt sleeve diplomacy in action, aid at the person to person level. Most of the motion picture, the report states, was derived from film sequences by USIA and United Nation footage shot at American assistance missions around the world. AID officials, the newsletter reports, said the film is available free of charge on a loan basis to civic organizations, clubs, churches, discussion groups, and similar audiences.

I yield to Mr. Rhodes.

Mr. RHODES. I just wanted to ask a question, Mr. Chairman, as to how much this film cost and under what provisions of the law money

to prepare such a film was provided, I would like to call your attention particularly to section 601 of the mutual security appropriations for fiscal year 1963, which reads as follows:

No part of any appropriation contained in this act shall be used for publicity or propaganda purposes within the United States not heretofore authorized by the Congress.

Would you please get us a report on that?

Mr. MILLER. Yes.

Mr. PASSMAN. If the gentleman will pardon me, we want a ruling, not merely a report, how you get around the law on this matter, if that is what is being done.

Mr. MILLER. There is no intent to get around the law on this matter. As Mr. Rhodes read, it concerns publicity or propaganda, which is prohibited by section 601. I think the legislative history of section 601 shows that there is no desire to inhibit the giving of information to the American Congress or the American public. As you know, under section 634 of the authorizing act——

Mr. PASSMAN. Did the American people ask for this film?

Mr. MILLER. We do have numerous requests for all kinds of information, sir, and we try to provide the information to the American people as best we can.

Mr. PASSMAN. What did this film cost?

Mr. MILLER. Mr. Chairman, we shall be happy to supply it.

(The information follows:)

COSTS AND JUSTIFICATION FOR FILM "THE ONLY WAR WE SEEK"

"The Only War We Seek" is a 28-minute black-and-white film describing the goals and operations of the foreign-assistance program and produced for use as a training and information film. It replaced a similar film, produced in 1957, which was obsolete. Bids for its production were advertised in May 1962, and the contract for its production was awarded to National Film Studios, Washington, D.C., on its low bid of $24,935.71. This cost included the delivery of 200 prints.

The film was delivered in March 1963, and has been used since that time for the orientation of new AID employees and for filling requests from schools, organizations, or television stations for films about the foreign-assistance program.

The General Counsel's Office has ruled that the production of the film was not violative of section 601 of the Foreign Aid and Related Agencies Appropriation Act. The General Counsel's opinion is as follows:

"The history of the statute indicates that its purpose 'is to prevent the use of foreign aid and Peace Corps funds for propaganda. It is not intended to prevent or inhibit the use of funds by the executive to continue and increase the provision of information on these programs to the American people.' (Senator Hayden, speaking as chairman of the Senate Appropriations Committee, Congressional Record, Sept. 26, 1961, p. 20066.)

"Section 601 is similar to an older provision, section 537 of the Mutual Security Act of 1952, which was known as the Dworshak amendment and which is no longer a part of foreign assistance legislation. Senator Hayden said of section 601 when it was first enacted in 1957 that it was not intended to change the Dworshak amendment which was the basic law and that it was 'not intended to prohibit and it does not prohibit the President or the International Cooperation Administration or the Departments of State and Defense from giving the American people information about the operation of those agencies or the uses to which they are putting the money appropriated for the mutual security program or what the American people are getting for their money' (Congressional Record, Aug. 29, 1957, p. 16482).

"There have been many similar expressions from the Congress. In reporting on the bill for the Mutual Security Act of 1959, the House Committee on Foreign

Affairs stated 'that the executive is applying the Dworshak amendment much too restrictively' and urged 'that fuller information be made available to the public and through the use of any appropriate means or media for making known to the public more effectively what is being done under the mutual security program and what its basic programs are.' The House Foreign Affairs Committee went on to reiterate the statement of the managers on the part of the House at the time of acceptance of the amendment by the House conferees (p. 18, H. Rept. 2031, 82d Cong., 2d sess.): '* * * The committee of conference believes that it is possible for those responsible for the administration of the Mutual Security Act to maintain a sharp distinction between propaganda and the supplying of information as to the results attained under the program, and that this section of the conference agreement should not interfere with the recognized procedures for keeping the public and the Congress informed.' (Report of House Committee on Foreign Affairs on Mutual Security Act of 1959, p. 62.)

"The Senate Foreign Relations Committee, reporting the same bill stated that: 'It is admittedly difficult to draw a hard and fast distinction between information and propaganda so as to fit all possible cases. But this problem, in the committee's view, is more theoretical than real * * * "General propaganda" should be very narrowly construed and should not inhibit action through all appropriate media to make more information about the program available to the American people. (Senate Committee on Foreign Relations report on Mutual Security Act of 1959, p. 39.)

"Against this background it would appear that the material contained in the subject film is factual and under the legislative history of section 601 not in violation of that section."

The film was produced in response to the large number of requests this Agency receives concerning the purposes and operations of AID and the material contained in the film is factual. None of the scenes were shot in connection with this particular film, but all are available as "stock footage" from other films. The distribution of the film is based entirely on requests. Public libraries and universities which stock films have been informed that it is available.

Mr. ANDREWS. May I ask a question?

Mr. PASSMAN. Certainly.

Mr. ANDREWS. Is this the first time you have ever had one of these films?

Mr. MILLER. Mr. Andrews, I believe there have been films in the past prepared for informational purposes.

Mr. ANDREWS. There has been a lot in the press this year about the program possibly being in trouble on the Hill and with Congress. Did the film, coming at this time, have anything to do with those reports or newspaper stories?

Mr. MILLER. I am not sure when this film was prepared. I would be glad to provide the information along with the cost, et cetera.

Mr. ANDREWS. Last night was the first time it was shown this year on TV?

Mr. MILLER. No. It has been prepared some considerable period, I have forgotten, months, if not a year. It had already been prepared. I am not sure of the date. We would have to provide that for you. Do you remember?

Mr. GAUD. No; I do not.

Mr. MILLER. I know it has been months and months.

Mr. PASSMAN. Sometimes when a propaganda film like that one is produced some of the detail is overlooked. So will you please find out if it is customary, for example, for the agricultural workers of Africa to wear neckties and polished shoes in the field when they are working? Have a look at the matter and give us a little report, please.

Mr. MILLER. Yes, sir.

(The information follows:)

FILMING OF "THE ONLY WAR WE SEEK"

All oversea scenes of the film were extracted from existing stock footage and were obtained by the contractor from existing or commercial sources. No on-site scenes were shot especially for this film, nor were any foreign nationals taken from one country to another or "borrowed" to take part in the film.

AID employees who reviewed the film in an effort to identify the scene to which reference was made concerning field workers wearing neckties and polished shoes were unable to find any instance of this kind.

INDIA'S EXPORT-IMPORT SITUATION

Mr. PASSMAN. I have heard some rather disquieting statements as to India's export-import situation several times in the recent past, Mr. Gaud. Therefore, we shall appreciate it if you would submit for the record a table showing the import-export situation of India for the past 5 years, and in a separate table the export-import situation relative to the United States and India, dealing with the exchange, exports, and imports.

Mr. GAUD. Yes, sir.

(The information follows:)

Indian exports and imports, 1958–63, for Indian fiscal years, April through March

[Millions of dollars]

	Exports	Imports	Trade balance
1958–59	1,210	2,161	−951
1959–60	1,310	1,949	−639
1960–61	1,324	2,310	−986
1961–62	1,402	2,054	−652
1962–63 (preliminary)	1,457	2,062	−605

U.S. trade with India, 1958–62

[In millions of dollars]

Calendar year	U.S. exports (1)	U.S. imports (2)	Trade balance (3)	U.S. exports financed by AID and Public Law 480 (4)	Net trade excluding U.S. exports financed by AID and Public Law 480 (1−(2+4)) (5)
1958	312	185	127	204	−77
1959	336	209	127	247	−120
1960	639	230	409	454	−45
1961	482	255	227	298	−69
1962 (estimated)	669	260	409	497	−88

DEVELOPMENT GRANT PROGRAM

Mr. PASSMAN. Last year, when you were testifying on the fiscal year 1963 program, you indicated that you executed $19.2 million in development grants in fiscal year 1962. Now let us go to page 405 of the 1963 hearings. Could you give us an explanation on the $1.7 million discrepancy that is indicated in comparison with the record for this year?

Mr. GAUD. I am not sure what year we are talking about.

Mr. PASSMAN. It was 1962, of course, but it is on page 405 of the 1963 hearings.

Mr. GAUD. That was for 1962. I said on page 405 last year, for 1962, our actual obligations were $19.2 million.

Mr. PASSMAN. It shows in the record——

Mr. GAUD. For 1963 we were asking last year—it appears on page 405—$15.2 million.

Mr. PASSMAN. On the justifications of this year it shows $20.9 million. Look at your justifications, on page 19, the first item, $20.9 million.

Mr. GAUD. That is right, for 1962.

Mr. PASSMAN. You said you had a program of $19.2 million. The book shows $20.9 million.

Mr. GAUD. The difference is that the $19.2 million represents obligations under the new obligational authority, and $1.7 million represents reobligated prior year deobligated funds.

Mr. PASSMAN. From what was it deobligated?

Mr. GAUD. I do not have the 1962 figures here.

Mr. PASSMAN. Please get the information.

(The information follows:)

FISCAL YEAR 1962 DEOBLIGATIONS—INDIA

The sum of $1.7 million was reobligated for India development grant projects; $1,060,000 was deobligated from prior year development grant project obligations in India. These projects are:

[In thousands of dollars]

Project	Date funding terminated	Amount deobligated
Continuing projects:		
Steel production		173
Industrial productivity improvement		90
Agriculture extension		57
Medical education		54
Power generation and distribution		44
Malaria eradication		38
Subtotal		456
Terminated projects:		
Assistance to coal industry	1962	209
Teacher training engineering education	1961	202
Electrical distribution system	1962	82
Rural institutions	1961	44
Farmers organization	1961	19
Fisheries	1961	19
River valley development	1961	16
Highways and bridges	1960	13
Subtotal		604
Grand total		1,060

The remaining $604,000 was deobligated from prior year unliquidated development grant obligations in Turkey ($172,000), Israel ($302,000), Iraq ($69,000), Lebanon ($25,000), and Ceylon ($36,000).

Mr. PASSMAN. This is another case where if you did not have the authority to reobligate then, of course, the figure of $19.2 million no doubt would have held firm. Is that a fair statement?

Mr. GAUD. That is a fair statement.

Mr. PASSMAN. Thank you.

INDIA'S DEBT SERVICING REQUIREMENTS

Would you happen to know the amount of India's annual debt servicing needs?

Mr. GAUD. Yes, sir. Requirements on India's total external debt for the year 1963–64, principal and interest, $238 million.

U.S. HOLDINGS OF INDIAN CURRENCY

Mr. PASSMAN. Could you tell us the amount of India's currency that we presently own?

Mr. GAUD. The total amount of Indian rupees available to meet U.S. requirements which we own is $362 million.

Mr. PASSMAN. What is your average annual expenditure?

Mr. GAUD. For U.S. purposes?

Mr. PASSMAN. Yes.

Mr. GAUD. About $24 million.

Mr. PASSMAN. We have rupees slightly in excess of our requirements, do we not?

Mr. GAUD. Yes, sir.

INDIA'S DEBT SERVICING CAPACITY AND EXTERNAL REQUIREMENTS

Mr. PASSMAN. Many of the countries, those which are in the consortium, are doing business in the same manner that nations have been doing business all along—making hard loans, with relatively short terms and at from substantial to high rates of interest. Many of these loans will start maturing possibly in 10 years, about the time we are supposed to start getting back 1 percent or more a year on our credits.

If the other members of the consortium that are making hard loans, with interest rates up to 6¾, demand, as it is reasonable to expect they will do, that India start retiring those loans, plus interest as they start maturing, are they not going to have to experience a very rapid growth in their economy, in their foreign exchange credits, and their exports, in order to be able to meet those demands even if Uncle Sam did not get in on it at all?

Mr. GAUD. That depends on the future developments.

Mr. PASSMAN. Is that not what I said?

Mr. GAUD. There will be no problem. India will have no problem of handling her present debt. The question is whether the debt that she will pile up from here on out is going to be on hard or soft terms.

Mr. PASSMAN. She is piling up debts now. We have already gone over this situation.

Mr. GAUD. I have before me a table prepared by the World Bank, which I would like to offer for the record, which shows that at the present time India's debt service requires roughly 12 percent of her earnings on current account. The current debt presents no problem at all.

On the other hand, if a great many of the loans to India continue to be on hard terms, the burden of debt on India will become intolerable. If, on the other hand, these countries will modify and moderate their terms, there will be no question about India's ability to continue to get foreign aid and carry it without hurting herself. That

is why we feel it so important to persuade these other nations to modify theirs.

Mr. PASSMAN. That is understood, if the other countries modify their terms and rates.

Mr. GAUD. They are modifying.

Mr. PASSMAN. Let me read this:

> The indications are that India will require at least as much external assistance in the fourth plan as in the third plan if the growth of the economy is to be maintained along the lines as presently proposed. Unless most of the assistance extended from now on is in the form of grants or loans with easy terms of repayment, the burden of debt service will rapidly become insupportable.

I am not as enthusiastic as you people are. This is going through the fourth plan. It would appear that there is going to be no letup.

Mr. GAUD. The statement quoted is true, sir. May I offer this exhibit for the record, Mr. Chairman?

Mr. PASSMAN. India's situation is not favorable, according to this statement, unless other nations which are presently making hard loans at high rates of interest modify substantially the terms by which they are making capital available to India.

Mr. GAUD. That is certainly true.

Mr. PASSMAN. We have messed our own financial situation up, but I think those countries are not about to let us mess theirs up.

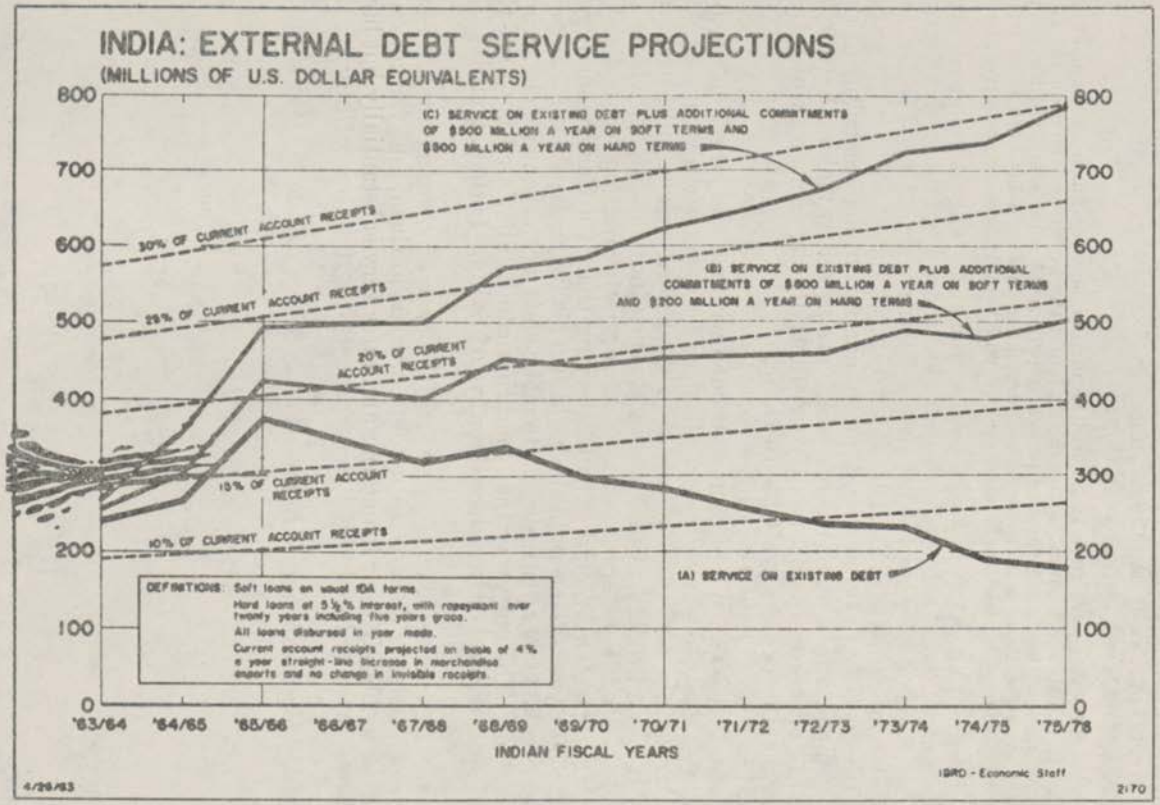
Mr. GAUD. I would like to put in the record this exhibit, prepared by the World Bank, which shows on certain assumptions, which are stated here, the external service debt service projections of India.

Mr. PASSMAN. Would it be like saying that if a Congressman gets $22,500 a year salary and if he builds up his living expenses to where it requires $33,000 a year for him to make ends meet, then he is in serious trouble? The only way that condition can be alleviated is to get the salary increased or to reduce the ways of living. Is that about it?

Mr. GAUD. That is right.

Mr. PASSMAN. That is just about the type of comparison you have to draw there. These other nations, or some of them, thus far not only refuse to modify their loan terms and rates very substantially but have also greatly reduced their commitments to India, according to the Indian News.

(The chart referred to follows:)


INDIA: EXTERNAL DEBT SERVICE PROJECTIONS
(MILLIONS OF U.S. DOLLAR EQUIVALENTS)
(C) SERVICE ON EXISTING DEBT PLUS ADDITIONAL COMMITMENTS OF $500 MILLION A YEAR ON SOFT TERMS AND $300 MILLION A YEAR ON HARD TERMS
30% OF CURRENT ACCOUNT RECEIPTS
25% OF CURRENT ACCOUNT RECEIPTS
(B) SERVICE ON EXISTING DEBT PLUS ADDITIONAL COMMITMENTS OF $300 MILLION A YEAR ON SOFT TERMS AND $200 MILLION A YEAR ON HARD TERMS
20% OF CURRENT ACCOUNT RECEIPTS
15% OF CURRENT ACCOUNT RECEIPTS
10% OF CURRENT ACCOUNT RECEIPTS
(A) SERVICE ON EXISTING DEBT
DEFINITIONS: Soft loans on usual IDA terms.
Hard loans at 5½% interest, with repayment over twenty years including five years grace.
All loans disbursed in year made.
Current account receipts projected on basis of 4% a year straight-line increase in merchandise exports and no change in invisible receipts.
800
700
600
500
400
300
200
100
0
'63/64
'64/65
'65/66
'66/67
'67/68
'68/69
'69/70
'70/71
'71/72
'72/73
'73/74
'74/75
'75/76
INDIAN FISCAL YEARS
4/26/63
IBRD - Economic Staff
2170

Mr. GAUD. I think this is one of the most important questions we face.

Mr. PASSMAN. I think it is, too. It is a question of whether we want to continue until we go completely bankrupt or whether we are going to stop when we are only two-thirds bankrupt.

I think that if you were to take all the resources of America and put them in India, in 5 years you probably would not be able to find a trace of them. I am sympathetic toward their condition, but I do not see why we should go busted because of it. It is fantastic, looking at the amount of aid they have had last year, as well as in previous years, and the amount coming up this year, and it does not appear from this report that there is very much relief in sight. Let us hope, which is about all we can do, is it not?

Mr. GAUD. Right; and work, which we are doing.

Mr. PASSMAN. Work to get our own house in order.

U.S. COMMITMENT TO INDIAN CONSORTIUM

How much did the United States agree to commit for development assistance to India during the third year of the third 5-year plan?

Mr. GAUD. As I said Friday, the consortium has been adjourned until Wednesday, and we have not made any final pledge.

Mr. PASSMAN. At the moment it is still $375 million?

Mr. GAUD. Yes, sir.

COMMITMENTS OF OTHER CONSORTIUM MEMBERS

Mr. PASSMAN. Have all members of the Aid-India Club met completely their commitments to the consortium in the past 2 years?

Mr. GAUD. Very close to it.

Mr. PASSMAN. How close?

Mr. GAUD. Total commitments for the 2 years were $2,365 million; $2,270,500,000 of that has been translated into specific loan agreements on specific projects. So that the shortfall is about $94.5 million out of $2,365 million. Of the shortfall, $34.5 million is Export-Import Bank, and $24.5 million is IBRD.

Mr. PASSMAN. Let us get the amount that has been disbursed. Do you have that information?

Mr. GAUD. Actual disbursements, expended?

Mr. PASSMAN. Yes; actual disbursements.

Mr. GAUD. I do not have that.

Mr. PASSMAN. Can you get that information?

Mr. GAUD. I will get what I can on it.

Mr. PASSMAN. Some of these nations are strict operators, as their balance-of-payments situation will indicate, as their gold reserves will indicate, and as many other phases of international trade will indicate. They are not going to be disbursing this money on any conditions other than those they agreed to originally. Would you agree to that statement?

Mr. GAUD. I would.

Mr. PASSMAN. There are some indications certainly that this thing in India is not developing as we had hoped it would?

Mr. GAUD. This figure is a translation of pledges into specific loan agreements. The money may not have been spent yet, as I said to Mr. Andrews a while ago, when it is tied up to build a plant. Those figures are no longer pledges, they are firm specific agreements.

(The information follows:)

Disbursements under Indian consortium for 1st 2 years of 3d plan

[Millions of dollars]

Donors	Pledges	Value of orders placed as of Mar. 31, 1963	Disbursements as of Mar. 31, 1963
Austria	5.00	1.76	
Belgium	10.00		
Canada	61.00	17.74	5.59
France	60.00	11.59	
Germany	364.00	285.24	171.25
Italy	53 00	11.26	.38
Japan	105.00	83.00	13.25
Netherlands	11.00	1.78	
United Kingdom	266.00	170.28	109.10
IBRD	200.00	78.35	52.48
IDA	250.00	110.28	20.94
Total, non-United States	1,385.00	771.28	372.99
Export-Import Bank	122.60	37.70	11.93
AID	857.40	406.71	186.51
Total, United States	980.00	444.41	198.44
Total, all donors	2,365.00	1,215.69	571.43

Mr. PASSMAN. But we have agreed already that under certain conditions in any country we would cancel our help; is that right?

Mr. GAUD. Yes.

Mr. PASSMAN. A lot of other countries do not have to get hit on both sides of the face and the back of the head before they see what they are doing.

Mr. GAUD. I do not know of any country that has welshed on any commitment to the Indian consortium.

Mr. PASSMAN. I do not know why they should do so, at a high rate of interest, with a hard loan.

U.S. ASSISTANCE TO POWERPLANTS IN INDIA

Mr. ANDREWS. How many powerplants are we financing in India?

Mr. GAUD. All told?

Mr. ANDREWS. Yes; three, is it not?

Mr. GAUD. We financed three this past year.

Mr. ANDREWS. That is what I meant.

Mr. GAUD. Yes; let me check that.

Mr. ANDREWS. How many are under construction and for how many are you requesting money for 1964?

Mr. GAUD. I would like to confirm that there were three power projects on which we made loans this past year, fiscal year 1963.

Mr. ANDREWS. What is the total amount of those three loans?

Mr. GAUD. The total amount of those three is $122.1 million.

Mr. ANDREWS. Have funds for that amount already been appropriated?

Mr. GAUD. Yes, sir; that was out of fiscal year 1963 funds.

Mr. ANDREWS. That is part of the $1,590 million that was available the 1st of July 1963?

Mr. GAUD. Exactly.

Mr. ANDREWS. When do you expect to complete those three projects?

Mr. GAUD. On one of those three the loan agreement was entered into in March of 1963. Manifestly, that has not got very far yet.

Mr. ANDREWS. But it has been funded?

Mr. GAUD. Yes; on the other two the loans have been authorized, we are still negotiating the terms of the loan agreements with the Indians. They are funded, but the loan agreements have not been signed.

Mr. ANDREWS. I assume work has not started on the other two.

Mr. GAUD. That is correct.

Mr. ANDREWS. Are you sure work has started on the one that was funded or where the agreement was consummated March 1963?

Mr. GAUD. I am not sure, but I can find out.

Mr. ANDREWS. All right.

(The information follows:)

STATUS OF INDIAN POWERPLANT (SATPURA)

Orders have been placed with International General Electric for the turbines and generators. The Madya Pradesh Electricity Board's contract with the Kuljian Corp. for engineering services has been reviewed and approved by AID. Kuljian has completed preparation of specifications for the balance of the equipment and buildings and they now are under study by the Indian authorities, who concurrently are mobilizing the necessary construction equipment to begin civil works.

Mr. ANDREWS. There is $122.1 million available for——

Mr. GAUD. Committed to these three projects.

Mr. ANDREWS. Work has not started on either of them?

Mr. GAUD. That is right.

Mr. ANDREWS. Is there a request in the 1964 budget for a powerplant?

Mr. GAUD. As you know, we do not know exactly what projects will be financed during this coming year.

Mr. ANDREWS. There could be?

Mr. GAUD. There could be. The Indians have indicated that they have plans for six quite small power projects which may be presented to us in the form of loan applications.

Mr. ANDREWS. For 1964?

Mr. GAUD. Yes. They have talked to us about a list of about $600 million worth of projects for our consideration for fiscal year 1964 funding.

Mr. ANDREWS. Could it be that one to six powerplants will be financed out of this request before the committee for 1964 for India?

Mr. GAUD. Yes, sir.

Mr. ANDREWS. Thank you.

TIMING OF U.S. COMMITMENT ON LOAN PROJECTS

Mr. PASSMAN. Mr. Gaud, personally I have complained about this system ever since I have been on this subcommittee. I am going to complain again. We have waited a long time to start these things. You have no legal commitment until you have negotiated a contract by which we give them this aid; is that correct?

Mr. GAUD. I assume so.

Mr. PASSMAN. Yet you actually obligate funds for the project prior to the time that you sign the contract. Why do we get in such a hurry? How can you determine conditions, amount, if you have not negotiated the matter?

Mr. GAUD. We impose certain conditions, of course, on these loans. Before the loan is approved by the Administrator, the basic terms and conditions of the loan upon which we are going to insist have been decided. It frequently takes time to negotiate the precise loan agreement after the lawyers put it in legal language. But according to our view, when we once notify a country that we will make a loan on a certain project, we feel that, while it may not be a legal obligation, we have an obligation.

U.S. DEVELOPMENT LOAN TERMS

Mr. PASSMAN. We are talking about the development credits now, are we not, the transactions that are for 40 years, with no interest, three-quarters of 1 percent annual service charge, and a 10-year grace period?

Mr. GAUD. We are as far as India is concerned.

Mr. PASSMAN. We are discussing India now.

Mr. GAUD. Yes.

Mr. PASSMAN. You know of no other exceptions, inasmuch as you want to broaden the discussion?

Mr. GAUD. I do, indeed.

Mr. PASSMAN. You know a few. Percentagewise, you had $23 million that came back.

Mr. GAUD. You mean, are there other countries in my region to which we grant loans on harder terms?

Mr. PASSMAN. The entire world. If you have information to volunteer, please put it in the record.

Mr. MONTOYA. Will the chairman yield?

Mr. PASSMAN. In just a moment, if you will. I want an answer to this question.

Mr. GAUD. I thought your question was whether I knew of any nations where we made loans on harder terms.

Mr. PASSMAN. I am talking about the majority of loans being made on the terms I just described.

Mr. GAUD. That is certainly true.

Mr. PASSMAN. Whatever we get back, if anything, goes back into the foreign aid program and not into the Treasury to reduce the public debt; is that right?

Mr. GAUD. That is right.

Mr. PASSMAN. Now I yield.

LOANS TO INDIA FOR POWERPLANTS

Mr. MONTOYA. With respect to the three powerplants for which you made commitments during the last year, what kind of loans were those?

Mr. GAUD. They were loans of the type just referred to by the chairman. That is, as far as the loan to the Government of India is concerned.

Mr. MONTOYA. Was repayment in rupees or in dollars?

Mr. GAUD. Repayment to the United States is in dollars. These loans are what we call two-step loans. We lend to the Government of India, because of its balance-of-payments situation and its shortage of foreign exchange, at three-quarters of 1 percent, 40 years, 10-year grace period. The loan agreement provides, however, that the powerplant has to pay the Government of India over a 20-year period at 3½ percent interest with only a 3-year grace period. That payment is in rupees.

Mr. MONTOYA. In other words, we are charging India three-quarters of 1 percent and India is getting 3½ percent in rupees?

Mr. GAUD. In rupees.

Mr. MONTOYA. In interest?

Mr. GAUD. The powerplant is not a foreign exchange earner, obviously.

Mr. MONTOYA. Before we go further, how will the repayment on principal back to the United States take place, in rupees or in dollars?

Mr. GAUD. Dollars.

Mr. MONTOYA. That will begin on the 10th year?

Mr. GAUD. Yes, sir.

Mr. MONTOYA. Is this three-quarters of 1 percent for these powerplants a higher rate of interest than the REA people pay here when they borrow from the Government?

Mr. GAUD. I do not know what they pay.

Mr. PASSMAN. REA pays 2 percent for their money.

Mr. GARY. Will the gentleman yield?

Mr. PASSMAN. Yes, sir.

LOAN FOR INDIAN NUCLEAR POWERPLANT

Mr. GARY. Does this deal with a nuclear powerplant?

Mr. GAUD. That is one of the three powerplants I have talked about.

Mr. GARY. It is for nuclear power?

Mr. GAUD. Yes, sir.

Mr. GARY. What are we providing in connection with that plant?

Mr. GAUD. We are lending $80 million to the Indians to build the plant. The Atomic Energy Commission is going to sell the nuclear fuel to the Indians. The terms of that have not been worked out.

Mr. GARY. Who will provide the know-how to run it?

Mr. GAUD. The Indians. The Atomic Energy Commission tells us, and Burns and Rowe have looked into this and they tell us, that there is no question of the ability of the Indians to run the plant.

Mr. ANDREWS. Will the gentleman yield?

Mr. PASSMAN. Certainly.

Mr. ANDREWS. That $80 million nuclear plant is funded by this $122.1 million figure you gave me a few minutes ago?

Mr. GAUD. That is one of the three.

Mr. ANDREWS. You mentioned the AEC would sell certain goods or facilities to the Indian Government on credit?

Mr. GAUD. Yes; the fuel.

Mr. ANDREWS. Will that be in addition to the $80 million?

Mr. GAUD. It is in addition to the $80 million.

Mr. ANDREWS. How much will that be, do you know?

Mr. GAUD. I do not know exactly. My recollection is that it is between $15 and $20 million.

Mr. ANDREWS. That nuclear powerplant will cost us about $95 to $100 million?

Mr. GAUD. There is also local currency cost, Mr. Andrews.

Mr. PASSMAN. Not our local currency?

Mr. GAUD. To be paid by the Indians themselves.

Mr. ANDREWS. To AEC?

Mr. GAUD. To be paid by the Indians themselves. We are only financing the foreign exchange cost of the plant.

Mr. ANDREWS. $80 million?

Mr. GAUD. Yes.

Mr. PASSMAN. They furnish their money to their own people?

Mr. GAUD. To build the buildings and run the plant.

Mr. PASSMAN. There is nothing unusual about that kind of operation.

Mr. ANDREWS. What will they get for $80 million?

Mr. GAUD. The foreign exchange cost of the plant. All of the equipment has to be bought in the United States.

Mr. ANDREWS. Above what they need from AEC?

Mr. GAUD. All they get from AEC is fuel.

Mr. PASSMAN. Could you get us an estimate of the cost of the fuel contract?

Mr. GAUD. Yes.

(The information follows:)

FUEL CONTRACT WITH AEC—INDIAN NUCLEAR POWERPLANT

The AEC contract with India for supply for fuel for the Tarapur atomic reactors is still in the draft stage. It is anticipated that the contract will provide for sale by the AEC to the Government of India of enriched uranium fuel elements for the initial core loadings and spare fuel elements required for backup. The initial fuel charges, estimated to cost approximately $20 million, will be replaceable beginning in the third year at a rate of one-fifth of the total loading per year.

The contract probably will provide for repayment of the $20 million over a period of 20 years with an initial grace period of 10 years before principal repayments begin.

The contract will also include provision for AEC sale of recharge loads to the GOI annually at rates similar to those charged U.S. users, and such sales will be on a cash basis. This sale arrangement will cover a 25-year period.

Mr. GAUD. The AEC will sell this fuel on credit, as I say, and according to our view, since it is being furnished on credit, that will constitute a part of our consortium commitment.

ECONOMIC JUSTIFICATION FOR NUCLEAR POWERPLANT IN INDIA

Mr. ANDREWS. What do your experts tell you about the possibility of producing electric energy by a nuclear powerplant in India? Will it be economically justified or will it be too high?

Mr. GAUD. No, sir; it will not be too high.

Mr. ANDREWS. Do they not say in this country that it is too high and cannot be produced economically?

Mr. GAUD. I think it depends on where you are. The location of this particular plant will be in a very high cost area in the sense that coal is not even remotely competitive with it in this particular location. An oil-fired plant would be competitive with it. It is a high cost area. The economic studies show that this energy will be produced, the plant will make a profit, it will sell at a competitive rate with other local energy. The plant will make a profit over and above paying back the investment.

Mr. ANDREWS. Is it a private utility or is it government owned?

Mr. GAUD. Nearly all the powerplants in India are owned by the government, and this will be.

Mr. ANDREWS. Can you put in the record a table showing the cost of power over there in India, both coal and hydro?

Mr. GAUD. Yes.

(The information follows:)

POWER COSTS IN INDIA

Nuclear power at the Tarapur site will cost 7.36 mills per kilowatt-hour. Power produced by coal would be slightly higher, approximately 8.11 mills. Hydro sources are very limited and consequently high cost.

In the Delhi area power is available both from the thermal and hydro sources. The system purchases hydro produced power transmitted from Bakhra Dam at 8.05 mills per kilowatt-hour, and the Delhi "C" Thermal Plant (being financed in part by an AID loan) will produce at an estimated 8.74 mills per kilowatt-hour.

Mr. GAUD. It varies with the area. In this area it is 7½ to 9½ cents a kilowatt-hour, very expensive. There is no coal nearby and no railroad capacity to transport the coal.

Mr. ANDREWS. Will the energy be used by commercial firms or is it residential?

Mr. GAUD. Both. This is near Bombay.

Mr. ANDREWS. What is the capacity?

Mr. GAUD. 380 megawatts. This is an area in which a great deal of industrial development is taking place. The figures show that even with this plant, they are not going to come near meeting the requirements for that area for the next 10 years.

Mr. PASSMAN. We cannot produce nuclear-powered electricity economically enough to use it in general in this country at this time; is that correct?

Mr. GAUD. This plant is almost a carbon copy of one outside of Chicago.

Mr. PASSMAN. Can we produce it in this country economically enough to meet the competition and sell the power?

Mr. GAUD. Only in certain areas.

Mr. PASSMAN. In what areas?

Mr. GAUD. I am told in some parts of the west coast.

Mr. PASSMAN. But not in India?

Mr. GAUD. It is a question of whether you have coal or water power. Nuclear power will sell at competitive rates in Bombay.

Mr. PASSMAN. I know, but they do have a standard below ours, and certainly the gross national product is down below ours, and the per capita income is about one-tenth of ours.

Mr. GAUD. Around $80 per capita.

Mr. PASSMAN. But it depends on what you can buy with the $80. Let us talk about it so we can understand it. If you relate that figure against American dollars, as to what they can by with $80 over there, it is more than you could buy with $80 here in America. Is that not correct?

Mr. GAUD. That is certainly true.

Mr. PASSMAN. We have to think of the rate we pay for electricity. You may be charging those people seven or eight times as much for electricity as we pay here. How can you even project it to the point of knowing that this plant would be successful?

Mr. GAUD. Each Indian 5-year plan has increased enormously the amount of power available for industry and for homes.

Mr. PASSMAN. If they are going to have to pay 10 or 12 cents per kilowatt, are they able to pay for it?

Mr. GAUD. There has been no problem of that sort to date.

Mr. PASSMAN. It would appear to me that if they can pay 10 or 12 cents per kilowatt in India, we would be in better shape to pay it in America. I think it is speculative as to whether this thing could ever be operated economically enough for India to use electricity.

Mr. GAUD. An oil-fired plant in this location would not produce electricity any cheaper, with the present tax on imported oil.

Mr. PASSMAN. It may be that we are trying to advance these people too rapidly. I think of electricity as a necessity, but not if you are going to give it to people who do not have sufficient earnings to pay for it at the price they have to offer it on the market. It seems to me it would be rather speculative as to whether this would be a good investment.

In our own country there are many instances of rural people getting electricity down as low as 1½ to 2 cents per kilowatt. We produce it very cheaply, maybe at one-half cent per kilowatt. However, it may cost 6 or 7 cents per kilowatt over there.

Mr. GARY. Will the gentleman yield?

Mr. PASSMAN. Yes.

Mr. GARY. Do you have any hydroelectric plants?

Mr. GAUD. Yes, sir; we are building some.

Mr. GARY. You are building some hydroelectric plants there?

Mr. GAUD. Yes, sir.

Mr. GARY. Where you have adequate water supply?

Mr. GAUD. Yes.

Mr. GARY. I take it where you are putting this nuclear powerplant you do not have adequate water supply?

Mr. GAUD. No water.

Mr. GARY. You do not have coal and do not have oil?

Mr. GAUD. Exactly.

Mr. GARY. If they have any electricity, it will have to be supplied by atomic power; is that correct?

Mr. GAUD. Yes. We concluded that this is a reasonable way to provide it within a reasonable time.

Mr. PASSMAN. We certainly know that you cannot relate the $80 per capita income as we would think of the dollar in America, but as it would apply to electricity they are going to purchase electricity at a fixed rate of so much per kilowatt. So far as the electricity is concerned, you could go back and take it on the basis of their per capita income, which in 1962 was only $81.

Mr. GAUD. The per capita income?

Mr. PASSMAN. This is a pretty serious matter if you try to relate it to how much of this $81 he can afford to spend for electricity. You can use the dollar basis there, because you are dealing with so much per kilowatt.

Mr. GAUD. I would like to say most of this electricity will be used for industrial purposes.

Mr. PASSMAN. The question was asked earlier, and you said both.

Mr. GAUD. Both. But the primary concern, as far as development is concerned and our program, the primary impetus is the industrial side.

In 1950–51, India's installed power capacity was 2.3 million kilowatts. In 1960–61 it was 5.7 million kilowatts.

I am talking about available capacity, not cost. Their capacity, existing output of energy, electric energy, has more than doubled in the last 10 years. The plants are selling all the power they can produce. Their plan calls for doubling capacity again in the next 5 years, primarily for industrial use. It is to that development that we are contributing when we finance these powerplants.

Mr. PASSMAN. Nevertheless, it looks to me, there might be a lot of places you could spend money in India on power where you could get more for a dollar than getting them started with nuclear power, something we cannot afford in this country, and especially so when you are doing it on a socialistic, or nationalized basis, and not through free enterprise.

Mr. NATCHER. Mr. Chairman.

Mr. PASSMAN. Mr. Natcher?

PROPOSED FISCAL YEAR 1964 ASSISTANCE TO IRRIGATION

Mr. NATCHER. How much irrigation are you providing for this year?

Mr. GAUD. I would have to supply you with that figure.

Mr. NATCHER. You have no idea as to the approximate number of deep irrigation wells?

Mr. GAUD. I do not have it.

Mr. NATCHER. It may be supplied.

(The information follows:)

AID TO IRRIGATION PROPOSED FOR FISCAL YEAR 1964—INDIA

It is not proposed to obligate any dollar funds in fiscal year 1964 for loan assistance specifically for irrigation development. Some construction equipment for initial use on irrigation projects might be purchased under a possible program or nonproject loan.

The fiscal year 1963 nonproject loan financed purchases of U.S. construction and earthmoving equipment for irrigation development in the amount of $35 million.

DEVELOPMENT GRANT PROGRAM

Mr. PASSMAN. The proposed Development Grant Program for India is $8,115,000; an increase of $665,000 over fiscal 1963; is that correct?

Mr. GAUD. It is that much of an increase over what we estimated.

Mr. PASSMAN. Do you have any new projects programed to start in fiscal 1964?

Mr. GAUD. In India?

Mr. PASSMAN. Yes, sir.

NUMBER OF PROJECTS—WORLDWIDE

What number of projects did you give to us, Mr. Comptroller General, while he is looking up that information, in aid for fiscal 1963?

Mr. TENNANT. I think the figure I gave you as June 30, 1962, was about 2,200. I said that was number of projects with unliquidated balances as of that date.

Mr. PASSMAN. This figure was for capital projects which did not have to do with these notes on the bottom of the book?

Mr. TENNANT. If you counted projects by the notes, it would be higher.

Mr. PASSMAN. Could you give us your estimate as of June 30, 1963, of the number of projects including those in the notes?

Mr. TENNANT. We will see what we can do.

Those are subprojects that are referred to in the notes at the bottom of the justifications.

Mr. PASSMAN. They are separate projects, subprojects the way you handle them. Would you say there are 3,500?

Mr. TENNANT. I would not hazard a guess today, sir.

Mr. PASSMAN. When are you going to give us a guess?

Mr. TENNANT. I would have to count through the figures.

Mr. PASSMAN. Please bring the information as soon as you can.

Mr. TENNANT. All right.

NEW DEVELOPMENT GRANT PROJECTS PROPOSED FOR FISCAL YEAR 1964

Mr. GAUD. We have three new projects in India in fiscal 1964.

Mr. PASSMAN. Can you tell us the cost of these three new projects, from start to finish?

Mr. GAUD. The first is the project for State industrial development. By "State," I am using that term in the sense of the States of India as distinguished from the Central Government.

The total cost of that to completion is $163,000, which is the amount we are proposing to fund for fiscal 1964.

Mr. PASSMAN. Is that amount of money actually going to complete the project if it starts now?

Mr. GAUD. That is the present estimate.

Mr. PASSMAN. This is a contract with one of the States in India, not with the Indian Government?

Mr. GAUD. That is right.

Mr. PASSMAN. Do you go through the National Government to get to the State governments or do you go directly to the State governments?

Mr. GAUD. We have an agreement with the Central Government and we work through the Central Government.

Project No. 2 is communicable disease control, working with the Institute for Communicable Disease, which asked for help in developing its capacity to attack communicable diseases. The total estimated cost is $464,000. We are asking $49,000 in 1964 to get it started.

Mr. PASSMAN. How do you know $464,000 will complete the project? You are just now starting and are asking for about 10½ percent of the total.

Mr. GAUD. This $49,000 is to cover one Public Health Service technician and two consultants and to provide training for three participants. The estimate that we have been given on this by the mission, which has worked out the program at the request of the Government, is $464,000. Manifestly, that is only an estimate.

Mr. PASSMAN. What is project No. 3?

Mr. GAUD. Third is a labor training institute in Hyderabad. We are asking for $42,000 in 1964, and the total cost to completion is estimated at $142,000.

Mr. PASSMAN. How do we get into so many projects?

Mr. GAUD. The Indian Government asked us to do many things.

Mr. PASSMAN. Do you ever turn any of them down?

Mr. GAUD. Yes, sir.

AGRICULTURAL UNIVERSITIES DEVELOPMENT PROJECT

Mr. PASSMAN. The agricultural university development project, on page 59, shows an estimate of $1,200,000, which apparently is to finance university contracts into fiscal 1966; is that correct?

Mr. GAUD. That is correct.

Mr. PASSMAN. How much has been obligated to date in U.S. dollars and U.S.-owned local currency in total?

Mr. GAUD. $13,029,000.

Mr. PASSMAN. How much of it is local currency?

Mr. GAUD. None of that is local currency.

Mr. PASSMAN. Do we make a contribution of our own local currency toward the project?

Mr. GAUD. No, sir.

Mr. PASSMAN. Your record shows $22,364,000, but——

Mr. GAUD. I beg your pardon. I overlooked that.

Mr. PASSMAN. All right, sir. The two together would add up to what amount?

Mr. GAUD. About $35 million.

Mr. PASSMAN. What is the estimated cost to complete——

Mr. GAUD. The estimated dollar cost is $20 million.

Mr. PASSMAN. What is the local currency cost?

Mr. GAUD. I have no figure on that, Mr. Chairman.

Mr. PASSMAN. It is running about possibly nearly 2 to 1, is it not?

Mr. GAUD. The local currency cost?

Mr. PASSMAN. Yes.

Mr. GAUD. Yes; it is running much higher than the dollar cost.

Mr. PASSMAN. It would appear that we have about a $55 million project; is that right?

Mr. GAUD. Yes.

STEEL PRODUCTION PROJECT

Mr. PASSMAN. On page 65, in connection with the steel production project for which you are requesting $405,000, and you say this is designed to overcome deficiencies in organization and management policies and labor skills in the government-owned Hindustan Steel Co., what countries financed the three steel plants?

Mr. GAUD. Rourkela was financed by Germany. Durgapur was financed by the United Kingdom. Bhilai was financed by Russia.

Mr. PASSMAN. I note you have planned to select a contractor in fiscal 1964 for management purposes, although on page 66 you indicate you were not requesting any funds for the management team. We cannot reconcile that discrepancy.

Mr. GAUD. We are not requesting any funds for that at present.

Mr. PASSMAN. The record states so; is it incorrect?

Mr. GAUD. No; we obligated funds in prior years for that element of the project. It doesn't need money in fiscal year 1964.

INTERNATIONAL PRODUCTIVITY IMPROVEMENT PROJECT

Mr. PASSMAN. Again on page 67, you are requesting $577,000 for the international productivity project, despite the pipeline of $910,000. Do you actually need any funds for this project?

Mr. GAUD. We need money in that for this year to continue with the contract with George Fry & Associates, Mr. Chairman. There is some unexpended participant money in the pipeline, but it is committed.

Mr. PASSMAN. You have $910,000 unliquidated as of June 30.

Mr. GAUD. That is right; we had programed for about 78 participants in fiscal year 1963.

Mr. PASSMAN. In what activity do they participate?

Mr. GAUD. They participate in training.

Mr. PASSMAN. What type of training?

Mr. GAUD. They come to the United States. The purpose is to improve their management skills.

Their purpose is to go back to India and try to improve production techniques, management policies. This is a field in which the Indians need a good deal of improvement, as most underdeveloped nations do. We try to bring the middle and high level management people here so they can do a better job of running plants back in India.

POSSIBLE EFFECT OF U.S. AID PROGRAMS ON U.S. WORLD MARKETS AND GOLD DRAIN

Mr. PASSMAN. What are the guidelines we use to protect us from getting into the same kind of problems we face now in the industrialized nations of Europe where our generosity has forced our prices so high that we are no longer competitive in many respects? Are we devising a plan, worldwide, that will finally force us right back pretty much to the borders of the United States?

Can you see any danger that some day this Nation, through its generosity, will get it prices so high that we will have but few markets left?

Mr. GAUD. I think there is a danger, but I think the day is a long way off when the United States will not be leading the pack. I think we have enough ingenuity, I think we have enough initiative, I think we have enough know-how to stay ahead of this game.

Mr. PASSMAN. The President said that two nations could bankrupt us if they exercised the right that they have.

Mr. GAUD. This can happen, but I am not a defeatist.

Mr. PASSMAN. The President said this on June 23, that there are two nations which, if they exercised the authority they have to demand gold for dollars, could in effect bankrupt America.

Did you read those statements the White House issued?

Mr. GAUD. Yes, sir. I also read that part of that same statement which pointed out how the foreign aid program had a relatively small effect on the balance-of-payments problem.

Mr. PASSMAN. He said, I believe, that it had about a 36-percent effect.

Mr. GAUD. The President pointed out that in 1960 only about one-third of the aid program expenditure was in the form of U.S. goods and services. Last year it rose to better than 50 percent.

Mr. PASSMAN. From what paper are you reading?

Mr. GAUD. The President's message to Congress.

In 1963, 80 percent of AID's commitments made were for exports of U.S. goods and services. By 1965 it is expected that the dollar drain will be not more than $500 million. In this particular region, for example——

Mr. PASSMAN. I am talking about worldwide.

Mr. GAUD. In this particular region, for 1963 the total dollar drain was $63 million of this program of about $1 billion. For 1964 it will be just over $50 million. The reason for that is obvious. The development loans are tied to U.S. procurement and services and are spent here. As U.S. procurement has risen from 1960, it has moved from less than 50 percent of the total, to a fraction——

Mr. PASSMAN. This stuff about 80 percent of our foreign aid being spent here in the United States, I do not disagree with that claim; but when those ships pull out of the ports, loaded with our goods, it is a one-way street. It is going out and not coming back.

Mr. GAUD. There is a promise to pay.

Mr. PASSMAN. In the foreseeable future, it is a one-way street, is it not? Our goods go out and we get no American dollars or no gold or none of their goods back in return; is that correct?

Mr. GAUD. All we get is the terms of the loan agreement.

Mr. PASSMAN. When these ships leave the shores, the invoice is sent down to the U.S. Treasury to be paid for out of the taxpayers' till; is that not right?

Mr. GAUD. That is right.

Mr. PASSMAN. Whatever we get from abroad, our imports, we have to pay for in dollars?

Mr. GAUD. Yes; we do.

Mr. PASSMAN. Under normal trade, instead of giving away our goods, we sell them, do we not?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Is it not true that at every level—the manufacturer, the wholesaler, the retailer, the exporter—they are in business to make a profit, are they not?

Mr. GAUD. Right.

Mr. PASSMAN. Our generosity both at home and abroad, with about $10 billion of it in foreign aid annually, advances our prices, does it not?

Mr. GAUD. Advances the price of what?

Mr. PASSMAN. The price of our commodities.

Mr. GAUD. I do not follow you, sir.

Mr. PASSMAN. If you have a $554 billion gross national product and $136 billion of that represents taxes, either at the local, State, or National level, those taxes are in that GNP.

Mr. GAUD. Some are.

Mr. PASSMAN. This tends to get our prices higher than those of our competitors, does it not?

Mr. GAUD. I am not sure of that.

Mr. PASSMAN. The 1940 dollar will only buy 44 cents worth of our 1963 production.

Mr. GAUD. That is right.

Mr. PASSMAN. Through inflation our prices have gone up.

Mr. GAUD. If you are saying the dollar is worth less, then I agree.

Mr. PASSMAN. I am saying that. And I am saying also that through our generosity, as one of the major factors, we are pricing ourselves out of the world market.

Mr. GAUD. Has not the same depreciation happened to other currencies?

Mr. PASSMAN. Not to my knowledge.

President Kennedy, when he was a Congressman, and I used to support each other on these things. For example, with reference to an amendment offered by Mr. Kennedy, I quote Mr. Kennedy:

> I cannot believe we are going to spend this money merely to set an example to these countries, some of which are ruled by oligarchies, which they might follow in the future themselves. I believe in military assistance for this area. That is a good thing. I do not think we can afford in this country to raise the standard of living of all people all over the globe who might be subject to the lure of communism because of a lower standard of living.
>
> I say it is impossible for us to think of raising the standard of living of all low standard countries of the world. I believe the funds provided in section 203 can well be cut by the amount of my amendment. The cuts can be applied proportionally to programs affected.

Then-Congressman Kennedy had pretty good insight into the facts of the matter. He knew much of this program was more than we could afford.

Let me review for you something of what has happened in the past 10 years.

On December 31, 1952, we owned $23,252 million in gold. The outflow of our gold to foreign countries from 1952 through 1962 was $7,195 million, and last December 31 we were down to $16,057 million. Gold holdings of other free world countries on December 31, 1952, amounted to $13,028 million. Gold holdings of those countries increased from 1952 through 1962 by $11,630 million, to $24,658 million last December 31. This does not include, of course, the Sino-Soviet bloc.

Back in 1952 free world countries owned $10,546,100,000 in short-term dollar assets. But on December 31, 1962, this figure had increased to $24,984 million.

From 1950 through 1962, inclusive, we had a balance-of-payments deficit amounting to $24,290 million, and all of the stuff I have read of the President's, other than this one article, has indicated that foreign aid was a substantial factor in this condition. I say it has probably been the principal factor. I am not just talking about your area or this particular bill. I am talking about all 16 spigots of foreign aid.

We are in trouble. We are borrowing from foreign nations, and we are also going into the International Monetary Fund for money.

COST OF OBSERVATION TOURS OF INDIAN PRODUCTIVITY TEAMS

What is the cost of the proposed 7 weeks' observation tour of the two eight-member productivity teams that will be traveling in the United States, Europe, and Asia?

Mr. GAUD. I cannot give you that offhand.

Mr. PASSMAN. Will you get us some information on this item?

Mr. GAUD. Yes, I will.

(The requested information follows:)

COST OF PRODUCTIVITY TEAM TOURS—INDIAN PARTICIPANTS

The two eight-member productivity teams will be sent to the United States, Europe, and Asia, for 7-week study and observation tours. The dollar cost for each team is estimated at $13,000. U.S.-owned rupees are used to pay for all travel costs.

CONSTRUCTION EQUIPMENT PROJECT

Mr. PASSMAN. What type of commodities do you plan to procure at a cost of $100,000 in connection with the construction equipment project, on page 69?

Mr. GAUD. I can only give it to you in very general terms: instructional equipment, books, and models, and that sort of thing that one cannot get in India. I can supply a more specific list if you would like.

Mr. PASSMAN. We wish that you would do so.

Mr. GAUD. OK.

(The information follows:)

CONSTRUCTION EQUIPMENT COMMODITIES

Commodities to be procured for the construction equipment operation and maintenance training center involve a variety of training and demonstration aids, including training films and filmstrips, books and other instructional materials, "exploded" and cutaway engine and transmission models, and special purpose workshop tools and equipment not available in India.

NONCOMPETITIVENESS OF U.S. STEEL PRICES

Mr. PASSMAN. Incidentally, you know that certain steel commodities can be bought from abroad and delivered dockside at New Orleans for as much as $32.10 a ton less than out of Pittsburgh?

Mr. GAUD. I am sure that that is true.

Mr. PASSMAN. This gives you an idea what I mean by pricing ourselves out of the world market.

Mr. MILLER. The same commodities?

Mr. PASSMAN. You can get wire and nails and many other commodities at $32.10 a ton cheaper.

Mr. ANDREWS. Mr. Chairman, I had a hardware man tell me last fall he had not sold anything but Belgian barbed wire in years and also nails.

Mr. PASSMAN. If you go into steel warehouses sometimes you will find that probably about 70 percent of the steel products are imported.

STATE INDUSTRIAL DEVELOPMENT PROJECT

What is the cost to complete the State industrial development project, on page 72, for which you are requesting $163,000 in fiscal 1964 to initiate the project?

Mr. GAUD. That is the one we mentioned a minute ago. It is $163,000.

Mr. PASSMAN. You have not given us a completed cost figure?

Mr. GAUD. That is it.

Mr. PASSMAN. It is one of the new projects?

Mr. GAUD. Yes, sir.

ORISSA IRON ORE PROJECT

Mr. PASSMAN. Although you are not asking for any funds, I note there is still an unliquidated balance of $6,768,000 for the Orissa iron ore project, shown on page 74.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. You say in your statement that the bulk of the pipeline represents obligations for equipment now in various stages of design and fabrication. All of this project started in 1958?

Mr. GAUD. That is right.

Mr. PASSMAN. Under the Asian economic development plan?

Mr. GAUD. That is right.

Mr. PASSMAN. Did you ever get us information on those extinct funds?

Mr. TENNANT. I think we provided an insert earlier. I think it is in Mr. Bell's testimony.

Mr. PASSMAN. Is there a possibility of this money being deobligated?

Mr. GAUD. This one——

Mr. PASSMAN. Any part of it?

Mr. GAUD. It depends on the ultimate fund cost but we have——

Mr. PASSMAN. This was obligated some 6 or 7 years ago; is that correct?

Mr. GAUD. Six years ago.

Mr. PASSMAN. Tell us the amount of the original obligation.

Mr. GAUD. The amount of the original obligation was $20 million, but some funds have been deobligated, so the obligation now stands at $18,366,000.

Mr. PASSMAN. Give us the expenditures by years.

Mr. GAUD. I will have to get those. I do not have them year by year.

(The information follows:)

EXPENDITURES BY FISCAL YEAR—ORISSA IRON ORE PROJECT, INDIA

	(*In thousands*)
Fiscal year 1960 and prior years	0
Fiscal year 1961	$3,881
Fiscal year 1962	1,391
Fiscal year 1963	8,490
Fiscal years 1964–65 (projected)	5,178
Total	18,940

Mr. PASSMAN. The purchasing power of the dollar is down by nearly 7 percent since you allocated these funds?

Mr. GAUD. I expect there have been great changes, Mr. Chairman. We did deobligate $572,000 this year from this project.

Mr. PASSMAN. With a possibility there may be more?

Mr. GAUD. We do not think so, but, of course, it will depend on the final equipment costs.

Mr. PASSMAN. Are you people not usually on the conservative side when you start deobligating?

Mr. GAUD. We frequently are.

Mr. PASSMAN. Let us hope there is some more money.

BOKARO STEEL PLANT SURVEY PROJECT

Could you tell us when you justified the $750,000 for the Bokaro Steel Plant, on page 73?

Mr. GAUD. We did not.

This was a project that came up during fiscal year 1963.

Mr. PASSMAN. These things are illustrative and you could substitute an entirely different group of projects from the ones you justified in these hearings? Could you do that?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. And be within the law?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. You could even take the projects out of one country and put them in another and be within the law?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. You could possibly ask for money for a flood control project and build a railroad and still be within the law?

Mr. GAUD. Right.

Mr. PASSMAN. Could you tell us about the survey started by the United States Steel Corp. in June of 1962 and completed in April of 1963?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. When did you obligate the funds?

Mr. GAUD. We obligated the funds in 1960—I beg your pardon?

Mr. PASSMAN. What date?

Mr. GAUD. I would like to take back my answer of a moment ago. This project came up in the middle of 1962, not the middle of 1963. We obligated the funds in 1962.

Mr. PASSMAN. The date?

Mr. GAUD. I just have to get that.

Mr. PASSMAN. There have been no disbursements at all?

Mr. GAUD. There have been disbursements and we deobligated what was left over.. This is a completed transaction.

Mr. PASSMAN. Could it possibly be that with reference to this $750,000, you did not request any funds for it, but under the law, you could obligate for it anyway? You employed the United States Steel Corp. and that has led into the controversial Bokaro Steel Plant Project?

Mr. GAUD. It did not lead into this; no, sir.

Mr. PASSMAN. What was the use of spending the $750,000 for a survey?

Mr. GAUD. The Bokaro Steel Plant, the possibility of the Bokaro Steel Plant has been around for several years.

Near the end of fiscal 1962, the decision was reached to retain the United States Steel Corp. to survey this proposition and that is how this survey came into being. That survey is a seven-volume survey which has been given so much publicity within the last 2 or 3 months.

Mr. PASSMAN. Is there any connection between this $750,000 and and the Bokaro Steel Plant Project—Project No. AC–21–AF–5?

Mr. GAUD. There is a connection in the sense that this is a survey made by the United States Steel Corp.

Mr. PASSMAN. Leading up to the feasibility of this plan?

Mr. GAUD. Commenting on the technical and economic feasibility?

Mr. PASSMAN. The same plan?

Mr. GAUD. It is exactly the same plan.

Mr. PASSMAN. This was the beginning?

Mr. GAUD. My point is that this is a matter which has been under discussion for a number of years.

Mr. PASSMAN. This was actually the beginning of expenditures on the project?

Mr. GAUD. It is the first time we have ever made any expenditures in connection with Bokaro. This was for a survey only and it commits us to nothing. We have not even got a loan application from the Indians at the present time. This is under discussion.

Mr. PASSMAN. This proposition has been under discussion for several years. Why is it that the Agency did not request funds from the Congress in 1962 for this survey?

Mr. GAUD. The survey was not under discussion for several years. For several years they have wanted us to build the plant.

Mr. PASSMAN. You know a lot of times you discuss things and they never become a reality. So far as the survey is concerned, and so far as the United States is concerned, the $750,000 you allocated in 1962 was a beginning?

Mr. GAUD. You can call it that, if you like.

Mr. PASSMAN. A beginning so far as U.S. expenditures are concerned?

Mr. GAUD. As far as funding is concerned.

Mr. PASSMAN. As far as funding is concerned, but you started it without making a request even on an illustrative basis; is that correct?

Mr. GAUD. Yes; the decision to make that survey was made after the fiscal year 1963 presentation books had already been printed.

ILLUSTRATIVE BASIS OF FOREIGN AID PRESENTATION

Mr. PASSMAN. Could not some of these projects wait until you came back to the Congress the following year? I ask that question even though this program is on an illustrative basis—you can substitute a complete new set of projects for the ones you justified. You can take them completely out of one country and give them to another country, and on your development credit thing you do not enter into technical assistance agreements until you get the money. This is on an illustrative basis; is that right?

Mr. GAUD. That is right.

Mr. PASSMAN. Congress has given you permission to operate just about as you see fit, and this is indeed a regrettable fact.

MEDICAL EDUCATION PROJECTS

The medical education project, on page 78, has an estimate of $187,000 for fiscal 1964, and under the project data, I note the statement:

The present ratio of doctors to people in India is 1 to 7,000.

However, your justifications indicate there is 1 doctor in 5,000 in India.

Is there an explanation?

Mr. GAUD. I cannot explain the discrepancy.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Is the estimate correct that you propose to obligate $23,214,000 of U.S.-owned local currency in fiscal year 1964?

Mr. GAUD. On which project?

Mr. PASSMAN. The medical aid to education project.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. In addition to that sum, $17,157,000 of local currency?

Mr. GAUD. Right; through fiscal year 1963.

This is to establish a graduate medical education and research institute.

Mr. PASSMAN. You have $23,213,000 in new funds and in 1958 you started the program off with $1,203,000. You have been operating now through fiscal 1963 and I just wondered if this is a typographical error.

Mr. GAUD. I do not think so.

Mr. PASSMAN. You say you are going to bring it up to about $42 million cost in fiscal 1964?

Mr. GAUD. Local currency?

Mr. PASSMAN. Dollars obligated prior to fiscal 1964, $1,203,000?

Mr. GAUD. Total cost?

Mr. PASSMAN. Plus $237,000.

Mr. GAUD. It seems the total cost of the project is a little over $2 million and we are spending also a good many millions of rupees for this purpose.

Mr. PASSMAN. I used a figure of $23 million.

Mr. GAUD. I know; but there is $2 million of dollar cost. This is a small dollar cost and a very large rupee cost project connected with the establishment and the improvement of the medical schools.

Mr. PASSMAN. What is the total cost? Local currency takes American taxpayers' dollars to generate.

Mr. GAUD. As we were saying a while ago, there is no shortage of rupees in India.

Mr. PASSMAN. Yes; but for every dollar of rupees, somewhere along the way it costs the American taxpayer a dollar.

Mr. GAUD. We own these.

Mr. PASSMAN. I know that, but we did not get them without giving them a dollar's worth of goods.

Mr. GAUD. This is the flow of rupees from our Public Law 480 programs in the past.

Mr. PASSMAN. Am I making a statement of fact, that for every dollar's worth of foreign currency we own, somewhere along the way the American taxpayer put up a dollar?

Mr. GAUD. That is right.

Mr. PASSMAN. What are you going to get for this money? Is this the first cost for this project?

Mr. GAUD. I will have to get that. We do not have here the local currency cost total to completion.

Mr. PASSMAN. Nearly $42 million is shown on the divider sheet here, and if we take all segments of the project and add to that any future years' local currency, what are we going to get for it?

Mr. GAUD. Seventy-five medical schools in India instead of 57.

Mr. PASSMAN. How many more is that?

Mr. GAUD. The difference is 18.

Mr. PASSMAN. Medical schools?

Mr. GAUD. Yes, sir; medical colleges.

Mr. PASSMAN. Is that going to be buildings and equipment?

Mr. GAUD. No equipment. It is the local currency cost and I assume the local currency construction costs of the medical colleges, teacher training institutes, dental schools, and the medical center in Delhi. I will get more details on local currency costs if you like.

Mr. PASSMAN. We are still talking about the divider sheet figure here of $40 million plus, whatever you may use in the future out of local currency?

Mr. GAUD. That is true.

Mr. PASSMAN. Do you have any hospitals involved?

Mr. GAUD. No, sir.

Mr. PASSMAN. Strictly medical schools?

Mr. GAUD. That is right.

Mr. PASSMAN. What type of equipment do you propose to procure for the nursing college project, shown on page 79?

Mr. GAUD. Teaching aids, technical books, research equipment that is used in teaching or in training nurses. It is $8,000 worth.

TECHNICAL EDUCATION PROJECT

Mr. PASSMAN. How much of the $4,162,000 obligated for the assistance of technical education projects, on page 85, is allocated to the University of Illinois, which is providing technical assistance to the Indian Institute of Technology?

Mr. GAUD. Did you say how much goes to the University of Illinois?

Mr. PASSMAN. Yes.

Mr. GAUD. Of the unliquidated amount?

Mr. PASSMAN. Yes, sir.

Mr. GAUD. I will have to check that. I do not have that here.

Mr. PASSMAN. Get the information, if you will, please.

(The information follows:)

FUNDING OF UNIVERSITY OF ILLINOIS CONTRACT UNDER TECHNICAL EDUCATION PROJECT, INDIA

Funds allocated to the University of Illinois contract total $830,500, of which $266,137 remained unexpended as of March 31, 1963.

GOVERNMENT OPERATION PROJECT

Mr. PASSMAN. Why do you need $64,000 for forward funding of contract services of four short-term consultants under the Government operation project, on page 86?

Mr. GAUD. Likewise, I will have to check that to see how much it covers. That sounds like a contradiction in terms, does it not, forward funding of short-term consultants?

Mr. PASSMAN. Yes.

(The requested information follows:)

FUNDING OF CONTRACT SERVICES—GOVERNMENT OPERATION PROJECT, INDIA

The contract funds will finance the services of a specialist team of four management consultants for 6 months to advise and assist in the planning and installation of a progress reporting and control system for the Planning Commission to provide up-to-date information on implementation status of major projects and plan components.

NEW DELHI REGIONAL SCHOOL PROJECT

Mr. PASSMAN. Could you tell us when you justified the $150,000 that you obligated for the New Delhi regional school project, on page 88——

Mr. GAUD. We never did, Mr. Chairman.

Mr. PASSMAN. You did not justify it?

Mr. GAUD. This is under section 636 for a school.

Mr. PASSMAN. We want to know if you justified it to the committee.

Mr. GAUD. I do not think so.

Mr. PASSMAN. Could you tell us what the total cost of the project is going to be?

Mr. GAUD. The total is $265,000. That is the total U.S. contribution and we show $150,000 for 1963, and $115,000 for 1965.

Mr. PASSMAN. $150,000 for 1963?

Mr. GAUD. I mean for 1964.

Mr. PASSMAN. How about 1965?

Mr. GAUD. Nothing. The $265,000 is it.

Mr. PASSMAN. Can you tell us whether the total on the previous estimate is from start to finish?

Mr. GAUD. The first funds were obligated in 1963. We asked for $150,000 for 1963 and we actually obligated $136,000. The $115,000 which is requested for 1964 is all we will need for the thing to the end. As I understand it, this is our present estimate.

Mr. PASSMAN. Mr. Gaud, you are requesting $33 million under the development credit category for the Beas Dam project, on page 102; is that correct?

Mr. GAUD. No, sir; that Beas Dam project is already funded. This is a project which is tied up with the Indus Basin agreement.

Mr. PASSMAN. Date approved, June 29, 1960?

Mr. GAUD. That is right.

Mr. PASSMAN. The loan status as of February 28, 1963, indicates it is still unsigned?

Mr. GAUD. That is correct. This is a project in India tied to the Indus Basin settlement. The Indus Basin development project is being operated under the World Bank. This particular project has just not come to fruition yet in terms of going ahead with the work.

Mr. PASSMAN. You have tied up funds and carried them in obligated status, and that money is committed for the years 1960, 1961, 1962, 1963, and we are going into 1964, and we still do not have a signed contract?

Mr. GAUD. That is true. These funds were committed in June of 1960.

Mr. PASSMAN. You made a general commitment and earmarked the funds and you do not yet know the actual cost or when the contract will be signed, do you?

Mr. GAUD. We do not.

Mr. PASSMAN. Thank you.

Is there an outside possibility that this could fall back to maybe a deobligated status?

Mr. GAUD. No, sir.

Mr. RHODES. Mr. Chairman, may I ask a question?

Mr. PASSMAN. Certainly.

Mr. RHODES. This looks like it has a tremendous storage capacity, 5.5 million acre-feet of water.

Mr. GAUD. Yes, sir.

Mr. RHODES. Yet the generation capability is only 50,000 kilowatts of firm electric power, is that right? It seems like a very small amount of power to be generated from that large a head of water.

Mr. GAUD. This is principally an irrigation project.

Mr. RHODES. I realize that.

Mr. GAUD. I do not know what the ultimate future of it will be. We are tied into this with the IBRD. As I understand it, that part of the development which has been financed or which the IBRD agreed to finance, will only go so far. I do not know whether that is the total on power generation or not.

Mr. RHODES. I wish you would check on that because unless this is the type of reservoir which covers a large area and not to any great depth, it seems to me that this is a very small amount of power to be generated from that reservoir.

Mr. GAUD. This is an irrigation project.

Mr. RHODES. I realize that, but if you produce 50,000 kilowatts of firm power, you ought to be able to produce a lot more with such a large head of water.

Mr. GAUD. It could well be.

Mr. RHODES. India being a power-shortage nation, as I understand it, this just does not make any sense.

Mr. GAUD. Yes, sir.

Mr. RHODES. Also, the cost is very modest for such a large project.

Mr. GAUD. This is not the total cost by any stretch of the imagination.

Mr. RHODES. What is the total cost?

Mr. GAUD. The IBRD is contributing to the cost and so is the Indian Government. We are only coming up with a portion of the cost.

Mr. RHODES. Find out the total cost, please.

Mr. GAUD. Yes. I am not sure it is available because we have not gone forward with our financing yet. I am not sure of the final plans but I will get that.

Mr. RHODES. I would like to have that; and also a recheck on the figures for power generation.

Mr. GAUD. Good.

Mr. RHODES. That is all.

(The requested information follows:)

FINANCIAL AND TECHNICAL DETAILS OF BEAS DAM PROJECT—INDIA

A U.S. loan for partial foreign exchange costs of the Beas Dam was agreed to in connection with the overall Indus waters settlement negotiated by India and Pakistan through the good offices of the IBRD. This dam is strictly for irrigation purposes, and water releases from the dam will be governed entirely by irrigation considerations. Firm generating capacity is that which is available 100 percent of the time. In an irrigation dam, firm capacity accordingly is only that generated by the minimum amount of water always permitted to flow for downstream utilization. The actual installed generating capacity will be 240 megawatts initially, planned to increase to 360 megawatts eventually after a projected second stage is completed. When permitted by water releases for irrigation, power generated in these larger amounts will be introduced into the regional grid and will permit a reduced operation to save fuel at thermal stations elsewhere in the grid.

The estimated total cost of the Beas Dam is $250 million, including a foreign exchange component of $54,700,000. The World Bank has agreed to loan India $23 million to complete the foreign exchange requirement. In order to obtain up-to-date information on the project for review, AID arranged in the spring of 1963, for a six-man team of experts from the Bureau of Reclamation to review final plans and cost projections in India. The Bureau's report has not been submitted but is expected in early August. It is understood that the team generally was satisfied with plans and designs but may suggest some changes which might affect cost estimates.

U.S. FUNDING OF LOAN PROJECTS ON REIMBURSEMENT BASIS

Mr. PASSMAN. Mr. Gaud, I note in the project book the number of credits that have been approved and signed but against which there have been no disbursements. Some of the credits go back to June of 1960 and one, in particular, on page 112, was signed in June of 1961.

Would you comment briefly?

Mr. GAUD. Yes, Mr. Chairman.

That one in particular, for example, the Sharavathi hydroelectric project, the Indians work on a reimbursement basis. In other words, they spend the money after we approve the project and then they come to us for reimbursement.

Mr. PASSMAN. You mean they spend the money?

Mr. GAUD. I mean they spend the money.

Mr. PASSMAN. Before we give it to them?

Mr. GAUD. They use their own money and then present us with proof of payment to American contractors.

Mr. PASSMAN. They have that kind of foreign exchange credit in dollars?

Mr. GAUD. They have not got it to spend. They have it in the short run, yes. They have limited resources and certainly for a matter of months or so they can spend and then get reimbursed, which is what they do.

In this particular contract, the Sharavathi hydroelectric project on page 112, the project is about a year behind schedule and in February 1963, orders totaling $6.9 million were placed for generators, transformers, and other equipment with the International General Electric Co. There have been major alterations on the concrete structure and there have been a number of changes in construction plans. The thing is behind schedule but it is definitely going ahead.

It is typical of a number of projects in India that work has been done, orders have been placed and the like, but this is not reflected in the amount of disbursements shown on this sheet.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

SUPPORT TO AMERICAN UNIVERSITY IN BEIRUT

Mr. PASSMAN. To digress briefly, I think you people are familiar with my position on the American University at Beirut. While I do not favor any program that gives budgetary support to such undertakings, I can see that maybe a teaching hospital in the Middle East would be a tremendous asset, and is worthy of support, since the AID agency is going to spend the money anyway. I think the President possibly assigned $5 million 2 or 3 years ago for a research center to start on this project, and you say they need about 11 more and I understand there will be a request this year.

Are you familiar with this matter?

Mr. GAUD. I am generally familiar with it but the request is not included in my region, Mr. Chairman.

Mr. PASSMAN. It is not?

Mr. GAUD. No.

Mr. PASSMAN. I thought that it was.

Lebanon is in your region?

Mr. GAUD. Right.

Mr. PASSMAN. But the request for this item is not under that category?

Mr. GAUD. That is right.

Mr. PASSMAN. It will be under Dr. Baumgartner's area?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. All right. We shall get to that matter later, then.

Mr. Natcher?

JUSTIFICATION OF AID PROGRAM TO INDIA

Mr. NATCHER. How do you justify an aid program in India?

Mr. GAUD. How do I?

Mr. NATCHER. Yes.

Mr. GAUD. Mr. Natcher, India is, as you know, the second largest country in the world in terms of population. She has 450 million people and about 1 out of every 7 people in the world is Indian. In our judgment, unless India stays free, we have no chance of defending south Asia or southeast Asia from the Communists, particularly the Chinese Communists. India, in our judgment, wants to remain free. India is devoting a very high proportion of her own resources to financing its present 5-year plan. Seventy-five percent of the resources for that plan comes from inside India. As we see it, India is doing everything she can to stay free, to stay independent.

I do not mean to imply she takes the same position we do on every international question because she does not. Nevertheless, her basic desire is to be free. She is a democracy. She is an example of a democracy for the Far East where there are very few democracies. We, with the other 10 members who belong to the consortium, believe it is in the interest of the free world and to the interest of the United States to support Indian development and that is why we have an aid program for India.

Mr. NATCHER. Mr. Andrews?

Mr. ANDREWS. No questions.

Mr. NATCHER. Mr. Rhodes?

EFFECT OF UNITED STATES AID TO INDIA ON UNITED STATES-PAKISTAN RELATIONSHIP

Mr. RHODES. Mr. Chairman, in the Washington Post of this morning, there was an editorial concerning our relations with Pakistan. I have talked about Pakistan with you and with other members of the AID administration and also the State Department part of this team. Most of the members of the State Department who have discussed the matter have been very reassuring about our status vis-a-vis Pakistan.

The Washington Post of this morning was far from reassuring and seemed to speak rather authoritatively concerning the deterioration of our relationships in Pakistan.

The thought struck me, Mr. Gaud, that perhaps Pakistan is being unreasonable. If they are, perhaps one of the reasons they are being unreasonable, is a failure on our part to brief them thoroughly as to what we are doing and why we are doing it. In other words, they do not seem in the least to equate their future freedom with the welfare of India, and they resent our aid to India.

As you just mentioned, we feel it is necessary to keep India free to defend that whole area. Pakistan apparently does not feel that way at all. A few years ago in Pakistan we had a firm friend. On the other hand, in India there was neutralism, pretty well salted and peppered with some rather frequent caustic remarks from the Chief of State of India aimed at us. There was downright hostility from time to time. So, we apparently have set about to remedy this situation and not only try to keep India free but to try to soften her less than friendly attitude toward the Western World and change what appeared to be a preference toward the Communist world.

In so doing, we have gone to a very extensive aid program for India. It looks like the main result has been a loss of confidence of the Pak-

istanis without a corresponding gain in India. I wonder if this does not illustrate a rather basic defect in the way we are handling the program? In other words, isn't this a failure to count all of the costs before we go into new programs—a pushing and rushing headlong into situations without looking at all of the facets thereof?

Mr. GAUD. I would not agree that that was a fair criticism of the situation.

Pakistan certainly enjoyed a very special relationship with the United States and still does. It enjoyed a special relationship with the United States compared to the relationship India had with the United States.

When we entered into a military aid program with Pakistan, for example, that gave Pakistan a great deal of comfort and solace for obvious reasons. It irritated the Indians tremendously. Some 8 or 9 years went by. This relationship continued and military aid as well as economic aid continued. Pakistan was a member of SEATO and a member of CENTO, and the like, a very close relationship.

In the fall of 1962, as we all know, the headlong rush was made by the Chinese Communists to invade India. Now, we had to decide at that point whether our American interests required us, made it desirable for us, to react to that invasion.

Mr. RHODES. May I stop you just briefly at this point?

Was it necessary for us to do the actual work as far as helping India is concerned? Was it not possible for the former Metropole and other countries to do this?

Mr. GAUD. I think it was not possible in terms of the United Kingdom's resources. The United Kingdom, in my judgment, just does not have the resources to take on this job by itself. In fact, when the Chinese went into India in the fall, we worked out a joint program with the British and at Nassau it was agreed they and we should each put up $60 million worth of military aid as a starter in military aid to India.

So we did our best. We brought the former Metropole along with us and ever since the fall we have been carrying on our discussions with the British. It is a fundamental tenet of the President's policy to keep the British step by step along with us to the extent we could. The fact of the matter is, as I said a moment ago, that their resources are not up to doing the whole job. So I look at it this way: There is no doubt about the fact that Pakistan is unhappy because it feels it has lost its special position, but I think we went into India with a military program after due consideration for purposes of our own national security, and for reasons we could not ignore. We did keep the Pakistanis fully informed of what we were doing all the way along and we are still doing that. They were informed before this announcement was made this morning about the contributions to India's air defense, and we are keeping them in the picture.

The fact remains that any individual or any nation which occupies a special relationship to another gets fed up if that position is modified or changed. It seems to me this is a human and inevitable reaction. At the same time, while Pakistan is unhappy about the change, I think our basic relations with Pakistan today are still good.

Mr. Talbot, I believe, said before you entered the room that the Foreign Minister of Pakistan has assured us over the weekend it is

not true that his Government has any mutual defense arrangement with the Chinese.

Mr. RHODES. The editorial was wrong?

Mr. GAUD. Yes; in that respect. He said they have no written agreement or oral agreement, express, implied, or anything else.

We are certainly going through a difficult period in our relationship with Pakistan and we hope no fundamental change is going to result.

Mr. MINSHALL. You said basic relationships with Pakistan were still good?

Mr. GAUD. I still do.

Mr. MINSHALL. You reserved some degree of doubt there?

A further question: Do you think as good as before we gave all of this aid to India?

Mr. GAUD. I said they were not as good as before we gave the aid to India. I think we gave the aid to India for valid reasons and in our own interests. This is the price we have to pay for giving military aid to India. We think the price is worth it.

Mr. RHODES. Mr. Gaud, can we not lose that part of the world just as thoroughly if Pakistan becomes unfriendly or goes into the Communist bloc?

Mr. GAUD. Yes.

Mr. RHODES. As if India did?

Mr. GAUD. Yes; the security of the continent depends on both Pakistan and India. It is indivisible.

UNITED STATES-INDIAN RADIO RIGHTS AGREEMENT

Mr. CONTE. Did I read in the paper this morning about the United States losing some radio rights in India?

Mr. GAUD. No; the United States and India have just worked out an agreement for a VOA station in India which is going to be used by us and the Indians. There is some talk of renegotiating or reworking some parts of that agreement. So far, Mr. Conte, this is talk. We do not know whether it is a serious proposition or whether it is not.

Mr. MINSHALL. That would be adverse to the United States if this were reopened?

Mr. GAUD. We are quite satisfied with the arrangement and we hope they stick with it.

Mr. MINSHALL. What prompted the Indians to even consider reopening?

Mr. GAUD. It has been suggested by some elements of the Indian community that the existence of a VOA station in India is inconsistent with India's policy of nonalinement.

Mr. RHODES. I yield to the chairman.

Mr. PASSMAN. Let us forget about Pakistan and take country X that you give preferential treatment to, and we accept them as our dependable friends, as long as we do the things they want us to do, but then the time comes when we have to make a policy decision, after proper deliberation, and then this so-called good friend gets angry. Does this fact not establish that friend as a fair-weather friend from the start?

Mr. GAUD. It establishes that it is pretty human and we all like our privileges and like to keep them as long as we can.

Mr. PASSMAN. Thank you.

Mr. CONTE. Will you yield further?

Mr. RHODES. Yes.

Mr. CONTE. I am intrigued by this sentiment in the Indian community about allowing the United States to have a VOA station there. It might commit India to our way of thinking, or at least bring them out of that nonalinement policy of theirs.

I wonder if the same people of the Indian community feel the same way, or felt the same way, when they were being attacked by the Red Chinese and they asked for military assistance, and we ran to them with that assistance? What if we had taken the attitude that we do not want to get involved in this conflict?

Mr. GAUD. There are unquestionably some people in India who are not in favor of United States military assistance to India. There is no question about that. Those people would be included in this group who would be opposed to our having a station in India from which we could broadcast whatever we liked to broadcast. I think there are others in India, others than the Menonites, let us say, who believe in this policy of nonalinement and believe that this is compromised by the presence of VOA stations. There is unquestionably, Mr. Conte, still a great feeling on the part of many Indians that they would prefer to be nonalined.

How this particular issue will come out, I do not know.

Mr. RHODES. Nonalined as between the Western World and the Russian Communists, or as between the Western World and the Chinese Communists?

Mr. GAUD. Today it is much more a matter of between the Western World and the Russians. I think that certainly a great many more Indians are disillusioned about the Chinese than used to be. There are very few today not disillusioned with the Chinese.

Mr. RHODES. I would be surprised if there were any who were not disillusioned.

Mr. GAUD. Other than some of the Indian Communists, of course.

Mr. RHODES. Yes. We would not ever expect an Indian Communist to be pleased with a VOA station?

Mr. GAUD. We certainly could not.

Mr. RHODES. Have we given up on this issue?

Mr. GAUD. No, we have a signed agreement with the Indian Government on this at the moment.

Mr. RHODES. We have a signed agreement?

Mr. GAUD. Yes, sir.

Mr. RHODES. Which we intend to insist upon?

Mr. GAUD. As far as I know; yes.

Mr. RHODES. Would you verify that, sir?

Mr. LEE. That is right. We do have a signed agreement and they have indicated some discontent, but the matter is by no means clear just how this will be implemented or when it will be implemented.

Mr. RHODES. What I want you to verify is that we intend to insist upon our position as far as the paper is concerned. If you cannot do it, say so.

Mr. LEE. This is still very much a matter of exchanges. It is complicated a little by the fact that a new Ambassador has just arrived there, so I am not clear as to just where we stand on the exchange.

Mr. RHODES. I would have thought the Ambassador would take orders from Washington in a situation like that.

I yield to Mr. Ford.

Mr. FORD. Could we have in the record the facts as to when the agreement was signed, when we were supposed to start construction under the terms of the original agreement?

Mr. LEE. It was just signed a few days ago.

Mr. FORD. It was signed, we will say, in the last several days under the terms of the agreement as we were planning or authorized to begin construction of the facility?

Mr. GAUD. We will get that information.

Mr. LEE. We will get what we can on that. I am not sure they worked this out in any detail. This is a USIA matter and the funds would be coming from either USIA or some special appropriation. We will get that.

Mr. FORD. I think we ought to have on the record what the original terms were, so that next year we can check to see whether there was any delay or any revision in the contract.

Mr. LEE. Yes, sir.

(The requested information follows:)

AGREEMENT BETWEEN THE GOVERNMENT OF INDIA AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

This Agreement made and entered into this *ninth* day of July, 1963, by and between the Government of India hereinafter referred to as G.O.I. of the one part, and the Government of the United States of America hereinafter referred to as the U.S.G. of the other part.

Witnesseth: For and in consideration of their mutual covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE I.

The U.S.G. agrees to sell to the G.O.I. one 1000 KW medium-wave radio transmitter, together with associated primary and secondary power distribution system, antennae and earth system, emergency power supply equipment, cooling equipment for transmitter components, air conditioning for control enclosure, audio equipment, test and measuring equipment, and other ancillary equipment, including installation materials as well as complete equipment for the Receiving Center. The above will not include materials for the transmitting station which are readily available in India.

ARTICLE II.

The G.O.I. agrees to pay to the U.S.G. Re. 1/- (Rupee one) only as purchase price for the entire equipment as described in Article I to be delivered C.I.F. Calcutta or Bombay (Calcutta preferred). Any and all duties, taxes, port fees, etc., on said items will be paid by All India Radio (hereinafter referred to as A.I.R.).

ARTICLE III.

As soon as feasible, the G.O.I. through A.I.R. will, at its own cost, construct a radio Transmitting Station in the vicinity of Calcutta and install the transmitter and ancillary equipment therein, completing same for full and efficient operation. A.I.R. will also construct a Receiving Centre for use with the Transmitting Station. All costs of setting up the Receiving Centre and of operating and maintaining it shall be borne by the U.S.G. with the sole exception of the cost of the land which shall be borne by G.O.I.

ARTICLE IV.

The G.O.I. through A.I.R. will, at its own cost, operate the Transmitting Station. It will also operate the Receiving Centre but the U.S.G. will reimburse the G.O.I. all costs for operation and maintenance of same. Whenever A.I.R. uses the Receiving Station for its own purposes, A.I.R. will bear proportionate cost of operation and maintenance.

ARTICLE V.

During the currency of this agreement, the U.S.G. agrees to supply to G.O.I., C.I.F. Calcutta or Bombay (Calcutta preferred), without any charge all tubes and spare parts required for the transmitter up to cost price of $45,000 (forty-five thousand U.S. dollars) only per year calculated on the basis of cost prices prevailing at the date of this agreement. If any further tubes and spare parts exceeding the above value are required by G.O.I. for the Transmitting Station, U.S.G. undertakes to supply them at Calcutta on payment by G.O.I. of the excess in rupees in India. During the currency of this agreement, the U.S.G. agrees to supply to G.O.I. at Calcutta or Bombay (Calcutta preferred) without any charge all tubes and spare parts and stores required for the Receiving Centre.

Any and all duties, taxes, port fees etc. on the said spare parts supplied by the U.S.G. will be borne by the G.O.I.

ARTICLE VI.

The G.O.I. will grant the U.S.G. the full use of the available transmitting facilities for three hours daily for relaying only Voice of America (hereinafter referred to as V.O.A.) programmes to South-East Asia in South-East Asian languages only. This use shall be in blocks of one hour each, alternating with A.I.R. in broadcasting during the two morning and four evening hours. The U.S.G. will pay the G.O.I. Re. 1/- (Rupee one) only per annum for this service.

ARTICLE VII.

This agreement shall remain in force for a period of five years from the date on which the transmitter is put into commission. Thereafter, unless the parties renew same, or enter into a fresh agreement, the U.S.G. shall be entitled to re-purchase all the items supplied by it under Article I above, subject to such deterioration as may have taken place, and all unused spare parts and stores except those paid for by G.O.I. on payment of Re. 1/- (Rupee one) only to the G.O.I. Thereupon, the G.O.I. will facilitate the re-export of same free of all duties, taxes, port fees, etc.

ARTICLE VIII.

The Director-General, A.I.R., and the Director, V.O.A., shall make appropriate arrangements for carrying out the provisions and technical features involved in this agreement. Same shall be reduced to writing by exchange of letters or otherwise.

ARTICLE IX.

If at any time during the continuance of this agreement the performance in whole or in part by either party of any obligation under this agreement shall be prevented or delayed by reason of any war, hostility, acts of public enemy, civil commotion, sabotage, fires, floods, explosion, epidemics, strikes, lock-outs, acts of God, or any other cause beyond the reasonable control of either party, neither party shall be entitled to terminate this agreement nor shall either party have any claim for damages against the other in respect of non-performance or delay in performance. In such an event, however, a period equal to the period during which the performance of this agreement has been delayed, shall be added on to the period of five years provided herein for the currency of this agreement.

ARTICLE X.

The implementation of this agreement shall commence as soon as funds are made available to the United States Information Agency by the U.S. Congress.

In witness whereof representatives of the two Governments duly authorized for the purpose have signed this agreement.

Done in New Delhi on the *ninth* day of July, 1963, in duplicate.

On behalf of the Government of India:

S/S NAWAB SINGH,
Secretary to the Government of India, Ministry of Information and Broadcasting.

On behalf of the Government of the United States of America:

S/S WILLIAM H. WEATHERSBY,
Counselor for Public Affairs, Embassy of the United States of America in India.

Mr. LEE. I might say that Mr. Talbot came in initially today and had the agreement in his briefcase. However, he had to go over to a Senate committee and he took with him, in his briefcase, the agreements, so I do not have them.

Mr. FORD. By tomorrow we can have a memorandum on the terms that were set out so the committee can see it? There is no problem is there?

Mr. LEE. No.

Mr. FORD. Now, I think we ought to find out from USIA what their original construction program was. They must have some program if the contract was signed last week and they contemplate starting construction. It is very simple?

Mr. LEE. All right.

Mr. RHODES. I think we should also have a statement from the State Department as to their attitude on insisting upon the agreement. The VOA is not going to have much to say about that. I think you agree with me?

This is a policy question and somebody is going to tell the VOA whether they go ahead or not.

I would like to have assurance whether we will do that.

Mr. LEE. I would like to come back to it later.

This agreement would be a two-way affair. The agreement envisaged the sharing of the time and envisaged the Indian operation of the station. I would presume it would be difficult to carry this out unless we arrived at a clear agreement on all of the details.

Mr. RHODES. I should not think it would be too difficult to furnish us what you have in the way of facts.

POPULATION CONTROL IN INDIA

Mr. Gaud, what is the birth rate of India at the present time?

Mr. GAUD. It is about 2.3 percent.

Mr. RHODES. Is that higher or lower than it has been in previous years? Or is it about the same?

Mr. GAUD. It is a little higher.

Mr. RHODES. I note that the per capita gross national product of India has not increased anywhere near as rapidly as the total gross national product.

Mr. GAUD. That is right.

Mr. RHODES. Is this a direct reflection on the status of the birth rate you have just mentioned?

Mr. GAUD. That is right.

Mr. RHODES. The chairman, I think, made a statement a while ago which is certainly one we should all remember. That is, in a situation like that, you can keep pouring wealth in until you have no wealth left and you are much poorer than you were, but the other side is no richer.

Mr. GAUD. Yes, sir.

Mr. RHODES. This is a problem common to many parts of the world and in some parts of the world there are remedies being applied. What is being done here?

Mr. GAUD. Quite a lot. India is doing a good deal on her own. You are talking about population control?

Mr. RHODES. Yes.

Mr. GAUD. She has grants from several foundations and quite an active sterilization program going for males and the dissemination of birth control information. India is working on this, Mr. Rhodes.

In the last 2 or 3 years, she has made quite a bit of headway on this, although I do not see much reflection in the birth rate.

U.S. ASSISTANCE TO PRIVATE SECTOR OF INDIA

Mr. RHODES. Tell me what proportion of the aid to India is going into the public sector and what proportion is going into the private sector.

Mr. GAUD. May I deal with last year?

Mr. RHODES. Yes, assuming that this year's figures will be comparable.

Mr. GAUD. Roughly the same; yes. In fiscal year 1963, we made a loan, a nonproject loan of $240 million, which covers importation of spare parts, machinery, equipment, raw materials, all that sort of thing. The study made by the mission and confirmed by the Government of India figures is that 75 percent of the imports under those nonprogram loans of ours go to the private sector. That would be $180 million. In addition, we made last year only one loan directly to a private concern in India, the West Coast Paper Mills. That was in the amount of $6.3 million.

The Export-Import Bank made $40 million worth of loans to the private sector.

That is a total in dollars of 226.5 million out the total aid between the Export-Import Bank and ourselves of $442 million.

Now in addition to that we made 18 Cooley loans in 1963 to affiliates of American firms operating in India totaling $24.6 million, so the total going to the private sector in India last year was about $251 million. It is a little better than half of the total aid.

Mr. RHODES. All of the railway system in India is government-operated and owned, is it not?

Mr. GAUD. Yes, it is.

Mr. RHODES. However, some of the other basic industry, such as steel, is split between public and private?

Mr. GAUD. That is right.

COMPARISON OF INDIAN PRIVATE AND PUBLIC SECTORS

Mr. RHODES. Do you have any figures on the comparison of costs between public and private operation of steel mills? Is it about the same or do you find an appreciable difference between the two?

Mr. GAUD. That is a pretty hard thing to have any information on. They have government-controlled prices. But we know that the private mills operate at a profit. The three publicly owned mills are relatively new, two of them are having a great deal of trouble in the break-in period. The third, built by the Russians, is much more successful. Our studies of the proposed Bokaro mill indicate that on the basis of present pricing policies the earnings to the Indian Government before taxes on Bokaro would be 22 percent and after taxes would be about 11 percent.

As I say, I find it very hard to compare. Clearly, I think one of the problems that we have all the way through the Indian economy is

inefficiency in the public administration of businesses. This is a matter on which we are working steadily and on which a great deal more work needs to be done. If I had to guess I would guess the private operation is a good deal more efficient than the public, but I cannot give you chapter, verse and the figures.

Mr. RHODES. Do operations in the public sector pay taxes?

Mr. GAUD. Yes.

Mr. RHODES. The same as private operations?

Mr. GAUD. Yes. Indian law is different than ours.

Under Indian law, the three existing public steel mills are run by the Hindustan Corp. If the Bokaro mill is built it will be under a separate corporation. Under the Indian practices these public corporations, their boards of directors consist partly of government employees and partly of people from the outside, but the public corporation is subject to exactly the same controls, taxes and the like as a private corporation. It is not like the United States.

Mr. RHODES. This does allow the dual situation to occur and to make some sense.

Mr. GAUD. It makes more sense than it would here.

Mr. RHODES. Right, because of the variation in the taxation as between the public corporation and a private corporation.

NEW PROJECTS STARTS PROPOSED FOR FISCAL YEAR 1964

How many new projects are we starting in India this year?

Mr. GAUD. Development loan projects, you mean?

Mr. RHODES. The grant projects first and loans second.

Mr. GAUD. We went over the grant projects with the chairman. There are three of those. As far as development loans are concerned——

Mr. RHODES. I am only asking about new ones.

Mr. GAUD. Of course, any loan that we make to India this year would be new, in the sense that all loans are new. Last year, in fiscal year 1963, we made eight loans to India. Of those eight loans, one was to the West Coast Paper Mill, which is a private concern; three were for powerplants; one was the nonproject loan which I spoke of; another was a railway loan for the purchase of diesel locomotives; and two others were in the coal industry, all basic industries except the one private.

U.S. LOANS CONCENTRATED IN BASIC INDUSTRIES

Mr. RHODES. Do you intend to follow the policy of making loans mainly in capital industries?

Mr. GAUD. Yes. The fields in which we are concentrating and have concentrated for several years are power, transportation, and coal—basic industries. Whenever we can, we lend to the private sector. In 1962 we made a number of more loans to the private sector than we did in 1963. One thing that held us up in making loans to the private sector in 1963 was that after the Chinese invasion the Indians completely rewrote their tax law and raised taxes 15 percent, introducing a new superprofits tax. It is levied on all corporations, and this checked the enthusiasm of a number of American and Indian firms about to make investments.

Now the picture is beginning to settle down. We hope that fairly soon we will be able to go forward with some of these loans to the private sector that have been held up within the last few months.

Mr. RHODES. You have one irrigation project in here, I think the Beas Dam.

Mr. GAUD. That is the one we were talking about a while ago.

DISTRIBUTION OF LAND IN INDIA

Mr. RHODES. As I recall the situation in India as far as land is concerned the main difficulty in most parts is that the parcels of land are too small rather than too large.

Mr. GAUD. That is true.

Mr. RHODES. When you build an irrigation project, do you set forth any requirements as far as land reform is concerned, with the idea of gathering small parcels into larger parcels so they can farm more efficiently?

Mr. GAUD. We have not done that in India. We have done that in some countries.

Mr. RHODES. Of course this is an interesting problem because it is the reverse of the situation which we find in most other countries.

Mr. GAUD. That is right. The Indians have their own program. We have had relatively little to do with it.

Mr. RHODES. That is all, Mr. Chairman.

PUBLIC LAW 480 COMMITMENT TO INDIA

Mr. PASSMAN. We established earlier that the amount of money unliquidated to the credit of India as of June 30, including Public Law 480, was $1,590,960,000. Some question came up about the amount of the Public Law 480 that should be allocated in any one year. It is not unusual in your normal aid program to have obligations dormant for 4 or 5 or 6 years before you actually disburse them but you carry them in a committed or obligated category, do you not?

Mr. GAUD. That is right, but not with respect to Public Law 480.

Mr. PASSMAN. The Controller said that you had $717,200,000 committed under Public Law 480. Do we have a contract with India that they can only draw down so much a year of the total commitment?

Mr. TENNANT. I cannot talk to the specifics of that contract.

Mr. GAUD. I can answer it, sir. We have, I think, a 4-year contract with India and it contains a total figure.

Then it provides that the specific amount to be turned over each year is subject to negotiation each year.

Mr. PASSMAN. But we do have a positive commitment to them for this amount of commodities, do we not?

Mr. GAUD. We could by mutual agreement not ship them any more.

Mr. PASSMAN. You could by mutual agreement cancel the entire aid program, could you not?

Mr. GAUD. Yes.

Mr. PASSMAN. Let us deal with specifics. You have a positive commitment, if we deal with the present, of $707,200,000?

Mr. GAUD. We have a ceiling on the total amount that can be shipped over a number of years.

Mr. PASSMAN. You also have a ceiling on all the other things, do you not?

Mr. GAUD. Yes; but that is what that figure is, it is a ceiling. It does not mean we are going to ship it.

Mr. PASSMAN. Have you disbursed it according to the original plan, more or less?

Mr. GAUD. It is slower than planned. We do not disburse it until we get an order.

Mr. PASSMAN. Mr. Tennant, please bring us up to date on this matter by day after tomorrow, if possible. I thought it should be indicated that it is not unusual to have unliquidated funds for 4, 5, or 6 years, and they are still not liquidated but they are obligated.

INDIAN GOVERNMENT SUBSIDY OF STEEL PRICES

There is certainly a difference between a Government-owned operation and an operation in the private sector of the economy. If you build this nationalized steel mill and the steel mill is operating in the red, the Government would have an obligation, would it not, to subsidize each year its losses out of the general account?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Thank you.

Mr. RHODES. If you will yield there.

Mr. PASSMAN. Yes.

Mr. RHODES. If the Government sets the price of the end product then there should not be any loss?

Mr. GAUD. You are so right.

Mr. PASSMAN. Is it not a matter of heads you win, and tails I lose?

Mr. RHODES. What they do is to raise the price and take it out of the other pocket of the taxpayer instead of the tax pocket.

Mr. PASSMAN. Mr. Ford?

Mr. FORD. What is the impact, if any, then, from imports from outside? Do they set the price on that as well?

Mr. GAUD. They set the price; yes, they do. They set the price at which the steel is sold. It is very highly subsidized.

VOLUME OF STEEL IMPORTS AND STEEL PRODUCTION

Mr. FORD. What percentage of the total amountof steel used in India is domestic and what part is shipped in?

Mr. GAUD. Today the amount of steel that is imported is very severely limited by the Government and about 1 million tons of steel—I think I am right—are being imported today. Total steel production in India today is about 4.8 million.

Mr. FORD. Let's put in the record the figures for the last 5 years.

Mr. GAUD. Of imports.

Mr. FORD. And total local production.

Mr. GAUD. Right.

Mr. FORD. It might also be well to break down—I am sure you can—the amount of local production that falls under the heading of state-owned mills and the amount from the private.

Mr. GAUD. I can give you those figures here, except for the breakdown that you asked for, but suppose I give you the imports against the production for the last 5 years, through 1962: 1958, production, 1,325,000 tons; imports, 1,127,000 tons

Mr. FORD. About 50–50?

Mr. GAUD. Nearly. 1959, production, 1 million—let me leave off the last couple of figures and give them rough: imports 1 million; 1960, production 2 million, imports, 1.2 million; 1961, production, 2.9 million, imports, 1 million; estimated production for 1962 was 3.5 million tons and the imports were slightly under a million tons.

The effective ingot capacity for 1962 in India is estimated at 5.7 million tons. In fact, ingot production amounted to something like 5 million in 1963.

Mr. FORD. You will get the breakdown between the production by the private mills and those by the public?

Mr. GAUD. Yes. I can give you that very roughly.

Mr. FORD. Why don't you put it in specifically?

Mr. GAUD. All right.

(The information requested follows:)

Steel imports and production, 1958–62; India

(thousand metric tons of finished steel)

	Production	Imports
1958	1,325	1,127
1959	1,643	1,043
1960	2,057	1,191
1961	2,901	1,038
1962	3,708	824

Domestic production of steel ingots by private and public sectors

	Private		Public	
	Amount (thousand metric tons)	Percent of total	Amount (thousand metric tons)	Percent of total
1958	1,723	97.5	44	2.5
1959	2,282	95.6	105	4.4
1960	2,569	80.0	642	20.0
1961	2,645	64.8	1,438	35.2
1962	2,757	54.7	2,285	45.3

Mr. FORD. What was the source of the imports?

Mr. GAUD. I can get that but I can only tell you that roughly, in 1963, $23 million worth of that steel came from the United States. U.S. exports in 1963 amounted to about 13 percent of India's total imports of iron and steel products. These of course were financed by AID.

Mr. FORD. And the other 87 percent?

Mr. GAUD. Came from Europe and Japan.

They draw steel from both Europe and Japan. The steel they draw from us is paid for by AID and that totaled about $25 million; in 1963 it was 13 percent of her total imports.

CUMULATIVE U.S. AID TO INDIA AND CURRENT LEVELS

Mr. FORD. Turn to page 22 of volume 2. This is the chart showing U.S. foreign assistance obligations and loan authorizations for India.

Mr. GAUD. Right.

Mr. FORD. Has this chart been included in the record and if not, can it be?

Mr. GAUD. Yes. The chairman has asked us to give figures of this sort for the last 10 years.

(Discussion off the record.)

Mr. GAUD. We are also preparing an insert showing the detail for the 10 years past.

Mr. FORD. Using this chart, let me run down some totals to see if I get the right feel for the situation.

The top line on the right-hand side shows total economic aid for India from 1946 through 1962 and the figure is what?

Mr. GAUD. $3,867 million.

Mr. FORD. What does that $3,867 million include?

Mr. GAUD. It includes everything that comes from the United States. including AID, Public Law 480, Export-Import Bank.

Mr. FORD. This includes the total for AID of $1,487,024,000.

Mr. GAUD. Yes, sir.

Mr. FORD. And those figures below that, the next five figures——

Mr. GAUD. Are a breakdown of the $1,487,024,000.

Mr. FORD. The food for peace, $1,877,800,000 is shown here.

Mr. GAUD. That is correct.

Mr. FORD. What goes to make up that figure?

Mr. GAUD. All title I sales, plus title II, plus title III. Cooley loans are also included in that figure.

Mr. FORD. To get the $3,867 million, you should add $1,487 million, and $1,877,800,000.

Mr. GAUD. That is right, then the last two lines, Export-Import Bank, $270.8 million and other U.S. economic programs, $231.1 million. That is the wheat loan, going back to 1951.

Mr. FORD. This chart does not show the military assistance?

Mr. GAUD. Yes, sir. I beg your pardon. There wasn't any military assistance.

Mr. FORD. Up through fiscal year 1962.

Mr. GAUD. That is right. It did not begin until fiscal year 1963.

Mr. FORD. And the chart that the chairman has asked for, which is an extension of this, would show that?

Mr. GAUD. Yes, sir.

Mr. FORD. And the figure, or the total in the chart the chairman has asked for is what?

Mr. GAUD. We have a little problem on that.

Mr. PASSMAN. Last year you gave us a table showing that our aid total amounted to $4,265,450,000. I believe you stated this year that our aid for fiscal year 1963 was at least $828,700,000.

Mr. GAUD. Yes.

Mr. PASSMAN. For a total of $5,094 million, with the possibility that there was some discrepancy in the figure that you gave us last year?

Mr. GAUD. That is right.

Mr. PASSMAN. But this is the sheet which you gave us last year. This may be the difference, that you included in this sheet the International Development Association.

Mr. GAUD. That is one of the differences.

Mr. PASSMAN. Of $122 million?

Mr. GAUD. That is one of the differences; yes.

Mr. PASSMAN. If that amount should come out it would be $4,972 million.

Mr. FORD. This is through fiscal year 1963.

Mr. PASSMAN. That is right. You will have an up-to-date sheet on it.

You did verify the correctness of the $828,700,000, did you not?

Mr. GAUD. Yes.

Mr. PASSMAN. That is for fiscal year 1963. This is the chart they gave me last year. I think the item mentioned would be the difference.

Mr. FORD. And the amount that is requested for fiscal year 1964 is what?

Mr. GAUD. The amount requested for fiscal year 1964 is ——— development loans, $81 million development grants, that is the total obviously of ——— and we estimate the Public Law 480 at ———.

Mr. FORD. For a total of what?

Mr. GAUD. ———.

Mr. PASSMAN. That figure is without the military aid.

Mr. GAUD. I was about to say in addition to that the congressional presentation has a figure of ——— requested for military.

Mr. FORD. In fiscal year 1963 you obligated $828 million?

Mr. GAUD. In fiscal year 1963, $828.7 million.

Mr. PASSMAN. When you were up here last year what amount did you justify?

Mr. GAUD. May we break out the Public Law 480 initially?

Mr. FORD. Break out all of it.

Mr. GAUD. Last year I came up and asked for India for a total of $465 million, $450 million development loans and $15 million development grants. On those two categories, this year, we obligated $396 million on development loans——

Mr. FORD. Congratulations.

Mr. GAUD. $396 million, I thought you would like that, Mr. Chairman, on development loans, and $6.2 million on development grants, making a total of $402.3 million as against our request of $465 million.

Mr. FORD. What were the reasons for the difference between the $465 million which you justified and the $402 million which you executed?

Mr. GAUD. There was one reason. When I was here last testifying for 1963 the Indian consortium meeting—the final figures on the Indian consortium were not available. The United States had offered to make available to India, through the consortium, up to $500 million, depending upon the pledges of other nations; $450 million of that would have come from AID, which is the figure here, and $50 million from the Export-Import Bank. In fact, the other nations pledged a total of only $435 million, $65 million less than we were prepared to meet. That is the difference.

Mr. FORD. In other words, the difference between what you justified and what you executed has no relationship to what the Congress made available in the appropriation bill?

Mr. GAUD. Well——

Mr. FORD. If I understood what you said just a minute ago.

Mr. GAUD. The Congress did not appropriate anything for India specifically.

Mr. FORD. No, but what we appropriated for AID——

Mr. GAUD. You mean was I bothered by a shortage of funds on this item?

Mr. FORD. Well, as I understood it the reason you did not execute as much as you justified was that the consortium did not put up as much money as you anticipated.

Mr. GAUD. And we did not make as big a commitment as I anticipated; that is correct.

Mr. FORD. Because of the shortage of the consortium funds.

Mr. GAUD. That is right.

Mr. FORD. So whatever changes you made in your program between what you justified and what you executed had no relationship to a reduction made in the appropriations by the Congress?

Mr. GAUD. That is true.

Mr. FORD. That is all.

APPROPRIATION OF FUNDS COMPARED WITH OBLIGATIONS

Mr. PASSMAN. We want to deal realistically with this thing. It appears to be a guessing game between the Executive and the Congress as to the actual need. What happened last year, the Congress reduced the budget request by $1,032,400,000 and, they said, it was a terrible thing we did. But it follows nevertheless that we appropriated more than they could use, even with all the waste that is involved. They have now admitted, from the White House down to the lowest echelon, that they were overfunded approximately by $260 million. I think in one item there is $100 million that will lapse and they are not even asking us to reappropriate it.

You are familiar with the complaints last year, are you not?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Are you familiar with the fact you are going to have about $260 million unobligated, a good part of which is going to lapse and you are not even asking that it be reappropriated?

Mr. GAUD. I do not know——

Mr. PASSMAN. The President said in his message there would be upward of $200 million of fiscal year 1963 appropriations that they would not use. Are you not actually, Mr. Controller, losing about $100 million in the contingency fund that you are not even asking us to reappropriate?

Mr. TENNANT. We will have an unobligated contingency of around $100 million but that is because contingencies did not arise which required use of those funds.

Mr. PASSMAN. But the money will lapse?

Mr. TENNANT. Yes; it will lapse, sir.

Mr. PASSMAN. What is now the total of unobligated funds as of June 30?

Mr. TENNANT. Those figures are being put together. They are going to be quite higher than the $260 million figure that I gave you as a previous estimate.

Mr. PASSMAN. What amount would you say?

Mr. TENNANT. I believe that the range will be somewhere close to $375 or $400 million including military.

Mr. PASSMAN. Unobligated?

Mr. TENNANT. Unobligated.

I will give you those figures in the next few days.

Mr. PASSMAN. Thank you very much. You see, it is still even clearer that the Congress appropriated too much money, and that again, as in previous years, the criticism of the cuts that were made was completely unjustified.

Mr. GAUD. I hope you do not lose sight of the fact that the fact this money is left over, take this development loan fund, bears witness to the fact that in examining the applications, we did so carefully, did not spend all our money and did not go beyond what we had to go beyond. I think this ought not to be overlooked.

Mr. PASSMAN. I hope you exercise more of that type of judgment in fiscal year 1964.

Mr. GAUD. You can count on us, Mr. Chairman.

ESTIMATED REQUIREMENTS FOR FISCAL YEAR 1964 INDIA PROGRAM

Mr. FORD. You are asking for ——— in development loans and $8.1 milion for development grants in fiscal 1964?

Mr. GAUD. Yes, sir.

Mr. FORD. As compared with what you requested last year of $465 million, of which $450 million was for loans and $15 million for grants?

Mr. GAUD. That is right.

Mr. FORD. Are the circumstances any different this year at this time than they were last year? Are your justifications any firmer and more valid now than they were a year ago?

Mr. GAUD. I can answer that question better on Wednesday than I can today. I do not know whether you were here the other day when we said the Indian consortium is now in midstream and it met a little while ago, on Friday, and is going to meet again on Wednesday.

As soon as that meeting is over, assuming it is not adjourned again—I do not expect it to be—we will know where we are with respect to our pledge to the Indian consortium, and we can give you a firm figure. That takes us up to March 31, 1964. Then you have the first quarter of the next year.

At any rate, as of next Wednesday we ought to know exactly where we are on India in terms of requirements.

Mr. FORD. What figure are you going to the consortium meeting with as the figure we are willing to put up?

Mr. GAUD. We have pledged already at the meeting in Paris; total pledges were $915 million.

Mr. FORD. Of which we——

Mr. GAUD. We pledged $375 million.

Mr. FORD. This is against ——— you are justifying for fiscal 1964?

Mr. GAUD. We have already pledged $375 million of that ———. That meeting adjourned because it was evident there were some countries that had possibilities of raising more money but had not worked it out. The meeting adjourned. The United States announced at that meeting that, depending upon what other countries did in terms of their pledges, we would be prepared to increase our pledge from $375 million up to a ceiling of $450 million.

Mr. FORD. This is regardless of what happens to the authorization and the appropriation bill?

Mr. GAUD. This is all subject to the appropriation of funds and is expressly declared to be so.

Mr. FORD. This offer is predicated on this assumption?

Mr. GAUD. That is right, and this is declared at the consortium, in the formal proceedings of the meetings, and so forth. So that as of now we are committed to $375 million. This is clearly going to be increased, but I cannot give you until Wednesday what the final figure is.

Mr. FORD. That is all.

Mr. PASSMAN. I believe you said we had no legal commitment whatsoever after June 30.

Mr. GAUD. After the last June 30?

Mr. PASSMAN. Yes.

Mr. GAUD. We have none.

Mr. PASSMAN. No legal commitment. If we had abolished foreign aid as of June 30, there would be no legal commitments outstanding?

Mr. GAUD. That is right.

Mr. PASSMAN. Thank you.

Mr. GAUD. I hope that will not happen, however.

Mr. PASSMAN. Mr. Conte?

Mr. CONTE. What part of this ——— is for the Development Loan Fund?

Mr. GAUD. ——— of the ———.

Mr. CONTE. $8 million in development grants?

Mr. GAUD. Yes, sir.

Mr. CONTE. Of that ———, how much of it is already committed?

Mr. GAUD. None.

Mr. CONTE. None at all?

Mr. GAUD. No.

Mr. CONTE. What do you have for a request?

Mr. GAUD. I think we furnished this. Mr. Conte, we have a total, not loan applications, but projects which have been submitted to us by the Indians for study totaling $963 million.

Mr. CONTE. How many applications do you have and what do they total?

Mr. GAUD. Actual loan applications at the moment total roughly $100 million, as distinguished from possible projects.

In addition to that, in addition to those loan applications, we know we will make to India, all things being equal, next year a nonproject loan that in size is between $200 million and $250 million.

Mr. CONTE. What is that for?

Mr. GAUD. That is the type of loan I referred to a little while ago, which covers the import of raw materials, spare parts, machinery,

components, what not, for the entire Indian economy and 75 percent of it goes to the private sector.

Mr. CONTE. That amounts to $300 million, $340 million.

Mr. GAUD. Mind you, none of those loan applications have been approved yet. We are only studying them.

POSSIBILITY OF DEVELOPMENT LENDING FOR BOKARO STEEL PLANT

Mr. CONTE. I realize that. Among the $100 million loan applications is Bokaro steel mill one of them?

Mr. GAUD. We have no application on that.

Mr. CONTE. None at all?

Mr. GAUD. No, sir. We are discussing it, but we have no loan application.

Mr. CONTE. What does that amount to?

Mr. GAUD. The first stage of construction of the Bokaro mill has a foreign exchange component of $512 million.

Mr. CONTE. Which would come from where?

Mr. GAUD. If we financed it, it would come from development loan funds.

Mr. CONTE. You certainly would not have enough money here to finance all these.

Mr. GAUD. No, indeed. Mr. Conte, if we decide to finance the Bokaro steel mill, I think it is quite clear that we will have to spread the financing over a number of years.

Mr. CONTE. How long does it take to process an application?

Mr. GAUD. It depends. How long is a piece of string?

Mr. CONTE. How long does it take to process an application of $512 million?

Mr. GAUD. This is a project that the AID has been discussing with the Indians now, to my knowledge, for over a year and a half. We have a great deal still to look into as regards this particular project. My guess is—it is only a guess—we would not be prepared to state for a matter of months whether we wanted to go forward with it or whether we did not. They still have to continue to study the project.

Mr. CONTE. I do not want to pin you down on this, but I think I am not getting a crystal clear answer. You are in the process of discussion now?

Mr. GAUD. That is right.

Mr. CONTE. After you discuss it and after you have made an analysis and you have these answers to the questions you brought forth the other day, you decide you are going to invest this $512 million, at that point or somewhere along the line the Indians are going to make an application?

Mr. GAUD. That is correct.

Mr. CONTE. That is months away before they make the application.

Mr. GAUD. They might make it tomorrow if they saw fit, but the odds are against it.

Mr. CONTE. They have not made it up today?

Mr. GAUD. No, sir; they have not.

Mr. CONTE. I want an answer to this question. Assuming they make application tomorrow for $512 million for the Bokaro steel mill, how long would it take you to process that application?

Mr. GAUD. We have to finish our study of the raw materials business.

Mr. CONTE. You figure that at 3 or 4 months?

Mr. GAUD. It may take months. It may take longer. We want to satisfy ourselves on a number of other problems—water, power, transportation, railroad facilities. We would not be prepared to go forward with this proposition until we had worked out a satisfactory understanding with the Indian Government as to U.S. personnel controlling the design of the mill, construction of the mill, and a management contract for a period of 5 to 10 years.

Even if the application came in tomorrow, there is an awful lot of work to be done before we could or would act on it. If you tell me what you are after——

Mr. CONTE. I want to know whether you think it would take a year or 6 months or 8 months. You have some idea. I know if I were sitting on the other side of the table, I could answer that question. If the application came in tomorrow, what do you think, or how long do you think it would take to process that application?

Mr. GAUD. I am not trying to duck your question, but let me tell you my principal problem. Certainly, the negotiations with the Indians on management, construction, that sort of business, these things could be done in a matter of 2 or 3 months. The big x here is the raw materials. United States Steel Co. went into this question. They did not have a charter to go into the raw materials question extensively. They came back and they said that further information was needed on the availability of the raw materials in the right location and in the right quality.

We have some people out in India now trying to find out what information the Indians have on this question and how much more information has to be obtained before we can make a sensible decision on the raw materials. I do not know whether it is going to take 6 months or a year or 2 years to get that information. But if this meets your concern, it may well be that we would be prepared to decide whether to grant this loan or not to grant this loan within the next few months. That may be the case. On the other hand, it may be much longer.

Mr. CONTE. I was just wondering whether if someone offered an amendment to the foreign aid bill stating that there would be no Development Loan funds used in fiscal year 1964 for the Bokaro steel mill—I do not think it would hurt anyone, based upon your answer here today.

Mr. GAUD. I do not know whether it would or not, because it is entirely conceivable to me that as the Indians maintain they have all the necessary information on the raw materials—if this is true and if we decide to go forward with the project, we might be prepared to do so within the next 3 or 4 or 5 months at the earliest.

Mr. FORD. There are two great big ifs: If they have the information, and if we proceed.

Mr. GAUD. That is right.

Mr. CONTE. It sounds like Judge Miller's iffy question here.

Mr. GAUD. It might be an amendment to which you refer would hold us up 6 months.

Mr. CONTE. An amendment of that type certainly would not prevent your continuing to study this matter, would it?

Mr. GAUD. No, sir.

Mr. PASSMAN. You just said it may hold you up 6 months. Are we that far committed on it?

Mr. GAUD. Not committed at all.

Mr. PASSMAN. If the gentleman will yield for this further question, if you had to make a decision, would you say you are 50 percent, 60 percent, or 80 percent convinced you are going to go through with the project? Where do we stand? How far out on a limb are we?

Mr. GAUD. We are still right at the bottom of the tree. We have not climbed the tree, much less are we out on the limb.

Mr. PASSMAN. There is a good chance we will never build the plant; is that correct?

Mr. GAUD. There is a chance. If these raw materials or other questions do not work out, we will not build it.

Mr. PASSMAN. If I should make a statement on the House floor that there is a possibility we shall never build this steel mill, would that be a fair statement?

Mr. GAUD. Yes.

Mr. PASSMAN. Thank you.

FEASIBILITY OF BOKARO STEEL PLANT

Mr. MINSHALL. You say we are at the bottom of the tree. How much has it cost us so far on feasibility studies to stay at the bottom of the tree?

Mr. CONTE. How far do you climb up the tree before we see the light?

Mr. GAUD. We have made one study, the United States Steel study. My recollection is that it cost about $650,000.

Mr. MINSHALL. Where is that report?

Mr. GAUD. It is down in the agency—a seven-volume report.

Mr. MINSHALL. You condensed this into eight pages. You can give the good and the bad in eight pages?

Mr. GAUD. You speak of the press release?

Mr. MINSHALL. I am talking about the good and the bad in the United States Steel feasibility report.

Mr. GAUD. By eight pages you refer to the press release?

Mr. MINSHALL. Press release from the Agency for International Development.

Mr. GAUD. We did our best. In the press release we say that a copy of the full seven-volume report is available for inspection by the press in the AID news office.

Mr. MINSHALL. How much have you spent in the way of other funds aside from the $600,000 you paid United States Steel? Do you have people in India now?

Mr. GAUD. We just sent two people over there.

Mr. MINSHALL. Are they the only people working on this project now?

Mr. GAUD. Some of my time goes into discussion on it as I am here now. There are no people assigned specifically to it.

Mr. MINSHALL. This is a very peculiar thing. You have this tremendous program, a billion dollar program, that you are considering, and you only have two people in India, in addition to yourself working on this billion dollar Bokaro steel project.

Mr. GAUD. I did not say that.

Mr. MINSHALL. Studying this. You just said this.

Mr. GAUD. I beg your pardon. I said other people, including myself, are spending time.

Mr. MINSHALL. How many people are working on this project?

Mr. GAUD. No people are working on this project full time at the moment except an engineer from my office who has other duties. He is at the moment going on this trip to work on this project. We have a raw materials expert who is normally assigned to our mission in Turkey. I sent him to India to go into the raw materials question. They are at the moment working full time on the project. Nobody else is working full time on it.

Mr. MINSHALL. Would it not be reasonable for a project of such urgency and size to have more people working on it? You have already spent three-quarters of a million dollars. You say you are still at the base of the tree.

Mr. GAUD. The $64 question at the moment is the raw material question. Until that question is resolved——

Mr. MINSHALL. You only have one man working on it, which is rather shocking

Mr. GAUD. Mr. Minshall, we have sent a man to India.

Mr. MINSHALL. A man.

Mr. GAUD. Forgive me. We have sent a raw materials expert and engineer to India to go and find out how much information the Indians have on this subject. When they report to me, I will then know how much work we need to do on it, whether we have to hire other people, whether the Indians need to do any more work. This is a factfinding question.

Mr. MINSHALL. How long has he been back in India?

Mr. GAUD. He left last week.

Mr. MINSHALL. Just last week?

Mr. GAUD. Yes.

Mr. MINSHALL. How long have you been studying this matter? When did United States Steel first get the contract to make the study? When were they brought into it, what year?

Mr. GAUD. They were brought into it and started working June 1962. I believe the contract was signed in June.

Mr. MINSHALL. When did they complete their report?

Mr. GAUD. We got their report at the end of March or April. The press release says—their report we got late in March.

Mr. MINSHALL. What makes you think it is going to take a matter of many months or years before you have this raw materials problem analyzed?

Mr. GAUD. United States Steel people said it would take 2 years, in their judgment.

Mr. MINSHALL. By how many people? What kind of group?

Mr. GAUD. I did not ask them. We are going to find out for ourselves.

Mr. MINSHALL. It might take a hundred years with one man working on it.

Mr. GAUD. We have not got one man working on it. We sent a man out there on a factfinding expedition to see how much information India needs and how much information is there. As soon as we

find out what kind of job needs to be done on raw materials, then we will decide how many men to assign to it.

Mr. MINSHALL. How many people in the AID shop are working on the Bokaro steel mill as of this moment, July 22?

Mr. GAUD. As of the moment, nobody is assigned full time to the Bokaro steel plant proposition.

Mr. RHODES. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. RHODES. How much money is in this request for funds for prosecution of the investigation on this steel mill?

Mr. GAUD. None.

Mr. RHODES. There is no money?

Mr. GAUD. No. Excuse me.

Mr. RHODES. How do you expect to finance it?

Mr. GAUD. Let me make sure I understand you.

Mr. RHODES. Yes.

Mr. GAUD. We are programing ——— in development loan funds. If we decide to go forward with Bokaro during this fiscal year, some of these funds may be used for it, but nothing is assigned to it. We do not know if we can go forward with it.

Mr. RHODES. It takes money to prosecute your investigation?

Mr. GAUD. I beg your pardon?

Mr. RHODES. You already spent $650,000 on it. Now you are going to spend more?

Mr. GAUD. We do not know if we are or not. It depends entirely on what this man learns in India. If the Indians have the information, OK. If the Indians are conducting a satisfactory field survey, OK. We merely look over their shoulders. I can do that with my man from Turkey, who is already on our staff, a technician, who is a direct hire.

If, on the other hand, we find we have to get into the thing and do more work than that, then we will have to come up with some money for a survey. The problem at the moment is I just do not know what information there is available on this. I am trying to find out.

Mr. RHODES. You must have some funds somewhere in this budget that can be diverted for that purpose.

Mr. GAUD. We would have to use presumably some of our development grant funds, which is what we did when we set up the survey by United States Steel Corp.

Mr. ANDREWS. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. ANDREWS. I understood you to say the other day that even though no moneys were earmarked for that steel mill, that you could use some.

Mr. GAUD. That is right; no question about it, Mr. Andrews.

Mr. CONTE. What is the communication system in India? Is it fairly adequate at the present time?

Mr. GAUD. For what purpose, sir?

Mr. CONTE. Let us take, for instance, transportation, rail transportation. What is the situation?

Mr. GAUD. The Indian rail situation is very heavily overburdened. India is spending a great deal of money trying to build it up, and a number of our aid loans go for that purpose. We made a loan last year for diesel locomotives, for example.

Mr. CONTE. That is what I imagined from reading over the justifications. There is a real dire need in India today for a better transportation system.

Mr. GAUD. That is right.

ADEQUACY OF TRANSPORTATION FOR BOKARO STEEL MILL

Mr. CONTE. Is it not true that if the Bokaro steel mill is constructed, one of the gigantic problems involved is not only the question of raw materials, but whether you can have a rail transportation system to take the finished product out to the industrial area?

Mr. GAUD. That is right. The United States Steel people made a particular note of that in their report, that the necessity for adequate rail transport is one of the more serious problems.

Mr. CONTE. If that is so, how deeply has AID gone into the study that if the Bokaro steel mill is constructed and you have to concentrate yourself on providing adequate rail transportation out of the mill to the consuming public, how will this affect the transportation program now going on in India? Will it suffer as a result of this?

Mr. GAUD. No, it will not, Mr. Conte, for this reason. Bokaro has been a part of the Indian third 5-year plan for many years. Their power requirements, railroad requirements, water requirements, all their requirements in the 5-year plan contemplate construction of Bokaro. So that from the outset they have assumed that these ancillary facilities which are essential to the plant would be built up in time, along with the plant, to serve it.

Mr. CONTE. I am no engineer, but I would imagine they would have to slow down their transportation program for other parts of India in order to concentrate on the Bokaro steel mill because United States Steel reports that it is not insurmountable but it is difficult. It is a very difficult problem.

Mr. GAUD. That is right.

Mr. CONTE. AID says, you—this must be your words—transportation will be expensive and will require unusually competent management from Bokaro.

Mr. GAUD. If those words are in quotes, they are United States Steel words and not ours.

Mr. CONTE. These are not in quotes, which is why I said they must be your words.

I thought you mentioned that this is something you have to look into, whether this will take away from the transportation program in the rest of India and concentrate it on Bokaro. Here are United States Steel words:

> There will be very little point in granting steel mills top priority if the rest of the economy has to suffer such shortages of transportation that the steel produced cannot be further processed and distributed for consumption.

Second:

> That steel and power and transportation development programs are absolutely interdependent and are to proceed at equal pace.

Mr. GAUD. That is right.

Mr. CONTE. Do you have a study available on this that we can look at?

Mr. GAUD. On these ancillary matters?

Mr. CONTE. Right.

Mr. GAUD. I have not. These are matters we still have to satisfy ourselves on. The basic proposition in this steel mill is in their plan and presumably—mind you, I am only saying presumably—they have taken care of these other facilities.

Before we make this loan, we would be satisfied, we would want to be satisfied, we would insist on being satisfied that the transportation requirements, water requirements, power requirements were going to be met. This is a part of the whole package to which we have not got the whole answer.

U.S. AID TO INDIA AS PART OF CONSORTIUM ARRANGEMENTS

Mr. FORD. You told us a minute ago that so far the consortium had agreed or we had agreed with the consortium that we were going to put up $375 million in fiscal 1964.

Mr. GAUD. 1964.

Mr. FORD. And maybe more, depending on action taken between now and Wednesday.

Mr. GAUD. Yes.

Mr. FORD. Would the Bokaro steel decision add funds over and above the $375 million or the larger figure?

Mr. GAUD. No.

Mr. FORD. It would fall within the total?

Mr. GAUD. That is right; the Bokaro project is within their plan. It can only be financed by any member of the consortium if it is financed out of pledges to the consortium. The money we are asking you for for development loans will be spent for projects in the plan, either some will go for Bokaro or if Bokaro is not financed this year, for other projects. The amount does not change whether we do Bokaro or not.

Mr. FORD. Do we have the right to pick and choose which of the projects within the plan we want to finance?

Mr. GAUD. Yes; this we do every year.

Mr. FORD. The other members of the consortium have the same right?

Mr. GAUD. That is correct.

Mr. FORD. Supposing there is one very good one that has a good return possibility and there is a little dispute over which of us—I use it in the broad sense—will have the privilege of loaning money for this operation.

Mr. GAUD. This has not happened often for a couple of reasons. One is that some countries are the obvious sources of supply for certain types of projects. Another is we have declared the field in which we are interested.

Mr. FORD. I assume these are the fields.

Mr. GAUD. Power, transportation, coal, private industry.

Mr. FORD. By doing this have we limited ourselves to the areas where the return is possibly the least, where the terms we can get are not the best?

Mr. GAUD. No, sir. I do not think that the type of project you are supporting under your aid program has anything to do with the return you get. This has been a matter of governmental policy on the part of the donor nations, the lending nations, as to what the terms should be.

Mr. FORD. Regardless of the merit of the project or possibility of return, we still make the loans at the low service charge rates?

Mr. GAUD. Our loan terms to India are based on our estimate of India's balance-of-payments capabilities.

Mr. FORD. And has no relationship whatsoever to the earning capability of the project?

Mr. GAUD. Yes; in this sense. Our loans to India, if they are going to be used for a powerplant or steel mill, are two-step loans. We make the loan to India on the soft terms because she has not, in our judgment, got the balance-of-payments capability to pay hard terms, but the loan agreement requires the Government of India to lend to the company at a higher rate of interest, and that is gaged, that interest rate, those terms are gaged in terms of the type of operation.

Mr. PASSMAN. Mr. Conte, would you yield?

Mr. CONTE. Yes.

Mr. PASSMAN. We are dealing with an illustrative program all through foreign aid. You do not know who is going to get this money until you get the money?

Mr. GAUD. That is correct.

Mr. PASSMAN. You can spend it any way you want to on any type of project?

Mr. GAUD. Knowing that I am going to face you the next year; yes.

Mr. PASSMAN. After you get the money, then you make up your mind where to spend it?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. On all the other categories of aid you justified on an illustrative basis, say 118 projects in country X, you could vacate every one of those projects and move the money to country B?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What you have, really, is a blank check throughout, from start to finish. You get the money. After you get the money, the decision is made as to what projects it will be spent on; but the law is broad enough to permit you to vacate all projects from one nation and substitute a different set of projects in another nation.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Thank you, Mr. Conte.

ANCILLARY PROJECTS TO BOKARO

Mr. CONTE. Another important ingredient in regard to this Bokaro steel mill, as I read your press release, is water.

Mr. GAUD. Right.

Mr. CONTE. In order to put this mill into operation then, there will have to be constructed a dam near the site of the mill; is that correct?

Mr. GAUD. Yes, sir. Not at the site of the mill.

Mr. CONTE. Near the mill, somewhere in the vicinity?

Mr. GAUD. The Damodar Valley.

Mr. CONTE. And a canal?

Mr. GAUD. That is right.

Mr. CONTE. What is the cost of the dam?

Mr. GAUD. $31 million.

Mr. CONTE. What is the cost of the canal?

Mr. GAUD. $5.7 million.

Mr. CONTE. Any other cost tied in with that?

Mr. GAUD. On the water side?

Mr. CONTE. Yes.

Mr. GAUD. Not as far as I know.

Mr. CONTE. What about power costs?

Mr. GAUD. Additional generating capacity required—and, incidentally, these figures are United States Steel estimates—additional generating capacity of 125 megawatts, estimated by United States Steel to cost $32 million.

Mr. CONTE. We could safely tack onto the $512 million another $88 million?

Mr. GAUD. You could tack on more than that. If you look on page 9 of the release, you will see these items listed.

There are a number of outside-the-fence projects. These are the ones to which we have just referred, plus some increased coal mining and coal washing facilities estimated to cost about $25 million.

Mr. CONTE. $133.857 million; is that correct?

Mr. GAUD. Yes, sir.

Mr. CONTE. That is over and above the $512 million?

Mr. GAUD. No, sir.

Mr. CONTE. This would be over the total cost?

Mr. GAUD. This would be over the total cost and these projects are the type of projects I was referring to a minute ago when I said the Indian 5-year plan would include these collateral or ancillary projects which would go along with the mill. These would be built by the Indians themselves to the extent local currency is required, or otherwise will be treated as regular consortium projects.

TOTAL ESTIMATED COST OF BOKARO

Mr. CONTE. What is the total cost of the entire Indian 5-year plan then?

Mr. GAUD. The third plan is nearly $24 billion.

Mr. CONTE. Of which $1.5 billion is the Bokaro steel mill?

Mr. GAUD. No; about half of the Bokaro steel mill is in the fourth plan, the next plan.

This present plan is over on March 31, 1966, and about half of the expenditures for Bokaro will take place after that date, and, therefore, will appear in the next Indian 5-year plan.

Mr. MINSHALL. Would the gentleman yield?

Mr. CONTE. Yes.

Mr. MINSHALL. What is the total cost of the Bokaro steel mill going to be?

Mr. CONTE. $1.5 billion.

Mr. GAUD. If you go all through all three stages to produce the 4-million ton capacity, the total cost of both foreign exchange and local currency is $1.5 billion.

The United States Steel tells us, in addition, other facilities are required which we have just been discussing, for another $133 million.

Mr. MINSHALL. You mentioned so many things——

Mr. CONTE. Wait a minute, so I can get the record clear.

Of which $891 million will come from the United States?

Mr. GAUD. No; the only thing we are discussing at the present time is step 1, which is $512 million.

Mr. CONTE. Mr. Minshall asked you what the total cost was and you said it came in three steps and $1.5 billion?

Mr. GAUD. That is correct.

Mr. CONTE. Three steps for the same mill, and the Bokaro steel mill will cost the United States $891,552,000?

Mr. GAUD. If we finance the foreign exchange costs in steps 1, 2, and 3.

Mr. CONTE. Everything?

Mr. GAUD. Yes, sir.

Mr. MINSHALL. You mentioned so many things, Mr. Gaud, about this United States Steel mill report, but did they make any recommendations one way or another?

Mr. GAUD. No, sir; they made a technical and economic feasibility study but no recommendations.

Mr. ANDREWS. They have not finished the report?

Mr. GAUD. Yes.

Mr. MINSHALL. You have mentioned many things today that you have not mentioned in your press release. I think it would be interesting to have the United States Steel report available to the committee——

I would like to make a request, Mr. Chairman, that they bring these volumes here providing it does not take too many vans.

Mr. GAUD. It is only seven volumes.

Mr. MINSHALL. Tomorrow?

Mr. GAUD. Yes, sir.

Mr. MINSHALL. I would like to study it and also have some of the staff look it over so we know more about this fantastic project. I think we've just scratched the surface.

Mr. GAUD. No problem.

Mr. MINSHALL. Off the record.

(Discussion off the record.)

Mr. CONTE. No further questions.

Mr. ANDREWS. Mr. Minshall?

Mr. MINSHALL. Mr. Chairman, we are coming back tomorrow, are we not?

Mr. ANDREWS. At 1 o'clock.

Mr. MINSHALL. All right.

Mr. ANDREWS. The committee will stand adjourned until 1 o'clock tomorrow.

TUESDAY, JULY 23, 1963.

IRAN

Mr. PASSMAN. The committee will come to order.

I believe the estimate for Iran in fiscal year 1964 is ———; is that correct?

Mr. GAUD. Yes. It is a range, Mr. Chairman ———. The actual request is ———.

Mr. PASSMAN. But you have a range going up to ———.

Mr. GAUD. Yes. We are uncertain as to just how many development loans we will make in this country.

Mr. PASSMAN. Is that the development credits you are referring to? You are not talking about hard loans; are you?

Mr. GAUD. Iran is one of four countries in the region to which we make loans at higher rates of interest and on shorter terms. Our loans to Iran for next year will all be at 3½ percent and the term will be 20 to 30 years, depending on the type of loan and the project.

Mr. PASSMAN. Did we make them a $15 million loan on that basis year before last when the Shah and his bride were over here?

Mr. GAUD. Year before last we made two loans to Iran at 3½ percent for 17 years, repayable in dollars.

Mr. PASSMAN. How about the $15 million?

Mr. GAUD. We made the $15 million loan in 1963 at 3 percent for 30 years.

Mr. PASSMAN. Did you not have a grant of $15 million in there out of the contingency fund?

Mr. GAUD. In 1962 or 1961?

Mr. PASSMAN. It may have been 1962.

Mr. GAUD. In 1962, Iran was getting budget support and that $15 million was grant.

Mr. PASSMAN. That was an outright grant?

Mr. GAUD. Part of the assistance that year was on a loan basis and part on a grant basis.

Mr. PASSMAN. I refer particularly to the $15 million.

Mr. GAUD. I believe that was the grant portion.

Mr. PASSMAN. You had cash transactions totaling $44 million, did you not, in fiscal year 1962?

Mr. GAUD. Of budget support?

Mr. PASSMAN. Yes.

Mr. GAUD. As I recollect, $14 million of that was on a loan basis and $30 million on a grant basis.

Mr. PASSMAN. In addition to the ——— scheduled for Iran, how much is the country receiving from the military assistance program and what is the amount from the Public Law 480 program?

Mr. GAUD. The military assistance program is programed at ———. The Public Law 480 is now estimated at ———, but it may well be higher than that.

Mr. PASSMAN. The military assistance program is a grant?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What is the amount?

Mr. GAUD. ———.

Mr. PASSMAN. Add to that figure the ——— and that is ———, for a total of ———. We are giving them ——— and making some type of loans for ———.

What is the unexpended balance to the credit of Iran as of June 30?

Mr. GAUD. Roughly $27 million, Mr. Chairman.

Mr. PASSMAN. What has been the total amount of aid to Iran since the inception of the program?

Mr. GAUD. Military and economic, $1,423 million.

POLITICAL SITUATION IN IRAN

Mr. PASSMAN. I note, on page 23, that there is dissatisfaction among the elite groups with the Shah's land reform program.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. There is consequent political tension, it is stated. Is that tension being alleviated to any extent or is it growing worse?

Mr. GAUD. We feel that the Shah is in control of the situation. If you will remember, there were riots in Teheran a few weeks ago led by the priests—the mullahs—which was a reflection of that dissatisfaction. There have also been troubles in certain parts of the country, led by the landowners. The situation seems to be very much in control at the moment and the Shah is planning on a general election to be held roughly 2 months from now.

Mr. PASSMAN. Who is he going to elect? He is the King is he not?

Mr. GAUD. Yes, sir. There is going to be, we are told, a free election.

Mr. PASSMAN. He is going to participate, but to what extent?

Mr. GAUD. This is to elect a Parliament. There has been no Parliament in Iran for more than 2 years. The purpose of these elections is to elect a new Parliament.

Mr. PASSMAN. Did we work this system out for the Shah?

Mr. GAUD. No, sir.

IMPROVEMENT IN CENTRAL GOVERNMENT BUDGETING

Mr. PASSMAN. I wonder why he could not work his financial troubles out as well.

Mr. GAUD. He is making progress on them.

Mr. PASSMAN. He is increasing the country's gold and foreign exchange holdings. It looks as if he might be getting along a little bit better than we are. Is that a country which has no budgetary system, or a very limited one?

Mr. GAUD. This country does not have the tight kind of budget controls that one would like. We discussed that, I think last year. During this past year they made a good deal of progress in unifying their budget. I am told by our Ambassador there that they did a much better job this year in Central Government budgeting than they have done for a good many years.

Mr. PASSMAN. There is considerable room for improvement?

Mr. GAUD. Yes, sir.

FOOD-FOR-WORK PROJECT

Mr. PASSMAN. Would you now comment on your statement, on page 25, that opportunities for substantial use of title II, Public Law 480, to support food-for-work projects will also be explored? "Will be" or is already underway?

Mr. GAUD. The "will be" speaks of several months ago. It was explored and a small program is now underway.

Mr. PASSMAN. What is the estimated cost to bring this project to completion?

Mr. GAUD. This is a part of our Public Law 480 program. The only figure we have for the moment is the estimate ——— of title I sales that I mentioned before.

We have no figures at the moment on the extent to which we will furnish additional title II to Iran for food for work. This has not yet been worked out.

Mr. PASSMAN. This plan is spreading rapidly around the world; is it not?

Mr. GAUD. Do you mean Public Law 480?

Mr. PASSMAN. This title II, food-for-work project.

Mr. GAUD. There is not a great deal of it in my region. I am not sure of the other regions.

Mr. PASSMAN. We ran into it in Morocco, in Nigeria, and Tunisia. How many countries are involved in your region?

Mr. GAUD. Total countries in my region? Eighteen.

Mr. PASSMAN. No; I mean where you have this type of plan.

Mr. GAUD. The food for work?

Mr. PASSMAN. Yes.

Mr. GAUD. This is the only one.

Mr. PASSMAN. This is a new program, just starting; is it not?

Mr. WHITE. Yes.

Mr. PASSMAN. Let us hope it works out.

RURAL DEVELOPMENT PROJECT

I notice that you are requesting $166,000 to initiate a new project entitled "Rural Development," to be found at page 138.

Mr. GAUD. Yes.

Mr. PASSMAN. What is the cost to complete this project?

Mr. GAUD. Our present estimate is $766,000, but I would like to say that that is very much of an estimate. The purpose of this project is to tie in with the Shah's land reform program and to work through the local authorities in the various ostaris where the land reform program is underway.

We are not at all clear on how far we will be able to go with this. We feel that the Iranians need a great deal of help in carrying out this program which they started themselves. This is one of the vehicles through which we hope to improve the operation of the program. Helping farm cooperatives, teaching them how to finance farmers who have been used to getting their seed and their money from their landlords and equipment and doing everything we can to get these new outfits on their feet, in terms of technical assistance.

Mr. PASSMAN. You say this is a program initiated by the Shah of Iran?

Mr. GAUD. That is right.

Mr. PASSMAN. Why do we not leave them alone and let them carry it out, to see how successful they can be?

Mr. GAUD. We have been asked by the government to help out in this program. The Iranians do not have the trained manpower, they do not have the know-how in the handling of cooperatives, they do not have the experience to handle a large-scale program such as this and they have asked for help.

Mr. PASSMAN. Well, let us hope some of these things work out better before we are down to the bottom of the barrel.

CROP AND LIVESTOCK PRODUCTION PROJECT

How many short-term consultants do you plan to utilize during fiscal year 1964, Mr. Gaud, under the crop and livestock production project, at page 139?

Mr. GAUD. Two, Mr. Chairman.

Mr. PASSMAN. What is the cost?

Mr. GAUD. It is roughly $5,000 apiece.

Mr. PASSMAN. For how long?

Mr. GAUD. In the neighborhood of 3 or 4 months.

Mr. PASSMAN. How much per day are you paying these consultants? You say 3 or 4 months. This is a 25-percent spread there.

Mr. GAUD. I know. I haven't got the detail on that here. I will have to supply that.

(The information follows:)

CROP AND LIVESTOCK DEVELOPMENT

AID is planning to recruit two consultants for a period of 3 months. Salary and per diem are estimated at $4,000 and transportation at $1,000 each.

Mr. PASSMAN. From where do you usually recruit these consultants?

Mr. GAUD. Well, it depends on what they are going to do. Frequently from our universities. From engineering societies. From business. From Government. Wherever we can get them.

Mr. PASSMAN. For crop and livestock production?

Mr. GAUD. They might come from the Department of Agriculture, they might come from the agricultural schools of the State universities.

PAHLAVI UNIVERSITY MEDICAL CENTER

Mr. PASSMAN. Page 145 indicates that you have obligated $1,776,000 to the Pahlavi University medical center.

Mr. GAUD. Yes.

Mr. PASSMAN. Could you give us an idea of what this project is going to cost from the start to finish?

Mr. GAUD. Yes, sir. $2,854,000.

Mr. PASSMAN. What are you going to get for your money when it is finished?

Mr. GAUD. We hope that Iran is going to get a very good medical center for purposes of training doctors, medical technicians, nurses, and the like.

Mr. PASSMAN. You know something about the medical school plan for Beirut?

Mr. GAUD. Yes.

Mr. PASSMAN. That plan will provide for a research center as well as a teaching hospital. If that project should actually be approved and come into being, would you need as much aid for some of these other medical projects as you are requesting?

Mr. GAUD. I think so. The requirement or demand for doctors is so enormous throughout the Middle East that no one medical school could possibly take care of the requirements, it seems to me. I don't mean by saying that to deprecate the value of the AUB unit.

Mr. PASSMAN. Do we not have a shortage of doctors in this country?

Mr. GAUD. Yes; we do.

GENERAL EDUCATION PROJECT

Mr. PASSMAN. What type commodities do you plan to procure for $54,000, under the general education project?

Mr. GAUD. Those are instructional materials to be used in teacher training, curricula development, adult literacy projects and the like.

Mr. PASSMAN. Such as?

Mr. GAUD. Books, visual aids and that sort of thing.

ADMINISTRATIVE REFORMS AND TRAINING PROJECTS

Mr. PASSMAN. Why do you need $100,000 for contract services under the administrative reforms and training projects, at page 152?

Mr. GAUD. This figure I think, Mr. Chairman, strikes me as being high and I want to look into it. It is supposed to cover the services of two specialists who are to work on a tax system reform, plus two 3-month participants. I think the figure of $100,000 is too high and I want to check into that.

MOBILIZATION OF LOCAL CAPITAL PROJECT

Mr. PASSMAN. What is your man-year cost of the consultants you propose to finance at a total cost of $135,000 under mobilization of local capital, on page 154?

Mr. GAUD. We have 10 technicians for an average period of 6 months each. That would be $13,500 each. That sounds a bit high.

The short term may make a difference there. You have the travel costs and all, spread over 6 months rather than the normal 2 years.

Mr. PASSMAN. If they happen to mobilize local capital and find sufficient local capital, would you cut ours back?

Mr. GAUD. Yes.

Mr. PASSMAN. Could you give us a little bit of encouragement that you think you are hitting pay dirt on that matter?

Mr. GAUD. This project hasn't started yet. I hope it will be successful.

Mr. PASSMAN. But you have to have some point from which to start it.

Mr. GAUD. One of the points we have been hitting hardest with the Shah and his government recently has been the need for Iran to mobilize her capital more effectively than she has been.

Mr. PASSMAN. How old is that country?

Mr. GAUD. It is thousands of years old.

Mr. PASSMAN. They have been getting along for those thousands of years, have they not?

Mr. GAUD. Well, they have been getting along.

Mr. PASSMAN. Well, that is about all any of us are doing, is it not, getting along?

Mr. GAUD. Some of us are doing better than others.

Mr. PASSMAN. We always will, won't we?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Would you recommend we give you a chance to mobilize this local capital before we appropriate money to start a lot of these projects?

Mr. GAUD. I would like to do them both at once.

Mr. PASSMAN. What will it cost to complete this project?

Mr. GAUD. The mobilization of local capital?

Mr. PASSMAN. Yes.

Mr. GAUD. $410,000 is our present estimate.

Mr. PASSMAN. You would have to raise that much to break even on it, would you not?

Mr. GAUD. The returns on this, of course, could be very high with a relatively small output of money.

Mr. PASSMAN. We do not have anything like this in America, do we?

Mr. GAUD. Well, this is something we have learned by experience how to do over the years.

Mr. PASSMAN. It still sounds all right if we limit it to just this project.

Any questions, Mr. Rhodes?

LAND REFORM PROGRAM

Mr. RHODES. Mr. Gaud, I notice that on page 24 there is discussed certain reforms calling for creation of peasant-owned cooperatives. I presume this is done because the landholdings are so small that it is not possible to work the land economically. Would that be a fair assumption?

Mr. GAUD. No, sir. These cooperatives have been formed as a part of this land reform program that I spoke of. What has happened is that the land, most of the land owned by the large landlords, has been turned over to the peasants. The peasants have no experience whatsoever in credit, in buying seed, and so forth and so on, and the cooperatives have been formed as an aid to get these services to them—services the landowners used to perform. It hasn't been that the holdings are too small, it is just a matter of ignorance on their part as to how to operate.

Mr. RHODES. How will the land be worked? As one large holding?

Mr. GAUD. No; each one works his own land.

Mr. RHODES. This isn't like a collective farm, Soviet style?

Mr. GAUD. No; not at all.

Mr. RHODES. I think I have no further questions, Mr. Chairman.

Mr. PASSMAN. Mr. Minshall?

CLASSIFICATION OF PRESENTATION MATERIAL

Mr. MINSHALL. Mr. Gaud, at page 23 I notice that about 90 percent—all with the exception of about seven lines—has been classified.

Mr. GAUD. Yes.

Mr. MINSHALL. Is there a need for such strict classification, in your opinion, as was done here?

Mr. GAUD. I am frank to say, Mr. Minshall, in reading this over, if the classification job had been up to me I would say there is not a need for a great deal of this classification.

Mr. MINSHALL. How much would you say should be eliminated?

Mr. GAUD. I personally would eliminate nearly all of it.

Mr. MINSHALL. That is all the questions I have, Mr. Chairman.

LAND REFORM

Mr. PASSMAN. In this gray matter it says:

> In support of land reforms the United States plans to use Public Law 480 to offset the expected temporary fall in domestic food production.

I would expect the food production might be up rather than down.

Mr. GAUD. Hopefully it will, but you come back to the landlord system, where the landlord doles out seed, credit, and the rest of it.

If you take the landlord away, a lot of the individuals on these farms are not going to get themselves organized the way they ought to the first year. We feel in the beginning of this there will be a decline in production.

Mr. PASSMAN. They are going to continue to till the land, are they not?

Mr. GAUD. They will if they get themselves organized in terms of being able to finance their operation. You see heretofore it was like the company store. They go to the landlord for credit and seed and the like. Now they haven't got that. Unless the government manages to get these cooperatives working—and this is a very large-scale program—then our belief is that there are going to be quite a number of peasants who will not produce as much as they have in the past. Now, this should be a temporary phenomenon.

Mr. PASSMAN. If the plan is worked out properly you should not encounter such a problem.

Mr. GAUD. That is true.

Mr. PASSMAN. If it is something they have been working on for 2 or 3 years, I should think that providing the seed and fertilizer and arranging for credit would be a part of the program.

Mr. GAUD. I am afraid we have an example of what you often have in underdeveloped countries where the reform program is going forward without the degree of planning and implementation in advance that you would like.

Mr. PASSMAN. Could we not have kept them out of that pitfall?

Mr. GAUD. As I said, this started out as a purely Iranian program and it was going to be run entirely by the Iranians. As it got along the Iranians began to realize there were problems there they needed help on and they came to us, but the reform program was not planned with our help at all.

Mr. PASSMAN. Is this speculative that it will be a shortage, or could it be just the opposite?

Mr. GAUD. It is our best guess it will be a shortage. It could be the opposite. This is our best guess.

Mr. PASSMAN. This is not just a part of an overall program, since we are getting into this type of program, to help use up our surplus U.S. commodities, is it?

Mr. GAUD. No, sir.

LITERACY CORPS

Mr. NATCHER. Mr. Chairman, would you yield at that point?

Mr. PASSMAN. Yes.

Mr. NATCHER. Mr. Gaud, how far along are they in Iran with the reform which provides for the conscription of educated young men for the service in the Literacy Corps? Can you tell me anything about that?

Mr. GAUD. I can tell you very little about it. Let me see what I can dig up on it. I know that this is a program which the Shah has announced and which he is behind. How many people they have actually got working on it I don't know but I will be happy to find out what I can, sir.

Mr. NATCHER. Thank you, Mr. Chairman.

(The information requested follows:)

LITERACY CORPS IN IRAN

The first 2,500 members of the Literacy Corps completed their training course on April 22, 1963, and shortly thereafter returned to villages near their homes to assume their teaching duties. This contingent of 2,500 is the first of 10,000 members of the corps which the Iranian Government hopes to place in villages this year.

Literacy Corps recruits undergo an intensive 4-month period of training at military installations throughout the country before being sent to the villages. Instruction is provided by army officers, regular civilian teachers, and Ministry of Education employees in Tehran. Selectees receive pay of approximately $16 per month during the training period and upon completion of training are given the rank of sergeant. Their services will also be available to the Ministries of Health, Agriculture, and Interior in carrying out programs of rural development and reform. For example, the Literacy Corps will assist in keeping the accounts of the new cooperatives.

NEW PROJECTS IN IRAN

Mr. PASSMAN. Do you have any other new projects in Iran?

Mr. GAUD. We have the rural development program we spoke of before and the next is the mobilization of local capital which we also spoke of before.

Mr. PASSMAN. We have covered those. There are no other new projects?

Mr. GAUD. No, sir.

IRAQ

Mr. PASSMAN. I believe you are requesting $975,000 for Iraq in fiscal year 1964; is that correct?

Mr. GAUD. Yes, sir; we are.

Mr. PASSMAN. That is $175,000 above fiscal year 1963?

Mr. GAUD. That is right.

Mr. PASSMAN. What has been the total amount of aid to Iraq?

Mr. GAUD. The total amount of economic and military?

Mr. PASSMAN. All of it.

Mr. GAUD. $68.5 million.

Mr. PASSMAN. What is the population of this country?

Mr. GAUD. This country has a population of 7.4 million. Over the years there was per capita aid of a little better than $9 a head.

RECENT GOVERNMENTAL CHANGES

Mr. PASSMAN. There have been no new governments there within the last few hours?

Mr. GAUD. Not since I left my office.

Mr. PASSMAN. How many have you had there since we started this foreign aid program?

Mr. GAUD. There was the government of King Faisal——

Mr. PASSMAN. He did not retire, did he?

Mr. GAUD. He was killed. Assassinated.

There was the government of Premier Qasim, who also was assassinated, and there is the present government.

Mr. PASSMAN. All this happened within 5 or 6 years?

Mr. GAUD. Faisal was killed in 1958 and Qasim was killed earlier this year.

Mr. PASSMAN. It has been 5 years. That gives them an average tenure of about 18 months. What has the tenure been before we started the aid program; do you have any idea?

Mr. GAUD. No, sir.

Mr. PASSMAN. They tell me that when you start filling up the treasuries the outs want to get in. I think along the way that has become rather well established as fact.

EFFECT OF IRAQI GOVERNMENTAL CHANGES ON U.S. AID PROGRAMS

How long did we suspend our aid to Iraq when the first king was assassinated?

Mr. GAUD. When the Qasim government came into power, it requested the withdrawal of our aid program, participant training, and what you might call a book distribution program. As a matter of fact, that is the only aid program we have had since 1958—I am talking about AID—except we signed a 3-year contract in fiscal year 1962 to provide professors of engineering for Baghdad University.

Mr. PASSMAN. Did we not continue to dispense the unliquidated part of foreign aid to Iraq immediately following the death of the first king?

Mr. GAUD. The figures show in 1958 we had a total economic aid program of $2.1 million. In 1959 it was $300,000. In 1960 it was $600,000. In 1961 it was $1.3 million. In 1962 it was $800,000. In 1963 it was also $800,000.

Mr. PASSMAN. Is that from all spigots?

Mr. GAUD. No, that is AID.

Mr. PASSMAN. Let us put it all in the record.

(The information may be found on p. 1235.)

Mr. GAUD. Except for a small amount of military aid.

Mr. PASSMAN. The AID program kept going to some extent?

Mr. GAUD. That is correct.

Mr. PASSMAN. I think the king assassinated in 1958 was a cousin to the present king of Jordan.

Mr. GAUD. He was his first cousin.

Mr. PASSMAN. We were somewhat exercised over the assassination of the king and it took us about 24 hours to recognize the new regime, I understand?

Mr. GAUD. I don't recall.

Mr. PASSMAN. Something like that.

PROFESSIONAL AND TECHNICAL MANPOWER DEVELOPMENT PROJECT

Would you comment on your statement, at page 165, with reference to the fact that 35 percent of the participants that have been programed annually have been canceled out due to their inability to meet English proficiency requirements?

Mr. GAUD. Well, that is about it. As a result of this we have been trying to improve the English language preparation program by increasing the number of hours of instruction and improving our instruction courses. We hope to be able to improve things to the point where

fewer of these people will lose their opportunity for training because of an insufficient command of English.

Mr. PASSMAN. By Mid-Eastern standards, is this one of the more prosperous countries?

Mr. GAUD. Yes.

Mr. PASSMAN. It has a substantial income from oil?

Mr. GAUD. Oh, yes. Very much so.

Mr. PASSMAN. Why do we have to be in there at all with a program? Is it just to make it about 100 percent around the world?

Mr. GAUD. No, sir. The program, as I said, consists of training these participants in the United States and sometimes in Europe and these are not students, mind you——

Mr. PASSMAN. I am speaking of all aid.

Mr. GAUD. I know; plus assistance to the University of Baghdad.

Now, the purpose of this program is to maintain contact with present and future leaders of the country.

Mr. PASSMAN. Maintain a contact with them?

Mr. GAUD. Yes.

An interesting thing, Mr. Chairman, is that in the present Government in Iraq there are 10 high-ranking members of the Government who are former AID participants.

This is precisely what our aid program has been directed at, to try to train the people who hopefully will play an important part in the country—

Mr. PASSMAN. On how to get more aid?

Mr. GAUD. And thereby condition the country toward——

Mr. PASSMAN. Ten of the present leaders in Iraq were former ICA—today AID—participants?

Mr. GAUD. That is correct.

Mr. PASSMAN. If that kind of situation spreads might we not be in a pretty tough spot?

Mr. GAUD. I don't follow you.

Mr. PASSMAN. If we start getting the AID participants, who knows this program—and may I add politely, of our gullibility—running the governments, what a drain it is going to be.

Mr. GAUD. I don't follow your reasoning.

Mr. PASSMAN. You do not think the participants could be associated with AID without knowing something about how we dispense this aid, do you?

Mr. GAUD. We still decide how much aid Iraq is going to get.

Mr. PASSMAN. That is one of the easiset things in the world for you people to do.

How about the other nations in your area, do you have a similar condition?

Mr. GAUD. I wouldn't be surprised. I have never checked it.

Mr. PASSMAN. How about doing a little checking for us?

(Discussion off the record.)

Mr. PASSMAN. When you bring them over as participants, do they get an indoctrination course in the overall operations of the aid program?

Mr. GAUD. They do not.

Mr. PASSMAN. How do they keep these high-level government positions if you do not teach them something about financing and some of the other operations of government?

Mr. GAUD. They come over for specific purposes to study specific things.

Mr. PASSMAN. One will study banking, one will study some other subject; is that the way it works?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. But collectively they get a pretty good idea of how we operate, do they not?

Mr. GAUD. How the United States operates, but they have very little contact——

Mr. PASSMAN. AID brings them over and I am sure these people are familiar with how this program operates.

Mr. GAUD. What they do when they come over here is go to universities or, for example, to the Bureau of Reclamation. They don't spend their time with us here in Washington.

It is like a scholarship. We give them, in effect, scholarships. They come over here and go to a university. They don't come over to study the AID program. They come over to study tax reform or police methods or whatever it is they are interested in and what they will go back to Iraq to work on. It may well be when they are here they develop a feeling of gratitude but they don't come over here and have anything to do with the AID program or study the AID program.

Mr. PASSMAN. I have not said that was the case. However, certainly, one would think when there are 10 people the AID program brought over as participants, and they return to their country and now hold responsible positions, they would not spend very long over here without familiarizing themselves with how easy it is to get this money.

UNIVERSITY OF BAGHDAD PROJECT

Last year, if I recall correctly, you requested $175,000 for the third year of your contract with the University of Texas. Now, according to page 166 of the project book, you are requesting again $175,000 to finance the third-year cost of the contract with the Texas University?

Mr. GAUD. Yes, sir. We did not obligate any money on that contract in 1963 because the contract was slow in getting started.

The $175,000 we are asking for for the fiscal year 1964 is to take the place of the $175,000 that we did not obligate in 1963.

Mr. PASSMAN. Are you any surer this year than last that you will need it?

Mr. GAUD. Yes. The contract is now in operation. The people are in place. There is no problem at all on it.

Mr. PASSMAN. I believe you obligated $400,000 back in 1961?

Mr. GAUD. That is right.

Mr. PASSMAN. You have on hand $315,000, unliquidated, as of June 30, 1963?

Mr. GAUD. That is right.

Mr. PASSMAN. Is it not rather difficult to justify an additional $175,000?

Mr. GAUD. No; I don't think so. This represents 1 year forward funding to completion.

Mr. PASSMAN. You are going to have practically 3 years' funding, are you not?

Mr. GAUD. I shall be glad to check into it. If we find that there is more money in the project than will be needed, we will deobligate it.

Mr. PASSMAN. That is very encouraging. The entire $350,000?

Mr. GAUD. No. Beyond the 3 years.

TECHNICAL SUPPORT PROJECT

Mr. PASSMAN. What is the cost of, and what do you mean by technical subscriptions, under the technical support project at page 167?

Mr. GAUD. The Technical Subscriptions Service makes available to returned participants, pamphlets published by the U.S. Department of Agriculture, subscriptions to technical journals, technical books, and technical booklets prepared by AID. We try to keep them up to date with developments in their field.

Mr. PASSMAN. Would you give us an idea as to the cost in your area for these types of periodicals?

Mr. GAUD. I cannot do it out of hand. I will get what I can for you on that.

(The information follows:)

COST OF AID TECHNICAL BOOKLETS FOR NEAR EAST AND SOUTH ASIA COUNTRIES

AID's annual budget for the preparation and distribution of technical booklets for participant trainees is $250,000. NESA's approximate share of this cost is $50,000.

Mr. PASSMAN. Do the publishers make their publications available at a substantial discount on account of it being AID?

Mr. GAUD. I do not know.

Mr. PASSMAN. Normally they would make a profit; would they not?

Mr. GAUD. Normally they would.

Mr. PASSMAN. Thank you.

Mr. Natcher?

NONALINED COUNTRIES IN NEAR EAST SOUTH ASIA

Mr. NATCHER. Mr. Gaud, how many countries are you responsible for?

Mr. GAUD. There are 18 countries in my region, Mr. Natcher. We do not have aid programs with all of them. There is no economic aid program in Saudi Arabia, Lebanon, or Kuwait.

Mr. NATCHER. How many of these countries are in the same position as Iraq, from the standpoint of being classified as neutral countries?

Mr. GAUD. Countries in this region?

Mr. NATCHER. Yes.

Mr. GAUD. Neutral in the sense that they are not allied to us?

Mr. NATCHER. Yes; in that category.

Mr. GAUD. Afghanistan.

Mr. NATCHER. From the standpoint of their foreign policy generally now, Mr. Gaud.

Mr. GAUD. I would say Afghanistan, Ceylon, Cyprus. India considers herself nonalined. Iraq, Nepal, Syria, the United Arab Republic, and Yemen.

Mr. NATCHER. How do you justify an aid program really to a country that assumes a neutralist position from the standpoint of its foreign policy? What advantage is it, Mr. Gaud, from the standpoint of the free countries of the world? Take Iraq, for instance.

Mr. GAUD. I think as far as Iraq is concerned the events of the past few months have justified our continuing an aid program or an aid relationship with Iraq. A few months ago Iraq was controlled by a government which was decidedly pro-Communist. It is a country on which the Communists have spent a great deal of effort. The total amount of military assistance which the Communists have given to Iraq, for example, in the last few years is ———. Now, the Iraqis have overthrown that government which was so pro-Communist. They have killed and jailed countless Communists. They are driving the Communist Party underground. The Government's orientation has shifted very markedly. Now, query: If we had not maintained our relationship with Iraq, if we had not maintained our interest in Iraq, if we had not, as it were, held out a hand to Iraq, it would have been more difficult, it seems to me, for these things to have happened. We want to continue to be in a position, vis-a-vis a country such as Iraq, to encourage this sort of thing, to take advantage of it and not make these countries feel their only recourse is to turn to the bloc for everything they need.

Mr. PASSMAN. Would the gentleman yield?

Mr. NATCHER. I yield, Mr. Chairman.

Mr. PASSMAN. We have a $1 million aid program in Iraq. They were able to do all the things you have just enumerated without our assistance. Now, would that fact not indicate that they did not subscribe to the theory of communism? Why do we have to start pouring our money in to pay them for doing what they should do?

Mr. GAUD. We haven't been pouring our money into this country in recent years.

Mr. PASSMAN. Are you starting with a program now?

Mr. GAUD. No. Our program hasn't changed a bit. We have told the new Government——

Mr. PASSMAN. Do you have a program in Iraq?

Mr. GAUD. We have a program next year of $975,000.

Mr. PASSMAN. What is your increase over the previous year?

Mr. GAUD. The program is exactly the same. The increase enables us to take care of the engineering professors at the university.

Mr. PASSMAN. What is the increase, Mr. Gaud?

Mr. GAUD. It is an increase in the cost of exactly the same activities we are carrying on and have been carrying on. We are not expanding the activities.

This government which I described as more friendly to us has come to us and asked for various kinds of help. Now, we have told the Government of Iraq, Mr. Chairman, that they have a lot of resources from their oil. They feel that their resources have been rather sadly dissipated and rather foolishly spent by the Qasim government. They have come to us and asked for assistance. We have told them that they are sufficiently strong economically to be able to get along with help from the World Bank and the Export-Import Bank. There is

now in Iraq a mission from the Export-Import Bank to discuss what the Export-Import Bank can do to help them. IBRD is sending a mission out there. We have told them we will give them no more assistance than we are giving them now—except if they want us to find technicians to be hired at their expense we will try to help them find them. We are not embarking on an aid program to Iraq. We feel that Iraq can take care of her own development on ordinary terms, Export-Import Bank terms. But we do feel it is important to give these people a helping hand to the extent of helping them out in this way if we possibly can.

Mr. PASSMAN. But you are in on almost $1 million in fiscal year 1964, which is $175,000 above the amount for fiscal year 1963.

Mr. GAUD. That is right. No change in the program.

Mr. PASSMAN. Mr. Minshall?

LONGRUN EFFECT OF U.S. ASSISTANCE TO IRAQ

Mr. MINSHALL. I don't know if Mr. Gaud can make it any more clear to me but I still do not have firmed up in my own mind as to how the aid money we have given to Iraq has helped them swing to our side. Specifically, what have we done? Why does this change their mind? They were neutral and you said they came over to our side.

Mr. GAUD. I wouldn't go so far as to say that our money had been responsible for changing their minds.

Mr. MINSHALL. What was responsible, then? You said it wasn't our money. That is what we are talking about here in the AID appropriation bill——

Mr. GAUD. Why they overthrew the Qasim government?

Mr. MINSHALL. That's not responsive.

Mr. GAUD. Why did they do this? I don't think they did it because of our aid program.

Mr. MINSHALL. Why are we giving them aid money then?

Mr. GAUD. We are doing two things. One, we had some professors in the University of Baghdad. The other, we are bringing some of their people back here—people in Government and business and the like—to go to American universities and colleges. We think that by doing this for a relatively small cost we can teach them how things work in a democracy like ours. It is a long-range proposition. I suggested earlier that I thought this had paid off because some 10 members of the present government, people high in the present government, are people whom we brought back under this participating training. My purpose in raising that was to show that there are in the Government of Iraq a number of people who have been exposed to the educational methods over here, who have been exposed to the way we do things over here. I think in the long run this will have a beneficial effect and make the people of Iraq more interested in doing things in Western ways than in doing things in bloc ways.

Mr. MINSHALL. The 10 men you discussed previously with important positions in the Iraq Government today, how long were they in training in this country?

Mr. GAUD. These participants come over here for either 1 or 2 years as a rule.

Mr. MINSHALL. How long have they held their present positions?

Mr. GAUD. The government is brand new.

Mr. MINSHALL. Who is paying them; are they on the Iraqi Government payroll or are they getting AID money in any shape or form?

Mr. GAUD. In no conceivable way. They came over on a training program. They went back to Iraq 2 years ago, and some longer ago. Our aid ended when they went back to Iraq.

Mr. MINSHALL. That is all the questions I have, Mr. Chairman.

Mr. PASSMAN. The total amount of aid given to Iraq since the inception of the aid program has been $67.6 million and we have not missed a year since we went in there in 1946 or 1948, whether it has been a friendly or unfriendly government.

In the 18 countries of your area we have an aid program in 17 of them. There is only one country where we do not have an aid program, and I believe that country is Kuwait. I am speaking of all spigots.

Mr. GAUD. You are talking about military and economic?

Mr. PASSMAN. I am talking about aid, whether it comes out of one spigot or another. We have an aid program in 17 of the countries in your region, and Kuwait, the other one, is a very small country anyway and it is drowning in oil.

ISRAEL

I believe that you are requesting $20 million for development credits to Israel?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Do you have a Public Law 480 program for Israel in fiscal year 1964?

Mr. GAUD. We do. We estimate it at $21.7 million.

Mr. PASSMAN. This is a total of $41.7 million. How about military aid?

Mr. GAUD. No, sir.

Mr. PASSMAN. Is this Public Law 480 a local currency deal?

Mr. GAUD. Yes, it is a title I.

Mr. PASSMAN. How about the development credit, $20 million, what is that?

Mr. GAUD. Three and a half percent, 20 to 30 years.

Mr. PASSMAN. I have high praise for Israel. However, are they not perhaps in better shape to make us loans than we are to make loans to them?

Mr. GAUD. They are in pretty good shape compared to most of these countries.

Mr. PASSMAN. We are not presently borrowing any money from them, are we?

Mr. GAUD. Not to my knowledge.

Mr. PASSMAN. We are borrowing from several countries.

Mr. GAUD. We have told the Government of Israel we foresee a relatively early end of the development loans on concessional terms. Before too long we would expect Israel to get her development money from organizations such as the World Bank and the Export-Import Bank.

Mr. PASSMAN. And we have also told them that we are still going to give them $20 million this year plus Public Law 480 for a total of $41 million.

Mr. GAUD. Yes, sir; but I call to your attention that the $20 million compares with $45 million this past year. The $45 million was on 2-percent terms.

Mr. PASSMAN. It is still a substantial program—$45 million for fiscal year 1964.

Mr. GAUD. Yes, it is.

Mr. PASSMAN. What is the unliquidated credit figure for Israel?

Mr. GAUD. $66.9 million.

Mr. PASSMAN. And what is the figure for the total aid to Israel since the inception of this program?

Mr. GAUD. $963.5 million.

Mr. PASSMAN. That is total, military and all?

Mr. GAUD. Yes.

Mr. PASSMAN. How much of this $20 million in development credits is actually necessary, if any? I note, on page 29 of the justifications, that Israel has become increasingly capable of dealing with its economic problems. It says:

> Israel has become increasingly capable of dealing with its economic problems. The question of U.S. aid rests increasingly on political comparisons rather than on an economic evaluation.

This $41 million is a lot of money to dish out on political considerations; is it not?

Mr. GAUD. It is a lot of money, Mr. Chairman.

Mr. PASSMAN. I am pro-Israel. I own some Israel bonds and I clip my coupons every 6 months, but I do not want us to be foolish.

Israel has built up its gold and foreign exchange reserves by approximately $100 million per year in the past 3 years. Now, would that fact not indicate that there is no justification for a program in Israel of this type and scope?

Mr. GAUD. Our aid program to Israel is now going through a transitional phase, Mr. Chairman. It was not long ago, in fiscal 1962, when we were giving her loans at three-fourths of 1 percent. In 1963 that was increased to 2 percent, and in 1964 we will decrease the amount of the loans and step up the interest to 3½ percent. We are looking toward an elimination of aid to Israel.

Mr. PASSMAN. What rate of interest do they pay to other countries, 6 or 7 percent?

Mr. GAUD. I would not know. They get a great deal of assistance in the way of contributions from world Jewry and reparations payments from Germany. On these items they pay no interest at all.

Mr. PASSMAN. If they were worth $100 billion they would still get reparations. I am for them. They have carved out a nation for themselves and are going forward at great speed. But it does not seem to me that the facts justify our Nation in continuing an aid program at this level, especially since we will have to borrow the money for that purpose.

On the $21 million, Public Law 480, what will we get for it, local currency?

Mr. GAUD. Yes.

Mr. PASSMAN. Do we have Israel currency in excess of our needs currently?

Mr. GAUD. Yes.

UNITED STATES HOLDINGS OF ISRAEL CURRENCY

Mr. PASSMAN. How much Israel currency do we have?

Mr. GAUD. We have the equivalent of $54 million.

Mr. PASSMAN. What is our annual requirement?

Mr. GAUD. $7 million.

Mr. PASSMAN. You have about an 8-year supply on that basis?

Mr. GAUD. Yes.

Mr. PASSMAN. Is this readily convertible currency?

Mr. GAUD. No; not now. We hope the day will come when it will be.

Mr. PASSMAN. We all hope so.

Mr. GAUD. This one perhaps sooner than some of the others. We have been working on a number of various plans to try to utilize this currency. We have made local currency loans of Israeli currency to various institutions and organizations and these loans are to be repaid in dollars. We have found the Israelis cooperative in working with us on schemes and plans to use up this excess local currency.

Mr. PASSMAN. From the actual records and justifications, Israel is able to pay for those purchases. These are agricultural commodities. With this approximately $100 million foreign exchange reserves and with the gold position they have, they are in a position to pay for the Public Law 480 commodities, if they wanted to do so.

Mr. GAUD. They are in much better position than many countries receiving Public Law 480. That is certainly true.

Mr. PASSMAN. Are you able to use title IV of Public Law 480, rather than title I?

Mr. GAUD. Mr. Chairman, we have entered into a multiyear Public Law 480 arrangement, a 3-year arrangement.

Mr. PASSMAN. You entered into that arrangement so now you have to go through with it.

Mr. Natcher?

EXPECTED PHASING OUT OF AID TO ISRAEL ON CONCESSIONAL TERMS

Mr. NATCHER. Mr. Gaud, can you give me some idea as to when the restitution payments from West Germany will cease?

Mr. GAUD. I think I have that here. No; I do not have the latest figures, but in 1961 reparations and restitutions payments were $160 million. They are falling. In 1966 restitution payments will be $60 million. I will have to get the final year of payments. I do not have that now.

(The information follows:)

FINAL YEAR OF REPARATION AND RESTITUTION PAYMENTS, ISRAEL

There is no terminal date on restitution payments from West Germany. Large numbers of claimants are receiving lifetime pensions. The $60 million estimate for 1966 is expected to continue at that annual rate for a number of years.

Reparation payments will cease in 1965.

Mr. NATCHER. As I understand, the payment at this time is approximately $160 million?

Mr. GAUD. Just about.

Mr. NATCHER. After the reparation and restitution payments cease, does that mean we will have to go in and help bear this additional burden?

Mr. GAUD. No, in my judgment. Israel is growing at the rate of about 9½ percent per year. By 1966 I believe Israel will no longer need aid from us on concessional terms.

Mr. NATCHER. That is all.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Mr. Conte?

Mr. CONTE. We only have a very small program left here, do we not?

Mr. GAUD. $20 million for next year in development loans and the second installment of the Public Law 480 agreement, $21 million.

Mr. CONTE. That will wind it up next year?

Mr. GAUD. Yes; one more year.

Mr. CONTE. You are not negotiating a new Public Law 480 agreement?

Mr. GAUD. We are not now. I do not know what we will do when this one expires.

Mr. CONTE. Is it confidential as to what the loan is for?

Mr. GAUD. For next year?

Mr. CONTE. Yes.

Mr. GAUD. We have no loan applications from the Israelis at the moment. I do not know. This past year we made four loans to them. One was in the amount of $2.4 million for a desalinization plant. There was also an electric and powerplant project.

Mr. CONTE. Is that an atomic powerplant?

Mr. GAUD. No, sir. This is a oil-fired powerplant.

Another loan was in the amount of $4.4 million for a copper mining operation which is now going on. This was for an expansion.

There was the $17 million loan for a powerplant for the city of Haifa.

There was a $21.2 million loan for raw materials, spare parts, equipment, machinery.

These loans were all at 2 percent, 5-year grace period, 20 years.

Next year all our loans to Israel will be at 3½ percent for 20 years.

Mr. CONTE. With a grace period?

Mr. GAUD. Yes, sir; 5 years.

Mr. CONTE. Repayable in local currency?

Mr. GAUD. Repayable in hard dollars.

Mr. CONTE. That is about the best loan we have made, is it not?

INCREASING HARDNESS OF LOAN TERMS IN NEAR EAST, SOUTH ASIA COUNTRIES

Mr. GAUD. Of the nine countries we made loans to, there were four we made loans not on the three-fourths of 1 percent terms.

In Israel we made four loans at 2 percent, 20 years.

In Greece, we made two loans, one in the amount of $10 million at 2 percent, 25 years; and one in the amount of $21.6 million for a hydroelectric project at 3½ percent interest, 5-year grace, 20 years.

In Iran we made a 30-year $15 million loan to develop a port at 3 percent with a 7-year grace period.

In Cyprus we made one loan for $2.275 million for equipment to be used primarily in surface water investigation and control at 3 percent, 5-year grace period, 20 years.

Next year in Cyprus, Iran, Greece, and Israel the loans will be for 3½ percent for a period of 20 to 30 years and a grace period of 5 years.

Mr. CONTE. That is encouraging.

Did the chairman ask for a breakdown on Public Law 480?

Mr. GAUD. Yes. That is a title I proposition.

REQUEST FOR LOAN FUNDS IN ANTICIPATION OF ISRAELI LOAN APPLICATIONS

Mr. PASSMAN. It seems to me a bit out of order that you are requesting funds for any nation when you do not have the loan application. You are just assuming that during the year they will make application and if they do you will have the money.

Mr. GAUD. And if they do not we will not lend them money.

Mr. PASSMAN. That is getting to be pretty good. We do not know whether they will need the money but if we get an application we will dish it out.

Mr. GAUD. I do not think there is any doubt of their submitting loan applications, Mr. Chairman.

Mr. PASSMAN. Not under the terms we are giving them. I hope some day we will not have witnesses telling us, "We don't have applications but we will ask for the money so that in case we get applications we will have the money available so we can dish it out."

Mr. GAUD. That is not exactly the way I characterize my testimony.

Mr. PASSMAN. You said you did not have any applications?

Mr. GAUD. That is correct.

Mr. PASSMAN. And until you have applications you do not know if they should be approved or not.

Mr. Minshall?

Mr. CONTE. Will you yield?

Mr. MINSHALL. Sure.

Mr. CONTE. This $20 million you show in your justification book, do you have some determinations such as exist in India where you mentioned you were having some projects you were looking at? Do you have such projects here?

Mr. GAUD. For Israel?

Mr. CONTE. Yes.

Mr. GAUD. I do not think we have any specific projects. The Israelis traditionally do not give us any specific projects until the fall. That has been their custom. They have been talking to us about electric power expansion, they have been talking to us about expanding their telephone system, and there are a number of industrial loans they have discussed in general terms. Each year a part of our program for Israel consists of program loans covering commodities, and we are quite confident some part of the $20 million will go for that type of loan.

Mr. CONTE. Do they have a development plan such as India?

Mr. GAUD. They do not have a plan in the sense of a 5-year plan as India does, but they do a great deal of planning and handle their resources very carefully.

UNITED ARAB REPUBLIC-ISRAEL AIR INCIDENT

Mr. CONTE. Mr. Secretary, I heard in the news this morning that two airplanes from Egypt were in Israel and were fired upon and one was damaged.

Mr. LEE. I do not have any information on that. This is not confused with the American planes, is it?

Mr. CONTE. No. Two Migs from Egypt were fired upon and sent back, one in a critical condition. I was wondering if conditions were becoming tense again?

Mr. LEE. No; I do not have any information on that.

Mr. CONTE. I think it would be well to get that information. If Egypt is going to continue being adventurous out there, we perhaps should cut out aid to them.

Mr. LEE. I can insert in the record something about the news story about the two planes, but unless this is something divergent from the recent United Arab Republic thinking, I would say it is not an indication of increased belligerency on the part of the United Arab Republic.

Mr. CONTE. It was on a 7 o'clock news broadcast this morning.

(The information follows:)

UNITED ARAB REPUBIC-ISRAEL AIR INCIDENT

On July 23, 1963, United Arab Republic and Israel jet fighter aircraft met in brief combat over the frontier some 30 miles south of the Mediterranean. According to Israel sources, the incident occurred when two United Arab Republic MIG–17's penetrated Israel airspace and were repulsed by Israel fire, one Egyptian plane being hit. According to United Arab Republic sources, the incident was caused when four Israel Mysteres penetrated Egyptian airspace and were repulsed by two United Arab Republic MIG's, which shot down one of the trespassing planes.

The United Arab Republic has reportedly asked the U.N. Truce Supervisory Organization to investigate the alleged violation of United Arab Republic airspace by Israel aircraft.

Mr. MINSHALL. Off the record.

(Discussion off the record.)

Mr. GAUD. Mr. Chairman, may I say something off the record?

Mr. PASSMAN. Yes.

(Discussion off the record.)

CLASSIFICATION POLICY

Mr. MINSHALL. Mr. Gaud, I do not like to belabor what I consider overclassification of the reports we have before us, but again on Israel, on page 29 of the report, I notice that nearly three-fourths of it is in the gray area, meaning it is classified as confidential. I ask you to examine this page and tell me how much of that you think is necessary to be so classified.

Mr. GAUD. Again I can only give you a personal opinion.

Mr. MINSHALL. That is all I am asking for.

Mr. GAUD. You understand these things go through people who have different viewpoints and objectives than mine, but looking over it from the point of view of my Agency, it seems most of this could be declassified.

Mr. MINSHALL. Do you ever go over this to see what can be declassified?

Mr. GAUD. I personally do not, but people from my office do, yes. This has to be cleared by AID, the State Department, the Defense Department, and other agencies as well, and when you have that many people looking over it you have this result.

Mr. MINSHALL. I also serve on the Defense Committee and we get very sensitive information from "Top Secret" on down. Here the things that have been marked "Confidential," it seems to me, you could read most of it in the daily newspapers.

Mr. GAUD. I agree, and I think it is important for us to do everything we can to reduce the classification.

Mr. MINSHALL. Thank you very much.

Mr. CONTE. Look at the last paragraph on page 29 under "U.S. objectives and strategy." Read that over and see if there is anything in it that should be classified?

Mr. GAUD. I could not agree with you more.

Mr. CONTE. Would it not seem ridiculous if somebody put that in the record and read that loans were being moved to more conventional terms in 1963 and 1964?

Mr. MINSHALL. I do wish you would have a close look at future reports and see if some of this cannot be declassified.

Mr. GAUD. That is a fair request, Mr. Minshall, and we will do it.

Mr. MINSHALL. That is all.

JORDAN

Mr. PASSMAN. The 1964 estimate for Jordan is $541.5 million?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What is the total amount of aid that has been given to Jordan since the inception of the aid program?

Mr. GAUD. $414.7 million.

Mr. PASSMAN. What amount of funds do you have unliquidated to the credit of Jordan as of June 30?

Mr. GAUD. $7,753,000.

Mr. PASSMAN. They draw it out pretty fast, do they not?

Mr. GAUD. Yes, sir. Most of the aid to Jordan is in the form of budget support and that is paid out immediately.

Mr. PASSMAN. What is the revenue of Jordan from its own resources?

Mr. GAUD. The total domestic revenues in 1962 were estimated at $52.5 million. However, that included a $10 million payment by Tapline as settlement on earnings in prior years. So the $52.5 million figure is not representative of the average year.

Mr. PASSMAN. Our aid program to the Central Government of Jordan is greater that the total of their own domestic revenues?

Mr. GAUD. If you exclude the Tapline payment, that is true.

Mr. PASSMAN. You would have to do that, to put it in the proper perspective, would you not?

Mr. GAUD. Yes.

HISTORICAL BACKGROUND OF JORDAN

Mr. PASSMAN. How long has Jordan been a nation?

Mr. GAUD. Since 1948.

Before 1948, Jerusalem was in Palestine. What is now Jordan includes what used to be called Transjordan and some land west of the Jordan River.

Mr. PASSMAN. Is Jordan an old nation?

Mr. GAUD. No; it is not really. Transjordan was carved out of the Ottoman empire. It is a relatively modern nation.

Jordan did not exist until after World War II.

ECONOMIC GROWTH IN JORDAN

Mr. PASSMAN. What kind of program are we getting into when our aid is greater than the amount they get from their own revenues?

Mr. GAUD. It is not a happy situation, but the truth is Jordan was created out of nothing, you might say, with very few resources. It has been growing at a surprising rate considering its lack of resources. Our aid has been decreased from year to year and in fact the growth of Jordan has been increasing. Between 1957–58 and 1961–62, for example, Jordan has had an average annual growth rate of GNP of 7 percent.

Mr. PASSMAN. Is that rate about double ours?

Mr. GAUD. It is a great deal more than ours. Of the countries in this region Israel has the highest growth rate of GNP with 9.5 percent and Jordan is next with 7 percent. They have a long way to go but they are making progress.

Mr. PASSMAN. Will they ever be able to exist without outside support?

Mr. GAUD. I think it is unlikely that they will. They have plans underway, and we are helping them. If their plan works out, they hope to get along without budget support by 1970. I personally think that is overoptimistic.

Mr. PASSMAN. Of course budget support is just one type of aid.

Mr. GAUD. That is correct.

Mr. PASSMAN. Other types of aid would serve the same purpose; it would not have to be budgetary support to be aid.

I am just wondering if this is the only country where we have gone in with an aid program that exceeds the amount of revenue they are able to get from their own people.

Mr. GAUD. I think that may be true of Laos.

Mr. PASSMAN. I would not be a bit surprised.

Mr. MONTOYA. Bolivia?

Mr. GAUD. I do not know.

Mr. PASSMAN. Anyway, they would fall in the category of the exception rather than the rule?

Mr. GAUD. I would call Jordan an exception.

Mr. PASSMAN. Have they built up considerable foreign exchange reserves?

Mr. GAUD. They have increased some.

Mr. PASSMAN. They increased their holdings to $113 million in 1962?

Mr. GAUD. This reflects their tapline payment.

Mr. PASSMAN. What is tapline?

Mr. GAUD. The tapline is the oil pipeline which crosses Jordan. Trans-Arabian Pipeline is the company which owns the pipeline.

Mr. PASSMAN. It is still revenue.

Mr. GAUD. They derive revenue from it.

Mr. PASSMAN. Does Jordan have gold reserves?

Mr. GAUD. They hold their money in sterling, Mr. Chairman.

Mr. PASSMAN. No gold?

Mr. GAUD. No gold.

Mr. PASSMAN. Have they bought any gold from us?

Mr. GAUD. The only figures I have here go back to 1959 and during that period Jordan has not bought any gold from us.

Mr. PASSMAN. 1959 is only 4 years ago.

Mr. GAUD. I have no earlier figures in the room, but it is doubtful that they bought gold since Jordan holds its foreign exchange reserves in sterling.

Mr. PASSMAN. Page 34 of the justifications indicates that Germany and Kuwait made some loans in the past year to Jordan. Would you know the amount?

Mr. GAUD. Yes. Germany gave a loan of $3.8 million to develop the port at Aqaba.

Mr. PASSMAN. On what terms?

Mr. GAUD. Three percent for 20 years.

The Kuwait loan is a $21 million loan for economic development. It is to apply to a phosphate plant and for the building of a storage project on the Yarmouk River. I do not have the terms of that loan.

Mr. PASSMAN. When you get the information, please place it in the record.

Mr. GAUD. Yes, sir.

(The information follows:)

TERMS AND AMOUNT OF KUWAITI LOAN TO JORDAN

Twenty-one million dollars at 3-percent interest per annum with repayment over 20 years and a 6-year grace period.

Mr. PASSMAN. Do you have a Public Law 480 program for Jordan for fiscal 1964?

Mr. GAUD. Yes, we do.

Mr. PASSMAN. In what amount?

Mr. GAUD. We have just agreed to provide title II for drought relief—about $5 million. It looked earlier in the year as though there would be no drought in Jordan and that their requirements would be minimal. It turned out to be a very severe drought year. There may be some additional requirements for 1964. These are now under consideration.

EAST GHOR IRRIGATION PROJECT

Mr. PASSMAN. You have obligated $10,347,000 for the East Ghor irrigation project, mentioned on page 177?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. And your estimate for 1964 is $1.5 million?

Mr. GAUD. Yes.

Mr. PASSMAN. How much additional money do you contemplate will be required in 1965 and 1966 to complete the project?

Mr. GAUD. The total estimated cost of the project is $17,347,000, which means that from 1964 out there is $5.5 million still to come.

Mr. PASSMAN. This is taking a little different turn than the ordinary project. On this project you are requesting for 1964 $1.5 million, then you would get about $5 million in the final year?

Mr. GAUD. Yes, and I will tell you why. Most of the expense to date has come in the construction of the main canal by which the water was taken from the Yarmouk River. This included a water tunnel, and the construction of a main, lined canal, the length of which is roughly 42 miles. We have very nearly finished the construction of the main canal and there now remains to be built certain distribution systems and additional side storage dams. The construction of the side storage dams will require most of the money.

Mr. PASSMAN. What will be the cost per acre to irrigate the 25,000 acres encompassed in this project? About $700 an acre?

Mr. GAUD. Roughly $700 an acre. This expense includes a great many more things than merely building the canal.

Mr. PASSMAN. I did not say it cost that to build the canal. The primary purpose is to irrigate 25,000 acres?

Mr. GAUD. Yes.

Mr. PASSMAN. And that amounts to about $700 an acre?

Mr. GAUD. That is correct. This land will be very productive. It will grow strawberries, fruit, vegetables, and the like. They can crop it all the year around. The average production of the land today is $42 per acre. They hope it will increase to $90 an acre the first year after this project is completed, and will rise to $250 an acre in a few years.

Mr. PASSMAN. That does not alter the fact it is primarily an irrigation project and the cost will be $700 per acre. I was in hopes you would wash up some gold with such an expenditure.

Mr. GAUD. $700 an acre—if you earn $250 a year, you pay for it in 3 years, which is not bad.

Mr. PASSMAN. That is an assumption. It is speculative.

What types of local expenses are necessary in connection with this project?

Mr. GAUD. Labor costs primarily.

Mr. PASSMAN. To do what?

Mr. GAUD. To build the canal and the primary distribution and drainage systems. There is labor and local materials.

Mr. PASSMAN. Do you have any local currency involved in this project?

Mr. GAUD. Yes. To date we have obligated $2,289,000 of local currency.

Mr. PASSMAN. That brings it up to close to $800 an acre; does it not?

Mr. GAUD. Yes.

Mr. PASSMAN. Let us stop before we get this thing too high.

Mr. GAUD. Have you seen that project, Mr. Chairman?

Mr. PASSMAN. No.

Mr. GAUD. You ought to see it if you have a chance to go to Jordan. I am quite serious. It is a very stimulating project and has a great future.

Mr. PASSMAN. It should be.

Mr. MINSHALL. I want the record to show Mr. Gaud said that with a big wide grin on his face.

Mr. GAUD. But I meant it. Do not be misled by my good spirits.

Mr. PASSMAN. Is this a big river?

Mr. GAUD. The Yarmouk? Yes.

EAST GHOR RURAL DEVELOPMENT

Mr. PASSMAN. The next project is the "East Ghor Rural Development," on page 178, for which $343,000 is requested.

Mr. GAUD. Yes.

Mr. PASSMAN. Did you justify the $550,000 when you appeared before the committee in fiscal year 1963?

Mr. GAUD. We did not. This project was started after the justifications.

Mr. PASSMAN. It is indicated that you obligated $550,000 and that you have unliquidated $550,000.

Mr. GAUD. In fact we obligated $285,000, Mr. Chairman.

Mr. PASSMAN. What do you do, print these books on contract?

Mr. GAUD. We print them in March and if there are changes after March——

Mr. PASSMAN. Anyway, you obligated $285,000?

Mr. GAUD. Yes.

Mr. PASSMAN. How much do you have unliquidated?

Mr. GAUD. I do not know. It cannot be more than $285,000.

Mr. PASSMAN. You have obligated $285,000 and you do not think the unliquidated could be over $285,000?

Mr. GAUD. Yes.

Mr. PASSMAN. Then the $343,000 requested for 1964 is just to fill up space?

Mr. GAUD. No, sir.

Mr. PASSMAN. For what purpose will you use it?

Mr. GAUD. We need that to carry us through the next fiscal year.

Mr. PASSMAN. How do you know that you do?

Mr. GAUD. Mr. Chairman, it is not that my Agency does not know. I just do not have the detailed information in the committee room, but it is to finance the equipment for two agricultural cooperatives and a marketing center, local labor and costs of constructing community buildings.

Mr. PASSMAN. The books here show $550,000 obligated and $550,000 unliquidated.

Mr. GAUD. That is correct.

Mr. PASSMAN. You revised that to obligated $285,000, and now you want $343,000 and you may or may not need it. Is that a fair statement?

Mr. GAUD. Yes, sir; but we think the project will move fast enough to need it.

Mr. PASSMAN. For what purpose was the $285,000 obligated?

Mr. GAUD. The purpose of this project is to supply technical assistance to the farmers living on the 2,000 farm units on the East Ghor project. This will establish two centers to provide rural services, marketing centers, health services, and so forth. There will be supervisors who will work among the farmers. It is a form of extension work.

Mr. PASSMAN. These people were farming on this land thousands of years before America was discovered?

Mr. GAUD. Yes; and not doing very well.

Mr. PASSMAN. When I was in Jerusalem they said, "This is one of the richest valleys in the world and we know more about farming than you do."

I wonder if these people could not think of some way to protect their land and get more production without our becoming involved?

Mr. GAUD. If you will go out and take a look at that project——

Mr. PASSMAN. I have been out there. I did not see this project but you said you were teaching 2,000 farmers how to do certain things.

Mr. GAUD. There are 2,000 farm units in this East Ghor area. This is to teach the farmers who will live in this area new methods of farming and to introduce crops they have not grown before, the idea being to grow crops for which there is a demand in that part of the world, which will increase the exports of Jordan and thereby decrease the need of budget support from us. It has a direct relation to the budget support we give to Jordan.

Mr. PASSMAN. Let us hope this does not cost $800 per acre.

Could you project the cost of this project to completion?

Mr. GAUD. Yes, sir; $1,128,000.

Mr. PASSMAN. I think we have already established that this is a project you did not justify last year?

Mr. GAUD. That is true.

Mr. PASSMAN. But the other irrigation project had been underway?

Mr. GAUD. Yes, sir.

TOURISM PROJECT

Mr. PASSMAN. You have a tourism project?

Mr. GAUD. Yes.

Mr. PASSMAN. For fiscal year 1964 you estimate $391,000. The purpose of this project is not to attract tourists from Jordan to the United States?

Mr. GAUD. No, sir; it is vice versa, and from Europe and all over the Middle East. Jordan, as you know, is very rich in Biblical history.

Mr. PASSMAN. Do you not think they might be able to teach us about how to attract tourists, rather than our teaching them?

Mr. GAUD. Not in Jordan. Jordan has virtually no facilities.

Mr. PASSMAN. Do you know any place in the world to which Christians flock in greater numbers than to Jerusalem?

Mr. GAUD. They go to Jerusalem during Holy Week but the purpose of this project is to expand the tourist trade in Jordan beyond Holy Week. The tourist trade in the past has been limited largely to a couple of weeks a year. There are many antiquities well worth visiting in Jordan.

Very few tourists go any place in Jordan but to Jerusalem.

Mr. PASSMAN. Where else are you going to get them to go?

Mr. GAUD. There are many other places, and as your question shows, many people have no notion about those other places.

Mr. PASSMAN. I think I have a notion.

What amount did you justify for this project last year?

Mr. GAUD. We did not justify this last year.

Mr. PASSMAN. What amount did you obligate?

Mr. GAUD. $343,000.

Mr. MINSHALL. Mr. Chairman, could I ask a question at this point?

Mr. PASSMAN. Certainly.

Mr. MINSHALL. What are we talking about in the way of tourists? How many have they had in the recent past and what do you propose to build it up to?

Mr. GAUD. In 1959 the tourist income in Jordan was $8 million.

Mr. MINSHALL. How many tourists?

Mr. GAUD. I do not have that.

(The information follows:)

Number of tourists—Jordan

1959	104,094	1962	209,042
1960	131,699	1963 (January–April)	120,399
1961	162,058		

Mr. MINSHALL. Are most of them from the United States?

Mr. GAUD. No, mostly from Europe. In 1959 the tourist income in Jordan was $8 million and that has been increased to $14 million. In 1967 they have hopes of building that tourist trade up to $30 million a year. If they do that, again you can see the direct relationship in terms of the budget support we will have to provide them.

Mr. PASSMAN. We do not have to provide this support to them, although we will do so.

Mr. GAUD. We have to provide it if we think it is important to keep this country going.

Mr. PASSMAN. Those people got along for thousands of years.

Mr. GAUD. I beg your pardon. The country did not exist thousands of years ago.

Mr. PASSMAN. Changing the name from Transjordan to Jordan does not change the environment.

Mr. MINSHALL. Who will loan the money to build the hotels in Jordan?

Mr. GAUD. A Pan American subsidiary is building one hotel in Jordan now. The Jordanian Government itself is building quite a number of smaller hotels and guest homes. They are a long way from having the facilities they need, but they have been increasing their income from tourists considerably.

Mr. MINSHALL. You have not given the number of tourists we are talking about.

Mr. GAUD. I do not have the figure. I started to give you the employment figure. About 2,500 people are employed in the tourist business, and they expect to increase that to 10,000 or 15,000 in the next 3 years. They are putting an emphasis on this.

Mr. PASSMAN. The President the other day, according to an article I read in the newspaper, said we are concerned about how to increase our attraction to tourist to come here from abroad.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. I wonder if we should not work on our own tourism problem first?

Mr. GAUD. We are working on both.

Mr. PASSMAN. We do not have a system that brings the tourists here we think we are entitled to, and I think we are worrying about the number of dollars American tourists spend abroad.

You obligated $343,000 on this project?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. How much did you spend?

Mr. GAUD. Our estimate of unliquidated as of June 30 is $301,000.

Mr. PASSMAN. Why do you want to increase the amount?

Mr. GAUD. As I said a while ago, this project did not start until after we had finished our justification last year. It will include 1 technical adviser, 15 participants, and we will help them establish a hotel training school which they themselves will build. There is some construction of rest stations, setting up of site markers and restoring antiquities.

Mr. PASSMAN. With $301,000 unliquidated out of $343,000 obligated, why do you need $391,000 for fiscal 1964?

Mr. GAUD. Most of this, $298,000, is for local expenses.

Mr. PASSMAN. For what purposes was the $343,000 obligated?

Mr. GAUD. The same types of expenses.

Mr. PASSMAN. How many people are involved?

Mr. GAUD. There is 1 technician and 15 participants.

Mr. PASSMAN. What is the cost of the technician?

Mr. GAUD. $21,000.

Mr. PASSMAN. And the participants?

Mr. GAUD. Fifteen participants for a total of $55,000.

Mr. PASSMAN. We want to know the purposes for which you obligated the $343,000.

Mr. GAUD. I will have to send a cable to Jordan to find out the details.

Mr. PASSMAN. Write them, please.

(The information follows:)

Fiscal year 1963 obligations under tourism project—Jordan

	Thousands
Technicians: 1 tourism adviser	$25
Participants: 15 participants in fields of archeology, tourist officer practices, and hotel training (10 to study in Beirut)	40
Contract services: Contract team of 3 consultants for a 12-month period to provide technical advice and assistance to existing Jordan hotels in the improvement and management of services, and advisory services to Jordan Tourism Authority in developing curriculum and establishing a hotel employees' training school	75
Commodities: Photo and graphic equipment and supplies; film prints; and 2 project passenger vehicles	54
Total	149
Local expenses:	
Constructing new resthouses, and finishing, decorating, furnishing, and landscaping 6 existing resthouses	117
Erection of route and site markers	10
Books, training materials, and teachers' salary to assist in the establishment and operation of a tourist police and guide training school	19
Fuel, oil, and maintenance of project vehicles	2
Services of 1 Jordanian surveyor-draftsman	1
Total obligations	343

Mr. PASSMAN. If we canceled it out you could obligate it after we went home and still be within the law?

Mr. GAUD. Within the law, yes.

Mr. PASSMAN. It is a fact that we are trying to find out ways of attracting tourists to America; is it not?

Mr. GAUD. Yes.

Mr. PASSMAN. If we succeed in showing these people how to set up their tourism program, maybe we can bring the same people here to work on ours.

How much in development grant funds and Public Law 480 funds have been spent in restoring historical sites in Jordan?

Mr. GAUD. This is the only project we have that relates to that, Mr. Chairman.

Mr. PASSMAN. Thank you.

How about the Public Law 480 figure?

Mr. GAUD. In this project we speak of there is $733,000 of local currency.

Mr. PASSMAN. Is this our local currency?

Mr. GAUD. That is the country-owned local currency.

Mr. PASSMAN. Originally ours, generated from dollars?

Mr. GAUD. This was generated by title II of Public Law 480.

Mr. PASSMAN. So it took U.S. dollars to buy the $730,000. We have to add that to the $343,000. Now let us project it to completion.

Mr. GAUD. The projection is $865,000 which does not include the local currency.

Mr. PASSMAN. How much do you plan to spend to establish a hotel training school?

Mr. GAUD. There is only technical assistance for it.

Mr. PASSMAN. Is it a Hilton program?

Mr. GAUD. No, sir; it is Pan American that is in this country, but we are not helping Pan American.

HIGHWAY ORGANIZATION AND MANAGEMENT PROJECT

Mr. PASSMAN. Can you tell us where you justified the highway organization and management project, on page 184?

Mr. GAUD. This project had been a part of the project which appears on page 183 and was broken out from that.

Mr. PASSMAN. You have created two projects out of one?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. You did not justify the money here as such, did you?

Mr. GAUD. I would think not.

Mr. PASSMAN. This is supposed to be looser than an American program because it is for our foreign friends.

Can you project the cost of this project to completion?

Mr. GAUD. $477,000.

Mr. PASSMAN. That is on the project you did not justify last year?

Mr. GAUD. Yes, sir.

HUMAN RESOURCES DEVELOPMENT PROJECT

Mr. PASSMAN. What type of local expenses do you anticipate will cost $449,000 in fiscal year 1964 under the human resources development project?

Mr. GAUD. This is the cost of furniture, furnishings, equipment, and fixtures that will go into school buildings and the school buildings themselves to the extent that we contribute toward them.

PUBLIC ADMINISTRATION PROJECT

Mr. PASSMAN. What is the average annual salary of the six U.S. technicians under the public administration project, on page 187?

Mr. GAUD. I am worried about that one.

Mr. PASSMAN. So am I.

Mr. GAUD. I want to check it. It looks too high.

Mr. PASSMAN. It surely does.

TECHNICAL SUPPORT PROJECT

Why do you need 93 local employees, who are funded under the technical support project?

Mr. GAUD. Those local employees are drivers, the maintenance men, clerks.

Mr. PASSMAN. What do they drive?

Mr. GAUD. Automobiles, trucks, jeeps; they are maintenance men, they are clerks.

Mr. PASSMAN. Do the technical aid people get a car and a driver?

Mr. GAUD. No, not each one. We have a motor pool in Jordan. The mission director has a car, but it is mainly a matter of a motor pool servicing the staff.

Mr. PASSMAN. How many technicians do we have in Jordan?

Mr. GAUD. We have 59.

Mr. PASSMAN. That gives them 1½ local employees per technician.

Mr. GAUD. Besides the 59 technicians; we have 15 administrative people. That is a total of 74 people roughly in Jordan at the present time.

ARAB DEVELOPMENT SOCIETY PROJECT

Mr. PASSMAN. Is the Arab Development Society project in Tel Aviv?

Mr. GAUD. That is located at the head of the Dead Sea. I have forgotten the name of the town. It is near Jericho.

Mr. PASSMAN. That is the Jericho of biblical times?

Mr. GAUD. Yes, sir. That is the one where the walls fell down.

Mr. PASSMAN. When did you justify that project to the committee?

Mr. GAUD. This project is one that has been going—it was initiated in fiscal year 1959 and we have been obligating moneys to that project ever since.

Mr. PASSMAN. What is the project supposed to accomplish, Mr. Gaud? What are we doing?

Mr. GAUD. We are providing $75,000 a year to train 100 boys at the cost of $750 a boy for a 12-month period in school. It is in a school in Jericho.

Mr. PASSMAN. Are these boys getting $750 a year?

Mr. GAUD. No, sir. The Arab Development Society runs the school. That is the total cost of housing these boys, feeding them, clothing them in some cases, and educating them for a year.

Mr. PASSMAN. These are Jordanians they are training?

Mr. GAUD. Yes, they are.

Mr. PASSMAN. Who thought that one up?

Mr. GAUD. The Jordanians.

Mr. PASSMAN. They only asked for just a little consideration on our part and that is to finance it?

Mr. GAUD. That is correct.

Mr. ANDREWS. How old is that program, Mr. Gaud?

Mr. GAUD. Since 1959, Mr. Andrews. Off the record.

(Discussion off the record.)

Mr. PASSMAN. How much did you obligate for this project last year?

Mr. GAUD. $75,000.

Mr. PASSMAN. Tell us where to find it in the justifications last year.

Mr. GAUD. I haven't got last year's book here. Did we have pages for items under $100,000 last year?

Mr. WHITE. It is under education.

Mr. GAUD. This one has been standing on its own feet for a number of years.

BREAKOUT OF GRANT PROJECTS

Mr. PASSMAN. There has been a lot of breaking out going on.

I believe we have agreed that in the future any project for over $1 we are going to have a listing in the book as a project. Did you ever figure out the number of projects for us, Mr. Comptroller?

Mr. TENNANT. I think you asked me that question last night and gave me until tomorrow to develop the information.

We have someone working on it, sir.

Mr. PASSMAN. Take your time. The information will be interesting.

Mr. Gary?

POLITICAL SITUATION IN JORDAN

Mr. GARY. What is the situation politically in Jordan now?

Mr. GAUD. It is reasonably good. You might say they have had a bad winter. There was a change of government in January 1962, when the Wasfi Telv government took over. It was a progressive government of relatively young men and they were doing a great deal in terms of the internal problems of Jordan. That government fell in February 1963. A new government came into office headed by Mr. Samir Rifai, who had been Prime Minister of Jordan several times in the past; a much older man. His government lasted about 3 weeks. It coincided with the revolutions in Iraq and in Syria. A few weeks ago, there were elections in Jordan and we now have a new government headed by Sharif Hussein Nassir, who is an uncle of the King.

It looked for a time this winter as though Jordan was in for a great deal of trouble, first because of her early involvement in the situation

in Yemen from which she withdrew before too long and more importantly later on when the announcement of unity between the United Arab Republic, Syria, and Iraq took place. If that had gone more successfully than it has, Jordan would have been under a great deal of pressure. In fact, as we all know, that marriage is not exactly prospering and I would say that the chances for working out a successful union are very slim. This will relieve Jordan of a great deal of pressure and our estimate is that the King's position at the moment is strong.

Mr. GARY. King Hussein?

Mr. GAUD. Yes, sir. Do you want to add anything to that, Mr. Lee, if you will forgive me, Mr. Gary?

Mr. LEE. That sounds like a good sketch.

Mr. GARY. I heard on television, I think it was last night, that Nasser had announced that there was no chance of developing the Arab Union as long as Syria was——

Mr. GAUD. As long as Syria is dominated by the Ba'ath Party.

Mr. GARY. We haven't gotten into Syria but what is that situation? Does it have any effect on Jordan?

Mr. GAUD. It does.

Mr. GARY. To what extent?

Mr. GAUD. Although the Ba'ath Party believes in Arab unity, it does not believe in the kind of Arab unity that Mr. Nasser is interested in. As long as the Ba'ath Party is in control in Syria, according to Nasser, you are not going to have a union between those countries. As long as you do not have union between those countries Jordan is under considerably less pressure than she would otherwise be.

Mr. GARY. Jordan never has gone into the Arab Union?

Mr. GAUD. No, sir. There are some Ba'athists in Jordan but not a great many. They are not very powerful. Of course there are some people in Jordan as there are everywhere in the Arab world who support Mr. Nasser's concept of Arab Union.

Mr. GARY. Hussein is still free from Nasser influence?

Mr. GAUD. Completely.

ECONOMIC SITUATION OF JORDAN

Mr. GARY. What is the source of their income in Jordan?

Mr. GAUD. The Government's income?

Mr. GARY. Yes.

Mr. GAUD. It is customs duties more than anything else. Their excise tax take is fairly large, and they receive a regular payment from tapline. The country earned $12 million on tourism in 1961; they earned $4.3 million on the export of phosphates. They did not earn but received $19.6 million in remittance from Jordanians who are outside the country. Their exports remain small.

The things that we have been working on in the AID program which we hope will increase the Government's income are four, really. One is the phosphates and potash deposits which could be exported and earn foreign exchange; another is tourism, which both we and they think can be built up: the third is this irrigated agriculture that we were discussing in the East Ghor project where there is very rich land which is capable of producing high-value crops for export; and

the fourth is improvement in Government budgeting and administration.

Mr. GARY. The land I saw in Jordan in traveling by auto from Amman to Jerusalem you could not irrigate to save your life.

Mr. GAUD. That is right.

Mr. GARY. We have all heard about the man who went down from Jerusalem to Jericho and fell among thieves. If the land then was like it is now the thieves probably had to steal in order to live.

Mr. GAUD. I think your description of that part of the country is accurate. One of the astonishing things about Jordan to me is that it has been arid, and dry for very many years and yet there is a considerable part of Jordan which was completely forested until about the time of World War I. The Turks then controlled that part of the world and when the Turks cut down these forests for wood for their locomotives, they literally denuded a large part of what is now Jordan. The part I am talking about that we are trying to irrigate is in the northwest part of the country along the Jordan River, the Jordan Valley. It is a matter of taking the water out of the river and extending it to the acreage on the side of the river. This is being done on the Israeli side, it is also being done now on the Jordanian side. It is perfectly astonishing what crops that soil will grow if you get water to it.

Mr. GARY. The Lebanese, as I remember, said that when Abraham set out to discover the promised land he was really looking for the Lebanese Valley and when he reached the Jordan Valley he did not know the difference. They say he didn't go far enough.

Mr. GAUD. Yes. They will show you the promontory in Jordan that he stood on when he saw the promised land.

Mr. GARY. The Lebanese Valley is a beautiful and very rich and fertile valley.

Mr. GAUD. Yes, it is.

Mr. GARY. They are producing a tremendous lot in agriculture; fruits and livestock but I couldn't see anything in Jordan at all. It looked to me like it was the most barren ground that I have ever seen anywhere, particularly the land along the Jericho Road.

Mr. GAUD. If you traveled the Jericho Road at the right season it would be all green, if they have a good year of rain. They can grow enough wheat for forage for their sheep and their goats.

Mr. GARY. I wondered how they fed their sheep and goats. I could not see what they lived on.

Mr. GAUD. In the spring, depending on whether it is January or whether it is March, whether there has been rain or whether there has not, that part of the world is completely unrecognizable.

Mr. GARY. I am glad to hear that. I did not see how they could produce anything.

Mr. GAUD. There they can grow only for forage. They cannot grow for human consumption. This has to be done near the river where there is more irrigation.

Mr. GARY. Can they raise enough food to feed their own people?

Mr. GAUD. In the past Jordan has not been too short of food. In the last 4 or 5 years, however, she has had a succession of drought years and that is why we have had a Public Law 480 program there involving mostly wheat and other food grains. I beg pardon. Mr.

White calls to my attention the fact she does import other types of food as well.

Mr. GARY. Where did those grapes come from that Joshua brought back that it took two men to hold a bunch of them? They carried them on poles that were carried on the shoulders of two men.

Mr. GAUD. You have me there. I don't know.

Mr. GARY. You read the Bible and when they came back to Moses they brought these grapes out of the land. They must have gotten over into the Lebanese Valley. I couldn't see any place in Jordan that could raise them.

Mr. PASSMAN. There is a very fertile valley in Jordan; is there not?

Mr. GAUD. The Yarmouck and Jordan; that is correct.

Mr. PASSMAN. They will tell you it is one of the richest valleys in the world.

Mr. GAUD. Yes.

NEAR EAST AND WORLDWIDE WATER PROBLEM

Mr. GARY. Isn't there some story connected with it, that there has been a change in the fertility of that area since biblical days?

Mr. GAUD. That is true of parts of that region. I do not know to what extent it is true of Jordan, except as I say, I know that some of it used to be forested and is no longer forested. Of course, sir, another thing in that part of the world which we tend to forget; there is water under the surface which has not been tapped in the last few hundreds of years.

Some of the tourist attractions in Jordan are cities which are now completely gone to ruins. Nobody lives in them at all. Once upon a time they were large cities. There is one I am thinking of, for example, which was a Roman city which had two large amphitheaters in it. Many thousands of people lived in it. Today there is almost no vegetation around it at all. To some extent Romans brought water by aqueducts but also there are parts of the world out there where there used to be plenty of water but the water level was reduced to the point where they could not bring it up under their existing know-how. So those parts went to ruin for lack of water. In the western desert, in Egypt, for example, we have two teams of well drillers working on a water project there. They have found—this is another part of the world in which there are ruins of ancient cities and now nothing but sand. There used to be plenty of water but the water table dropped to the point where they did not know how to bring it up. We are now putting in wells with the aid of the Egyptians, and training Egyptian teams to drill wells. They are bringing in artesian wells. There is no lack of water.

Our people tell us—these are Oklahoma well drillers who are working out there—our people tell us that under that western desert of the United Arab Republic is one of the largest reservoirs of water that is known in the entire world. Yet the surface of the land is just the arid sort of thing you were speaking of awhile ago that you had seen in Jordan. So that this is one of the changes that has taken place over the years. People lost the capacity to draw the water up.

Now we are trying to bring this skill back to them. It will change the face of the earth in many places.

Mr. ANDREWS. Will the gentleman yield?

Mr. GARY. Yes.

Mr. ANDREWS. Mr. Gaud, would you say water is one of the biggest problems in that area?

Mr. GAUD. It certainly is.

Mr. ANDREWS. If you can find ways and means of providing an abundant supply of water the whole area will be changed?

Mr. GAUD. Very true, sir.

Mr. ANDREWS. About how long will it take to do that?

Mr. GAUD. It will take a number of years.

Mr. GARY. Water is one of the great world problems today, is it not?

Mr. GAUD. Yes, it is, all over the world, Mr. Gary.

Mr. GARY. And becoming more so all the time. That is the reason we are spending millions of dollars trying to convert sea water into fresh water.

Mr. GAUD. That is right.

Mr. GARY. Because that is really one of the great problems that everybody recognizes we will have to face in the future.

Mr. GAUD. That is right.

Mr. PASSMAN. Will the gentleman yield?

Mr. GARY. I will be glad to yield.

Mr. PASSMAN. It is also a major problem in the United States.

Mr. GAUD. Water?

Mr. PASSMAN. Yes.

Some day I hope to see a reasonable water conservation law in America. If we do not get it we might be in about the same fix those people are in out there.

DEVELOPMENT OF TOURISM IN JORDAN

Mr. GARY. Is your tourist trade going to center around Jerusalem?

Mr. GAUD. A great deal of it will for obvious reasons, and that will, I suppose, continue to be the main point of interest in Jordan. But there are also quite a number of cities, old Roman cities, cities that predate the Roman days, and other biblical points of interests such as Jericho and the like, which also would probably be good tourist attractions.

Mr. GARY. Of course most of the Holy Land is on the Jordan side. What is the situation now with respect to getting through the gate from Jordan to Jerusalem or vice versa?

Mr. GAUD. It is a very difficult thing to go through the gate. You have to make prior arrangements. You are talking about the local people or just the tourists?

Mr. GARY. No, I mean for the local people and tourists.

Mr. GAUD. I am right, Mr. Lee, for local people they just do not go through at all, do they?

Mr. LEE. That is my understanding.

Mr. GAUD. That is my understanding, Mr. Gary. As far as tourists are concerned this can be arranged with notification. We have an American consul on the line at the gate which is under U.N. control. This can be arranged provided you give notice in advance. But the local people cannot move back and forth at all as I understand it.

UNUSED ISRAELI-BUILT HOSPITAL

Mr. GARY. There is in Jordan just across the line from Israel a modern hospital that was built by Israel, and the Jordanians closed it down.

Israel was not permitted to use it, but the Jordanians did permit a certain number of guards to pass through periodically to guard the building. Is that situation still in existence?

Mr. GAUD. I do not know about that. Do you?

Mr. LEE. No; I do not. I would be happy to look into it.

(The information follows:)

HADASSAH HOSPITAL ON MOUNT SCOPUS

According to the Israel-Jordan armistice agreement of 1949, the Hadassah Hospital was left within the Mount Scopus enclave. The enclave is wholly surrounded by de factor Jordanian territory, and lies about half a mile from de facto Israel territory (the Israel sector of Jerusalem). The Hadassah Hospital is not now being used as a hospital, and has not been so used since the Arab-Israel War of 1948–49. Under an arrangement worked out between the Jordanians and the Israelis, under the auspices of the United Nations Truce Supervisory Organization (UNTSO), the Israelis maintain guards and custodial personnel at the Hadassah Hospital. A convoy escorted by UNTSO personnel proceeds every fortnight from the Israel sector of Jerusalem via the Mandelbaum Gate, through de facto Jordanian territory, and then up to Mount Scopus with Israel personnel to replace those who have been on duty at Mount Scopus during the previous fortnight. The returning UNTSO convoy returns to de facto Israel territory the same day, carrying the Israel guards and custodial personnel who have been on duty on Mount Scopus during the preceding fortnight.

The Israelis have built a new Hadassah Hospital on their side of the armistice line in Jerusalem. The new hospital is much grander and more modern than the old Hadassah Hospital located on Scopus. Although it is regrettable that there are unused hospital facilities on Mount Scopus, attitudes of hostility between Israel and Jordan are such that there seems little likelihood any mutually acceptable arrangement will be worked out under which the unused hospital facilities could be used.

Mr. GARY. The hospital was not being used at all. It was a modern hospital built by Israel. It was within the Israel line when built but there was some change in the line. This happened to be just over the line in Jordan and the Jordanians would not permit Israel to use it at all.

Mr. GAUD. I am not familiar with that.

Mr. GARY. The building was standing there, a perfectly good building. They kept a small number of people on guard, which they were permitted to change at intervals. That was just 2 or 3 years ago when we were over there. I saw the hospital from a distance. I suppose the feeling between the two countries is just about as keen as ever.

Mr. GAUD. It is very intense. Yet as Mr. Talbot said the other day, it is a quieter border between Jordan and Israel than it is between Syria and Israel or between the United Arab Republic and Israel.

Mr. GARY. They have not had many incidents along the border recently.

Mr. GAUD. They are rather rare.

JORDANIAN INCOME

Mr. GARY. Where does the major income of the people come from?

Mr. GAUD. The Jordanians themselves?

Mr. GARY. Yes.

Mr. GAUD. I suppose what you might call the average Jordanian is a nomad whose income comes from his sheep or goats and from a little bit of farming. They are building up a limited amount of local industry, light industry. They have no great reputation or history as traders. They trade through the Lebanese primarily rather than directly themselves. They are small farmers.

Mr. GARY. In Lebanon we found they were building up a poultry industry when we were over there.

Mr. GAUD. Yes, sir.

Mr. GARY. You do not get any of that in Jordan, do you?

Mr. GAUD. Yes. Efforts are being made in Jordan to build up the poultry industry. The Near East Foundation has a demonstration poultry farm which I visited there. They are doing this with poultry, they are doing the same thing with goats to try to improve the breed of goats. One of the interesting things about this east Ghor project is that one of the jobs these technicians are supposed to do is to introduce into that part of Jordan a different type of goat, which will give a lot more milk, which will have better hair, and will be much more productive.

Mr. GARY. The Lebanese sent one of their agricultural men over to this country. He studied the poultry industry over here and he went back and established some very excellent poultry farms. We saw one or two of them. They compared favorably with our poultry farms in this country. They burned the lights to keep the hens laying at night, and had other modern improvements. He apparently was doing a very good job there. They told us at that time that the eggs from these farms were called point 4 eggs and that they sold at a premium on the local market. They said the people would ask for point 4 eggs and paid premium prices for them. It looked like a very good project.

Mr. GAUD. When I went through with the driver from the Embassy, the driver of the mission director—he had been with the mission for a number of years—he would point to an irrigation canal and say, "That is a point 4 canal" or he would point to a farm and say, "That is a point 4 demonstration farm." The name has lingered on, longer there than it has here.

Mr. GARY. That is right.

(Discussion off the record.)

Mr. GARY. That is all, Mr. Chairman.

TAKING OVER OF POULTRY PROJECT IN INDIA BY PEACE CORPS

Mr. PASSMAN. You had a poultry program going in India I believe?

Mr. GAUD. That is true.

Mr. PASSMAN. It was a project in which AID took quite a bit of pride, was it not?

Mr. GAUD. The mission director thinks that is a very useful project, that is correct.

Mr. PASSMAN. Did you not have a progressive project you were somewhat proud of, the poultry project in India? Would you say it was a successful project?

Mr. GAUD. In the last year or two.

Mr. PASSMAN. Yes.

Mr. GAUD. Yes, that is right. We consider it a successful project.

Mr. PASSMAN. Did the Peace Corps insist on taking it over when they got out there?

Mr. GAUD. I do not think so.

Mr. PASSMAN. We have found that AID has had to divide projects with the Peace Corps. I believe in Liberia, they had a very good project going. The Peace Corps moved in on them, and they turned it over to the Peace Corps.

Mr. GAUD. Mr. White says the Peace Corps people in India are doing some work in the poultry field.

Mr. PASSMAN. You have just about turned that project over to them, have you not?

Mr. GAUD. Ours is still in existence.

Mr. PASSMAN. Let us find out about that matter. Please get the information for the record.

(The information follows:)

ROLES OF AID AND PEACE CORPS IN POULTRY PROJECTS IN INDIA

The AID poultry project has not been turned over to the Peace Corps. Poultry assistance now involves the work of two AID technicians, a poultry adviser and a processing and marketing specialist. Peace Corps volunteers have been effectively active in disseminating improved poultry techniques largely based upon developmental work by AID technicians on poultry housing, low-cost feeds, protection against disease, and production and marketing cooperative organization. The Peace Corps poultry workers have been requested by the Government of India to permit a more rapid spread of these improved techniques to the village areas in which the volunteers are assigned. AID technicians and the Peace Corps volunteers work cooperatively; volunteers frequently consult the much more experienced AID technicians on specific problems encountered in the field.

AID FINANCING OF HOTELS IN NEAR EAST AND SOUTH ASIA

Mr. ANDREWS. Are you financing any hotels in this area?

Mr. GAUD. In Jordan, no, sir; we are not.

Mr. ANDREWS. You mentioned a hotel a few minutes ago.

Mr. GAUD. A subsidiary of Pan American called Intercontinental Hotels, Inc.

Mr. ANDREWS. Where is that?

Mr. GAUD. In Jerusalem. They have also put one up in Lebanon and in various other parts of the world. We have made Cooley loans to hotels in Pakistan, also put up by this subsidiary of Pan American, but I cannot think of any in the Arab-Israeli world that we have put any money in.

Mr. ANDREWS. One was built with Cooley funds?

Mr. GAUD. Partially; we have made loans to this subsidiary of Pan American, Cooley loans for a hotel in Karachi and more recently another one for a hotel in Dacca, which is the capital of east Pakistan. The Export-Import Bank has made dollar loans to both of these hotels.

Mr. ANDREWS. Describe briefly how a hotel is financed out of any of our AID programs?

Mr. GAUD. I can speak only for my region. These are the only instances that I know of where we financed a hotel. The Cooley amendment to Public Law 480, as you know, provides for making loans to American corporations or affiliates of American corporations doing

business abroad. Now Pan American has formed this subsidiary, Intercontinental Hotel Corp., which is in business all over the world. They have come to us to borrow a part of the local costs, rupee costs, that will be necessary to build their hotels and we have made loans to them on regular commercial terms.

Mr. ANDREWS. Repayable in dollars?

Mr. GAUD. No. These are loans of rupees repayable in rupees. Let me get my notes. One of these loans for the construction of the hotel in Karachi was for 2,759,000 rupees, payable in rupees. This was an increase of a Cooley loan approved by the Export-Import Bank when it handled the program. The dollar equivalent is $583,000. That loan was made in June 1962. Then in March 1963 we made a rupee loan, the equivalent of $940,000 for the construction of the hotel in Dacca.

Mr. ANDREWS. That is a different one?

Mr. GAUD. Yes. A corporation is building these hotels. The capital is owned partly by Pan-Am and partly by individuals in Pakistan.

Mr. ANDREWS. Privately owned?

Mr. GAUD. Yes.

Mr. ANDREWS. These loans that you made are repayable in local currencies?

Mr. GAUD. They are; yes, sir.

Mr. ANDREWS. To AID?

Mr. GAUD. When Cooley loans are repaid, the money goes to the U.S. Treasury, not to us.

Mr. ANDREWS. In dollars?

Mr. GAUD. No; local currency.

Mr. ANDREWS. Are they first-class hotels?

Mr. GAUD. Yes; they are. The purpose of these two hotels is, again, to promote the tourist trade.

Mr. ANDREWS. Do you know whether or not they are making money?

Mr. GAUD. The first one, the hotel in Karachi, is not finished yet and the one in Dacca, I do not believe they have broken ground unless they have done it within the last month or so.

Mr. ANDREWS. You do not have any hotels in your area that we have in any way helped finance that are operating?

Mr. GAUD. No. There is a great shortage of first-class hotels. When we got the loan application and studied it, we found there was a very great shortage of proper facilities, hotel facilities in both of these cities and I just do not see how they can miss.

Mr. ANDREWS. That is all, Mr. Chairman.

Mr. MINSHALL. Would you yield before you leave the hotel subject?

Mr. PASSMAN. Yes.

Mr. MINSHALL. Are these the only hotels that your region has been concerned with?

Mr. GAUD. In my region, yes.

Mr. ANDREWS. Karachi and Dacca?

Mr. GAUD. Yes; but so there will be no misunderstanding, I am told that the Pan-Am subsidiary is going to ask us for loans for three other hotels, one in Peshawar, Pakistan, one in Lahore, Pakistan. They have also talked to us about putting one into Nepal.

Mr. MINSHALL. Who talked to you about it?

Mr. GAUD. The Intercontinental Hotels Corp., a subsidiary of Pan Am.

Mr. MINSHALL. I wanted to make sure it is the same outfit.

Mr. GAUD. Yes, it is. Pan American had a contract, a technical assistance contract to build up the Pakistan International Airways, which is now a very successful airline, entirely on its own. They have had connections with Pakistan for quite a number of years and fly to Pakistan. From their standpoint, these things are useful in terms of taking care of their passengers. From the standpoint of Pakistan, these hotels are very useful as earners of foreign exchange from tourists and businessmen.

Mr. MINSHALL. They constructed a hotel at Karachi, I believe.

Mr. GAUD. They are bulding a hotel there now; yes. It is not finished yet.

Mr. MINSHALL. They had a temporary hotel there several years ago.

Mr. GAUD. Pan Am?

Mr. MINSHALL. Yes.

Mr. GAUD. I do not know.

Mr. ANDREWS. Do you know anything about the percentage of financing that AID does and the percentage done by the local government or by Pan Am or does the local government participate?

Mr. GAUD. We have made the loans I talked about. I don't have the detailed information here.

Mr. ANDREWS. You make the loan to the hotel company?

Mr. GAUD. Yes, sir.

Mr. ANDREWS. Do you take a mortgage?

Mr. GAUD. No; we do not. Sometimes with our Cooley loans we require a guarantee from a local bank and that is the case for these two loans. But ordinarily we do not make a Cooley loan unless the American outfit is putting equity in it and if it is a responsible concern, then our feeling is that as long as the American outfit has its own money in it, that is all we need by way of a guarantee.

Mr. ANDREWS. What about the hotel in Karachi?

Do you know how much the hotel company put in?

Mr. GAUD. I have not got the figure in my head, but I will be glad to supply it.

Mr. ANDREWS. I wish you would supply it for the record.

Mr. GAUD. All right, sir.

(The information follows:)

HOTEL COMPANY EQUITY INVESTMENT IN KARACHI HOTEL

Share capital of Pakistan Services, Limited, in the Karachi Hotel totals Rs10,600,000 (Pakistan rupees) or $2,226,000 (dollar equivalent). This represents approximately 29 percent of the cost of the project ($7,724,800).

Mr. MINSHALL. What are the general terms of these loans, the rate and all? Can you give us that briefly?

Mr. GAUD. They vary from country to country. The purpose is to make the loans on the same terms roughly as these people could borrow the money locally and I have forgotten the interest rate in Pakistan. It is quite high.

Mr. MINSHALL. Can you supply this for the record?

GAUD. It is around 6 or 7 percent.

Mr. PASSMAN. Supply the information for the record, please.

Mr. GAUD. I will.

(The information requested follows:)

COOLEY LOAN TERMS—PAKISTAN

The local currency loans for the Karachi Hotel totaled Rs5,743,700 (Pakistani rupees), or $1,206,100 in dollar equivalents. Rs2,984,600 of this amount was authorized by the Export-Import Bank during its administration of the Cooley loan program. These funds were made available at an interest rate of 6 percent, with a repayment period of 18 years commencing May 1, 1965. Additional financing has also been provided by a dollar loan of $3,462,800 from the Export-Import Bank, extended at an interest rate of 5¾ percent, with a repayment period of 18 years commencing May 1, 1965.

The local currency loan for the Dacca Hotel totaled Rs4,477,000 ($945,000) and provided for interest rate of 6½ percent and a repayment period of 18 years, beginning 12 months after the opening of the hotel or on March 15, 1967, whichever first occurs. Additional financing has been provided by an Export-Import Bank loan of $3,348,500 at 5¾ percent interest, repayable over 18 years beginning March 15, 1967.

Subsequent to these agreements, the interest rate on Pakistan Cooley loans was raised from 6 to 6½ percent. The period of maturity for Cooley loans varies according to the differing financial circumstances of each loan, the usual range of maturity being from 8 to 12 years.

Mr. ANDREWS. Do you feel that in these hotel deals that the only benefit the country gets is from tourism?

Mr. GAUD. Tourism, businessmen, and then in a place like Dacca—you mean who is going to use the hotels?

Mr. ANDREWS. I have an idea the general public will use the hotels.

Mr. GAUD. The general public also.

Mr. ANDREWS. My point is this: How long have we been in this hotel business? How long has the Federal Government of the United States been financing hotels for private corporations in foreign countries?

Mr. GAUD. As far as I know the only two instances of it are these two that I have spoken of where we have lent local currency.

Mr. ANDREWS. That is in your area?

Mr. GAUD. That is right.

Mr. ANDREWS. As far as you know the Federal Government has not financed any hotels in any other parts of the world?

Mr. GAUD. I just do not know. I have no knowledge.

Mr. ANDREWS. But we do know about these two cases?

Mr. GAUD. Yes; we do.

Mr. ANDREWS. My point is what benefit does the country get? How can AID, which is the foreign aid Agency, justify making loans of any kind to private corporations to build hotels anywhere?

Mr. GAUD. There are two justifications. The purpose of the Cooley loan amendment was to authorize us to make loans to American companies who were going to do business abroad. It does not make any difference whether it is a hotel or whether it is a company making ball bearings. We were supposed to use these Cooley loans under the law, these local currencies, to encourage and to help American firms get established abroad. That was one purpose of the law. The other purpose is, as far as the hotel is concerned, that it will earn foreign exchange for Pakistan. These hotels are all located near international airports and they will be used by businessmen and by tourists who will bring foreign exchange into Pakistan. So you serve a double

purpose with these loans; one, promoting American business abroad; two, earning foreign exchange for the underdeveloped country.

None of these are dollar loans. I think I made this clear.

Mr. PASSMAN. They are soft currency loans, but we earn the soft currency.

Mr. GAUD. Yes; and it is in excess of supply in Pakistan.

Mr. PASSMAN. Let us hope that we do not keep cheapening the American dollar until we find the American dollar is in excess of supply in some of these foreign countries.

Is it true that Pakistan is building a hotel for members of the Pakistani Parliament in Pakistan?

Mr. GAUD. It is my understanding the Pakistan Government is building a hostel, not a hotel, in Dacca for the use of the members of the Parliament.

Mr. PASSMAN. How much are we putting into that project indirectly?

Mr. GAUD. Nothing.

Mr. PASSMAN. Indirectly?

Mr. GAUD. We are not putting up anything for that project, Mr. Chairman.

Mr. PASSMAN. We are pouring hundreds of millions of dollars into Pakistan. That enables them, of course, to take their earnings from their exports and spend it any way they want to in their country. That is why I said "indirectly." All of this is a direct help on the Government, is it not, to do the things in their country that they want to do?

Mr. GAUD. Yes.

Mr. PASSMAN. Thank you.

Mr. Montoya?

JORDANIAN GOVERNMENT REVENUES

Mr. MONTOYA. Mr. Gaud, I notice here in the justifications that the total domestic revenues for Jordan for the year 1962 amounted to $52.5 million.

Mr. GAUD. Yes, sir.

Mr. MONTOYA. And the foreign aid program was in the total sum of $43 million; is that right?

Mr. GAUD. Yes, sir; total aid program.

Mr. MONTOYA. Assuming that the $43 million was channeled into Jordan for the fiscal year 1963, wouldn't you say that this contributed greatly, in fact accounted for more than the 7 percent increase in GNP which is claimed here in the justifications?

Mr. GAUD. It contributes very substantially to it, no question about it.

Mr. MONTOYA. Then the 7 percent GNP is fallacious, to say the least, as far as representing internal growth by internal motivation?

Mr. GAUD. By internal resources alone, that is true.

Mr. MONTOYA. What would you estimate this deficiency, judging only from their internal revenues and internal movement of the economy year by year? Wouldn't you say that they are going backward?

Mr. GAUD. No; definitely not, for several reasons: First, you will see that their total domestic revenues are increasing from this page you are looking at.

Mr. MONTOYA. Yes, they are increasing at the rate of about $4 million a year.

JORDAN'S FOREIGN EXCHANGE POSITION

Mr. GAUD. Please do not misunderstand me. I am not saying that they are making exceptionally rapid progress but their total domestic revenues are increasing. The foreign exchange earnings are increasing. You can see those down at the bottom of the page.

Mr. MONTOYA. I was going to ask you that question. How can we contend, in view of their domestic revenues, and how can we comprehend that gold and foreign exchange holdings are increasing year by year when their increase in revenue is only at the rate of $4 million a year and the deficits have been ranging in the neighborhood of $60 million a year? How is it possible, to build up the gold and foreign exchange with those deficits ranging at the rate of $60 million a year and the domestic revenues only increasing at the rate of $4 million a year?

Mr. GAUD. The gold and foreign exchange buildup has been almost entirely the result of the payment made to the Government by the Tapline Co. This was a sizable one-time payment. If you will notice, sir, the increase in their gold and foreign exchange growth is far, far less over the last 4 years, is far, far less than their deficit in any single year. This country cannot possibly pay its government operating expenses without outside support. It never has been able to do so. The British used to be supporting it and giving it budget support.

Mr. MONTOYA. Let me stop you there. You said that the increase in gold and foreign exchange holdings by far exceeds their deficit year by year.

Mr. GAUD. No, if I said that I misspoke myself. The deficit far exceeds the buildup.

Mr. MONTOYA. It stands to reason, in view of the statistical data which you have supplied that this country will never reach the point of its own solvency but will continue to require our support, without appreciably gaining in its economic picture. Wouldn't you agree with me on that?

Mr. GAUD. No, sir.

JORDAN'S PROGRESS TOWARD ECONOMIC VIABILITY

Mr. MONTOYA. What basis do you have for trying to give us a light of hope? The statistics certainly do not disprove that statement of mine.

Mr. GAUD. Certainly it is going to be a long time before this country—it would be a long time, if ever, before this country becomes self-sufficient. The fact is that within the last 5 years we have decreased our budget support from $43 million a year in 1958–59 to $37 million in 1962–63. That is some improvement. It is equally true, sir, that their earnings of foreign exchange are increasing considerably. If you will look at the bottom of the page there, their tourism earnings have gone up from $3.4 million in 1957 to $12 million in 1961. If they are successful in carrying out their plans, they will increase them to $30 million in 1967.

They have phosphate and potash deposits which they are exploiting. You will see the figures on the hoped for increase. Then an increase is expected from remittances from Jordanians who live abroad. In addition to these three items, we are banking on irrigated agriculture which we were discussing earlier.

OTHER EXTERNAL ASSISTANCE TO JORDAN

Mr. MONTOYA. Let me ask you this question. In addition to the aid which the United States is supplying Jordan, apparently there are some aid programs emanating from other European nations.

Mr. GAUD. That is right.

Mr. MONTOYA. What do these programs total?

Mr. GAUD. We mentioned those earlier, before you came in, I think, sir. Kuwait made a loan.

Mr. MONTOYA. I was here then.

Mr. GAUD. As far as I know——

Mr. MONTOYA. The total.

Mr. GAUD. You mean the total over the years?

Mr. MONTOYA. No, the total, let's say, for last year and the year before.

Mr. GAUD. The total foreign aid, other than the United States for the last 2 years from Germany, was——

Mr. MONTOYA. No, give me the total of all from all nations.

Mr. GAUD. Just a minute, sir. I will try to work it out.

Mr. MONTOYA. So I can put the whole thing in proper perspective here.

Mr. GAUD. I am sorry, I will have to do some arithmetic. About $38 million over the last 2 years.

Mr. MONTOYA. Combined?

Mr. GAUD. Everything. That is all non-United States. Most of that is going into projects which have not yet come into fruition. The big items are phosphate production, storage dams, various industrial projects, water supply.

Mr. MONTOYA. Are those commitments by other foreign countries repayable in foreign exchange?

Mr. GAUD. Yes.

Mr. MONTOYA. So we are the only ones in there with a foreign aid program for which there is no dollar repayment?

Mr. GAUD. I will withdraw that. The United Kingdom has put in about $11 million of that figure on a grant basis. The Kuwait and the German loans are repayable in foreign exchange.

EAST GHOR IRRIGATION AND RURAL DEVELOPMENT

Mr. MONTOYA. The irrigation project: What is the total commitment on this project?

Mr. GAUD. On our irrigation project?

Mr. MONTOYA. For rehabilitation and also construction.

Mr. GAUD. We estimate the total cost of that at a little more than $17 million.

Mr. MONTOYA. Does that include and encompass the rehabilitation of families into the project after it is completed?

Mr. GAUD. There is a technical assistance program that I was speaking of, an agricultural extension program, a rural development program, of a little over a million dollars more. That is the East Ghor rural development on page 178.

Mr. MONTOYA. Yes, but won't you have to move families into the particular project?

Mr. GAUD. No. They are there.

Mr. MONTOYA. And furnish them with new homes, et cetera?

Mr. GAUD. No, sir; nothing of that sort is contemplated.

Mr. MONTOYA. So the total cost would be $17 million plus?

Mr. GAUD. Yes, sir.

Mr. MONTOYA. And is this particular commitment a loan agreement?

Mr. GAUD. No. This is a grant.

Mr. MONTOYA. A complete grant?

Mr. GAUD. Yes, sir.

DEVELOPMENT LOANS TO JORDAN

Mr. MONTOYA. What particular loan agreements do we have with this country, the total sum, and how is the repayment provided?

Mr. GAUD. Our assistance to Jordan has always been in the form of either supporting assistance or development grants, except for two loans, one of which was made by the Development Loan Fund in 1958 for $1,200,000, repayable in local currency. The purpose of that loan was the generation of electric power by the Trans-Jordan Electric Power Co. The other loan which we have made to Jordan was made by the Development Loan Fund in 1959, $1,500,000, payable in United Kingdom pounds. The purpose of it was the development of phosphate mines.

Mr. MONTOYA. Have we received any repayments under either loan?

Mr. GAUD. Yes, we have. Under the first loan there have been repayments made of both principal and interest. Under the second loan no repayments of principal are yet due but we have been receiving interest. Neither loan is in default.

Mr. MONTOYA. That is all, Mr. Chairman.

Mr. PASSMAN. Mr. Minshall, do you have questions on Jordan?

USE OF CONSULTANTS IN JORDAN

Mr. MINSHALL. On page 188, Mr. Gaud, of the blue book you describe certain temporary duty consultants, and I quote: "Consultants whose functions are not confined to a specific project or goal." What are they assigned there for if they are not assigned to some specific project or goal?

Mr. GAUD. We have——

Mr. MINSHALL. Did I read that correctly?

Mr. GAUD. Yes, you did. Let's take for example the field of agriculture or the field of education or the field of water development. We have specific projects in those areas but these people might come in to advise on the whole general problem rather than on a specific project.

Mr. MINSHALL. How many of these people do you have and what is their per diem or how are they paid?

Mr. GAUD. It will vary from individual to individual as to how long he will be there and as to what he will be paid.

Mr. MINSHALL. From what to what?

Mr. GAUD. That is such a general question I am afraid I could not answer it.

Mr. MINSHALL. Is it $10 a day? Is that a low figure?

Mr. GAUD. That would be an extremely low figure to get an expert; don't you think?

Mr. MINSHALL. A thousand dollars a day?

Mr. GAUD. No, I think $50 a day would be more in the normal range. Why don't I get some specific examples and give them to you?

Mr. MINSHALL. All right.

And also include if you would, please, the number of the special consultants that you have.

Mr. GAUD. All right, sir.

(The information follows:)

CONSULTANTS IN JORDAN

During fiscal year 1963, an agricultural information specialist and a tax consultant were recruited for short-term assignments in Jordan and were paid a fee of $50 and $75 per day, respectively. In addition, both consultants received the standard per diem allowance for Jordan of $10 per day. Other temporary assignments funded under the technical support project in the past year included three direct-hire technicians from neighboring AID missions. These employees received, in addition to their basic salary, a subsistence allowance of $10 per day.

FEASIBILITY PROJECTS IN NEAR EAST—SOUTH ASIA

Mr. MINSHALL. Also, I should like to know how many feasibility projects you have currently going throughout your entire zone of authority.

Mr. GAUD. Throughout the region?

Mr. MINSHALL. Throughout the region.

Mr. GAUD. How many feasibility projects we are financing?

Mr. MINSHALL. Yes. You just finished one at the Bokaro steel mill in India. How many of these other feasibility projects do you have going of all types and sizes?

Mr. GAUD. You will understand that is a figure that would vary from month to month.

Mr. MINSHALL. Yes; but let's have it for the past fiscal year and what you contemplate for the current fiscal year.

Mr. GAUD. Very good.

Mr. MINSHALL. And the cost of them and a brief description.

Mr. GAUD. All right, sir.

Mr. MINSHALL. That is all.

(The information requested follows:)

NESA feasibility surveys, fiscal year 1963 obligations, fiscal year 1964 planned

	Fiscal year 1963 (thousands)	Fiscal year 1964 (thousands)
Afghanistan:		
Development grant feasibility studies (industry)	$125.0	
Short-term consultants will explore the possibility of establishing or enlarging 8 separate fields of Afghan industry as a means toward improving the country's foreign exchange position.		
Development grant feasibility studies (projects)		$200
Qualified American firms will conduct studies to assist the Afghan Government in determining the feasibility of particular projects in the second plan.		
Development grant Herat-Islam Qala	80.0	20
This U.S. Corps of Engineers survey of the proposed Herat-Islam Qala Road will provide preliminary specifications, cost estimates, and an evaluation of the road's economic feasibility.		
Cyprus:		
Development grant desalinization feasibility	95.0	
To determine whether a desalinization plant is both feasible and justifiable on economic grounds.		
Pakistan:		
Development loan feasibility studies	2,000.0	
Studies to be made in connection with 5-year plan development projects in such fields as water, power, agriculture, transportation, industry, and communications.		
Turkey:		
Development loan, Keban and Ciceroz feasibility survey	350.0	
To determine engineering and economic feasibility of constructing 2 hydroelectric projects, including consideration of alternative sites and water distribution.		
Development loan feasibility studies and consultants	3,000.0	
Various studies in connection with the water resources development program of Turkey.		
Cento: Cento railroad survey	21.5	3
To determine the feasibility of a railroad link between Turkey and Iran.		

NOTE—Bokaro steel survey ($750,000) not included in this listing since financed out of fiscal year 1962 funds.

LEBANON

Mr. PASSMAN. We have a small military program in Lebanon. This is a grant aid program for fiscal year 1964. The amount is classified, but not the fact; is that correct?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What has been our total of aid to Lebanon since the inception of the program?

Mr. GAUD. Economic and military the total is $88.6 million.

Mr. PASSMAN. What amount do you have unliquidated to the credit of Lebanon as of June 30?

Mr. GAUD. We have $2,568,000.

Mr. GARY. May I ask one question about Lebanon, Mr. Chairman?

Mr. PASSMAN. Surely.

Mr. GARY. Has there been any change in the Presidency in Lebanon in recent years?

Mr. GAUD. No, sir; there has not.

Mr. GARY. The President is an ex-soldier who didn't want the job. He was drafted for the job. When we were over there 3 years ago he said he didn't want to be President, but they would not let him resign. Apparently he is still there.

Mr. GAUD. Yes, sir; he is.

Mr. GARY. He is doing a good job and is a great friend of the United States.

Mr. GAUD. Yes; he is, Mr. Gary.

Mr. GARY. Lebanon is doing very well on the whole?

Mr. GAUD. Lebanon is doing OK.

NEPAL

Mr. PASSMAN. For Nepal you are requesting $4.5 million for fiscal year 1964. That is an increase of $600,000 above your 1963 program?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. In addition to your dollar estimate what is your program for the use of U.S.-owned Indian rupees in 1964?

Mr. GAUD. $7 million.

Mr. PASSMAN. Making a total of $11.5 million?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What has been the total amount of aid to this country since the inception of the program?

Mr. GAUD. $52.4 million.

Mr. PASSMAN. When did we start the program in Nepal?

Mr. GAUD. Around 1952, Mr. Chairman.

Mr. PASSMAN. We are stepping up the aid program substantially there. It started between 1949 and 1952; did it not?

Mr. GAUD. Yes, sir; it did.

Mr. PASSMAN. You had a small program there. In 1955 you went to $2.5 million and then went back to $1.9 million. You started up in 1957 and got up to $7.5 million. In 1958 it came down to $2.7 million. In 1959 and in 1960 it jumped up to $19.6 million.

Mr. GAUD. That includes grants of U.S.-owned Indian rupees; you are quite right.

Mr. PASSMAN. It is something we paid American dollars for, to get the food to sell to get the rupees.

What is the unliquidated amount for all categories?

Mr. GAUD. Just under $5 million.

Mr. PASSMAN. Is that for all spigots, including Public Law 480?

Mr. GAUD. That would not include unexpended rupees.

Mr. PASSMAN. Put the information in the record if you will.

(The information requested follows:)

Unliquidated balance—Nepal

[In millions of dollars]

		As of June 30, 1963	
		Obligated	Undisbursed
Public Law 480 Indian rupees:			
1960 allocation	16.8	16.8	2.9
1963 allocation	8.0	6.4	3.6
Total	24.8	23.2	6.5

U.S. PERSONNEL-U.S. AID—NEPAL

Mr. PASSMAN. Last year we had some discussion about the personnel in Nepal. It was being terminated or reassigned because of the redirected program. The project book indicated that you had 60 U.S. technicians in fiscal year 1962 and that you were planning to have 60 technicians in fiscal year 1963.

How many U.S. technicians did you have on duty June 30, 1962, and June 30, 1963?

Mr. GAUD. June 30, 1962, we had 64 direct hire, 9 contract, making a total of 73.

Mr. PASSMAN. U.S. technicians only?

Mr. GAUD. Those are U.S. technicians.

Mr. PASSMAN. Now 1963?

Mr. GAUD. Estimated as of June 1963, a total of—I can give you only the estimated and not the actual number on board at the moment, sir.

Mr. PASSMAN. Give us the figure comparable to the one you just gave us.

Mr. GAUD. That is what I cannot do.

Mr. PASSMAN. Let us get it in the record, please.

(The information requested follows:)

Program funded personnel, on board, U.S. AID—Nepal

	June 30, 1962	June 30, 1963
Direct hire	64	62
Contract	9	12
Total	73	74

Mr. PASSMAN. Can you project this item to the end of 1964?

Mr. GAUD. In 1964 according to positions we anticipate four more positions in June 1964 than in June 1963.

Mr. PASSMAN. Does that fact account for part of the increase in the program cost for fiscal year 1964?

Mr. GAUD. For some, but most of the increase related to one new project and a large expansion of an existing project we were considering at the time these books were prepared.

NUMBER OF PROJECTS IN NEPAL

Mr. PASSMAN. How many projects will you have in operation in Nepal in fiscal year 1964?

Mr. GAUD. Thirty projects.

Mr. PASSMAN. Can you give us, for the record, the number of projects for fiscal years 1961, 1962, 1963, and then project fiscal year 1964?

Mr. GAUD. Yes, I will.

(The information requested follows:)

Development grant projects funded in Nepal

1961	14	1963	32
1962	36	1964	29

Three new projects were started in fiscal year 1962. Except for these projects, the increase over fiscal year 1961 represents a division of several projects into separate continuing and terminating activities.

USE OF INDIAN RUPEES IN NEPAL

Mr. PASSMAN. Can we spend Indian rupees freely in Nepal?

Mr. GAUD. Do you mean are they as good as local currency?

Mr. PASSMAN. No. If we own the rupees, can we spend them in Nepal to the extent that we may need them?

Mr. GAUD. We do so only after agreement with the Indian Government.

Mr. PASSMAN. Do you have any trouble getting permission of the Indian Government to spend the amount of rupees needed for local projects?

Mr. GAUD. We haven't to date.

Mr. PASSMAN. Do you anticipate any trouble?

Mr. GAUD. No, sir.

Mr. PASSMAN. Then why do you have a dollar estimate for local expenses in Nepal?

Mr. GAUD. I will have to look into that and get the answer, Mr. Chairman.

(The information requested follows:)

JUSTIFICATION FOR DOLLAR REQUEST FOR LOCAL EXPENSE—NEPAL

Dollars obligated and disbursed for local expenses are used to purchase U.S.-owned Indian rupees held by the U.S. disbursing officer. These rupees are then used to pay support costs of U.S. technicians, such as rentals, local travel, local personnel salaries, and commodities procured locally.

FOREST PRODUCTS DEVELOPMENT PROJECT

Mr. PASSMAN. I note that you have two sawmills installed under the forest products development project, referred to at page 202. It is indicated that the local personnel problems have kept these two mills from attaining capacity production levels; is that correct?

Mr. GAUD. Yes, sir; that is true.

Mr. PASSMAN. Could you tell us about the percentage of capacity they have in operation?

Mr. GAUD. I haven't that in the committee room. I will get it.

(The information follows:)

NEPALESE SAWMILLS

The first two portable sawmill units were procured in 1956 at a cost of $40,000 each. These were later supplemented by logging equipment, spares and replacement parts at a cost of $246,000. The two one-blade portable sawmill units are currently cutting at approximately 50 percent of full capacity. This low utilization results not only from local personnel problems but also from a low volume of logging operations. We propose to procure $349,000 worth of additional commodities to be added to these two small sawmill units. This new equipment will enable the processing of all types and sizes of logs available into the end-products for which there is a market. In addition, we propose to contract for the services of an operating and management team for 3 years at an estimated cost of $323,000 to organize the operations of the sawmills, including logging, and to train the work force.

Mr. PASSMAN. Are we recognizing an error now, after we have built these sawmills? You could not get the local personnel to operate two.

Mr. GAUD. It is still a matter of training. The development of the forestry products in Nepal is a very important matter.

Mr. PASSMAN. I know it is, but also personnel to operate the mills is important and you have a shortage in trained personnel.

Mr. GAUD. With two mills you can train twice as many people as you can with one.

Mr. PASSMAN. Putting it on that basis with 50 mills you could train 50 times as many.

Mr. GAUD. That is true.

Mr. PASSMAN. You would not contemplate building another sawmill out there when you cannot operate the other two to capacity because of a shortage of personnel?

Mr. GAUD. As you will see from this same page, we are making preparations for a third sawmill in Nepal.

Mr. PASSMAN. When you cannot get personnel to operate two mills you are going to build a third one? You do not build these mills just to train people, do you?

Mr. GAUD. No, sir. The expectation is by the time we get the third mill the other two will be going strong and Nepal and will have a cadre of personnel to put in the third mill.

Mr. PASSMAN. When did you open up the first sawmill?

Mr. GAUD. When did it actually get into operation?

Mr. PASSMAN. When did you start it?

Mr. GAUD. I haven't got that date here.

Mr. PASSMAN. You stated, Mr. Gaud, that you are having your problems because you cannot get well-trained personnel to operate the two sawmills and therefore they cannot be operated at capacity. However, before being able to reach that objective, now we are thinking about starting a third mill. Well, that procedure is quite regular in the program.

You do contemplate starting a third sawmill, do you not?

Mr. GAUD. Yes, we do.

Mr. PASSMAN. How much is it costing per mill?

Mr. GAUD. I haven't got a breakdown here with me, Mr. Chairman.

INDUSTRIAL DEVELOPMENT CORP. PROJECT

Mr. PASSMAN. What is the cost for the extension of the contract for the services of the three-man team and the TDY consultants under the Nepal Industrial Development Corp. project, on page 203?

Mr. GAUD. This has already been funded. We are not asking for any funds for 1964. We are dropping that $194,000.

The contract has already been funded. We don't need the additional money to fund the contract.

Mr. PASSMAN. You have a project that started in 1956 scheduled to end in fiscal year 1969. You think the $328,000 will complete it?

Mr. GAUD. No. It will come very close to it. The total estimated cost of this project is $1,830,000. We have almost funded all but $340,000 of that.

Mr. PASSMAN. And you have unliquidated $328,000?

Mr. GAUD. That is correct.

Mr. PASSMAN. As we go through the book, Mr. Gaud, we are running into a lot of figures in this right-hand column where they have been eliminating the items. When are you ever going to work out a table of the excess dollars you have? Here you have justifications in the budget asking for $194,000 and you are going to drop it altogether. Around the world we run into so many projects, some of them quite large, where they put a figure in. Now, you come along and start dropping these figures out. I wonder if you are going to have an opportunity sometime to figure out the total amount of dropouts?

Mr. GAUD. Well, we know how much we obligated last year in the development grant area in this region.

Mr. PASSMAN. Are you sure? Just about every time the distinguished Comptroller comes up he keeps raising the figure of unobligated funds.

Mr. GAUD. We went into it yesterday or the day before, the amount of deobligations we made in this region and there is no question about how much we deobligated, Mr. Chairman.

Mr. PASSMAN. I am not talking about deobligated funds.

Mr. GAUD. That is what this is.

Mr. PASSMAN. It is estimated obligations for fiscal year 1964.

Mr. GAUD. You are talking about what we might not fund next year?

Mr. PASSMAN. Yes.

Mr. GAUD. That is correct.

Mr. PASSMAN. We are going to give you a run for your money on these deobligated funds, if you can come up with the amount you asked for when you prepared the justification what you are not going to need and get that total together. May we expect your cooperation?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Thank you.

AVIATION DEVELOPMENT PROJECT

Why would you need any funds for contract services for aviation development projects, since you state at page 206 that fiscal year 1963 funds will be used to finance 18 months of a planned contract to manage and operate the Royal Nepal Airline?

Mr. GAUD. We are not asking for any funds for fiscal year 1964 for that project. We are dropping that.

Mr. PASSMAN. You are dropping that item, too?

Mr. GAUD. Yes; we are.

Mr. PASSMAN. I am very impressed with these dropouts.

Mr. GAUD. I hope these please you, sir.

Mr. PASSMAN. We are pleased, but I wonder if the President has been notified as to how much to reduce his budget, so the two will be in line.

TECHNICAL SUPPORT PROJECT

Why do you need 240 local employees on this technical support project, sir?

Mr. GAUD. Those local employees perform all the services that are needed by our mission and also the USIA and the embassy in Nepal.

As you know, this country has relatively primitive services. We have to maintain the housing in which our people live, we have to maintain our offices, we have to maintain our automobiles, the local employees have to drive the automobiles, and they have to haul water. There are all sorts of services which they render for the Americans there.

Mr. PASSMAN. How many do we have in the aid program there locally?

Mr. GAUD. These people here serve not only our technicians and their families but also the Embassy and the USIA.

Mr. PASSMAN. How many do we have, total, in our U.S. agencies there?

Mr. GAUD. I would have to get that figure for you.

(The information requested follows:)

Total U.S. Government employees, Nepal

AID	90
Embassy	34
USIA	3
Peace Corps	69
Total	196

Mr. PASSMAN. What is the cost of the helicopter services under this project, sir?

Mr. GAUD. We entered into a contract under which the amount we pay for the helicopter depends upon the amount we use it. I confess I have forgotten the unit cost.

Mr. PASSMAN. How many helicopters do you have there?

Mr. GAUD. We are using one on contract.

Mr. PASSMAN. There is Pan American Airlines. Do they have an interest in the Royal Nepal Airlines?

Mr. GAUD. Not to my knowledge.

Mr. PASSMAN. Who owns this, the country?

Mr. GAUD. It is Government-owned.

Mr. PASSMAN. What size airline is it?

Mr. GAUD. As far as I know they operate to India. They operate now, I believe, to Pakistan. I don't know of any other operation.

Mr. PASSMAN. They do not own the large 707's or DC-8's?

Mr. GAUD. They have nothing but two-engine planes.

Mr. PASSMAN. Mr. Rooney?

Mr. ROONEY. I believe they have only 135 doctors for 10 million people in Nepal; is that right?

Mr. GAUD. Yes.

Mr. ROONEY. How many automobiles do we have in Nepal?

Mr. GAUD. Until very recently we have not allowed our people to take their own automobiles into Nepal at all. That was changed in March 1963, and we now allow shipment of jeeps or small cars.

Mr. ROONEY. They don't have any roads, do they?

Mr. GAUD. There are not many.

Mr. ROONEY. How many automobiles do you have?

Mr. GAUD. I haven't got that information. I will put it in the record for you.

Mr. ROONEY. Please furnish it at this point in the record.

(The information requested follows:)

Automobiles in Nepal

1. AID official vehicles:	
Sedans	4
Buses	2
Ambulances	1
Jeep station wagons	86
Jeep (military type)	10
Trucks	15
Total	118
2. Vehicles owned by AID personnel	7

BACKGROUND INFORMATION ON NEPAL

Mr. RHODES. The local currency used is Indian rupees?

Mr. GAUD. Yes.

Mr. RHODES. We apparently do not have a great supply.

Mr. GAUD. We hold a lot of Indian rupees; the Indian rupee circulates as legal tender in Nepal.

Mr. RHODES. Is this a self-supporting nation so far as food supply is concerned?

Mr. GAUD. Pretty much.

Mr. RHODES. What is the climate? Is it a monsoon type?

Mr. GAUD. It is a little of everything. Part of it is monsoon type. You have some valleys that are extremely pleasant and some have a lot of rain. Katmandu, they tell me, is about as attractive as any place in the world.

Mr. RHODES. Unattractive?

Mr. GAUD. Attractive.

Mr. RHODES. The people are similar to the Indians as far as their ethnic origins are concerned?

Mr. GAUD. Not really. Many of the people are Gurkhas, which is a slightly different racial background than the Indians. And in different valleys you get different strains of people. They have no particular affinity with the Indians.

Mr. RHODES. So I gather from reading the justifications. They do have the same religion, however?

Mr. LEE. They are basically Hindu at the present time, in the present century.

Mr. RHODES. That is all.

Mr. PASSMAN. Mr. Conte?

Mr. CONTE. How do do you get into Nepal?

Mr. GAUD. You can fly in and today there is a road.

Mr. CONTE. From where?

Mr. GAUD. From India.

Mr. CONTE. And the relations are good enough between the Indians and the Nepal Government to use the road?

Mr. GAUD. There was a period this winter when there was border trouble and the border was closed but currently there is no problem.

Mr. CONTE. Is that the way we bring in our supplies?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Thank you, gentlemen.

We shall adjourn until 1 o'clock tomorrow afternoon.

WEDNESDAY, JULY 24, 1963.

VOA AGREEMENT WITH INDIA

Mr. PASSMAN. The committee will come to order.

You are familiar, of course, with the proposed communications systems in India on which we thought we had reached a firm agreement, but with regard to which there now appears to be some reneging.

Have you been brought up to date on that matter, Mr. Secretary.

Mr. LEE. Yes, sir.

Mr. PASSMAN. Are they not reneging?

Mr. LEE. They are not reneging.

Mr. PASSMAN. Are they not trying to get out of going through with the understanding we had reached—the signed agreement?

Mr. LEE. Yes. As we testified the other day, they did sign an agreement.

Mr. PASSMAN. What is the difference between reneging and not going through on a signed agreement?

Mr. LEE. We are simply not certain yet what their objections are.

Mr. PASSMAN. I wonder if you will furnish to the committee, even though we are not examining on this area, whatever information you can, as soon as you can, with regard to this situation.

Mr. LEE. We were asked the other day for the agreement. I have here now a copy of the agreement, and copies of the letters exchanged in connection with it. I can either hand them to you now, or submit them with the transcript.

Mr. PASSMAN. Please submit them with the transcript.

We had an agreement with regard to the VOA transmitters. Do you interpret their present actions as meaning they are trying to get out of living up to the agreement as written?

Mr. LEE. They have internal problems.

Mr. PASSMAN. We all have internal problems and external problems, too. I am talking now about this agreement.

Mr. LEE. It was negotiated on the understanding it would be mutually beneficial. If that should not be the case, then some adjustment becomes necessary.

Mr. PASSMAN. To the mutual benefit to the United States and India?

Mr. LEE. Yes.

Mr. PASSMAN. Are they about to determine it might be beneficial to us and not to them?

Mr. LEE. They have been subjected to considerable pressure.

Mr. PASSMAN. From what quarter?

Mr. LEE. From a wide section of the public in India.

Mr. PASSMAN. From the public that is getting billions of dollars of U.S. aid?

Mr. LEE. From all political groups in India. These people have the fear this agreement is an infringement on Indian sovereignty since it permits the VOA relays from Indian territory and also places some restrictions on their broadcasts from that station. It has been criticized as marking a departure from the Indian policy of nonalinement.

Mr. PASSMAN. Why did they not determine the facts before they signed the agreement?

Mr. LEE. I wish to say further, it is apparent the Government of India either did not take a very accurate reading of the public opinion in India before signing the agreement, or else it did a poor job of informing the public of the nature of the agreement.

At the present time we are in communication with the Indian Government. It is our hope some adjustment can be made, or some ironing out of differences, or clarification of the differences can be made.

I hope before you mark up the bill the picture will be much clearer.

Mr. PASSMAN. We hope it will be clearer. You do not have any complaints from them about accepting our aid, do you?

Mr. LEE. No.

Mr. PASSMAN. Thank you, Mr. Secretary.

Mr. LEE. As Mr. Talbot explained before, I think the sentiment in India, the political attitude, is quite different from what it was, say, 5 years ago.

Mr. PASSMAN. Of course it is, because they have gotten more than $5 billion of our aid.

How far up did our Government go in getting the agreement signed? Was it at Mr. Nehru's level?

Mr. LEE. Yes.

Mr. PASSMAN. It went that high?

Mr. LEE. It went to the Nehru level, and we are trying to discuss it again at the Nehru level.

Mr. PASSMAN. At the Nehru level they approved the agreement?

Mr. LEE. That is my understanding.

NUMBER OF NATIONS RECEIVING AID

Mr. PASSMAN. I have mentioned earlier about us being in 104 out of 112 nations with the aid program, beginning with the Marshall plan. It would appear now if we just pick up fiscal year 1964 alone we get into a total of 95 nations, plus 4 territories and possessions. We are at the figure of 99 recipients for this fiscal year.

REOPENING OF AFGHAN-PAKISTAN BORDER

Mr. GAUD. Before we go to the next country, may I mention a couple of things left over from past discussions?

First, I thought the committee would be interested in knowing we heard today that the border between Afghanistan and Pakistan is opened.

Mr. PASSMAN. Do you think it will say open long enough to get our gifts entered?

Mr. GAUD. We trust it will stay open longer.

Mr. ANDREWS. What will we move in besides asphalt?

Mr. GAUD. There has now been a complete resumption of diplomatic relations between these two countries. Now we will divert what we can from Khorramshahr and send our entire aid supplies through Karachi to the Afghan border.

Mr. PASSMAN. This is not the first time there has been diplomatic relations between the two countries?

Mr. GAUD. Oh, no.

Mr. PASSMAN. Patched up and broken and patched up and broken?

Mr. GAUD. Yes.

Mr. PASSMAN. Do you have another item?

INDIAN CONSORTIUM

Mr. GAUD. If you recall, I said the other day the final meeting of the Indian consortium had been scheduled this morning.

Mr. PASSMAN. Do you have a copy of that information for us?

Mr. GAUD. No. Yesterday, the vice president of the World Bank telephoned and said the Germans had not yet made up their minds as to what they were going to do. The meeting will be held next Tuesday. Since that is after I will finish my testimony, I thought it might be useful to tell how matters stand at the present.

Mr. PASSMAN. Why do you not give to us the final agreement when it comes? We hope it indicates some worthwhile changes.

(The information supplied follows:)

INDIA CONSORTIUM AGREEMENT

The consortium of countries and institutions interested in development assistance to India concluded on August 7, 1963, a series of sessions devoted to considering India's needs for the third year (April 1963–March 1964) of her third 5-year plan. The pledges announced for the third year of the plan are as follows:

Aid pledged by consortium for Indian fiscal year 1963–64

Donor	Amount (million dollar equivalents)	Maturity (years)	Grace period (years)	Interest rates (percent)
Austria	7.00	12	2	6
Belgium	10.00	10–12		(1)
Canada	12.50	15–20	(1)	(2)
	18.00	(3)		
	30.50			
France	20.00	10		5¼
Germany	15.35	13	4	5¾
	27.50	25	7	3
	22.50	20	5	5½
	5.15	20	12	5½
	29.00	10		5½
	99.50			
Italy	45.00	10		(2)
Japan	65.00	15	5	5¾
Netherlands	7.22	25	7	(1)
	3.88	10		(1)
United Kingdom	84.00	25	7	[4] 3½
IBRD	105.00	12–25	3–5	[5] 5½
IDA	140.00	50	10	¾
United States of America:				
AID	385.00	40	10	¾
Ex-Im	50.00	10–15	3	5¾
	435.00			
Total	1,052.10			

[1] Not available.
[2] To be based on Government's borrowing cost or market rate plus an administrative charge or commission.
[3] Grants.
[4] Interest payments to be waived during 7-year grace period. Subsequent payments to be related to United Kingdom Government's borrowing rate. It is expected that the interest charge over the life of the loan will work out to less than 3½ percent.
[5] IBRD charges current market rate at time loan is made. This has recently been 5½ percent.

PAKISTAN

LEVEL OF ASSISTANCE

Mr. PASSMAN. The next country in this area is Pakistan, for which the estimate for fiscal year 1964 is $234.9 million.

Could you tell us the total amount of aid we have given to Pakistan since the inception of the program?

Mr. GAUD. Our total aid to Pakistan is $2,902,200,000.

Mr. PASSMAN. Does that figure include Public Law 480?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What is the amount of funds unliquidated to the credit of Pakistan as of June 30?

PUBLIC LAW 480 ASSISTANCE TO PAKISTAN

Mr. GAUD. This does not include Public Law 480—$387,728,000.

Mr. PASSMAN. Let us get the amount for Public Law 480, also.

Mr. TENNANT. Unfortunately, I do not have the unexpended or unshipped authorizations. Agriculture's figures are by overall agreements and not by authorizations issued.

Mr. PASSMAN. For much of the $378 million that is obligated, it will be many years before the funds are liquidated. Give us the total amount of our commitments under Public Law 480. Do you have that information?

We understand it is a contract and it may go for 3 or 4 years.

Mr. TENNANT. On the basis of the three or four agreements, the unshipped balance, as of December 31, for Pakistan was $452 million, and there was a small Public Law 480, title II program of $29 million, or a total of $481 million. That is on the basis of agreements.

Mr. PASSMAN. You have $387,728,000 under the aid program and under the agricultural agreements, to complete them, $452 million; and under Public Law 480 agriculture, $29 million; so, the total unliquidated amount to the credit of Pakistan as of June 30, and December 31, respectively, applying that to the Public Law 480 agreement, would be $868,728,000; is that correct?

Mr. TENNANT. I do not believe you included the military figure.

Mr. PASSMAN. How much is that?

Mr. GAUD. I misled you.

Mr. TENNANT. Military is ———.

Mr. PASSMAN. We are going to get this into $1 billion. The total will be ——— dealing specifically with the items as we have put them in the record.

Mr. GAUD. Subject to my reservation of yesterday with respect to the Public Law 480.

Mr. PASSMAN. Are we liquidating the agricultural aid according to the original schedule?

Mr. TENNANT. I cannot tell you.

Mr. PASSMAN. Are we ahead or behind?

Mr. GAUD. We are running, more or less, according to the agreement. Most of the Public Law 480 commodities under the agreement are to be shipped in the future. Pakistan is not yet entitled to it.

Mr. PASSMAN. Is that not also true with the $387 million?

Mr. GAUD. That is a firm obligation; it is almost entirely development loans.

Mr. PASSMAN. When will you disburse the money? Some could be 7 or 8 years from now?

Mr. GAUD. I doubt that it would be that long.

Mr. PASSMAN. For how long does the agricultural agreement go?

Mr. GAUD. I think it is a 4-year agreement. The difference is, while the $387 million is definitely obligated, we may or may not obligate all the Public Law 480 commodities called for by the 4-year agreement.

Mr. PASSMAN. The Public Law 480 agreement will expire before you liquidate some of these obligations. It is always to be expected, and the record is good enough that you have a substantial amount of money left over after you have obligated the funds.

ASSISTANCE FROM EXPORT-IMPORT BANK AND IDA

In addition to the estimates we have just put in the record, and the amounts unliquidated, could you tell us whether or not the Export-Import Bank and IDA are in for anything?

Mr. GAUD. The Export-Import figures are included.

Mr. PASSMAN. Is anything going out of IDA to them?

Mr. GAUD. Yes.

Mr. PASSMAN. How much?

Mr. GAUD. IDA in the years 1946——

Mr. PASSMAN. What amount do you have unliquidated?

Mr. GAUD. I would have to get that from the World Bank.

Mr. PASSMAN. Perhaps you better put in the record the amount they have obtained from IDA—the obligations and the unexpended balance as of June 30.

Mr. GAUD. Right.

(The information follows:)

Statement of IDA development credits and unexpended balances as of June 30, 1963—Pakistan

[Dollar amounts in millions]

Program or project	Date of agreement	Amount	Unexpended balance
Dacca irrigation project	Oct. 19, 1961	$1.0	$0.8
Inland ports project	Nov. 22, 1961	2.0	1.7
Khairpur irrigation project	June 29, 1962	18.0	7.9
Industrial estates project	Nov. 2, 1962	6.5	6.5
Brahmaputra flood embankment	June 26, 1963	[1] 5.0	5.0
Chandpur irrigation	do	[1] 9.0	9.0
Total		41.5	40.9

[1] Credit not yet effective.

LEVELS OF U.S. AID

Mr. PASSMAN. Regarding the $2,902,200,000 that we have given to Pakistan, did that include the Public Law 480 unliquidated funds?

Mr. GAUD. That included Public Law 480 through 1963.

Mr. PASSMAN. But it did not include the $452 million?

Mr. GAUD. It would have included a part of that.

Mr. PASSMAN. $29 million?

Mr. GAUD. I am not sure.

Mr. PASSMAN. Would you tell us how much it would not include?

Mr. GAUD. That is what Mr. Tennant says he cannot tell you.

Mr. PASSMAN. It is over $3 billion if you add that in. The divider sheet indicates that, notwithstanding this tremendous generosity, Pakistan's international trade is getting worse by the year. Is that correct?

Mr. GAUD. Her international trade?

Mr. PASSMAN. Yes.

Mr. GAUD. Her trade deficit is larger in 1962 than it was in previous years.

Mr. PASSMAN. What was the amount of aid to Pakistan last year from all spigots?

Mr. GAUD. From the United States?

Mr. PASSMAN. Yes.

Mr. GAUD. It was $455.6 million.

As Pakistan moves ahead on its development program, its capital goods imports will grow and trade balance will worsen. The trade balance includes imports under AID.

Mr. PASSMAN. The grant part and all?

Mr. GAUD. Yes.

Mr. PASSMAN. That explains it.

What was the amount of the development credits we extended to Pakistan during fiscal year 1962 and fiscal year 1963?

Mr. GAUD. In fiscal year 1962 and fiscal year 1963——

Mr. PASSMAN. We would like to have it broken down, fiscal year 1962 first.

Mr. GAUD. You would like them year by year?

In 1962, the development loans totaled $207.9 million.

In 1963, the development loans totaled $176.8 million. Together, that makes $384.7 million. One 1962 loan, at $7.5 million, was canceled, so the net was $377.2 million.

Mr. PASSMAN. What were the terms?

Mr. GAUD. The terms were 40 years, 10-year grace period and three-quarters of 1 percent.

Mr. PASSMAN. That is the credit arrangement where we occasionally slip up and call them loans, on account of the legislation being drafted that way. Secretary Dillon said they were development credits. That is what we are dealing with?

Mr. GAUD. Yes.

AID TO PAKISTAN BY OTHER CONSORTIUM MEMBERS

Mr. PASSMAN. What was the amount and terms of the loans extended by other countries of the consortium?

Mr. GAUD. For what years would you like that?

Mr. PASSMAN. Fiscal 1962 and 1963.

Mr. GAUD. I believe we went through 1962 and 1963 the second day I was here.

Mr. PASSMAN. Then we shall not go through that now.

Mr. GAUD. We have not gone through 1964.

I have the figures, the pledges made at the last consortium.

Mr. PASSMAN. Please put them in the record.

Mr. GAUD. You want me to put in an insert on the 3 years?

Mr. PASSMAN. Yes, sir.

(The information follows:)

Consortium pledges and loan terms for second, third, and fourth years (fiscal years 1962, 1963, and 1964) of Pakistan's second 5-year plan

Consortium member	Total pledge (millions of dollars or equivalents)	Interest rate (percent)	Grace period (years)	Duration (years)
FISCAL YEAR 1962-63 PLEDGES				
United States	500			
AID grants	(23)			
AID loans	(427)	¾	10	40
Ex-Im loans	(50)	5¾	1-2	7-18
IBRD	70	5½-5¾	2½-5	10-25
IDA	139	¾	10	50
United Kingdom	48	[1] 5½-6¾	5-7	25
Canada	38			
Grants	(23)			
Loans	(15)	6	5	15-20
Germany	80			
Loans	(60)	3-5½	5-7	20
Loans	(20)	6½		10
France	25	6		[2] 12-15
Japan	45	6	5	15
Total	945			
FISCAL YEAR 1964 PLEDGES				
United States	212.5			
AID loans	(187.5)	¾	10	40
Ex-Im loans	(25.0)	5¾	(3)	7-18
IBRD	30.0	5½-5¾	2½-5	15-25
IDA	50.0	¾	10	50
UK	22.4	[4] 3¼-3½	7	25
Canada	19.0			
Grants	(11.5)			
Credits	(7.5)	6	(3)	20
Germany	27.5			
Loans	(18.5)	5½	5	20
Loans	(9.0)	3	7	20
France	7.0	6		[2] 10-15
Japan	30.0	5¾	5	15
Belgium	10.0	[5] 5½-6½		10
Italy	10.0	[5] 5½-7		10
Netherlands	6.6			
Loans	(4.4)	(3)		10
Loans	(2.2)	(3)	5-7	20-25
Total	425.0			

[1] Interest rate is the British Treasury rate plus ¼ of 1%. Hence there is a fluctuating interest rate as Treasury rate fluctuates.
[2] 10 years from time of delivery of equipment or completion of project.
[3] To be determined.
[4] UK waiver of interest during the 7-year grace period reduces the nominal rate of 5¾-6¾% to the above effective rate.
[5] Market rate of interest plus commission.

Mr. PASSMAN. Is Germany in on this consortium arrangement?

Mr. GAUD. Yes. For 1964, 20 years, one-third at 3 percent with a 7-year grace period, two-thirds at 5½ percent with a 5-year grace period.

Mr. PASSMAN. They draw the interest on that money during the grace period, do they not?

Mr. GAUD. Yes; they do.

Mr. PASSMAN. They get the hard loans at a profitable rate of interest, and we get the give-away.

Mr. GAUD. We are not satisfied with the progress we are making in improving the terms of other lenders.

Mr. PASSMAN. If you ever get the Germans to adopt this loose system of ours, you will be entitled to a twin star on your coat. I think they are not going to wreck themselves financially because we are willing to wreck ourselves.

Mr. GAUD. The British this year have reduced their interest rate very substantially. They still charge the Treasury rate plus a service charge, but there is a waiver of interest during the 7-year grace period. This works out to reducing the effective rate of interest to about 3.25 percent.

Mr. PASSMAN. It would appear that other than the grace period they are still getting the Treasury rate plus a bonus for making the loan. If we handled it in America on that basis, we would be getting pretty close to 4 percent.

Mr. GAUD. That is right, though the effective rate of interest would be lower.

Mr. FORD. In these consortia, we make our contributions as a government, do we not?

Mr. GAUD. Yes; we do.

Mr. FORD. Do the other nations do the same?

Mr. GAUD. Yes. These are government funds only in the consortia. There have been a few cases among the European nations, the newcomers to the consortia this year, where it is a question of government guarantees of commercial credits rather than government money. With these exceptions, it is a matter of government money that goes into the consortia.

SENATE FOREIGN RELATIONS COMMITTEE ADOPTION OF NEW DEVELOPMENT LENDING TERMS

Mr. GARY. Did not the Senate committee yesterday adopt an amendment to the authorization bill to provide that no money be loaned at less than 2 percent under the law?

Would that apply to these so-called investment credits, or whatever you call them?

Mr. GAUD. The amendment that was adopted by the Senate Foreign Relations Committee yesterday would apply to all AID loans.

A grace period of not more than 2 years and some rather complicated provisions as to the rate at which amortization must take place, but the longest limit of a loan would be 30 years.

Mr. GARY. That is in the authorization bill?

Mr. GAUD. That was the suggestion of the Senate Foreign Relations Committee.

Mr. GARY. It was an amendment suggested by the Senate Foreign Relations Committee to the authorization bill?

Mr. GAUD. That is right.

Mr. PASSMAN. Two percent, and limiting the grace period to 2 years?

Mr. GAUD. Yes.

I might say that today and tomorrow Mr. Bell is in Paris at meetings of the Development Assistance Committee and one of his principal objectives there is to press this question of loan terms with the European members.

Mr. PASSMAN. I doubt if he has much success.

NEW PROJECTS INITIATED IN FISCAL YEAR 1963

Did you initiate any new projects in Pakistan in fiscal year 1963?

Mr. GAUD. I believe there were two.

Mr. PASSMAN. Where were these two projects justified before the Congress last year?

Mr. GAUD. Let me see. The Government management project was in the presentation last year with a request for $76,000.

Mr. PASSMAN. How much did you obligate out of this $76,000?

Mr. GAUD. We obligated $297,000.

Mr. PASSMAN. Your book indicates you have obligated $424,000 out of the $76,000. Now you say you obligated only $297,000 out of the $76,000.

Mr. GAUD. That is true.

Mr. PASSMAN. You are a good operator if you can do that.

Mr. GAUD. We did not obligate $424,000. We obligated $297,000.

Mr. PASSMAN. How can you do that out of $76,000?

Mr. GAUD. We justified $76,000, and we obligated for the project $297,000.

Mr. PASSMAN. Let us find out about the other project.

Mr. GAUD. The other project is malaria eradication.

Mr. PASSMAN. How much did you request last year?

Mr. GAUD. This is one we did not justify.

Mr. PASSMAN. How much did you obligate for the project?

Mr. GAUD. $35,000.

Mr. PASSMAN. The book shows $68,000.

TRADES TRAINING CENTER PROJECT

How about this training center, on page 231?

Mr. GAUD. We made no obligation in 1963. We may do the project in 1964.

Mr. PASSMAN. What did you do with the $1 million?

Mr. GAUD. We never obligated it.

Mr. PASSMAN. You are not asking for anything in 1964?

Mr. GAUD. We have nothing in the book, but the book shows, as you point out, an obligation of $1 million in 1963 which we did not make. We still think we are going to go forward with the project, and if we do, our present estimate on what we would obligate in 1964 would be $600,000.

Mr. PASSMAN. This is a clear case of what happens when you are forced to spend money when you do not have any firm plans.

Mr. GAUD. This project was developed as a result of a conference on middle level manpower in Puerto Rico in 1962, which was attended by the United States and a great many of the underdeveloped nations.

This project was worked out by the Defense Department and the Peace Corps and AID together.

Mr. PASSMAN. By whom?

Mr. GAUD. By Defense, AID, and the Peace Corps.

The idea was to develop trades training in a number of countries. We thought the project would get started a good deal sooner than it did, which is why we showed the obligation for 1963. The plans are fairly far along now, and we believe it will get going in 1964.

Mr. PASSMAN. What will you do when you get going?

Mr. GAUD. Train people in the building trades and the mechanical and technical trades; for example, bricklaying, carpentry, motor repair and maintenance, welding, and so forth.

Mr. PASSMAN. Is it going to be a Peace Corps operation—or an AID operation?

Mr. GAUD. AID will provide equipment and technical supervision, and there will be about 100 Peace Corps instructors.

Mr. PASSMAN. How far will the Peace Corps get into the operation of AID and be doing projects for AID which you have previously been doing very well?

AVERAGE COST OF TECHNICIANS AND PEACE CORPS VOLUNTEERS

Mr. GAUD. They will not get into them any farther than we want them to. In projects where you can use Peace Corps people as instructors, you save an awful lot of money in hiring technicians that cost $20,000 to $30,000 a year, and there are some areas, like highway construction, and maintenance where the Peace Corps people can do a good job.

Mr. MINSHALL. What kind of an instructor gets $30,000 a year?

Mr. GAUD. Technicians.

Mr. MINSHALL. Technicians?

Mr. GAUD. Yes, sir.

Mr. MINSHALL. That is a good-sized salary, $30,000.

Mr. GAUD. It is not a salary.

Mr. MINSHALL. How do you break it out?

Mr. GAUD. If you take the salary, plus transportation, and in some places hardship allowances, shipping of household effects, housing, and all the rest, you will find the average cost of technicians in some areas will come close to that.

Mr. MINSHALL. What is the salary?

Mr. GAUD. The average in my region is around $11,000 for direct hire.

Mr. PASSMAN. Have you ever looked at the 34 percent they spend in the administrative part of the Peace Corps program downtown?

You know what the cost is—about $9,000 to get one of these corpsmen assigned.

Mr. GAUD. The basic difference, at least as far as the projects in my region are concerned where the two are working together, is, we try to send technicians over who will help train the teachers. Peace Corps people do the teaching themselves.

We try to train teachers, whereas Peace Corps people will be working in the schools themselves, or will be working on the roads themselves, while our technicians will be teaching teachers, or training management people, and so forth.

Mr. PASSMAN. I have here a newspaper article which says:

Asked by Representative Florence Dwyer, Republican of New Jersey, whether foreign aid expenditures were chiefly responsible for the continuing imbalance of payments, Mr. Dillon said there were three main elements.

He listed this country's expenditures overseas for its own troops, American private investments overseas, and the foreign aid program.

I think this needs no further comment at this time.

U.S. HOLDINGS AND USE OF PAKISTAN CURRENCY

In Pakistan, did you include any local currency in the figures you gave us earlier?

Mr. GAUD. No.

Mr. PASSMAN. Would you give us the total amount of U.S.-owned foreign currencies, in addition to all the other aid spigots resulting from Public Law 480?

Mr. GAUD. It is included in effect in the Public Law 480 figure.

Mr. PASSMAN. Do we have any of Pakistan's currency to our credit at this time?

Mr. GAUD. Yes, we do.

Mr. PASSMAN. How much?

Mr. WHITE. $123 million worth.

Mr. PASSMAN. What are our annual requirements?

Mr. GAUD. $11 million.

Mr. PASSMAN. You have about a 12 years' supply.

Mr. FORD. How much activity is there in the utilization of foreign currencies in Pakistan on an annual basis?

Mr. GAUD. Do you mean to what extent do we use the local currencies?

Mr. FORD. This is a secondary way of bolstering our foreign aid program.

Mr. GAUD. In fiscal year 1962, the equivalent of $129 million of rupees were used for Pakistan development plans.

Mr. FORD. Rupees generated by various programs on our part over the years?

Mr. GAUD. That is correct.

Mr. FORD. Was this about the level of utilization on an annual basis?

Mr. GAUD. Yes. We estimate in 1963 it will be about $115 million, which is not very much different.

Mr. FORD. Can you put a statement in the record showing how the $129 million was utilized in fiscal year 1963, and what you contemplate?

Mr. GAUD. Yes. I think we have already given this to the staff.

CONTRACT SERVICES—AGRICULTURAL UNIVERSITIES PROJECT

Mr. PASSMAN. Would you break down this contracting services estimate of $819,000 for the agricultural universities project, on page 217, as it appears this estimate covers contract technicians, equipment and participant training?

(The information requested follows:)

BREAKDOWN OF CONTRACTING SERVICES—AGRICULTURAL UNIVERSITY CONTRACT—PAKISTAN

AGRICULTURAL UNIVERSITY

Proposed fiscal year 1964 obligations would fund ongoing contract services by Washington State University at the Agricultural University, Lyallpur, West Pakistan, and a contemplated expansion of advisory services as explained below.

The ongoing services include: (1) a team of 14 specialists in agricultural sciences and a number of short-term staff members ($430,000); (2) first-year training for 12 new participants and completion of advanced graduate training of 15 trainees presently in the United States ($140,000); and (3) library, laboratory, and demonstration materials ($40,000). The total cost is $610,000.

In addition, we have been considering expanding this contract to include assistance on waterlogging and salinity to carry out some recommendations of President Kennedy's Science Advisory Committee on Waterlogging and Salinity. The additional services will include: (1) four irrigation engineers ($120,000); (2) a participant-training program in irrigated agriculture ($40,000); and (3) specialized equipment ($50,000). The total cost is $210,000. Final implementation of this depends upon agreements with Pakistan with regard to carrying out the recommendations of the President's Science Advisory Committee.

Mr. PASSMAN. In view of the fact you are expanding the number of U.S. technicians under the agricultural area development project, on page 219, why is the Peace Corps getting into the act at this time?

Mr. GAUD. The Peace Corps people have been working in the field beginning in late 1963, and they complement the work done by our own people who are advising Pakistan on the training program of its field staff.

Mr. PASSMAN. Why are you expanding the number of U.S. technicians? Are you going to be able to cut down on the number of U.S. technicians when these Peace Corps people get into the program?

Mr. GAUD. Not for this.

Mr. PASSMAN. You are increasing the number of U.S. technicians in the same area where Peace Corps men are coming in?

Mr. GAUD. For this project; yes.

Here is a problem we intend to concentrate on, that is the reclamation of these large areas in the Indus Basin which are lost to agriculture by waterlogging and salinity.

The President's Science Committee made a report on this situation, which we received last year. We are just getting going on work, on a plan to try to do something about this problem.

Mr. PASSMAN. You are mixing your AID technicians with the Peace Corps personnel.

Mr. GAUD. But they are doing different jobs.

Mr. PASSMAN. I shall not try to win.

Mr. GAUD. Yes, indeed, they are both engaged in this.

Mr. PASSMAN. In many instances, for this type of work it takes seasoned and well-trained engineers to do it.

Mr. GAUD. To do part of it, yes.

Mr. PASSMAN. When you start substituting a 21-year-old Peace Corps man to do the work of a seasoned engineer, how does it work out?

Mr. GAUD. It would not work out at all. We are not doing that.

Mr. PASSMAN. According to the books, they are pretty well mixed up.

Mr. RHODES. Who is your contractor on this project?

Mr. GAUD. Our present plan is to use direct hire technicians.

Mr. RHODES. This type of thing has been done so often and so successfully in Arizona that if you want a contractor, I would suggest the University of Arizona. I say that without any parochial idea of getting something for a constituent.

Mr. GAUD. I know Dr. Revelle has been in touch with them.

Mr. PASSMAN. I note, in connection with this project, and with several others in this country, that you plan an expansion of U.S. personnel from a level at the close of 1962 to a specific figure at the close of 1964.

Is that not an unusual way to justify an increase in personnel over a period?

I quote:

An expansion of U.S. personnel is projected from 5 at the close of fiscal year 1962 to 13 at the close of fiscal year 1964.

That is a little fuzzy to me. Is it to you?

Mr. GAUD. No, sir; it sounds like a clear statement to me.

Mr. PASSMAN. The statement is clear, but what you propose to do is not. How many technicians did you have in 1963?

Mr. GAUD. At the moment, we have five. We had scheduled 10, but we do not have them all on board yet.

Mr. PASSMAN. You had the same number at the end of fiscal year 1963 that you had at the end of fiscal year 1962?

Mr. GAUD. Five, that is right.

Mr. PASSMAN. Now you propose increasing them to 13?

Mr. GAUD. That is right.

Mr. PASSMAN. Does that make it clear?

Mr. GAUD. Yes.

Mr. PASSMAN. You did not say 1963 in the book.

Mr. GAUD. That is right, we did not.

The speed with which this project goes forward depends primarily upon working out arrangements with the Government of Pakistan which will insure effective Pakistan administrative control of the reclamation areas. We are still talking to them about it, and it has not got going as fast as we expected.

Mr. PASSMAN. Are you familiar with the naval expression, "Everything is snafu"?

Mr. GAUD. Yes.

Mr. PASSMAN. That matter, it seems to me, is snafu.

INDUSTRIAL PRODUCTIVITY PROJECT

I note you are requesting $835,000 for the industrial productivity project, on page 226.

Mr. GAUD. Yes.

Mr. PASSMAN. It appears from the narrative on the project that you are requesting $745,000 for contract services to finance 21 contract technicians. What is the average cost of these 21 technicians?

Mr. GAUD. That would be about $35,000.

Mr. PASSMAN. Would it not be about $35,500?

Mr. GAUD. I did it in my head.

Mr. PASSMAN. Are they a special superior type of technician to command that type of payment?

Mr. GAUD. They have to be good people. There will be a lot of overhead here.

I would like to look into that figure, Mr. Chairman, and get a little more information on it, but it does not look out of line.

Mr. PASSMAN. It could be that you might reduce your estimate on that project?

Mr. GAUD. I doubt it.

Mr. PASSMAN. Now, on page 227 you say:

> Details regarding implementation of this project are in the process of being worked out, including the precise timing for moving ahead with certain aspects of the proposals. Accordingly, any fund in excess of anticipated requirements will be deobligated.

Is that not kind of a new wrinkle on the buck's horns?

Mr. GAUD. Our book says——

Mr. PASSMAN. Did I read correctly: "Any funds in excess of anticipated requirements will be deobligated"?

Mr. GAUD. That is right. What we did in fact——

Mr. PASSMAN. You do not have anything from which to deobligate, so it is plain that you are going to ask for a lot of money. You do not think you need it, you imply, but you can give it back by deobligating it. Is that not what you are saying?

Mr. GAUD. I would like to tell you what we did.

The book shows we were going to obligate $900,000 in 1963. As we say here, we were not ready to go ahead full steam on the project, so instead of obligating $900,000, we only obligated $365,000.

Mr. PASSMAN. How much of that do you plan to deobligate, according to the language on page 227?

Mr. GAUD. None.

Mr. PASSMAN. Why did you put this language in here? Did you have more than you needed?

Mr. GAUD. If I had seen it, it would not have stayed in there.

Mr. PASSMAN. I note that you have an unliquidated balance, as of June 30, estimated at $1,116,000; is that correct?

Mr. GAUD. No. Inasmuch as we obligated only $365,000, the unliquidated balance should be $550,000 at the outside.

ILLUSTRATIVE NATURE OF PROGRAM PRESENTED TO CONGRESS

Mr. PASSMAN. The best justification you can make for this is that it is illustrative. You can put it up or down, and it can be canceled out and put to other projects. It is about that simple, is it not?

Mr. GAUD. Yes.

Mr. FORD. What percentage of validity is there to the justification books we go through every year, based on what you really execute during the pertinent fiscal year?

Mr. GAUD. I would say it is pretty high, Mr. Ford. These books are made up in February and early March, and that means we have a good many months of the fiscal year left to us. Circumstances change. Things do not go as fast as we would like, or as well as we would like, and we have to make changes. New projects come up which we feel are more important than others.

Certainly, by and large, if you go through all the projects in this project book, you will find that we went forward with pretty nearly all of them as we had planned. Of course, we adjust the amount we obligate, depending on requirements, and these are determined in part by country circumstances. If we were rigid, it would not make any sense at all in terms of the program. We have to adjust to changing conditions.

Mr. PASSMAN. The entire program, from start to finish, is illustrative; you use these justifications to get your funds, but under the law you do not have to actually go by the justifications. You could substitute new projects altogether for those that you list in the book; could you not?

Mr. GAUD. Yes.

Mr. PASSMAN. And you could, for that matter, cancel all the projects in one country and move them into another country?

Mr. GAUD. We could.

Mr. PASSMAN. The same kind of thing could be done with your development credits. You do not enter into a plan for projects until you get the money?

Mr. GAUD. We do not make any commitments to any projects until we get the money.

Mr. PASSMAN. You do not plan any projects. You do not submit any evidence to this committee as to what the project will be, do you, until you get the money?

Mr. GAUD. No, sir; not as a general proposition.

Mr. PASSMAN. The law is that broad?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. It is an uncontrolled and, in its present form, an uncontrollable program.

I am thoroughly convinced that if we continue this program we are going to have to adopt the same standards abroad that we have in America. If you have waited all these years to start a project, there is no reason why it would not wait another year or two to be sure it is planned properly.

Mr. GAUD. Mr. Chairman, the law is certainly as broad as you say it is. Coming back to Mr. Ford's question, it seems to me the basic proposition is this: The law is so broad, like many other laws, that we could flimflam Congress all around the town.

The basic question is with what spirit do we prepare this presentation here. It represents our best estimate of what we plan to do when the presentation is prepared. Obviously, you cannot plan in advance and be right a hundred times out of a hundred but most times we do go forward with our plans here, subject to changes as circumstances require. I would sum it up by saying that it is as close to being an accurate picture of what we plan to do next year as we can possibly make it.

Mr. FORD. In fiscal year 1963 we went through the same process?

Mr. GAUD. That is right.

Mr. FORD. What projects did you execute that were not mentioned at all to the committee last year in the case of Pakistan?

Mr. GAUD. There was one. We mentioned it before you came in.

Mr. FORD. For Pakistan only one?

Mr. GAUD. Yes.

Mr. FORD. You are submitting on a worldwide basis?

Mr. GAUD. Yes.

Mr. PASSMAN. You say only one?

Mr. GAUD. Only one we did not justify.

Mr. FORD. I limited the question to the projects they did not mention at all.

Mr. ANDREWS. If the gentleman will yield, as a matter of fact you could change any of these projects you want to.

Mr. GAUD. Yes.

Mr. ANDREWS. And go into any new project that you think worthy. The truth of the matter is it does not do much good to hold these hearings, does it?

Mr. GAUD. I think it does a good deal.

Mr. ANDREWS. Except to determine the total amount that the Congress is going to appropriate.

Mr. GAUD. It does that. I think also that it informs the Congress, the members of the committee, what we are doing. I think that these hearings are extremely useful to us in terms of our learning how you feel. When we go through these projects there have been a number of instances where questions have been brought up where I said I wanted to look into these things. I mean this a hundred percent. I think these hearings are mutually beneficial in many ways.

Mr. ANDREWS. Suppose the committee decided we did not want you to go forward with X project in Y country. You had discussed it here. You said it was one about which you had not made up your mind or maybe you had made up your mind. How would the committee go about expressing its wish for you not to go forward with that particular project?

Mr. GAUD. It strikes me that if the committee told us that informally, or made a statement to that effect in its report, we would think mighty seriously before we went forward with it.

Mr. ANDREWS. But I have known cases where expressed opinions of the committee have been ignored.

Mr. GAUD. Yes. It seems to me that under our constitutional system of government the final decision on these cases rests with us rather than with you, unless the law specifically prevents us from going forward with something.

I believe that we would be very hesitant to disregard an expressed wish of this committee on a specific project. We would want to feel extraordinarily sure that it was something that we ought to do or had to do before we would go forward.

Mr. ANDREWS. There isn't a single project mentioned in the appropriation bill, is there?

Mr. GAUD. No.

Mr. FORD. In the report sometimes something is mentioned.

Mr. GARY. And this committee can at any time express its disapproval of any project in the entire program and I dare say, as Mr. Gaud said, if the committee directly expresses its disapproval——

Mr. GAUD. We would think several times.

Mr. GARY. Chances are it would not be carried out unless somebody felt that it was absolutely essential.

Mr. GAUD. The secret is, is it not, Mr. Andrews, that this relationship between us on the administrative side and you on the legislative

side is a continuing relationship. To put it quite bluntly, we know we have to live with you. I think that since it is a continuing relationship, this is an important part of it.

Mr. ANDREWS. Off the record.

(Discussion off the record.)

Mr. MINSHALL. Mr. Chairman, will you yield?

Mr. PASSMAN. Yes.

Mr. MINSHALL. Mr. Gaud, we have been discussing our AID appropriation on this committee. Do you think it would be any more expedient if we appropriated on a regional basis rather than a lump sum for all foreign aid?

Mr. GAUD. No. I think it would be worse, from the standpoint of carrying out the foreign-policy objectives of the Government. It seems to me that the President, who after all basically runs this program, should have as much freedom as possible in the administration of this program, and in the administration of our foreign policy.

For example, conditions might change in country X, in the course of a year, so that you would not want to give them any aid at all for the balance of the year. Conditions might change in country Y so that you felt it was important to give them more aid than might have been allocated in a regional allocation. I think you have to have more freedom, more scope in the executive.

Mr. MINSHALL. In other words, you would be more strongly opposed to a country by country appropriation.

Mr. GAUD. Even more strongly opposed because this would indeed tie the hands of the President.

Mr. PASSMAN. I yield to Mr. Rhodes.

BOKARO STEEL MILL PROPOSAL

Mr. RHODES. Mr. Gaud, I am interested in how we might further implement this relationship. I like the statement you made. Let's take this Bokaro steel mill. We, I think, indicated that we would like to have another look at it before money is put into that steel mill.

Mr. GAUD. That is right.

Mr. RHODES. I do not know whether that would be strong enough to insure that this would come about or whether we should do something else. In other words, do you feel it is necessary for us to make some overt act like putting a request in the committee report, or is this enough?

Mr. GAUD. On this specific project, Mr. Rhodes, we are in process of thrashing out this very question, you might say, with both of the authorizing committees. They are both in midstream on this issue. I do not know where that is going to come out, but I will assure you that before you mark up this bill we will come to you and discuss this question with you.

Mr. RHODES. Thank you.

INADVISABILITY OF SOLICITING RECOMMENDATION OF U.S. STEEL ON FEASIBILITY OF BOKARO MILL

Mr. PASSMAN. Did you employ United States Steel to make a survey at the expense of some $750,000 for the steel mill?

Mr. GAUD. The $750,000 was the amount that we estimated. It cost somewhat less than that. We did employ United States Steel.

Mr. PASSMAN. Do you have a copy of their recommendations?

Mr. GAUD. I have a copy of their report which I have given to Mr. Merrill.

Mr. PASSMAN. Did they make recommendations?

Mr. GAUD. They did not. They made a report.

Mr. PASSMAN. Would not the opinion of a firm of that caliber be very valuable to the agency in determining the feasibility of this thing?

Mr. GAUD. We are certainly interested in their views; yes.

Mr. PASSMAN. Would it be proper for you to get for the committee United States Steel's recommendations? You had enough confidence in this organization to employ them to make this check.

Mr. GAUD. We have not asked them for any recommendations.

Mr. PASSMAN. Do you not think it would be prudent to get their recommendations? If you could trust them on spending upward of half a million dollars to make this survey, do you not think you could trust them on their recommendations as to whether they thought this steel mill should be built?

Mr. GAUD. I do not think they are in position to make a recommendation on the question.

Mr. PASSMAN. You would not know until you asked them, would you?

Mr. GAUD. I have talked to them about this, Mr. Chairman.

Mr. PASSMAN. Would you request a recommendation?

Mr. GAUD. No; I would not request it.

Mr. PASSMAN. Why not?

Mr. GAUD. Because I do not believe that they are in a position to make a recommendation on the question we face.

Mr. PASSMAN. Are they not in a lot better position to make a recommendation than you are, or anybody else with AID?

Mr. GAUD. They are in a position to assist us on technical questions. I do not think they are in position to make a recommendation on whether the U.S. Government in the light of its foreign policy, and its aid policy, should make this investment.

Mr. PASSMAN. If you are going to deal with whether it is wise to invest American taxpayers' dollars or give them away, it seems to me they are in position to make a recommendation. If you are willing to pay United States Steel, a reputable firm, three-quarters of a million dollars, or whatever under that amount you paid them, to give you the technical advice, I would not know why you would not want to have from them their opinion as to whether or not, since they are steel people and have to deal with this thing year in and year out, all over the world, this would likely be a sound operation.

Mr. GAUD. Their recommendation on whether there is a demand, sufficient demand for steel to justify building the plant, their recommendation on whether this plant will be profitable, their recommendation on whether there are sufficient raw materials and whether there is sufficient power, transportation, water, that sort of thing, those recommendations, I am with you a hundred percent. But on the basic question of whether the United States should make this investment in carrying out the policy enunciated in the Foreign Assistance Act; no.

Mr. PASSMAN. I agree they should not write the policy, but would it help you if we brought the officials down from United States Steel, for hearings, to get them to make a complete record as to why we should or should not go through with this proposal, based on an economic justification?

Mr. GAUD. They have given us that. They have given us a technical economic study of the situation. Now the question that remains, once we satisfy ourselves on that——

Mr. PASSMAN. Is that a matter for the agency to evaluate only?

Mr. GAUD. You might say this: They have given us the facts. Now we have to make the judgment whether on those facts, in the light of our aid policy, et cetera, we should go forward with this investment. I do not think United States Steel is in position to make that judgment.

Mr. PASSMAN. You would not mind us trying to find out more of the facts by having the people familiar with the situation come before this subcommittee? If I wanted to know whether a mill of this type could be economically justified in India, or other places, I would rather go to United States Steel than to AID people downtown. You would not quarrel with this position?

Mr. GAUD. Certainly not.

U.S. POSITION ON BOKARO STEEL PROJECT

Mr. MINSHALL. I have discussed this Bokaro steel matter at some length with some very high officials of a steel company who are familiar with it. I think it should be pointed out that they do not think much of the Bokaro steel venture that will cost the American taxpayers a billion and a half dollars over a 5-year period.

Mr. GAUD. As long as we got into this, Mr. Chairman, I would like to state, so there will be no misunderstanding on the part of the committee, just what the administration's position is on this steel mill. It will take a few moments. I think it might be worth it. The first question that you have to decide in considering this proposal is whether there is a need for another steel mill in India. Is there a sufficient demand for it? Now there are five mills.

Do any members of the committee question whether there is a demand for this steel?

Mr. PASSMAN. Surely there is a demand for it. However, they might buy the steel they need from mills in America and save money.

Mr. GAUD. Let me put into the record an excerpt from the United States Steel report which deals with the question of demand and shows quite clearly that over and above the amount of steel that will be produced in Bokaro there will still be a shortage of flat steel products in India in 1966, 1971, and 1976, which is as far as they went.

Mr. PASSMAN. Is that fact not true also in a good many other countries of the world?

Mr. GAUD. That is correct.

I am sure we agree this is one of the most important questions we have to deal with this year. I would like to get my position on the record. I will be brief as I can. The first question is whether there is a need for steel in India. These figures show very clearly that there will be. Now that is true despite the fact that the five steel mills

which are now in India, two privately owned and three publicly owned, are all going to be expanded to the limits of their capacity.

Licenses for that expansion have already been granted by the Indian Government, and it is going forward, so that plans are already in prospect to increase the existing mills to the full capacity. That is estimated to be 7.4 million tons—this is effective ingot capacity—in 1966, 11.3 million tons in 1971, and 14.4 million tons in 1976.

If we agree India needs more steel, then the next question is should she import it or should she build another plant? India has been importing about $150 million of steel a year. Her steel imports are very severely restricted because of the lack of foreign exchange. I might say that about 13 percent of imported steel came from the United States this past year—about $25 million. The rest of it came from Japan and European countries.

In the next 5 or 10 years the requirements for steel will increase to such an extent that India will have to multiply those imports. She would be spending $250 million, $300 million a year and more on steel imports unless domestic production increased. India will not have the foreign exchange for that level of steel imports. So that if we think only in terms of ways to reduce our own foreign aid burden—the period of time over which we might have to give aid—a steel mill in India will save an enormous amount of foreign exchange that India would otherwise have to lay out.

Now, will this mill be profitable, and I now go back to the United States Steel report. United States Steel reports that this mill will not be profitable in the first stage but only in the second, which begins in 1971. United States Steel looks at the proposition from the standpoint of an individual entrepreneur paying taxes and selling steel at the Government-controlled price. If, however, you look at this mill from the standpoint of the Government and the economy, where the selling price of steel exceeds the price paid to the producing mills, you will find that this mill will earn 22 percent before taxes, and 11 percent after taxes. So that we reckon that this is a sensible investment in terms of the utilization of resources and in terms of earnings and payoff.

Mr. RHODES. How can you state with such great particularity the earnings of this steel mill when you do not even know what your sources of supply are yet?

Mr. GAUD. I am using the basic figures in the United States Steel report modified to take account of the price at which steel is sold in India. The report makes certain assumptions about sources of supply.

Mr. RHODES. You had told us previously that you are still trying to block out the source of supply.

Mr. GAUD. Yes, sir. We have used the same assumptions United States Steel used in figuring future earnings.

Mr. RHODES. If you find the assumptions are based on a factual situation which does not exist, then you have an entirely different ball game.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Is it our responsibility to spend a billion and a half dollars, or any good part of that amount, in India, considering what we have already done for them? Are we assuming this responsibility simply because they have a need for steel?

Mr. GAUD. No, sir.

Mr. PASSMAN. If it can be established as you have indicated a moment ago, that it would be a profitable venture, why do you not recommend it go into the private sector of the country's economy rather than——

Mr. GAUD. That is just exactly what I was coming to.

Mr. PASSMAN. If it is that way, why do we not suggest that the private sector pick this up, and then maybe we would make some consideration to them rather than to a socialized steel mill for India?

Mr. GAUD. It is a very fair question, sir, and it is an issue on which we have spent a great deal of time. In the course of the last few years we talked to most of the steel companies in this country as to whether they would be willing to go into such a project in India. We also talked to Indian businessmen in an effort to see if they could contribute rupee financing. The conclusion that we have come to, and this conclusion is shared by Mr. Tata, who is the head of the Tata Steel Mills and by the Indian Chamber of Commerce, that it is impossible to finance this plant in the private sector in India. The money just is not available for an investment of this size, so that the alternative, as we see it, is not between a private sector mill and a public sector mill but between a public sector mill and no mill.

Now if this mill is in the public sector, how will it work? It will be managed——

Mr. RHODES. Before you leave that point, may I again stop you?

Mr. GAUD. Go ahead.

UNAVAILABILITY OF PRIVATE SECTOR FUNDS FOR STEEL MILL

Mr. RHODES. It appears to me you have missed another possibility. Are there funds in the private sector in some other country which might be induced to make this investment?

Mr. GAUD. We have taken this up through the consortium. Don't forget, Mr. Rhodes, that the British have built a mill in India, the Germans have built a mill in India, and the Russians have built a mill in India. We have explored this with the World Bank, we have explored it with these other nations that I have mentioned, we have explored it with the Indians, talked to a lot of our own steel companies and, right or wrong, it is our judgment that you cannot do it in the private sector. We have come to that conclusion very reluctantly because we would much rather have this go in the private sector.

Mr. PASSMAN. Is that conclusion not a clear indication that we are moving this matter too rapidly?

Mr. GAUD. No——

Mr. PASSMAN. You would not think so, but it seems to make sense that we are. Several new steel mills that have gone up in recent years. Did we put up any of them?

Mr. GAUD. The British put up one, Germans put up one and Russians put up one. We have put up none.

Mr. MINSHALL. You have never had any experience with steel mills before?

Mr. GAUD. In India, no. Elsewhere, yes.

Mr. MINSHALL. In India.

Mr. GAUD. We have not.

Mr. PASSMAN. Would it indicate that as Russia has built one mill, the United Kingdom has built one, and Germany has built one, our pride is involved?

Mr. GAUD. No, sir.

It comes back again to the question I started with which is the question of demand, whether they need another mill and the issue on that according to the United States Steel people is a hundred percent clear.

Mr. CONTE. Would you yield?

Mr. PASSMAN. I am going to yield, but just a minute more, please. Would this not be about the same thing as advocating here in America the Government's starting something which could not be justified in the private sector?

Mr. GAUD. Mr. Chairman, I think we would all agree here in the room that if the test as to whether we should finance a particular enterprise in any of these underdeveloped countries was whether the private sector could theoretically undertake it, we would not be doing much. The reason we are in these kinds of projects in underdeveloped countries is that the private sector cannot raise the money or is unwilling to risk the investment.

Mr. PASSMAN. Would the record not show that we are trying to advance them too rapidly? You have not given the other three steel mills an opportunity actually to start operating full capacity. Is this matter not speculative?

Mr. GAUD. There is no question about the demand. May I move forward with my statement?

Mr. PASSMAN. Yes, but first I want to yield to Mr. Conte.

TERMS OF LOANS BY OTHER COUNTRIES FOR STEEL MILLS IN INDIA

Mr. CONTE. A very important question: In regard to the German mills, could you give me the terms of that loan?

Mr. GAUD. The German mill started out in the days in which India had very substantial——

Mr. CONTE. I just want the terms.

Mr. GAUD. Most of that money was a 3-year loan at 5½ percent interest.

Mr. CONTE. A 3-year loan, 5½ percent interest. How much? What was the total amount of the loan?

Mr. GAUD. $157 million, I think, and as the payments have fallen due, they have been rolled over by the Germans and extended by 16 years, so they ended up to be 18-year loans.

Mr. CONTE. Eighteen year loans at straight 3½ percent interest.

Mr. GAUD. No, higher, 5½.

Mr. CONTE. 5½ percent?

Mr. GAUD. That is right.

Mr. CONTE. Payable back in German deutsche marks?

Mr. GAUD. Yes, sir.

Mr. CONTE. How about the Russian loan?

Mr. GAUD. The terms of the Russian loan were 2½ percent for 12 years with a 5-year grace period.

Mr. PASSMAN. Do they, or did they, draw interest on the money during the grace period?

Mr. GAUD. It goes back to 1955.

Mr. CONTE. A 5-year grace period, no payment during that grace period and then 2½ percent interest?

Mr. GAUD. And 12-year term payable in rupees.

Mr. CONTE. It was a 17-year loan.

Mr. GAUD. No, 12.

Mr. CONTE. The 5 is included in the 12?

Mr. GAUD. Yes.

Mr. PASSMAN. But they draw interest on the loan during the five?

Mr. GAUD. That was repayable in rupees.

Mr. CONTE. And the 5-year grace period, did interest run at that time?

Mr. GAUD. Yes, sir.

Mr. ANDREWS. What was the amount of that loan, Mr. Guad?

Mr. GAUD. The amounts were $136 million.

Mr. CONTE. How about the English loan?

Mr. GAUD. The English one, again going back to 1957–58, a total of $74 million, the Treasury rate plus a quarter of one percent, partly 7 years, with a 5-year grace period, partly 20 years with an 8-year grace period.

Mr. CONTE. What was the interest rate? You said the Treasury rate.

Mr. GAUD. The Treasury rate was then around 5¾, maybe even 6.

Mr. CONTE. And, therefore, Mr. Secretary, under those terms, we could lend them money through the World Bank or the Export-Import Bank?

Mr. GAUD. Yes, we could. As I started to say, Mr. Conte, when you suggested that I leave out the frills, these loans were made at a time when India had large foreign exchange reserves, which she has since spent for her development on these mills, among other things, and her balance-of-payments situation today is very different from what it was then.

Mr. CONTE. The first mill was built in 1955?

Mr. GAUD. That is when the first loans were made.

Mr. CONTE. When was the first mill built or constructed?

Mr. GAUD. You mean when did it actually go on the line?

Mr. CONTE. Right.

Mr. GAUD. I think it was in 1960 and 1961.

Mr. CONTE. And the second one?

Mr. GAUD. They all began operation at about the same time.

Mr. CONTE. They have been in operation in recent dates?

Mr. GAUD. A couple of years.

Mr. CONTE. 1962. We are in 1963 now.

Mr. GAUD. I would think a year and a half or two years.

If I may just add a few more words.

Mr. PASSMAN. All right, sir.

PROBABLE OWNERSHIP OF BOKARO

Mr. GAUD. As I said, as we see it right or wrong we do not see any prospect for getting this mill in the private sector. If it were built, it would be owned by a government corporation; the board of directors of that corporation, consistent with the usual practice in India, would consist partly of government employees and partly of people from the public.

Public corporations in India are subject to the same laws, same taxes, same restrictions as private corporations. The Indian Govern-

ment has agreed that they will sell a substantial minority of the stock of that corporation to the public at an appropriate time in the future—insurance companies, employees, private individuals, whoever is willing to buy it—so that there will in time be a private interest in the mill.

Now one of the most basic questions, it seems to us, is that it be designed, built and constructed under American management. As I think I told the committee the other day, we would not be prepared to go forward with this proposition unless we got a satisfactory management contract.

AVAILABILITY OF BASIC RAW MATERIALS FOR BOKARO PRODUCTION

With this preface as to whether we think they need the plant, as to our judgment it must be in the public sector if it is going to be built at all, where do we come out? There are a number of unresolved problems here, as we said the other day. One is the raw materials supply question. The United States Steel people say that the raw materials are not proved up. The Indians say that they are. We do not know what the truth is. We have sent an engineer and an ore expert to India. He is out there now, with instructions to find out what information is available and what needs to be available.

Mr. CONTE. May I interrupt?

Mr. PASSMAN. I yield.

Mr. CONTE. Who is this fellow you sent over there?

Mr. GAUD. His name is Royce. He is one of our employees.

Mr. CONTE. How long has he been one of your employees?

Mr. GAUD. For less than 2 years.

Mr. CONTE. What is his background?

Mr. GAUD. I have forgotten the name of the company he was with. I would like to insert it in the record. It is one of the best known companies in the United States in this field.

(The information follows:)

BACKGROUND OF AID ORE EXPERT

Mr. Josiah Royce was chief geologist for Pickands & Mathar Co., Montreal, Quebec, a leading owner and operator of mining properties in the United States, Canada, and Latin America. He worked for that company from 1946 to 1961. He received his B.S. from Michigan College of Mining & Technology in 1943 and served in the U.S. Army from 1943 to 1946. He was employed by AID on September 1, 1961, as a geologist (ferrous metals), for duty in Ankara, Turkey.

Mr. CONTE. Do you mean to tell me the aid program has anyone who can qualify with United States Steel on a question such as this?

Mr. GAUD. Excuse me, sir, United States Steel did not go into the question.

Mr. CONTE. I thought you said they did. They said they did not feel the raw materials were there.

Mr. GAUD. United States Steel did not make a study of whether the raw materials were available. United States Steel looked at certain information furnished them by the Indians and said that this did not prove to them——

Mr. CONTE. You had better go back in your record and correct it because you said the Indians said they had the raw material and

United States Steel said they did not have the raw materials so you sent a man to India.

Mr. GAUD. United States Steel did not make a study of this question. They assumed the raw materials existed. It was not a part of their charter to go and investigate this question.

Mr. CONTE. Why didn't you hire or contract with United States Steel to go out there to find out whether the raw materials were there or not?

Mr. GAUD. Why didn't we?

Mr. CONTE. That is right.

Mr. GAUD. We may yet. We want to find out what the situation is. That is why I have sent these people out there to find what facts are available and what more has to be done.

Mr. CONTE. This is a very important point.

Mr. GAUD. Yes.

Mr. CONTE. You cannot tell me the background of this individual who has gone out there; one man. Here you have spent how much money in this contract so far?

Mr. GAUD. Roughly $650,000.

Mr. CONTE. $650,000, and now you are pitting all this against one man from the aid program, who has been with you 2 years, to come back with the answer of whether you are going to invest over a billion dollars?

Mr. GAUD. No, sir, he is not coming back on any such thing. I beg your pardon.

Mr. ANDREWS. What was the purpose of United States Steel's mission to India, for which you paid them $675,000?

Mr. GAUD. To investigate the technical and economic feasibility of building up a plant at this particular location of Bokaro.

Mr. ANDREWS. And not to determine whether or not there were ample raw materials there to keep a mill going?

Mr. GAUD. We did not hire them to go out into the field and make surveys. What they did was go and get what information the Indian Bureau of Mines offered them. The steel company was not asked, or hired, to go out into the field and make field investigations on raw materials.

Mr. ANDREWS. Mr. Gaud, have you or any other officials of this Government gone so far in connection with this proposed mill that you cannot back out of it?

Mr. GAUD. No, sir.

Mr. ANDREWS. Have you made any kind of commitment?

Mr. GAUD. Absolutely none.

Mr. ANDREWS. And no other member of this Government has?

Mr. GAUD. Not a one.

Mr. ANDREWS. The decision of whether or not you will go forward with this steel mill will depend upon the report you get from your technician that you have sent out there?

OTHER FACTORS ON WHICH FEASIBILITY OF BOKARO WILL BE JUDGED

Mr. GAUD. No. It will depend on more than that. He will come back and say how much more work needs to be done to prove the ore, and we will then have to do that work and find out if the ores can be proved. It will also depend on whether we work out satisfactory

management contracts with the Indians. It will also depend on working out the precise characteristics of the mill.

The United States Steel people assumed that the entire mill, that all the equipment of the mill, would be made in the United States and that is how they get to their figure of $512 million foreign exchange. The fact of the matter is that the Indians make refractories, they make structural steel, they make a great many items which could go into the construction of this mill.

One of the things that we will investigate before we ever go forward with this is the extent to which we can reduce the foreign exchange cost of the mill, which will result in increasing the Indians' share and decreasing our share. So, there are really quite a number of questions that we have to go into before anybody gets anywhere near a commitment.

Mr. PASSMAN. This thing has been bobbing up and down for several years, has it not?

Mr. GAUD. Yes.

Mr. PASSMAN. It has been pro and con even in AID?

Mr. GAUD. I do not know of any cons in the AID Agency in terms of general interest in the proposition.

The AID Agency has felt from the beginning that India needs steel.

This plant is included in the Third Plan. And we have always, I think, felt that this steel plant, if it was economical, if it was feasible, if the raw materials are there, made sense.

ESTIMATED COST TO THE UNITED STATES FOR STAGE ONE OF BOKARO

Mr. PASSMAN. An individual knowing that India needs steel is about like a man knowing a horse needs water. It is a question of whether we can afford this type of expenditure. The cost to the United States is estimated to be what amount?

Mr. GAUD. Of the mill?

Mr. PASSMAN. Yes.

Mr. GAUD. The first stage, step one——

Mr. PASSMAN. Let us get it all the way through.

Mr. GAUD. That is the only one we are considering—$512 million.

Mr. PASSMAN. Thank you. Has this developed into a personal project to please to some extent any particular individual?

Mr. GAUD. No, sir.

Mr. PASSMAN. Let me read from the Indian News for July 19, 1963. I think this paper is published by the Indian Embassy.

Mr. GAUD. That is correct.

Mr. PASSMAN. This item says:

> Whatever Professor Galbraith took in hand he has worked out with rare tenacity and he would have dearly loved to announce before his departure the success of his efforts to put through a U.S. assistance steel plant in Bokaro but we may be sure that on his return to the United States the unfinished part of the business will continue to occupy some of Professor Galbraith's abundant energy.

How much energy has he expended to get this thing?

Mr. GAUD. He is not back yet.

Mr. PASSMAN. This is something we can anticipate?

Mr. GAUD. That is right.

Mr. PASSMAN. You saw that item?
Mr. GAUD. Yes, I did.
Mr. GARY. Will the gentleman yield?
Mr. PASSMAN. Yes.

PROPOSED AMENDMENT TO LIMIT ASSISTANCE TO INDIA AND PAKISTAN UNTIL KASHMIR QUESTION SETTLED

Mr. GARY. Mr. Gaud, didn't I see in the paper the other day that there was some discussion in the Senate of placing in the authorization bill a provision that no money should be loaned to either India or Pakistan until the Kashmir question has been settled?
Mr. GAUD. Yes, sir.
Mr. GARY. What has been done about it?
Mr. GAUD. I believe I am right, that an amendment to that effect was defeated in the committee yesterday. This morning I understand, and this is only second or third hand, they were to take up Mr. Broomfield's amendment of reducing aid by 25 percent to those two countries unless the Kashmir issue was settled. I have not heard what happened.
Mr. GARY. Thank you.
Mr. PASSMAN. Off the record.
(Discussion off the record.)
Mr. PASSMAN. That within itself, if the amendment were adopted would not have any real effect on the bill unless you tighten up the language someplace else. It is all illustrative. Until you determine the level you could always say, "You are mistaken. This is a $2 billion level and we will knock off 25 percent until this thing is straightened out," and still give them $1,250 million.

PAKISTAN

INVESTMENT ADVISORY CENTER PROJECT

Mr. PASSMAN. Back to Pakistan—I notice that you obligated $303,000 in fiscal year 1962 for the investment advisory center project, on page 230, and you had the same amount unliquidated at the end of fiscal year 1963. You obligated an additional $300,000 and expect to have $579,000 unliquidated on June 30. It appears that you spent some $24,000 over 2 fiscal years on this project. That being so, on what date did you obligate the $300,000?
Mr. GAUD. I will have to check that. I don't have the date here.
(The information follows:)

DATE OF OBLIGATION FOR INVESTMENT ADVISORY CENTER PROJECT—PAKISTAN

AID obligated $300,000 for this project on March 22, 1963.

NUMBER OF AID PROJECTS

Mr. PASSMAN. Mr. Comptroller, did you ever get the number of the AID projects?
Mr. TENNANT. Yes, sir. The figure of 2,000 I gave you was the number of projects outstanding on June 30, 1962. When you asked me the other day, and since there were some other questions with respect to the number of projects we figured out the number of projects as of June 30, 1963, on a preliminary basis. This is based roughly on

a count which considers each one of the pages in the justifications being a project.

As you know, not all projects are in the justification books. There are 1,896 grant projects with unliquidated balances as of June 30, 1963.

Mr. PASSMAN. You said not all projects are in this book?

Mr. TENNANT. The projects for which we are not asking any new money, and on which the unliquidated balance is less than a million dollars are not reflected in the justification books.

Mr. PASSMAN. Those, too, are projects. Give us the total number of projects.

Mr. TENNANT. As of June 30, 1963, there are about 1,896 of the grant projects and 261 of the loan projects; that is, development loans, making a total of 2,157.

Mr. PASSMAN. 2,157 specific projects?

Mr. TENNANT. Yes.

Mr. PASSMAN. Under one of these projects you may have possibly 20 or 30 subprojects going; is that correct?

Mr. TENNANT. I went through the books, sir, or rather, I had one of my people run through the books noting those comments where they they are either pulling projects together or breaking them apart. They calculated that there would be 39 additional if you count the footnote.

Mr. PASSMAN. If you have 10 school buildings being built in different parts of "Randolphville" you carry that as 1 project; do you not?

Mr. TENNANT. The composition of a project really depends on the situation in each country.

Mr. PASSMAN. Say that you have 10 school buildings going under a capital project. That is listed as one project, is it not?

Mr. TENNANT. Well, depending on the way the project is set up it would be 1, or it could be 10, depending on how it is treated.

Mr. PASSMAN. You might have 5,000 projects if we break it down on the number of projects that are actually going; is that right?

Mr. TENNANT. The way we count projects, as one page per book, one page is a project.

Mr. PASSMAN. Sometimes you have four or five projects noted on one of the pages. If you have 10 school buildings being built, I am willing to accept that as 1 project. I just want to ask if that is the way it is, that you have a capital project and under that you may have a lot of subprojects going?

Mr. TENNANT. The only way I can answer you, and be honest about it, is that in some cases there may be subprojects, and in some cases there may be no subprojects.

Mr. PASSMAN. Would it be fair to say we are unable to determine actually how many individual projects there are?

Mr. TENNANT. I do not think that is fair to say. I think the count I gave you is a fair count.

Mr. PASSMAN. The other day we noted a case where you had 10 school projects going under 1 capital project, and there were some 40 projects altogether. However, you carried it as one project.

Mr. TENNANT. I know there are some projects the composition of which is similar to what you have said.

Mr. PASSMAN. As I have described?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. So it would require a great deal of research to ever break down the number of subprojects under the capital projects, would it not? If you have a capital project in the book and you have $8 million obligated, you would have to actually spread it to find out how many school buildings there would be and maybe how many pieces of road under that contract you would have to build to get to the school building. That is what I mean by subprojects.

Mr. TENNANT. Yes. I would agree that you can get into the problem of subprojects. However, I think from where we sit—we think that the composition of an integrated unit as we show on each page is the logical administrative unit to be counted as a project.

Mr. PASSMAN. I am not arguing with that proposition. I know that when we say we have 2,196 projects we are covering capital projects and not subprojects. Do you get my point?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. It would take an awful lot of research to ever break it out and get into the number of individual projects, as we define them as subprojects?

Mr. TENNANT. I think that is correct, sir.

Mr. PASSMAN. That fact is what I was trying to get. I have a difficult time getting through sometimes.

Mr. TENNANT. Perhaps I did not fully understand.

TRADES TRAINING CENTER

Mr. PASSMAN. You had two new projects in Pakistan, but you said one project. After you printed the hearings on page 231, listing $1 million, you canceled the project, did you not?

Mr. GAUD. We did not obligate in fiscal year 1963 but, as I explained, we plan to undertake it in fiscal year 1964.

Mr. PASSMAN. You might have 20 projects under this heading "Trades Training Center." I am sure we could define that you have all types of training centers, and you said that in all probability you would start it back.

Mr. GAUD. That is right.

EDUCATIONAL MATERIALS AND TRAINING PROJECT

Mr. PASSMAN. How many contract technicians and participants will be financed by the contract service estimate of $950,000, on page 235?

Mr. GAUD. There are 22 technicians and 28 participants, Mr. Chairman.

Mr. PASSMAN. What is the cost per technician?

Mr. GAUD. Twenty-two contract technicians. I think this figure ought to be nearer $750,000 than $950,000; I will look into it.

Mr. PASSMAN. We like to pick up this little extra change as we go along. It all adds up. Would it not be a great story if we had time actually to go into all the projects?

Mr. GAUD. Yes, sir.

PUBLIC SAFETY PROJECT

Mr. PASSMAN. Why are you increasing the estimate for the public safety project, on page 236?

Mr. GAUD. I would like to give you our latest figures on that project.

(Discussion off the record.)

Mr. PASSMAN. If we put all the military force together, what is the number?

Mr. GAUD. Of the Army?

Mr. PASSMAN. All forces.

Mr. QUINN. ———.

Mr. PASSMAN. How much have we given them in military aid in the past?

Mr. QUINN. Through June 30, 1963, it was———.

(Discussion off the record.)

Mr. PASSMAN. It appears to me that we get into everything.

(Discussion off the record.)

Mr. PASSMAN. We want the information anyway.

Mr. GAUD. We will give it to you.

(The information is classified and has been furnished the committee.)

GOVERNMENT MANAGEMENT PROJECT

Mr. PASSMAN. In view of the fact that you will have unliquidated, on June 30, $424,000, the total amount of the original obligation for the government management project, on page 237, why do you need $224,000 in fiscal year 1964 for five managers of contract service?

Mr. GAUD. Mr. Chairman, in 1963 we obligated $297,000 instead of $424,000, which reduces the unliquidated figure on June 30.

Mr. PASSMAN. In your region, these books do not mean very much.

Mr. GAUD. I hope you will notice that the obligations are very often less rather than larger.

Mr. PASSMAN. Occasionally; but, when you get into the big ones, they are sometimes way up. For example, you asked for $138,000, and that figure jumped to $1,719,000. That one project would offset a lot of those small ones. Anyway, that is the story.

Are you asking anything for the project for fiscal year 1964?

Mr. GAUD. Yes. We estimate that we will obligate the $297,000 in 1963, and that we will need $224,000 in 1964.

Mr. PASSMAN. For what purposes?

Mr. GAUD. That will include 10 participants. There will be several 60-day consultants. There will be several contract teams. I have not as much detail on this as I would like.

Mr. PASSMAN. Put the information in the record, please.

(The information follows:)

DETAILS ON GOVERNMENT MANAGEMENT PROJECT, PAKISTAN

The fiscal year 1963 obligations of $297,000 will finance a 2-year contract with an American consulting firm to provide advisory services to the East Pakistan Water and Power Development Authority by two full-time specialists, as well as by additional short-term consultants, and training for an estimated 16 participants now being selected for training in the United States.

The estimated obligations of $224,000 for fiscal year 1964 will cover the same type of contract services which are being planned for the West Pakistan Water and Power Development Authority.

Mr. PASSMAN. I note that you have $1,032,000 in unliquidated obligations on June 30 for the Public Administration Institute project, on page 240. For what purposes are these funds obligated?

Mr. GAUD. We did not obligate any money on that this year.

Mr. PASSMAN. The books are fouled up again.

TECHNICAL SUPPORT PROJECT

I note that you are not contemplating any increase in the total number of positions for the technical support project, on page 241; but are you proposing to furnish more man-years of service in fiscal year 1964 than you did in fiscal year 1963?

Mr. GAUD. We are proposing an increase of 2, from 81 to 83.

Mr. PASSMAN. Would you give the committee some detail as to the type of commodities you plan to procure for $300,000 for this project?

Mr. GAUD. Yes, sir, I will. It is general office supplies, equipment, vehicles, and the like.

Mr. PASSMAN. Page 3 of the project book indicates that through February 28 you had approved $54,500,000 for development credits to Pakistan. Would you submit for the record a list of the various development credits that you have extended to Pakistan since that date through June 30?

Mr. GAUD. Yes.

(The information follows:)

Development loans to Pakistan, Mar. 1, 1963, through June 30, 1963

Title of loan	Terms to maturity (years)	Grace period (years)	Interest rate	Date authorized	Amount authorized (millions of dollars)
Coastal embankments, East Pakistan.	40	10	¾ of 1 percent	Mar. 14, 1963	6.5
Dacca Jet Airport	40	10	do	Mar. 16, 1963	4.3
Services of general consultants, to East Pakistan Water and Power Development Authority.	40	10	do	Mar. 25, 1963	4.4
Operation of Salinity Control and Reclamation project (SCARP No. 1).	40	10	do	Apr. 1, 1963	.75
General commodities imports	40	10	do	June 19, 1963	70.5
Services of general consultants to the West Pakistan Water and Power Development Authority.	40	10	do	June 28, 1963	5.6
Public health, engineering, East Pakistan.	40	10	do	do	1.5
Machinery pool, West Pakistan.	40	10	do	June 29, 1963	5.0
Telecommunications equipment.	40	10	do	do	4.7
Pakistan railways (5th)	40	10	do	do	14.5
Water supply and sewage disposal, Karachi.	40	10	do	do	3.1
Machinery pool, East Pakistan.	40	10	do	do	1.5
Total					122.35

Mr. PASSMAN. Indicating the purpose of the credit and the terms.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Mr. Rhodes?

PAKISTAN NEWSPAPER DAWN—CRITICISMS AND VIEWS

Mr. RHODES. Mr. Gaud, I had asked either you or the Secretary the political leanings of the newspaper Dawn. I do not think there was any answer.

Mr. GAUD. Yes. Mr. Talbot answered that.

Mr. RHODES. I do not recall. Would you care to refresh my memory on it? I think Mr. Talbot was going to get the answer.

Mr. LEE. I thought he characterized it and I can characterize it briefly. It is a nationalistic paper. The editor of the paper is a man who took part in the revolutionary movement back in the 1940's and he has been extremely outspoken in his nationalistic sentiment.

Mr. RHODES. Apparently recently he has become extremely outspoken in favor of Communist China and against India, the United States and the United Kingdom.

Mr. LEE. He has often been quite critical of the relationships with the United States.

Mr. RHODES. Here is an article that I think requires some investigation, or at least some answer in the record. It says this:

AIM IS TO CRIPPLE PAKISTAN ECONOMY

UNITED KINGDOM, UNITED STATES LINES COMBINE AT INDIA'S INSISTENCE

The United Kingdom and United States shipping lines have, it is reliably learned, joined hands to cripple Pakistan's economy through arbitrary increase in the freight rates. The move was initiated by the United Kingdom conference lines which proposed 15 percent increase from August 1 and the U.S. conference lines has now proposed 40 percent surcharge with effect from October 1.

Mr. GAUD. I know the facts back of that. There was a very severe cyclone in Chittagong at the end of May or early June.

The port of Chittagong is an extremely busy one, and it hasn't the port facilities really needed for normal traffic. As a result of the cyclone, a great deal of shipping piled up at Chittagong and American Lines and other lines have been reluctant to take freight to Chittagong. The conference of all shippers to that part of the world agreed on an increase of rates of 40 percent, which is to be effective October 1, in recognition of the conditions which exist there. It is perfectly clear, I think I can say safely, that if port conditions clear up this rate will not go into effect.

Mr. RHODES. Does the Pakistan Government understand the reason for it?

Mr. GAUD. Yes, they do.

Mr. RHODES. Have there been any protests from the Pakistan Government?

Mr. GAUD. No. For some time we have been working with the Pakistan Government to try to clear up the port congestion. We sent out Brigadier General Glore, who is a man with a good deal of experience not only in our Transportation Corps but in the handling of freight and shipping at ports in Pakistan and India. We and the Pakistan Government are working on this perfectly amicably.

Mr. RHODES. A further article in this newspaper which is supposed to be nationalistic. The date line is Rawalpindi. It says:

The vice president of the Pakistan Chamber of Commerce, Mr. N. H. Loan, who recently visited China as a member of the eight-man Pakistan trade delegation, expressed the hope that there were better prospects for expansion of

trade between the two countries. Addressing a press conference here last evening, Mr. Loan said that Pakistan can import iron ore and other commodities from China, and China can also import a number of raw commodities from Pakistan. Giving his impressions of the visit, Mr. Loan said that two things which impressed him most included the self-respect the Chinese people enjoy within their country and the way they live within their own means.

Mr. Loan said that he is very much surprised to see China develop so rapidly in every sphere of life within such a short period.

Do you know anything concerning this gentleman or the attitude of the Pakistan Chamber of Commerce toward Communist China?

Mr. GAUD. No, I don't, Mr. Rhodes.

Mr. RHODES. You do not, however, feel that the sentiments which are reflected by this newspaper are the sentiments of the Pakistani Government?

Mr. GAUD. Sometimes. Sometimes the views of the paper coincide with those of the Government, but as a general proposition "Dawn" takes the most extreme possible view.

Mr. RHODES. By "extreme" do you mean extremely anti-United States?

Mr. GAUD. Yes.

Mr. RHODES. Do you have any way of knowing why this paper is so friendly to Communist China?

Mr. GAUD. No, I don't. It would purely be a guess, but my own guess is that the attitude of the paper is a manifestation of the dislike and fear that the owners have for India.

Mr. RHODES. These clippings I received came from an American who is in Karachi. This is his comment:

Let's quit kidding ourselves. This is the steady diet that Pakistanis are getting and as a result of this is how they feel.

Is this fairly indicative of the type of line that the press of Pakistan has taken in the last few months?

Mr. GAUD. No. There are many times when the press of Pakistan has been taking a fairly extreme position, but I would say that "Dawn" is pretty well at the end of the spectrum. Would you agree with that, Mr. Lee?

Mr. LEE. I would agree "Dawn" is not necessarily representative of the press nor is the press necessarily representative of the views of the Government.

Mr. GAUD. Or of the people.

Mr. LEE. Or of the people.

Mr. RHODES. I think that is all, Mr. Chairman.

Mr. PASSMAN. Mr. Ford.

REQUESTS AND OBLIGATIONS FOR PAKISTAN PROGRAM

Mr. FORD. Just to get a feel of Pakistan like I did on India, let's take some figures here to see what you asked for and what you executed, Mr. Gaud.

What did you ask for last year or seek to justify last year for Pakistan? I am talking about the testimony you gave and the justification books which were submitted.

Mr. GAUD. Yes, sir. We asked for $10 million developments grants——

Mr. FORD. Give me first the total and then break it down.

Mr. GAUD. The total was $235 million; $225 million of that was development loans and $10 million was development grants.

Mr. FORD. Plus how much in Public Law 480?

Mr. GAUD. $151 million.

Mr. FORD. What did you execute in fiscal year 1963?

Mr. GAUD. The Public Law 480 was approximately the same. The development grants were $9,038,000. The development loans were $176,850,000. In addition, because of the cyclone that I referred to, we took $260,000 from the contingency fund to pay the cost of flying out emergency medical supplies for people in the damaged area.

Mr. FORD. So what was the total of executed programs?

Mr. GAUD. The total, not counting Public Law 480, was $186,-148,000.

Mr. FORD. What created the shortfalls, so to speak?

Mr. GAUD. The shortfall was created by the fact that on June 30 we were still——

Mr. FORD. What June 30?

Mr. GAUD. June 30, 1963. We were still $49.7 million short of fulfilling our consortium commitment to Pakistan. We had on hand in our shop at that time loan applications which we were working on which totaled $81.6 million. It just so happened on the arbitrary date, if you will, at the end of the fiscal year, that we had not completed action on all of these, so there was a shortfall.

Mr. FORD. You had a shortfall of $49 million?

Mr. GAUD. Yes.

Mr. FORD. Below what you justified last year and what you executed?

Mr. GAUD. Yes, and what we committed to the consortium.

Mr. FORD. Repeat that last again.

Mr. GAUD. It was a shortfall also against our commitment to the consortium.

Mr. FORD. Are they not one and the same thing, more or less?

Mr. GAUD. Well, the request of the Congress was made before we knew exactly how much we would have loaned in fiscal year 1962—the first year of the 2-year commitment. So, we were still estimating the fiscal year 1963 lending level needed to complete the commitment. As it turns out they were just about the same.

Mr. FORD. How much did the chairman indicate was unobligated in the Development Loan Fund?

Mr. GAUD. For the Agency?

Mr. FORD. Yes.

Mr. TENNANT. $92 million.

Mr. PASSMAN. $92,047,000; is that correct?

Mr. TENNANT. That is correct, sir.

Mr. FORD. So far as Pakistan is concerned in fiscal year 1963 there was more than enough unobligated funds available to consummate the program up to the level that you justified last year?

Mr. GAUD. That is right.

Mr. FORD. It wasn't a lack of money that caused any troubles with Pakistan?

Mr. GAUD. That is right.

Mr. PASSMAN. Did too much money cause any concern?

Mr. GAUD. It hasn't yet, sir.

Mr. CONTE. I have no questions on this item except some further questions on the steel mill and I will defer at this point and come back to it.

Mr. PASSMAN. Mr. Minshall?

Mr. MINSHALL. I have the same questions Mr. Conte has.

SYRIA

Mr. PASSMAN. The next country in this area is Syria. You are requesting $600,000 for fiscal year 1964?

Mr. GAUD. That is true.

Mr. PASSMAN. This is one country that appeared to be getting along very well. They did not have any aid program. Since we have gone in with an aid program I think they have overthrown about three governments; is that correct?

Mr. GAUD. They have had a number of governments recently; yes, sir.

Mr. PASSMAN. And all of it has happened since we went in with this aid program?

I shall read a news item:

> In September 1961 and after, there have been three changes in government in Syria reflecting Syria's continuing inability to form a coalition government satisfactory to the major political groups in the country.

I do not know what the reason is, but they have really been throwing over the governments since we started in with this aid program.

Anyway, you have $600,000 for this year. What has been the total amount of aid to Syria since we went into this aid program?

Mr. GAUD. $96.1 million.

Mr. PASSMAN. What amount do you have unliquidated to the credit of Syria?

Mr. GAUD. For AID ——

Mr. PASSMAN. Give it to us in full.

Mr. GAUD. A total of $17.6 million, sir.

Mr. PASSMAN. I think I should say that we were in Syria in, I believe, 1961. They told us Syria wanted no aid program, that they had substantial amounts of gold and had always kept it intact. From the inception of the program, 1946, through 1951, I think we gave Syria about $2.2 million.

We had $100,000 in 1956; $200,000 in 1957; in 1958, $200,000. In 1959, $1.2 million. Beginning with 1960 we really started going up with the aid, $14 million; $35 million, 1961; $43.9 million in 1962.

Of the total of $96.1 million we have given to them since the inception of the program practically all of that money has been given to them in the past 4 years, has it not?

Mr. GAUD. Yes, Mr. Chairman.

I would like to point out in fiscal year 1963 the total we gave them was $200,000.

Mr. PASSMAN. That is what you obligated but you liquidated more than that from previous years' credits, did you not?

Mr. GAUD. That is true.

Mr. PASSMAN. What sum did you liquidate out of the pipeline, out of these large amounts we had given in 1961 and 1962, in fiscal year 1963?

Mr. GAUD. $516,000, approximately.

Mr. PASSMAN. How much have you liquidated in the calendar year 1963 so far?

Mr. GAUD. $516,000.

Mr. PASSMAN. I said calendar year 1963.

Mr. GAUD. I beg your pardon.

Mr. TENNANT. We have no calendar year figure.

Mr. PASSMAN. What do you have on hand liquidated to the credit of Syria at this time?

Mr. GAUD. $17.6 million.

Mr. PASSMAN. Then why would you want any money for fiscal year 1964?

Mr. GAUD. $17.4 million is tied up in three loans. Almost all of it is in one loan, Mr. Chairman.

Mr. PASSMAN. That is the development credit category?

Mr. GAUD. It is a $14.7 million development loan, yes, for grain storage facilities.

Mr. PASSMAN. It falls in the general category of development credits?

Mr. GAUD. Development loans; yes, sir.

Mr. PASSMAN. Development credits, as defined by Mr. Dillon, the Secretary of the Treasury.

CIVIL AVIATION DEVELOPMENT PROJECT

What type of local expense do you have that would cost $35,000 under the civil aviation project, on page 284?

Mr. WHITE. This is local expenses of running aircraft.

Mr. PASSMAN. Are we profiting now by our experience that we had with one country out there without an aid program and it was going along nicely and we got in with $100 million in 3 years and we have just about reverted to no aid program again? They were without an aid program and when we went in with an aid program they overthrew three or four governments. Now we are coming out. We are merely liquidating what we have to their credit. Is there anything significant about that situation?

Mr. GAUD. We hope to keep this program on the modest side, Mr. Chairman.

Mr. PASSMAN. We could not call it modest for 1960, 1961, and 1962?

Mr. GAUD. No, but it was modest in 1963 and it is planned to be modest in 1964.

Mr. PASSMAN. I hope you can make it extremely modest.

TURKEY

The next country is Turkey. You are requesting ———; is that correct?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Give us the total amount of aid we have given to Turkey since the inception of the program.

Mr. GAUD. $3,963,800,000.

Mr. PASSMAN. That is from all of the spigots?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Including Public Law 480?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What amount do you have unliquidated to the credit of Turkey as of June 30, 1963?

Mr. GAUD. $209.4 million, Mr. Chairman.

Mr. PASSMAN. Could you give us a breakdown between the economic part and the military aid?

Mr. GAUD. I beg your pardon. That doesn't include military aid.

Mr. PASSMAN. Does the $3,963.8 million include military aid?

Mr. GAUD. Yes.

Mr. PASSMAN. Of the $209.4 million, could you tell us the amount of military aid?

Mr. GAUD. Military is $252.5 million.

Mr. PASSMAN. So the total actually is $461.9 million?

Mr. GAUD. Yes, sir.

INDUSTRIAL OPERATIONS IMPROVEMENTS PROJECT

Mr. PASSMAN. Would you comment on this new project, at page 301, entitled "Industrial Operations Improvement," for which you requested $125,000?

Mr. GAUD. Yes, sir. We planned this as a 3-year project to be carried on through the Department of Industry of the Union of Chambers of Commerce in Turkey. The theory here is to improve the quality of production in specific private sector industries. We will provide a number of specialists who will work with these industries so that they might compete more effectively with imports and might even provide some exports.

Mr. PASSMAN. It looks as if this is one on which you are getting started a little late. I though we were just about ready to come out of Turkey.

Mr. GAUD. Turkey, as you will remember, Mr. Chairman, went through a period of building up the state enterprises with what you might call a signal lack of success. We are spending a great deal of effort today on trying to get the private sector going.

Mr. PASSMAN. We help socialize it and now we are trying to undo it; is that what you mean?

Mr. GAUD. That wasn't what I meant; no.

Mr. PASSMAN. Will the $125,000 requested complete this project?

Mr. GAUD. No, sir; we estimate another $100,000 for the year after. A total of $226,000 for this project.

Mr. PASSMAN. Why did you not think of this project before? I thought you developed the private enterprise sector right along with the socialistic part of it.

Mr. GAUD. This activity we have felt for a long time was important in Turkey but unless there is a willingness to support it, you can't get anywhere.

Mr. PASSMAN. I heard that was true. I also read in the paper, I believe, that in Turkey they only initiate about 10 percent of the requests for these projects. Did you see that article?

Mr. GAUD. I saw that article.

Mr. PASSMAN. Is that statement subject to any discount?

Mr. GAUD. It certainly is.

Mr. PASSMAN. How much?

Mr. GAUD. It is not true at all.

Mr. PASSMAN. You saw the article?

Mr. GAUD. This is Senator Morse's speech I think you are referring to.

COMMERCIAL TRAINING INSTITUTES PROJECT

Mr. PASSMAN. Page 309 indicates there is a Commercial Training Institute project beginning in September of 1962, which is fiscal year 1963, but your financing table indicates that you obligated $240,000 to this project in fiscal year 1962.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. And the amount remained unliquidated at June 30?

Mr. GAUD. That is right.

Mr. PASSMAN. In fiscal year 1963 you obligated an additional $55,000?

Mr. GAUD. Yes, we did.

Mr. PASSMAN. You anticipated you would have $295,000 unliquidated at June 30, 1963?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Despite this rather unusual résumé of this project and despite the fact that you have all the unobligated funds in 2 fiscal years, all of which remains unliquidated, are you really requesting an additional $174,000 for fiscal 1964?

Mr. GAUD. Yes, but I would like to check it and I will.

Mr. PASSMAN. There is a lot of indication that they just have to fill in these figures in order to bring these books up to the President's budget request. But please have this checked and give us a little information on the matter.

Mr. GAUD. All right.

(The information follows:)

FUNDING FOR COMMERCIAL TRAINING INSTITUTES PROJECT—TURKEY

AID expects to sign a contract with Michigan State University in September to carry out a 5-year program in commercial training including 18 man-years of technicians services, 40 man-years of participant training, and $50,000 of books, periodicals, and teaching aids. The contract will utilize the $295,000 of unliquidated funds available from fiscal years 1962 and 1963 to cover the first 2 years of this project. At this time it is expected that fiscal year 1964 funds will not be needed for the project, and that additional funding will not be required until fiscal year 1965.

DEVELOPMENT STATISTICS PROJECTS

Mr. PASSMAN. Could you tell us when you justified the $122,000 for the Development Statistics projects, at page 310?

Mr. GAUD. We did, Mr. Chairman. This project was called Reorganization of Central Statistical Office.

Mr. PASSMAN. Can you give us some idea as to what it will cost at completion?

Mr. GAUD. Yes. $620,000 is our estimate.

Mr. PASSMAN. Do you have a research bureau that thinks up new projects such as this one?

Mr. GAUD. No, sir. I think the need for this type of project is fairly evident when you look at the difficulty you have getting statistics in Turkey. Turkey has recently adopted and put into effect a 5-year plan. It is pretty hard to do any economic planning unless you have good statistics. That is why this particular project got started.

Mr. PASSMAN. You do have a research department downtown?

Mr. GAUD. We do have a research department downtown.

ANKARA HIGH SCHOOL FOR AMERICAN DEPENDENTS

Mr. PASSMAN. Could you tell us when you justified the $650,000 that you obligated to the Ankara Junior-Senior High School project, at page 312?

Mr. GAUD. This is a section 636(c) case. Money to build a high school.

Mr. PASSMAN. When did you justify it?

Mr. GAUD. We didn't justify it, Mr. Chairman.

Mr. PASSMAN. That is a lot of money.

Could you give us an idea as to how much it will cost to complete this project?

Mr. GAUD. The $650,000 figure is outdated. We have obligated $919,000 and that is the total contribution of AID.

Mr. PASSMAN. Last year you didn't request anything for this purpose?

Mr. GAUD. That is correct.

Mr. PASSMAN. When you printed the books you figured you would obligate $650,000.

Mr. GAUD. That is correct.

Mr. PASSMAN. Later you obligated $919,000, and you say now that the completion cost will be how much?

Mr. GAUD. $919,000. It is a new school building to accommodate 800 students. It is a joint Department of Defense, State, AID project. It will benefit our people not only in Turkey but all through the Middle East.

TECHNICAL SUPPORT PROJECT

Mr. PASSMAN. The technical support project, at page 314, indicates that the number of technicians in 1963 was less than the number in 1962. How many technicians did you finance under this project in 1962?

Mr. GAUD. Seventy-four.

Mr. PASSMAN. In fiscal 1963?

Mr. GAUD. Sixty.

Mr. PASSMAN. What number is proposed for fiscal year 1964?

Mr. GAUD. Sixty.

Mr. PASSMAN. How many technician positions were transferred to the administrative rolls in this group?

Mr. GAUD. I think none, Mr. Chairman. I will check it if you like and confirm that.

Mr. PASSMAN. The book says otherwise:

The transfer of some positions to the administrative rolls.

Mr. GAUD. You are quite right. I will have to check it.

Mr. PASSMAN. All right, sir.

(The information requested follows:)

FUNDING OF TECHNICIAN COSTS, TECHNICAL SUPPORT PROJECT—TURKEY

A further check of technical support positions indicates that the reduction in 1963 resulted from deletion of positions and transfer to appropriate project rolls and there were no transfers to administrative rolls.

Mr. PASSMAN. I notice a number of projects, on pages 315 and 316, which have a total cost of $1,316,000.

Mr. GAUD. Yes, sir.

COMMITTEE ON UTILIZATION OF WATER RESOURCES PROJECT

Mr. PASSMAN. Would you comment briefly on the project entitled "Committee for Utilization of Water and Resources" for which you are requesting $10,000?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. That was the amount they wanted to start the Peace Corps with in 1960. When they came back the following year it had been increased by Presidential determination to $1.4 million, and from then on the moon is the limit.

Mr. GAUD. Through June 30, 1962, we obligated $15,000 for this project. The 1963 obligations were zero. We estimated another $10,000 in 1964. That will be $25,000 and that is all that we propose to obligate for this project.

Mr. PASSMAN. That project is for the utilization of water resources?

Mr. GAUD. Yes, sir. It is a matter of training participants, sir, and that is all.

Mr. PASSMAN. Mr. Andrews?

AID LEVELS TO TURKEY

Mr. ANDREWS. I believe you stated that the unexpended balance in all categories at July 1 was $461.9 million?

Mr. GAUD. That is true, Mr. Andrews.

Mr. ANDREWS. What is the total planned for Turkey in 1964, all categories?

Mr. GAUD. $252 million of that was military.

Mr. ANDREWS. Of the $461.9 million?

Mr. GAUD. $252 million of the $461.9 million was military.

Mr. ANDREWS. But the total amount unexpended was $461.9 million?

Mr. GAUD. That is correct. Now, we estimate the 1964 program is on the economic side at ——— Public Law 480 is $47 million. This is our estimate for fiscal year 1964.

Mr. ANDREWS. I am referring to page 49.

Mr. GAUD. That is the sales agreement. The country uses part is the $47 million. Then the military assistance program is ———. Now, adding those together, we get ———.

Mr. ANDREWS. That will give you in all categories a total available for expenditure in Turkey in 1964, ———?

PRIVATE ENTERPRISE IN TURKEY

At page 301 in the big book you state:

Private enterprise in Turkey is hindered by a lack of investment capital and by governmental inhibitions.

Explain that statement, please.

Mr. GAUD. Mr. White, would you answer that question—if you have no objection Mr. Andrews.

Mr. WHITE. The Government, for example, in the mining area has been reluctant at times to open up investment to the private sector. This is done by law and by administrative action.

Mr. ANDREWS. In other words, these people cannot help themselves because of Government inhibitions.

Mr. GAUD. This is certainly true in some respects.

Mr. ANDREWS. Have you done anything to try to correct those inhibitions?

Mr. GAUD. Yes, we have, and the Government has eased a good many controls in connection with the adoption of the 5-year plan. The climate is much more favorable for private enterprise than it has been.

We have made in the last year, for example, Mr. Andrews, quite a number of Cooley loans to American firms that are investing over there. We have now been discussing two or three very large loan applications from American firms that are thinking of going to Turkey to set up plants there. Counterpart funds and Public Law 480 proceeds have also been set aside for loans to the private sector. There has been a considerable shift in opinion in Turkey since the new government of Premier Inonu came in 2 years ago. We feel that the Turks are making a lot of headway in this direction though they have a long way to go.

EREGLI STEEL MILL LOAN

Mr. ANDREWS. I notice you are financing a very, very large steel mill for Turkey.

Mr. GAUD. Yes. The loan for that was made several years ago, in 1961.

Mr. ANDREWS. A total cost of $245 million.

Mr. GAUD. Yes. That was in the private sector. Let me modify that: The majority of the voting stock is owned by private investors. The Government owns some of the stock. The mill is to produce 500,000 ingot tons of steel a year. It is being constructed by a consortium of American firms of which the Koppers Co. is taking the lead.

Mr. ANDREWS. This mill will cost $245 million. How much of that will be U.S. money?

Mr. GAUD. U.S. Government money?

Mr. ANDREWS. Yes.

Mr. GAUD. The amount of this loan shown at page 322, that is $129.6 million.

Mr. ANDREWS. That is all this Government will lend?

Mr. GAUD. Yes.

Mr. ANDREWS. No grants?

Mr. GAUD. No, sir.

Mr. ANDREWS. It is a 20-year loan?

Mr. GAUD. It is a 20-year loan, 5¾ percent interest, repayable partly in Turkish currency and partly in U.S. dollars. The repayment goes back to the Development Loan Fund.

Mr. ANDREWS. What percentage of the money will be repaid in dollars?

Mr. GAUD. I haven't got that information here.

Mr. ANDREWS. Put that in the record.

Mr. GAUD. I will be glad to do that.

(The information requested follows:)

Percentage of repayment in dollars, Eregli steel mill loan, Turkey

	Turkish lira	U.S. dollars
Currency of repayment:		
Amount	98,600,000	$31,000,000.
Interest rate	5¾ percent	5¾ percent.
Term	20 years	20 years.
1st interest payment due	1 year after the date of beginning of operations.	1 year after the date of beginning of operations.
1st principal repayment due	1 year after the beginning of operations.	11 years after 1st disbursement.

Mr. ANDREWS. Has the mill been completed?

Mr. GAUD. No, it has not; however it is on schedule.

Mr. ANDREWS. When do you expect it to be completed?

Mr. GAUD. My best recollection is that it will be producing its first steel in calendar year 1964. I had a conference with Mr. Fred Foy week before last. We went over this in detail and the thing is entirely on schedule at the moment.

Mr. PASSMAN. Will the gentleman yield?

Mr. ANDREWS. Yes.

Mr. PASSMAN. Our steel mills are operating at about 62 percent of capacity, are they not?

Mr. GAUD. I do not know the exact figure but certainly nowhere near full capacity.

Mr. PASSMAN. If we keep building these steelmills all over the world, we might get down to 35 percent capacity; could we not?

Mr. GAUD. That I do not think has been the history of the past.

Mr. PASSMAN. But we are writing new history now.

Mr. GAUD. As you build up these nations—take the Marshall plan nations or take Japan—as their economies grew the value of our exports to them has increased rather than decreased.

Mr. PASSMAN. You are talking about these old industrial countries. Of course, you are talking about total exports and not merely steel.

Mr. GAUD. That is right.

Mr. PASSMAN. If we deal with steel, if we keep on as we are doing, instead of having 38 percent of our capacity idle we could wind up with maybe 60 percent of it idle.

Mr. GAUD. That might happen, Mr. Chairman, but I don't think it will.

Mr. PASSMAN. There is indication that it might happen.

Thank you, Mr. Andrews.

Mr. ANDREWS. Is there any question about the availability of an abundant supply of raw materials to keep the mill going?

Mr. GAUD. No, we are told there is no question of that here.

Mr. ANDREWS. Where will they get the raw materials?

Mr. GAUD. Within Turkey.

NORTHWEST ANATOLIA POWER GENERATION PROJECTS

Mr. ANDREWS. Now, it looks as if we are financing four power generating plants in Turkey.

Mr. GAUD. Which ones do you refer to particularly?

Mr. ANDREWS. On page 324. It shows we have made a loan approved in 1962, signed the 7th of December 1962, 40 years duration, interest rate three-quarters of 1 percent. Does that also include a 10-year grace period?

Mr. GAUD. Yes, it does.

Mr. ANDREWS. And to be repaid in U.S. dollars?

Mr. GAUD. That is right.

Mr. ANDREWS. This loan will finance the purchase of American equipment and services for the installation of two 100-million-watt thermal units in a new powerplant in Istanbul and two additional hydro generators, each of 40-million-watt capacity at the existing Sariyar Dam 140 miles southeast of Istanbul?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Is it three plants instead of four?

Mr. GAUD. It is two plants. There are two power units for one new plant at Istanbul and two power units for an existing plant at Sariyar.

SEFLON NYLON PLANT LOAN

Mr. ANDREWS. I notice we approved a loan for $1.8 million to finance the establishment of a privately owned nylon plant at Istanbul.

Mr. GAUD. Yes. An American firm has an interest in that plant, Mr. Andrews. The Von Kohorn Co. That firm will design the plant, construct it, and manage it, and it has an equity interest in it.

Mr. ANDREWS. Will it be privately owned or will it be owned by the Government?

Mr. GAUD. This is a privately owned firm with American and Turkish investors.

Mr. ANDREWS. That is all, Mr. Chairman.

AID POSITION ON U.S. PRIVATE INVESTMENT IN TURKEY

Mr. PASSMAN. What do you do in a case when a reputable American firm requests approval, or a guarantee, to take their industry into Turkey and we find that possibly that particular field is a monopoly of the Government? If an American firm files an application to go in with their own capital in the free enterprise sector of Turkey, what is the position of AID?

Mr. GAUD. They don't have to come to us at all if they want to go in. They only come to us if they want to borrow some money from us.

Mr. PASSMAN. Do they not come to you in the matter of investment guarantee?

Mr. GAUD. Yes.

Mr. PASSMAN. Certainly they would.

What is the position of the American firm? Let us say it is a brewery. All breweries in Turkey are, I believe, owned by the Turkish

Government and this American company would like to go in with the guarantee part of the program and in business with maybe a Turkish businessman, or businessmen.

What is the attitude of AID?

Mr. GAUD. I think our attitude would be very favorable, Mr. Chairman.

Mr. PASSMAN. Is there any reason why it should be entirely favorable with regard to an outstanding American business firm?

Mr. GAUD. No reason in the world.

Mr. PASSMAN. Thank you.

Mr. Montoya?

LOANS TO CORPORATIONS

Mr. MONTOYA. Mr. Gaud, do you have many of these loans where you lend to corporations directly?

Mr. GAUD. To American corporations?

Mr. MONTOYA. No, to foreign corporations.

Mr. GAUD. We have a fair number of them, yes.

Mr. MONTOYA. I notice you have a loan to Etibank, which is a Government corporation.

Mr. GAUD. Yes.

Mr. MONTOYA. And the nylon plant loan is made to Seflon. Is that a Government corporation?

Mr. GAUD. That is a private corporation with American and Turkish investors.

Mr. MONTOYA. It is made on a three-quarters of 1 percent interest repayment?

Mr. GAUD. This is what we call a 2-step loan. The loan is made to the Government of Turkey and is then reloaned to the corporation.

Mr. MONTOYA. I recognize that. You are lending three-quarters of 1 percent money to the Government and the Government in turn makes that loan for the project to a private corporation and gets 5¾ percent.

Mr. GAUD. We insisted on that. This was a term and condition of our loan.

Mr. MONTOYA. So in the end Turkey is making money with our money and the repayment to us will be in dollars; is that it?

Mr. GAUD. Yes, sir.

Mr. MONTOYA. Only on the principal plus the three-quarters of 1 percent?

Mr. GAUD. Yes, sir. We feel that the private corporation or the operating corporation should pay regular money market rates for the loan that it gets from the Government. But we feel the terms for repaying that foreign exchange should relate to Turkey's balance-of-payments position. The Turkish balance-of-payments situation is such that we feel that the 40-year, 10-year grace, and three-quarters of 1 percent interest rate is an appropriate rate of a dollar loan to Turkey.

Mr. MONTOYA. What has been our experience with Turkey on dollar repayment loans which we have made to it?

Mr. GAUD. We have no loans that are in default that we have made to Turkey. Of course, the AID loans are so recent that there haven't been any payments of principal that have fallen due yet.

POWER PROJECTS IN NEAR EAST-SOUTH ASIA

Mr. MONTOYA. I notice you have another powerplant or power project here involving $31.3 million.

Mr. GAUD. Yes, sir.

Mr. MONTOYA. How much of this is already disbursed?

Mr. GAUD. I think I am right in saying that the Government of Turkey has prepared specifications, but has not yet advertised for tenders.

Mr. MONTOYA. You are going in quite extensively on these power projects in India and other areas; aren't you?

Mr. GAUD. Yes. We feel they are absolutely basic. If these countries are to develop they have to have electric power and this is one of the fields in which we are expending a great deal of effort.

Mr. MONTOYA. I don't recall the terms of the loan and the commitment to India but were the repayments to be made in rupees?

Mr. GAUD. No, sir. The terms were exactly the same as this loan.

Mr. MONTOYA. Will you insert in the record for this region how many projects you are currently funding and the listing, project by project, with the total cost and commitment by the United States?

Mr. GAUD. Yes.

(The information requested follows:)

Current AID dollar capital funding of NESA power projects and total costs of projects

[In thousands]

	AID funding	Total estimated cost of project
Greece (total): Acheloos hydroelectric project	$52,600	$127,562
India:		
Chandrapura thermal power	30,000	73,000
Chandrapura thermal power II	16,000	25,500
Sharavathi hydroelectric	8,400	76,900
Sharavathi hydroelectric II	18,400	57,165
Ahmedabad thermal power	3,900	5,292
Barauni thermal power	3,800	6,500
Durgapur thermal power	20,000	28,200
Barapani hydroelectric power	2,500	15,600
Kanpur thermal power	1,600	3,600
Talcher power	33,000	50,700
Birsinghpur power	8,400	22,300
Cambay thermal power	33,600	52,500
Bandel thermal power	38,000	55,500
Pamba-Kakki hydroelectric	20,200	58,821
Trombay thermal power	17,900	26,300
Delhi C thermal power	16,000	37,600
Ramagundam thermal power	8,400	16,200
Satpura thermal power	25,100	63,800
Tarapur atomic powerplant	80,000	113,539
India, total	385,200	789,017
Israel (total): Haifa power station B	17,000	43,500
Jordan (total): Amman electric power	1,200	2,100
Pakistan:		
Karnafuli multipurpose	39,950	69,200
Power transmission lines	18,300	32,900
Secondary transmission grid	23,000	32,400
Quetta thermal power	6,000	7,500
Karachi electric supply	26,000	35,500
East Pakistan power distribution	8,600	12,500
Pakistan, total	121,850	190,000
Turkey:		
Electric power distribution	7,000	19,267
Northwest Anatolia power generation projects	31,300	49,900
Keban and Ciceroz hydroelectric feasibility survey	350	1,000
Turkey, total	38,650	70,167
United Arab Republic (total): Cairo west power project	30,600	46,200
Total, NESA countries	647,100	1,268,546

MILITARY ASSISTANCE PROGRAM IN TURKEY

Mr. MONTOYA. Now, with respect to the Military Assistance Program, could I interject this at this point: What is the contribution in military manpower that Turkey makes to the NATO Alliance?

Mr. GAUD. Mr. Quinn, can you give that figure?

Mr. QUINN. The total strength of the Turkish forces is ————.

Mr. MONTOYA. Where are they based?

Mr. QUINN. In Turkey.

Mr. MONTOYA. What is the total cost of a Turkish soldier compared to the cost of an American soldier?

Mr. QUINN. I don't have that figure. I can supply it for the record.

Mr. MONTOYA. Would you supply that for the record. We did get those figures 2 years ago and I don't know what the figure is today.

Mr. QUINN. I will put that in the record for you.

(The information requested follows:)

ANNUAL PER CAPITA MILITARY PERSONNEL COSTS UNITED STATES VERSUS TURKEY

Cost estimates shown below are confined to pay, allowances, subsistance, and individual clothing. They do not include operation and maintenance expenditures, as no meaningful comparisons could be made due to differing weapons systems and technologies. For comparative purposes, figures are included for 1961.

Cost to maintain a soldier

	1961	1962	Net change (1962 versus 1961)	Remarks
United States	$4,014	$3,948	−$66	
Turkey	404	427	+23	Increase due to higher pay and allowances.

Mr. PASSMAN. Would you also put in the record a statement as to the effectiveness of the foreign soldier and the American soldier? Sometimes we are told it would take 30 of these foreign soldiers to accomplish as much as one American soldier.

Mr. GAUD. I have never heard anybody say that about the Turks, though.

Mr. PASSMAN. They are good fighters, I understand. An American soldier gets his salary whether he is in Turkey, Formosa, Taiwan or the United States, does he not?

Mr. QUINN. Yes.

Mr. PASSMAN. Are there 70 nations for which we have a military aid program planned for fiscal 1964?

Mr. QUINN. I don't know what the total figure is, Mr. Passman.

Mr. PASSMAN. They had 58 and decided later to go to 65 and I think it will be 71 nations in fiscal year 1964.

Mr. TENNANT. The sheets I gave you show 65 in fiscal year 1964 plus 3 credit sales countries which would make a total of 68 countries.

Mr. PASSMAN. They told us earlier 70 or 71.

Mr. TENNANT. They did?

Mr. PASSMAN. Yes.

UNITED ARAB REPUBLIC

Mr. PASSMAN. The next country in this area is the United Arab Republic. I believe that you are requesting for fiscal year 1964 ———.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Is this the country where we had an aid program and when Nasser came in we suspended it for several years, about the time of the Suez Canal incident, and later went back?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. You suspended the program, but you did not deobligate the funds. You left the funds intact to the credit of Egypt.

What has been the total amount of aid to the United Arab Republic since the inception of the program?

Mr. GAUD. $803.5 million.

Mr. PASSMAN. Does that figure include all spigots of aid?

Mr. GAUD. Yes.

Mr. PASSMAN. What is the total amount of commitments under Public Law 480?

Mr. GAUD. The total amount of commitments under Public Law 480, $390 million.

Mr. PASSMAN. To be used over how many years?

Mr. GAUD. Three years.

Mr. PASSMAN. How many years has this commitment been in effect?

Mr. GAUD. One.

Mr. PASSMAN. Give us the total of of unliquidated funds under all contracts to the credit of the United Arab Republic.

Mr. GAUD. That would be the sum of those two figures.

Mr. PASSMAN. What is that sum?

Mr. GAUD. If you are going to put in the whole Public Law 480 when 1 year is completed.

Mr. PASSMAN. That is exactly what we are going to do, because we are qualifying it to what it is.

Mr. GAUD. $463 million on that basis.

UNITED ARAB REPUBLIC PROCUREMENT OF SOVIET BLOC MILITARY EQUIPMENT

Mr. PASSMAN. I believe that I read in the papers a day or two ago that the United Arab Republic is buying Russian Mig's and that they are using about $100 million a year of their foreign exchange for the purchase of military equipment from Russia. Are you familiar with any of those charges?

Mr. GAUD. I have heard that charge. To the best of my information it is not true. To the best of my information the United Arab Republic does not use any foreign exchange in getting military supplies from the bloc.

Mr. PASSMAN. It has never been established that Russia has given away as much as one ruble. Is the United Arab Republic buying, borrowing, stealing, or otherwise getting into their possession in any way, shape, form, or fashion, Russian military equipment?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. To what extent per year?

Mr. GAUD. I can give you a cumulative figure in the last 7 years.

Our best estimate is that the value of military aid from the bloc is ———.

Mr. PASSMAN. Are you familiar with the terms?

Mr. GAUD. No, sir.

Mr. PASSMAN. We are in with a fantastically high aid program to the United Arab Republic. And those people have rather peculiar designs, do they not, toward the Middle East?

(Discussion off the record.)

NONALINEMENT POSTURE OF UNITED ARAB REPUBLIC

Mr. PASSMAN. Are they cooperating rather freely militarily with the Soviet bloc?

Mr. GAUD. No, sir.

Mr. PASSMAN. Did you not say ——— worth of equipment they received?

Mr. GAUD. They have taken that much military aid. I wouldn't say it is accurate to say they are cooperating freely with the bloc on military matters, or any matters.

Mr. PASSMAN. You do not think there would be any concessions made to them by the Soviet bloc unless they felt they were getting some concessions, do you?

Mr. GAUD. I don't think that Nasser is cooperating with the Soviet bloc at all.

Mr. PASSMAN. Do you think he is cooperating with the United States?

Mr. GAUD. In many respects; yes. I would like——

Mr. PASSMAN. I am talking about the type of respect that we think a nation should show if they get this kind of foreign aid.

Mr. GAUD. Not in all respects, in many respects and I would like to cite, for example, the vote of the United Arab Republic on the Congo issue in the U.N., the vote on the nuclear test ban treaty in the U.N., their actions with respect to the Chinese-Indian dispute where they have very definitely taken the side of the Indians against the Chinese, and on many other matters.

There are matters in the Near East itself on which we do not agree with the posture the United Arab Republic has taken, but there are many others in which it has taken a pro-Western view. I can think of no instances recently, Mr. Chairman, where they have taken a pro-Soviet view.

Mr. PASSMAN. A few votes in the U.N. by Egypt to protect her own country and security; is it worth the type of aid we are giving them?

Mr. GAUD. That is not the issue.

Mr. PASSMAN. It is a part of the issue. That is the only thing I actually heard you say that would justify us giving as much as $18.

Mr. GAUD. I was responding to your question of their cooperating freely with the Soviet bloc. I do not think they are cooperating with the Soviet bloc at all.

Mr. PASSMAN. That is still a matter of opinion. I have the clipping, and I think they are using about $100 million in foreign exchange to buy Russian military equipment. You said you do not know anything about the terms over there.

I expect at this point my opinion would be as good as yours.

AID LEVELS

How does the fiscal year 1964 aid program for Egypt, from all spigots, compare to the total aid program in fiscal years 1962 and 1963?

Mr. GAUD. In 1962 the total aid program was $224 million.

In 1963 the total aid program was $185 million.

In 1964 we are estimating——

PURCHASES OF GOLD

Mr. PASSMAN. It would appear that in 1960 Egypt purchased $7.5 million worth of our gold.

In 1961 they purchased $7.8 million worth of our gold.

In 1962 they purchased $1.2 million of our gold.

In the first 3 months of 1963 they had purchased $400,000 worth of our gold.

Mr. GAUD. Right. The first three purchases were made to make payments to the IMF, the International Monetary Fund.

Mr. PASSMAN. Does that circumstance modify the fact they are taking our gold? They are getting aid from us at the same time and getting it in substantial amounts.

POPULATION CONTROL

If I recall correctly, the press indicated only recently that the population explosion in Egypt is going to wipe out any benefits that might be derived from Egypt's economic development plan.

Would you comment on that matter?

Mr. GAUD. Yes. That is certainly one of Egypt's most serious problems, and unless she does something about her population increase, that statement will certainly be true.

Fortunately, the Government of Egypt is aware of ths problem. They are trying to do something about it. They have instituted a population control program. As for how they stand at the moment, their economic growth rate in the last couple of years, gross, has been roughly 5 percent. The annual population growth rate is about 2.5 percent. They are still ahead of the game, but not nearly as much as one would like.

Mr. PASSMAN. We appear to be pouring our resources into a bottomless pit.

OTHER FREE WORLD AID

On page 53 of the justifications, as of June 30, 1961, it is indicated that free world sources, excluding the United States, had extended to the United Arab Republic $567 million in aid. Do you have a list of the countries which made loans, or gave any type of aid to Egypt?

Mr. GAUD. Yes.

As the statement says, these are not what you would call aid loans; these are mainly commercial credits.

Italy, between 1961 and 1962, lent the United Arab Republic $180 million on credits running from 5 to 10 years, mostly 5 to 6 years.

Mr. PASSMAN. You were saying credits?

Mr. GAUD. I call these commercial credits. This is basically selling goods on short-term credit?

Mr. PASSMAN. At what rate of interest?

Mr. GAUD. Four and a half to five percent.

Mr. PASSMAN. About the same as our Export-Import Bank; is that right?

Mr. GAUD. Yes.

Mr. PASSMAN. We call upon the Export-Import Bank to do the same thing in loans?

Mr. GAUD. Yes.

Mr. PASSMAN. This is comparable to the activity of our Export-Import Bank, making loans to buy Italian commodities?

Mr. GAUD. That is right.

Mr. PASSMAN. What is the total amount of loans made to Egypt by Israel?

Mr. GAUD. I imagine that is zero.

Mr. PASSMAN. According to the last report you had?

Mr. GAUD. Yes, sir.

EGYPTIAN-ISRAELI AIRCRAFT INCIDENT

Mr. CONTE. Do we have a report on the Migs that were flying over Israel the other day?

Mr. LEE. I asked about that this morning, and we do not have a clear report on it. There are conflicting reports coming in from the two countries.

Mr. CONTE. How about CIA?

Mr. ANDREWS. That would be more conflicting.

Mr. PASSMAN. Do you think any of that stuff will be cleared up before we finish the hearings?

Mr. LEE. I think so.

Mr. PASSMAN. We get a lot of conflicting stories. If we could clear up some of these things up before we mark the bill, it might help us.

Mr. LEE. You are proceeding much faster than we thought.

DEVELOPMENT CREDITS

Mr. PASSMAN. Would you submit for the record a list of all the development credits extended by the United States to the United Arab Republic?

Mr. GAUD. All the development loans?

Mr. PASSMAN. Development credits.

(The information follows:)

Development loans and credits to the United Arab Republic: 1947 through 1963

Obligations and purpose	Date authorized	Number of years	Currency	Grace period (years)	Interest rate (percent)	Amount authorized (millions of dollars)
AGENCY FOR INTERNATIONAL DEVELOPMENT AND PREDECESSOR AGENCIES						
Government of the United Arab Republic general commodity (FOA).	Feb. 17, 1955	40	Local currency.	4	4	7.5
Industrial Development Bank (DLF).	Aug. 31, 1960	10	do		5	7.0
Adfina Por L'Exportation de la Fabrication des Products, equipment, canning, and freezing plant.	Oct. 7, 1960	10	do	4	5¾	.2
Al Nasr Co., equipment bagasse pulpmill (DLF).	Nov. 23, 1960	13	do	4	5¾	6.7
Telecommunications organization equipment (DLF).	Jan. 19, 1961	15	do		3½	1.3
Societe Misr Pour La Rayonne, cellophane plant equipment (2d step).	Apr. 26, 1962	40 (12)	U.S. dollars	10	¾ of 1 (5)	3.0
Government of the United Arab Republic grain storage program.	do	40	do	10	¾ of 1	17.0
Government of the United Arab Republic Cairo west power project (2d step).	Feb. 20, 1963	40 (20)	do Local currency.		¾ of 1 (3½)	30.6
Societe Generale De L'Industrie De Papier, Rakta board mill (2d step).	June 18, 1963	40 (10)	U.S. dollars Local currency.	10	¾ of 1 (5¾)	5.7
Subtotal						79.0
Stabilization loans:						
Government of the United Arab Republic economic stabilization program.	June 1, 1962	10	U.S. dollars	3	2½	20.0
Government of the United Arab Republic economic stabilization program.	Sept. 25, 1962	10	do		2½	10.0
Total						109.0

	Date authorized	Years to maturity	Grace period	Interest rate (percent)	Amount authorized (millions of dollars)	Status as of June 30, 1963 (millions of dollars)
EXPORT-IMPORT BANK OF WASHINGTON						
Fertilizer & Chemical Industries of Egypt, equipment for fertilizer plant.	July 16, 1947	6	5 yrs	3½ to 6	7.2	Total repaid.
Egyptian Spinners, textile equipment.	May 6, 1955	2	6 mos	6	.06	Credit not issued.
United Spinning & Weaving Co., SAE.	June 9, 1955	2	2 yrs	6	.03	Total repaid.
Alnadisea Trading Co. of Egypt, earthmoving equipment.	Nov. 10, 1955	2	6 mos	5	.1	Credit not issued.
Society Egyptienne Chimiques, equipment fertilizer plant.	Nov. 13, 1958	7	2½ yr	5	3.5	1.0 repaid.
Government of the UAR, locomotives, General Motors Corp.	Sept. 13, 1959	5	1 yr	5¾	9.1	4.5 repaid.
Government of the UAR, diesel locomotives and parts.	Oct. 8, 1960	8	2 yrs	5¾	18.0	0.6 repaid.
Government of the UAR, diesel electric locomotives.	June 28, 1963	8	2 yrs	5¾	12.5	Undisbursed.
Total					51.3	
Grand total					106.3	

UAR'S ROLE IN YEMEN REVOLUTION

Mr. PASSMAN. What was UAR's role in the recent overthrow of the monarchy by a revolutionary group in Yemen?

Mr. GAUD. The UAR intervened in Yemen on behalf of what was the revolutionary government, which is now the recognized Government of Yemen.

Mr. PASSMAN. Were the UAR and the United States on the same side of that revolutionary move?

Mr. GAUD. We took no part in the revolution.

Mr. PASSMAN. We were giving aid to Yemen and the UAR?

Mr. GAUD. We were giving aid to both countries at the time the revolution occurred.

Mr. PASSMAN. We gave aid regardless of the revolution?

Mr. GAUD. Yes.

POSSIBLE USE OF UNITED STATES MILITARY EQUIPMENT IN YEMEN REVOLUTION

Mr. ANDREWS. Do you have any evidence in any of these fights where each side is using equipment we gave them?

Mr. GAUD. Are we on the record or off the record?

Mr. ANDREWS. I would like the answer on the record.

Mr. GAUD. I do not know whether this is classified or not.

As far as I know, Mr. Andrews, there has been no record of the Egyptian forces, or the Yemeni forces, using any American equipment.

Mr. ANDREWS. That is one fear I have about this military assistance program. We give equipment and know-how to these little countries, and at any time they might start fighting each other and using our equipment. They used our equipment to change a government in Peru last year.

Mr. GAUD. Yes.

Mr. ANDREWS. They used Sherman tanks to run the president out of the palace.

Thank you.

Mr. PASSMAN. Did we have a good relationship with Yemen under the monarchy?

Mr. GAUD. Fair.

Mr. PASSMAN. Good enough for us to give them aid?

Mr. GAUD. Yes.

Mr. PASSMAN. Then the rebels, or whatever you want to call them, overthrew the monarchy. Now we are giving the new Government aid?

Mr. GAUD. We are.

Mr. PASSMAN. What happened to the king?

Mr. GAUD. The old king died.

Mr. PASSMAN. I am talking about the one in power.

Mr. GAUD. He was succeeded by his son, who was driven out of his capital. He is still alive and is still fighting the present government.

Mr. PASSMAN. Are we supporting him, too?

Mr. GAUD. We are not supporting him.

Mr. PASSMAN. We did support him before they ran him out, did we not?

Mr. GAUD. We gave aid to the Government of Yemen.

Mr. PASSMAN. He was the king.

Mr. GAUD. We were not giving aid to him. We were giving aid to the people of Yemen.

Mr. PASSMAN. Where did old King Saud get enough money to move 80 of his wives into Vienna at $12,000 a day?

Mr. GAUD. From oil. Saudi Arabia has enormous oil deposits.

Mr. PASSMAN. Why should we give him aid when he has all that income?

Mr. GAUD. Saudi Arabia?

Mr. PASSMAN. To any country with these big incomes.

Mr. GAUD. If we were giving money to these countries you would be right.

Mr. PASSMAN. What are we giving them?

Mr. GAUD. In Yemen, what we are doing is building a road, we are putting in a water system in the city of Taiz, and training some Yeminis in Beirut. Nothing goes out there in the shape of money except what is needed to pay the local labor on the road. The program is mostly American goods and services.

Mr. PASSMAN. Are there any commodities?

Mr. GAUD. Commodities only insofar as they are necessary to build the road and carry on the other projects. But these commodities could not very well get into the public treasury.

CASH TRANSACTIONS, NEAR EAST-SOUTH ASIA

Mr. PASSMAN. We give them credit downtown at the Treasury. You know I know that much about this aid program.

Mr. GAUD. We give Jordan money.

Mr. PASSMAN. You actually take the money and send it over, dollar bills?

Mr. GAUD. In Jordan we give them a check.

Jordan is the only country in the Near East-South Asia region where we are providing aid this way.

Mr. PASSMAN. You have it all over the world. It follows, nevertheless, that if you are going to credit a country with dollars downtown from which they can requisition their needs, something they had previously bought from their own earnings, that releases money in their country for them to do with as they please.

You do not quarrel with that statement?

Mr. GAUD. That is true.

Mr. PASSMAN. Would it make any difference if I went to the grocery store to pay my bill and they said, "Mr. Gaud has picked that up"; that gives me my paycheck to do what I want to with it. Is that not an accurate way to describe it?

Mr. GAUD. That is fair.

MANAGEMENT DEVELOPMENT PROJECT

Mr. PASSMAN. Why do you need $162,00 for the management development project, on page 333?

The unliquidated balance on June 30 was $301,000, which should be more than enough to finance 2 years of contract service for a five-man team of consultants and short-term specialists.

Mr. GAUD. I am not sure we need that.

Mr. PASSMAN. With reference to the project we just asked you the question on that you are going to have to look at, did you justify last year the obligation which initiated this project?

Mr. GAUD. $339,000 we justified. We obligated $311,000.

Mr. PASSMAN. That is the one you are going to check on to see whether you need money for 1964?

Mr. GAUD. Yes.

TELECOMMUNICATIONS TRAINING CENTER PROJECT

Mr. PASSMAN. Have you negotiated a contract with RCA in connection with the telecommunication training center project?

Mr. GAUD. Yes.

Mr. PASSMAN. For what purpose is the $894,000 in unliquidated obligations on June 30 obligated?

Mr. GAUD. This is to finance that contract primarily.

There are eight technicians employed under the contract and five participants. This contract has taken a long time to work up. There is also certain specialized equipment, training, and research equipment that will be covered by this.

Mr. PASSMAN. How much did you actually obligate in fiscal year 1963?

Mr. GAUD. $435,000, Mr. Chairman.

Mr. PASSMAN. When this book was printed, it indicated you would obligate $468,000?

Mr. GAUD. Yes.

Mr. PASSMAN. That is a $33,000 savings there already which would mean you do not need the $42,000 that you are requesting for 1964.

Mr. GAUD. I agree.

PUBLIC ADMINISTRATION PROJECT

Mr. PASSMAN. On page 383, I note that you propose to add $165,000 to the unliquidated obligations of $142,000 for the public administration project.

Mr. GAUD. Yes.

Mr. PASSMAN. This total of $307,000 is to finance 18 months' services for two long-term and two short-term specialists and pay the cost of training?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Ten participants?

Mr. GAUD. Yes.

The fact is we did not obligate anything in this project in fiscal year 1963. We therefore had no unliquidated balance, and we do need the $165,000 we are asking for 1964.

At the time the book was printed, we expected to obligate $200,000.

Mr. PASSMAN. These books are making less sense every year.

Mr. GAUD. I am sorry to hear that. We work very hard on them.

Mr. PASSMAN. There are a lot of variations this year.

PUBLIC LAW 480 ASSISTANCE TO UNITED ARAB REPUBLIC

Mr. CONTE. Mr. Secretary, in Public Law 480 you stated you were giving them over $300 million a year.

Mr. GAUD. No, sir.

We entered into a 3-year agreement, the total of which was about $390 million for the 3 years.

Mr. CONTE. $130 million a year?

Mr. GAUD. That is right.

Mr. CONTE. That is all of Public Law 480.

Mr. GAUD. That is all of Public Law 480, except they get some on title III, which is distributed through Catholic charities, CARE, and the like.

Mr. CONTE. What percentage of the total food consumption is that?

Mr. GAUD. About 20 percent.

Mr. CONTE. How is this distributed?

Is this given to the Egyptian Government and then in turn sold?

Mr. GAUD. Through normal commercial channels.

Mr. CONTE. We do not have any programs out there similar to the one in Morocco?

Mr. GAUD. No, sir.

Mr. CONTE. Have you tried one of those programs out there?

Mr. GAUD. No, sir; we have not.

Mr. CONTE. It worked very well in Morocco and Liberia.

Mr. GAUD. I think this is a different situation.

YEMEN

Mr. PASSMAN. What kind of arm twisting did we do to finally get Yemen to let us in with this giveaway program that started, I believe, in 1959?

Go back and look at the records.

Mr. GAUD. I cannot answer that. I could not know the answer to that question.

Mr. PASSMAN. I am correct in saying a program did not start in Yemen until 1959; is that correct?

Mr. GAUD. That is my best recollection.

Mr. PASSMAN. Let us go to the book.

Mr. GAUD. 1959 was the first year.

Mr. PASSMAN. What has been the total aid to Yemen since the inception of the program, from all spigots?

Mr. GAUD. All spigots, $28.6 million.

Mr. PASSMAN. What amount do you have unliquidated to the credit of Yemen?

Mr. GAUD. We have unliquidated about $4.5 million.

Mr. PASSMAN. This was obligated to the old regime?

Mr. GAUD. Some of it.

Mr. PASSMAN. It carries over to the new regime?

Mr. GAUD. Yes.

Mr. PASSMAN. Are you requesting any funds for Yemen for fiscal year 1964?

Mr. GAUD. Yes, Mr. Chairman. We are requesting $6 million of supporting assistance.

Mr. PASSMAN. That means an outright grant?

Mr. GAUD. It does.

Mr. PASSMAN. Is there any Public Law 480 aid?

Mr. GAUD. There may be some Public Law 480.

Mr. PASSMAN. This little country went without the aid program from its inception up to 1959. I wonder if they could not have continued to have gotten along without it?

JUSTIFICATION FOR U.S. AID

Mr. GAUD. We did not go into this aid program solely for their benefit. We also went into it for our own benefit.

Mr. PASSMAN. We have been in 104 out of 112 nations. We are in 95 nations and 4 possessions with aid for fiscal 1964.

Mr. GAUD. It started as a matter of geography with Yemen. It is at the foot of the Red Sea at the place where it is narrowest. It is very close to our oil investment in Saudi Arabia and the Persian Gulf, which is more than $1 billion. In the late fifties, both the Chinese and Russians moved into Yemen with a rather substantial program. There was danger that control of the Red Sea could fall to the bloc.

Mr. PASSMAN. Those are the years we refused to go in?

Mr. GAUD. We did go in in 1959. We felt it was essential from the standpoint of our investment in that part of the world, our interest in that part of the world, that the bloc not take over this country altogether and that was the reason we went in there.

Mr. PASSMAN. As far as geography is concerned, it is the same?

Mr. GAUD. The geography is still the same.

Mr. PASSMAN. The oil companies in there are still the same?

Mr. GAUD. Yes.

Mr. PASSMAN. Why did you not let them spend the money? Why do we have to subsidize the oil companies?

Mr. GAUD. I would not call it that.

Mr. PASSMAN. Is it anything less than subsidizing the oil companies?

On account of the U.S. oil companies' interest, we start an aid program in Yemen.

Mr. GAUD. It is true the oil companies will get dividends from their oil, but it is equally true the whole industrial complex of the West would fall apart if they did not get that oil.

Mr. PASSMAN. If they are able to make hundreds of millions annually out of the profit of oil, they ought to take care of this $6 million.

Mr. GAUD. They are not in Yemen.

Mr. PASSMAN. It is all in the interest of our oil companies that you mentioned?

Mr. GAUD. I believe we would have a new flock of minority stockholder actions if oil corporations started fathering aid programs to Yemen.

Mr. PASSMAN. So it is a matter of letting Uncle Sam do it?

Mr. GAUD. Uncle Sam has the power to do it, the corporations do not.

Mr. PASSMAN. We had the same kind of conditions back in the years 1955, 1956, 1957, and 1958. Finally, however, we went into Yemen. We are in and I expect we shall stay in.

(Off the record.)

CENTO

Mr. PASSMAN. The next estimate is $1.6 million for CENTO. What is the average annual cost of the 12 Federal Aviation Agency technicians which you are employing on a regional civil airway system project, on page 359?

Mr. GAUD. They have varied in number. There were 18 in 1962, 24 in 1963, and there are 12 in 1964.

Mr. PASSMAN. We want the annual cost.

Mr. GAUD. I haven't the breakdown here.

Mr. PASSMAN. Please put the information in the record for us.

(The information follows:)

AVERAGE ANNUAL COST OF FAA TECHNICIANS, CENTO PROJECT

The average annual cost of a Federal Aviation Agency technican in fiscal year 1963 was $19,600. The latest estimate of average cost for fiscal year 1964 is approximately $24,300. This increase is partially due to "end of tour" and transfer costs for a number of technicians.

Mr. PASSMAN. In connection with the support of specific technical assistance request projects, on page 361, I note that you obligated $200,000.

Mr. GAUD. $218,000, in fact, Mr. Chairman.

Mr. PASSMAN. The book says $200,000.

Mr. GAUD. The figure has changed since March.

CENTO CONFERENCES

Mr. PASSMAN. You held all Conferences with this amount of money?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. What is the average cost of these Conferences, and would you give us a breakdown of the cost of one of them and put them in the record?

Mr. GAUD. There were 11 Conferences in 1963. We are planning 13 in 1964. If you take the arithmetical average there——

Mr. PASSMAN. That is about $19,000 per Conference. Where are they held and how many attend?

Mr. GAUD. They vary. The attendance varies. They may be held in Ankara, they may be held in Teheran, they may be held in Karachi and the attendance depends upon the subject, the number of people who are interested in coming from the various CENTO countries and there may be others from the outside, Americans and others, who will go there.

Mr. PASSMAN. Do you have any idea as to the number who attend?

Mr. GAUD. I can get it for you.

Mr. PASSMAN. If you can, give us a breakdown of the expense of one of the Conferences.

Mr. GAUD. I will.

Mr. PASSMAN. Let us say the last Conference. Put it in the record and give the committee a copy of it—representation allowance, travel, entertainment.

Mr. GAUD. All right, sir.

(The information follows:)

CENTO Conferences, Civil Aviation Technical Conference

This U.S.-sponsored CENTO Conference was held in Teheran, Iran, in April 1963. There were 35 participants from Turkey, Iran, Pakistan, the United Kingdom, and the United States. The British paid for their own participants. The United States financed the major costs of the Conference, the elements of which are as follows:

Participant travel	$8,547
Per diem	2,369
Cables, telephone, and other	250
Representation	100
Total	11,266

NEAR EAST-SOUTH ASIA REGIONAL PROGRAM

Mr. PASSMAN. The next item is the Near East and south Asia regional program for which you are requesting $2,730,000 for fiscal year 1964; is that correct?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. On page 365 of the project book, you indicate you propose to finance five U.S. technicians at a cost of $160,000. What is the average annual cost of these technicians?

Mr. GAUD. That would be $32,000 a technician.

AUB REGIONAL TRAINING PROJECT

Mr. PASSMAN. Page 367 indicates you want $2,545,000 to renew the American University at Beirut contract and finance the international travel of maintenance expense for up to 630 participants.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. Is that contract in accordance with contracts that you have with other universities? Does it fit within the standards and the same kind of guidelines?

Mr. GAUD. I am not quite clear what you are driving at, sir.

Mr. PASSMAN. If you bring participants over from some foreign country to the United States you pay their travel.

Mr. GAUD. Yes.

Mr. PASSMAN. And if you take participants to the University at Beirut you pay their travel.

Mr. GAUD. My impression is some travel is paid with local currency. We pay their travel.

Mr. PASSMAN. Regardless of what you pay it with, you do have an established system.

Mr. GAUD. We do cover their travel.

Mr. PASSMAN. This would be the rule and not the exception, to pay the expenses of participants?

Mr. GAUD. That is certainly true.

Mr. PASSMAN. The contract with the American University at Beirut is a similar contract to that of other universities? There is no concession made to them, is there?

Mr. GAUD. Not that I know of.

Mr. PASSMAN. It is a regular contract?

Mr. GAUD. Yes, sir.

Mr. PASSMAN. I believe one of the prerequisites of getting into this college is that one must be able to read and write English?

Mr. GAUD. That is true.

Mr. PASSMAN. It is my understanding this is strictly a nonsectarian institution.

Mr. GAUD. That is right.

Mr. PASSMAN. At one time the oil companies manifested some type of indirect interest; but they do not do so now?

Mr. GAUD. I believe that is true.

Mr. PASSMAN. That is my understanding, and that the board of directors is made up of people of all creeds and faiths.

Mr. GAUD. Yes, sir.

Mr. PASSMAN. It could truly be termed a nonsectarian institution?

Mr. GAUD. And an international institution.

Mr. PASSMAN. Since you are financing the maintenance expense of students at the university at a cost of approximately $1,270 per year a student, what does the estimate for contract services of the $1,745,000 represent, the cost of tuition for this 630 students?

Mr. GAUD. This is the cost of the contract with the university.

Mr. PASSMAN. Break it down on a per student basis.

Mr. GAUD. You mean that contract?

Mr. PASSMAN. Yes.

Mr. GAUD. If we divide $1,745,000 by 630 it is nearly $3,000.

Mr. PASSMAN. I get $2,770.

Mr. GAUD. I am sure that is right.

Mr. PASSMAN. Is that cost about normal?

Mr. GAUD. It is cheaper than bringing them to the States.

Mr. PASSMAN. Do you get just as much for the student there as you would get if you would bring them to the States?

Mr. GAUD. In many cases I think you do.

Mr. PASSMAN. How much did you spend on original seminars in fiscal year 1963?

Mr. GAUD. We spent $25,000.

OPERATING EXPENSES OF UNIVERSITIES AND HOSPITALS

Mr. PASSMAN. There is operating expense for the University at Beirut. Would this item be out of the allotment for your region?

Mr. GAUD. No, sir. Dr. Baumgartner will come up with a separate justification for that.

Mr. PASSMAN. Do you have similar colleges or universities in your area which are getting aid?

Mr. GAUD. Yes, we do.

Mr. PASSMAN. I think it is bad policy to be giving budgetary support——

Mr. GAUD. Are you talking about giving budgetary support?

Mr. PASSMAN. For operating expense.

Mr. GAUD. I will take that back. As far as I know, and Mr. Chairman, let me say at the outset that this is not under my guidance or control, but my impression is that we are not giving budgetary support to any of these institutions except I believe we did to AUB at one time.

Mr. PASSMAN. You have a tremendous amount of money going into some medical schools in your area, up into the millions of dollars.

Mr. GAUD. Not by way of budgetary support.

Mr. PASSMAN. When I say budgetary support, I am talking about operating expense of the institution.

Mr. GAUD. Not in my region that I know of, sir; not with dollars.

Mr. PASSMAN. Do you remember the medical school we discussed earlier?

Mr. GAUD. There was a medical school in Iran that we were talking about where we were supplying technicians and teachers, we were supplying the equipment. We are not otherwise paying——

Mr. PASSMAN. If you are supplying equipment for the school, teaching equipment, would you not call that budgetary support? It is a normal operation of the institution to have to buy the equipment and books, is it not?

Mr. GAUD. It saves them money but I would call that investment in plant rather than budgetary support.

Mr. PASSMAN. It seems that we are getting into the habit of making a contribution to the operating expense of these schools.

I am afraid we are going to get into trouble in this respect.

Mr. GAUD. I personally feel unless we control the budget of an institution and know what it is getting into we should not pay anything for budgetary support.

Mr. PASSMAN. If you can control it, maybe it is value received.

Mr. SCHEINMAN. Sir, as you know, there have been certain institutions throughout the world chartered to Americans, run and financed by Americans as charitable institutions in education.

Mr. PASSMAN. It is a tremendous expense, nearly $300 million.

Mr. SCHEINMAN. This year, if you will note, and I am sure you have, the President has requested that the funding which is provided to those institutions be provided pursuant to a separate authorization and appropriation.

Mr. PASSMAN. I am familiar with that matter but I am talking about giving budgetary support. I do not think it is right for us to do so.

Let us take a brief recess.

(Short recess taken.)

Mr. PASSMAN. The committee will come to order.

I yield to Mr. Conte.

Proposed Steel Mill at Bokaro, India

NEED FOR SPECIAL COMMITTEE TO EXAMINE THE PROJECT

Mr. Conte. Mr. Chairman, may I preface my remarks by saying that unfortunately, unlike the witnesses, we do not have the proper staff to really go into these matters the way we should. I think that this thing is of such importance and of such magnitude I am firmly convinced in my own mind, regardless of what has been said here, that this project has been committed. It bothers me no end. It is of such importance and magnitude that I certainly wish that we could have a special committee to look into it, even further than these hearings that we are having at the present time.

Mr. Passman. I want to assure the gentleman that we are certainly going to look further into this matter.

Mr. Conte. I certainly appreciate that, Mr. Chairman.

Mr. Minshall. I think that this whole program demands very careful scrutiny, much more attention than we have been able to give it in the limited time we have. In a previous hearing I requested these seven volumes of the report of the United States Steel. They are full of material that we have not had time to even give a cursory examination to, much less read carefully. Just thumbing through the pages we have found glaring examples of reasons why we feel this steel plant should not be considered. An intensive investigation and special hearing is mandatory.

Mr. Passman. I thank the distinguished gentleman and repeat that we do indeed intend to investigate this matter more thoroughly.

ADMINISTRATION NOT COMMITTED TO FUND BOKARO

Mr. Gaud. Mr. Chairman, I would like to just make one comment if I may. I want to say this as categorically and as unequivocally and as flatly as I can, that the administration has no commitment, expressed or implied, to go forward with this project. I said that earlier when I was talking to Mr. Andrews. I repeat it.

Mr. Passman. We can understand that would be true today but it could change tomorrow, could it not?

Mr. Gaud. It could, but it won't.

Mr. Passman. If you will assure this subcommittee that you will not fund or commit this project in fiscal year 1964, we can just take your word, call the whole thing off and not have any special hearings.

Mr. Gaud. I am not prepared to do that at this time.

Mr. Passman. Thank you.

You may continue, Mr. Conte.

Mr. Conte. The other day in answering certain questions I propounded to you, you stated that it is feasible that this bill could pass the Congress, be signed by the President, and in a matter of months have the answers to certain questions about the adequacy of raw materials, and so forth—that the United States could commit themselves to this loan.

Mr. Gaud. That could happen; yes, sir.

Mr. Conte. I tried to nail it down and I couldn't do it. I asked you would you go along with an amendment withholding funds in fiscal year 1964 for this project. I was trying to help you. The

amendment would state that no funds for the fiscal year 1964 would be used for the Bokaro steel mill. You couldn't buy that amendment.

Now, Mr. Gaud, the reason you said you couldn't go along with it—I am not nailing it down verbatim because I don't have the record—was that it was possible or maybe probable these answers would come forth and the Agency could go ahead with a loan. Is that right?

Mr. GAUD. Yes, this could happen. There is no question about it.

AVAILABILITY OF ORE DEPOSITS

Mr. CONTE. Now, I have here in my hand a techno-economic survey of a proposed integrated steel mill at Bokaro, India, made by the United States Steel Corp., Pittsburgh, Pa. I have volume 2, page 20, of that report. I quote from the report:

> It will take 2 years or more, in our opinion, to find satisfactory long-term solutions to the basic raw material problems.

Now, if you have an authority such as the United States Steel, an expert witness who is willing to make that statement categorically that it will take them 2 years to find out the basic raw material problems in relation to the Bokaro steel mill, I can't see why the Agency won't go along with prolonging this for another year.

Mr. GAUD. Well, I will tell you—let me just comment on that this way, Mr. Conte. The United States Steel Corp. has said that in their judgment it will take 2 years to develop these facts. The Government of India says that they have the facts now—that they are available. Now, I don't know where the truth lies. It may well lie somewhere in between. Our own people in the Bureau of Mines here in Washington say that enough is known about the deposits of iron, coal, and limestone in India so that it does not seem likely to them that it would take 2 years to do it. As I have said earlier, we have sent two men out to India to try to find out what facts are available so as to form our own judgment as to what needs to be done next. Now, I do not know if it is going to take 2 years or 2 months or 3 years or 3 months. I haven't any idea. I was just trying to be frank with you and tell you that if this thing is resolved in a matter of months and if the answers are the way we like them and if we decide to go ahead there is a possibility that 1964 funds could be used for this mill. That is all I am trying to say.

Mr. CONTE. How much did this report cost us?

Mr. GAUD. About $650,000.

Mr. CONTE. What are we doing, throwing corn down a rathole? Here you wasted $650,000 of the taxpayer's money. Here you have an expert witness and now you are telling me that there is doubt in the minds of the AID agency because the people of the Interior Department or wherever they come from, the mining people here say that it won't take 2 years. Here we pay people $650,000 for an opinion and their opinion is that it will take 2 years to ascertain what raw materials are there, or whether the raw materials are even there.

PURPOSE OF UNITED STATES STEEL SURVEY

Mr. GAUD. They may well be right but with all due respect to United States Steel—and don't think I am trying to deprecate them—they spent a few months on this proposition and did not devote themselves—

and properly so—primarily to the subject of raw materials. We have people in the Bureau of Mines here who have literally spent years studying this subject. Now, I don't know what the truth is.

Mr. CONTE. Mr. Gaud, you are digging your hole deeper, and deeper, and deeper. Now, you are telling me that the AID agency has been lax in wasting the taxpayers' money to the tune of $650,000. What in the world could they do in 2 months to earn $650,000?

Mr. GAUD. It wasn't 2 months, sir.

Mr. CONTE. You said 2 months.

Mr. GAUD. I thought I said that I didn't know whether this information would be—in a few months.

Mr. CONTE. You said the steel people. The United States Steel people had worked.

Mr. GAUD. A few months.

Mr. CONTE. How many is a few months?

Mr. GAUD. I think the first people from the United States Steel teams went out to India in June 1962. The report was submitted in March 1963. Now, those teams—there were a number of teams that went out there. They went out to study the market, they went out to study the requirements of steel, they went out to study the capabilities—they covered a whole host of subjects. They were administrative people and the like. I haven't any doubt but what we got fair value for this money.

Mr. CONTE. Between June and March—9 months—it cost the Government of the United States—the taxpayer—it cost us $80,000 a month for this report.

Mr. GAUD. The work on this report was done not only by United States Steel. Parts of it were subcontracted to the Bechtel Corp., to Bessemer & Lake Erie Co., the Koppers Co., Arthur McKee & Co., the Stone & Webster Engineering Corp., and, in addition to this, engineering and cost data were furnished to Steel by 32 other American firms. This was a job of enormous magnitude. Not only to go out and investigate the situation in India but in effect to propose a design for a steel mill and cost it out, an integrated steel mill with a total capacity of 4 million tons. This is all the way from blast furnaces to rolling mills. A big job.

Mr. CONTE. It sure is a big job and again I go back—I feel in good conscience that United States Steel and all the other people who were involved in this study were competent, qualified experts in this field. I am willing to take their word for it. But now you are coming in here and you are hedging on it. You are saying maybe they are not right on this study, that maybe the mining people of the U.S. Government know a lot more than United States Steel. And if that is so, then we have wasted $650,000 because we should have hired these people downtown who are sitting on their hands most of the time and we should have sent them out to India for nothing.

Mr. GAUD. They could not have done the job that United States Steel did.

Mr. PASSMAN. Would the gentleman yield?

Mr. CONTE. I will be glad to yield.

Mr. PASSMAN. Why would United States Steel's knowledge not be just as valuable in establishing the other facts that are so important and pertinent to this matter? Why do you not let them carry through

to a final conclusion and then make their recommendations? Then you could have disagreed with them. But you stopped them short of a recommendation.

Mr. CONTE. Mr. Chairman, I don't doubt the veracity and the sincerity and the frankness of the witness.

Mr. PASSMAN. Neither do I.

Mr. CONTE. I know, but let me finish. But I feel maybe that he is not fully aware of all the facts involved here and maybe he hasn't been told all the facts. I feel we are committed to this Bokaro steel mill because here is what happened: We spent $650,000 for a study. The study comes up negative.

Mr. GAUD. I beg——

AVAILABILITY OF BASIC RAW MATERIALS

Mr. CONTE. Yes, it says it will take 2 years to find out whether they have the basic raw materials. And many other things which we are going into here this afternoon. And now what do we do? We try to get around the study by sending our own people over there, or one fellow from the AID agency and using evidence from the mining people of the United States Government to dispute the very report that we contracted for, which we contracted for under the AID agency.

Mr. GAUD. Let me just say one word on that, if I may, that on this business of raw materials, what the steel people say is that they found it necessary to make certain major assumptions regarding raw materials for Bokaro.

We wish to stress this point and emphasize the importance, if the project is to be undertaken, of verifying the reasonableness of these assumptions or developing adequate alternatives. This work of verification will be a considerable undertaking in terms of personnel, time and funds. From the standpoint of time alone, for example, it will take 2 years or more, in our opinion, to find satisfactory long-term solutions to the basic raw materials problems.

Now, Mr. Conte, we sent the U.S. Steel out there to look into these matters and they came back and, as is not unusual in a feasibility survey, raised certain questions which, in their opinion, and in ours, required further study. We are now engaged in giving these questions that further study. It is just as simple as that. We have made no commitment and when you speak of my not knowing whether any commitment has been made here——

Mr. CONTE. To the best of your knowledge.

Mr. GAUD. Well, my knowledge is reasonably extensive on this subject. I am in close touch with the Administrator, Mr. Bell, on it. I have discussed the matter in the last 2 or 3 days with the Secretary of State. I know what the President's views are. They have not changed since the press release that he made in May to which we adverted the other day.

Mr. CONTE. When is the last time you talked with Galbraith?

Mr. GAUD. When he was last in this country.

Mr. CONTE. When was that?

Mr. GAUD. It must have been about—I am guessing—6 or 7 weeks ago.

Mr. MINSHALL. Would the gentleman yield just a moment?

Mr. CONTE. Yes.

Mr. GAUD. Let me say Mr. Galbraith has not only had no authority to commit the United States to this project but never purported to do so.

MAJOR ASSUMPTIONS IN UNITED STATES STEEL REPORT

Mr. MINSHALL. Mr. Gaud, in volume 1 of the report there is one thing upon which they are agreed and with which you are in accord; and that is the need for this steel mill and for the extra steel in India. However, they said in that report: "As a result of the rapid changes—" and I read from volume 1 of the introduction—"as a result of the rapid changes which are taking place in India today and in the economy generally, a number of major assumptions—" I emphasize the word "major"—"had to be made in order to provide an adequate working hypothesis for the development of data. The following are the most important of these assumptions."

And they have 12 of these what they call major assumptions. Twelve of them. The only one anybody is in accord on is the need.

Mr. GAUD. That is right.

Mr. MINSHALL. But these things are all 12 doubtful things in their minds. They had to make assumptions on all of them. I think these are things we should look into. Enough of this expensive guesswork.

Mr. GAUD. There is no doubt about it. I don't think we disagree one bit on this.

Mr. MINSHALL. This is a crystal balling this thing out of all proper proportions.

AVAILABILITY OF SUITABLE LIMESTONE

Mr. CONTE. Mr. Gaud, you will agree with me that limestone is a necessary ingredient in making steel?

Mr. GAUD. There is no question about it.

Mr. CONTE. This report in the same volume, page 28, is entitled "Limestone for Blast Furnaces."

> Known reserves of Indian metallurgical grade limestone economically available to existing integrated steel plants and the proposed Bokaro plant are limited in quantity and of inferior quality.

Later it says:

> The present and prospective requirements of existing steel mill plants will take the whole of whatever output of limestone can reasonably be expected from Birmitrapur and Purnapani and there are, moreover, problems of quality and reserves in regard to both deposits.

Here is the second point we find, that the total amount of limestone deposits needed are for running of the present steel mills and there isn't enough limestone here for this new steel mill.

Mr. GAUD. There is absolutely no disagreement between us, Mr. Conte. If these raw materials are not available in appropriate quantity, quality, and location, we are not going ahead with this project.

Mr. CONTE. You paid $650,000 for this study and this is their opinion. Where else are you going to go?

Mr. GAUD. I beg your pardon. The report doesn't say that these things are not available. It requires verification as to whether they are or not.

Mr. CONTE. Wait a minute, now. I am not taking anything out of context here.

Mr. GAUD. No, you are speaking of specific deposits, are you not?

Mr. CONTE. Yes.

Mr. GAUD. My understanding is that there are other deposits. The question is whether there are other deposits available of appropriate quality, quantity, and location. That is the question on the limestone that requires study and investigation and unless we find them, you can be sure we are not going forward with this mill.

AID PERSONNEL EXPLORING AVAILABLE INFORMATION ON MINERAL DEPOSITS

Mr. MINSHALL. I brought this question up a day or so ago and still don't understand it. After spending all this money on this report and having hundreds of people employed putting it together, that you finally send one small boy, to use an expression, out to India to find out what is going on . His experience and background you were not able to give us today.

Mr. GAUD. I have forgotten the name of the company he was with. It is one of the outstanding companies in the country. It is a shame my memory is so poor. You would recognize the company.

Mr. MINSHALL. The important thing is that you only sent one man out there on a project as important and vital as this to get this information.

Mr. GAUD. We sent two men out and their only purpose at the moment is to find out what information the Indians have and to determine what needs to be done. They are not out there to determine anything but how much information is available and what is to be done to follow up on United States Steel's suggestion that there be further exploration of this subject. That is all they are there to do.

EXPLORATION OF MINERALS DEPOSITS NOT PART OF UNITED STATES STEEL SURVEY

Mr. CONTE. Mr. Gaud, are you telling me that for $650,000 United States Steel went out there and didn't look around India to determine if there were any other deposits of limestone available?

Mr. GAUD. I am telling you exactly that. They weren't asked to do that.

Mr. CONTE. They were asked to go out and study the feasibility of whether it is economically feasible to construct a steelmill?

Mr. GAUD. But they were not asked to make a mineral survey, and they didn't.

Mr. CONTE. But you told me—I started out with my first question whether limestone was a necessary ingredient in making of steel and you say "Yes." So, if you are going to go out to study whether they are going to build a steelmill you are definitely going to look around to see whether the ingredients are there to run the steelmill and produce the steel.

Mr. GAUD. It is my understanding, sir, that the United States Steel team went to the Indians and found out what information they could make available to them on proved bodies of iron ore, coal, and limestone. They felt that the Indians had not shown the existence of these items in appropriate quality and quantity.

United States Steel did not go on from there to make its own mineral survey. What they did was say to us, "We are not satisfied about this, so more work has to be done to make sure these raw materials exist."

Mr. CONTE. But they must have asked the Indians in the course of conversation, "Do you have any other limestone deposits in the near vicinity of Bokaro?"

Mr. GAUD. But here we get to the heart of the thing. United States Steel wouldn't be satisfied and I wouldn't be satisfied and you wouldn't be satisfied with a statement by the Indians that there was an ore body in such and such a county. What we want are cores which have been taken which show the extent of the deposit, the quality of the deposit, and so forth and so on.

Mr. CONTE. You are exactly right and they would have at least mentioned in their report that the Indians stated that they had these cores and deposits of lime in such and such a city or such and such a county.

Mr. GAUD. You misunderstood me. The point of what I was saying was that the United States Steel's statement is that the Indians do not have those things.

Mr. CONTE. That is exactly right.

Mr. GAUD. And that is why they say the existence of ore has to be proved. But it was no part of United State Steel's job to go out and take cores and prove the existence of these bodies when they did not find in New Delhi and elsewhere the proof of it. They came back and said, "Don't build this steel mill until you are sure this stuff is there."

Now, we are trying to satisfy ourselves that it is there. If it is not there, we won't build the mill.

Mr. CONTE. Therefore, we go back to the original premise that United States Steel said it will take 2 years, in their opinion, to find a satisfactory long-term solution to the basic raw materials problems.

Mr. GAUD. That is correct.

Mr. CONTE. This we paid $650,000 for and now are putting it in the ashcan.

Mr. GAUD. We are not going to put it in an ashcan at all. We are going to do exactly what they recommended. We are going to go and try to verify it.

Mr. CONTE. If you are going to do what they recommended, let's wait for 2 years before we make a move on this thing and let's find out whether they have the basic raw materials.

I am 100 percent for foreign aid and my record will prove it, but I am not going to buy a pig in a poke and this is a pig in a poke.

Mr. PASSMAN. I believe you mentioned earlier this afternoon certain statistics—evidently from the Indian Government—projecting this mill into full operation, the amount of tax return as well as the profit.

Mr. GAUD. Yes. These were figures taken from the basic United States Steel report data.

CONSIDERATIONS DETERMINING U.S. POSITION ON BOKARO

Mr. PASSMAN. Also, you indicated certain foreign policy considerations. All through the record we read about political considerations, that we do certain things on a political basis. Now, when we tie the political considerations into maybe the foreign policy that will probably have a lot to do with the final determination. Or will it be made on a coldblooded business basis? Do you recall the earlier statement?

Mr. GAUD. Yes, I do, indeed.

Mr. PASSMAN. I wonder what part of the valuation report would be based on political considerations, what part would be based upon our foreign policy, what part would be based upon sound economic justifications.

Mr. GAUD. If we decide to go forward with this project it will be in accordance with the criteria in the development loan section of the Foreign Assistance Act and this puts it on the ground of economics, not politics, Mr. Chairman.

Mr. PASSMAN. Did you not state that if it worked in with our foreign policy——

Mr. GAUD. I may have said that. I do recall saying in response to your question as to why United States Steel shouldn't make a recommendation on this, I said that I thought it was not appropriate for United States Steel to do it but the AID agency had to do this in the line of criteria of the Agency for International Development Act, in the light of our foreign policy and the like.

Mr. PASSMAN. All three of those matters will come into play, will they not?

Mr. GAUD. They are necessarily involved.

Mr. PASSMAN. And, of course, certainly that involves the political considerations. India appears to be dogmatic in this thing and they say, "Here are these statistics and we think they are dependable and on that basis we make our application." In that case you will have to consider it, will you not?

Mr. GAUD. We will, of course, take India's views into account. They will not weigh heavily in this decision. We won't do this just because India wants us to do it. We will do it only if it is a sound, sensible economic scheme.

Mr. PASSMAN. You would not do it if they did not want you to do it, would you?

Mr. GAUD. We would not.

EXISTENCE OF BASIC MINERALS

Mr. CONTE. I am a bit confused here. You mentioned United States Steel came back and said there was a lack of limestone.

Mr. GAUD. They said its existence needed to be verified.

Mr. CONTE. United States Steel's report.

Mr. GAUD. Yes.

Mr. CONTE. How can you give weight to this individual over there now, more so than you did to United States Steel?

Mr. GAUD. I am not giving greater weight to anybody. I am saying I don't know.

Mr. CONTE. Why do we have any reason to doubt what United States Steel has said?

Mr. GAUD. I don't doubt anything——

Mr. CONTE. That is what bothers me.

Mr. GAUD. We don't know whether these materials exist or whether they don't.

Mr. CONTE. United States Steel says they don't.

Mr. GAUD. United States Steel does not say that, if I understand United States Steel. United States Steel says their existence has to be verified. United States Steel doesn't know whether they exist or not.

Mr. CONTE. Where do you see that?

Mr. GAUD. They say, "We don't know." It says, "Arrangements regarding"——

Mr. CONTE. What page is this?

Mr. GAUD. Unhappily, I haven't a copy of the report. I am reading from excerpts of it in our press release, but they say here, for example, that:

> Arrangements regarding iron ore and coal sources are still undergoing important changes and exploration work on the proposed source of limestone is only just beginning. We therefore found it necessary to make certain major assumptions regarding raw materials for Bokaro.

Now, the only point I am making in this part of the debate is that United States Steel, as I understand it, didn't say the limestone wasn't there. They said, "We don't know whether it is there or not. You have got to do some more exploration to find out whether it is and in our judgment it will take you 2 years to find out." Now, I don't know how long it is going to take to find out. I agree 100 percent we have got to find out whether it is there or not. This is all I am trying to say.

Mr. CONTE. And all I am trying to say is that we ought to go back to the original premise where United States Steel says it is going to take 2 years to find all this out.

Mr. GAUD. They may be right.

Mr. CONTE. At this point I have no reason to doubt the opinion of United States Steel. And until we have had the opportunity to further explore this, I think we will cease at this point.

Mr. GAUD. OK, sir. We agree to disagree.

Mr. CONTE. For the record, Mr. Chairman, I don't think we have ever had a more charming and pleasant witness.

Mr. PASSMAN. I certainly agree with that observation.

SURVEYS OF INVESTMENT OPPORTUNITIES

I should like to ask the Controller to bring the committee a list tomorrow, including a complete list of the operation, the survey of investment opportunities—the amount of money that we have appropriated since the inception of the program, the amount of money that has been obligated, what we obligated it for, the amount of money that we have liquidated and for what purpose we liquidated, and the unobligated balance and the unexpended balance.

If we give Mr. Hilton, for example, expense money to go out to Pakistan to find out whether he wants to build a hotel, let us put in whatever it is. Do you understand what we want?

Mr. TENNANT. No, sir. Did you say tomorrow?

Mr. PASSMAN. We are going to get out before Christmas.

Mr. SCHEINMAN. Would you consider it appropriate if Mr. Coffin, when he appears before the committee, addresses the committee on this request?

Mr. PASSMAN. Will you please bring the information we want on this item?

Mr. TENNANT. Yes.

UNOBLIGATED BALANCES

Mr. PASSMAN. On this unobligated unreserved balances, the total, you say down here: "Does not include and does not include and does not include."

I wonder if you would make this sheet over? Let us get them all in here.

Mr. TENNANT. Those figures are on the same basis as page 2.

Mr. PASSMAN. Could you not just as easily have taken out the Contingency Fund, $117 million, and said, item No. 4 does not include the contingency money?

Mr. TENNANT. Those figures are on the same basis as page 2 of the light gray justification book.

Mr. PASSMAN. We want the agency statement to show the total of unobligated funds. Your caption will indicate what it is.

Mr. TENNANT. We will provide it in whatever form you want.

Most of that is borrowing authority and I am not sure whether borrowing authority technically fits under the column 2 heading.

Mr. PASSMAN. If it is funds that are unobligated, funds you could obligate, it should be shown.

Mr. TENNANT. Yes.

Mr. PASSMAN. We do not care where you put it. Just list it.

Mr. TENNANT. It is correct that borrowing authority is not in our annual accounts.

NATIONS TO WHICH U.S. AID IS NO LONGER EXTENDED

Mr. PASSMAN. How many nations have we had in the foreign giveaway program in which there is no longer a giveaway program in existence, beginning with the Marshall plan?

Mr. TENNANT. Ones we have been giving aid to?

Mr. PASSMAN. Yes, and to which we no longer give any type of aid.

If there are any nations where we had a program and do not have an aid program any more, will you bring that listing down tomorrow?

Mr. TENNANT. Yes.

Mr. PASSMAN. You are going to have an aid program in 95 nations and 4 possessions in fiscal 1964?

Mr. TENNANT. That is correct.

Mr. PASSMAN. We want to know the number of nations and territories where you have had some type of aid program since the end of World War II, or beginning with the Marshall plan, for which you no longer have any type of aid program.

Mr. TENNANT. How do you want to count the pipeline to Ceylon? We do not have an aid program there.

Mr. PASSMAN. You will have an aid program.

Mr. TENNANT. All right.

Mr. PASSMAN. You did not have Ceylon on the list here.

Mr. TENNANT. That list I gave you was for the fiscal year 1964 programs.

Mr. PASSMAN. You have a budget estimate for Ceylon. Any nation that has unliquidated funds is still in the foreign aid program.

Thank you, gentlemen.

We shall adjourn until 1 p.m. tomorrow.

WEDNESDAY, AUGUST 14, 1963.

PROPOSED STEEL MILL AT BOKARO, INDIA

WITNESS

HON. J. KENNETH GALBRAITH (FORMER AMBASSADOR TO INDIA)

Mr. ANDREWS. The committee will come to order.

Mr. Ambassador, we are glad to have you with us this morning and I want to commend you for what I think was a job well done while you served in India as our Ambassador.

I hope that your valuable services will continue to be available to our Government.

We are interested in the proposed steel mill in India at Bokaro and the members of this panel are members of the Foreign Operations Subcommittee of the Committee on Appropriations.

We have recently heard witnesses from the AID discuss the proposed mill and we would like to get your views with reference to the mill.

Do you have a prepared statement or would you like to make a statement off the cuff?

Mr. GALBRAITH. I will make one off the cuff, if I may.

Mr. ANDREWS. We will be glad to hear from you and at the conclusion of your statement we will have questions.

Mr. GALBRAITH. I will make my statement just as brief as I can because I know that all members of the committee have been over this subject many times and I will not track over what you already know.

This matter has been of considerable interest to me——

NO COMMITMENT FOR FINANCING THE MILL

Mr. ANDREWS. Let me ask you to start with, have you made any commitment for our participation in the financing of the mill?

Mr. GALBRAITH. Certainly not.

Mr. ANDREWS. Do you know of any U.S. Government official who has?

Mr. GALBRAITH. Let me say just a word on that.

I have worked for the Government off and on for 29 years and I know very well what my powers are. I know what the powers of a public official are and I know where the money comes from. And even if I had made a commitment, which I have not, the Indian Government knows the U.S. Government well enough so that it would not have taken it seriously.

Mr. ANDREWS. Some of us have been on this committee as long as 8 or 10 years and we know that it takes very, very little to be considered a commitment.

Mr. GALBRAITH. Well, I think I am at least normally cautious in my speech.

I am not only an economist but a writer and I know the value of words. There is nothing off the record on this subject formally or informally as between me and the Indian Government and there is nothing on the record that could be considered a promise.

As I say, it is not within my province to commit the U.S. Government. I hasten to say that my opinions on the subject are well known. I am not in the habit of concealing them. I would not conceal them from you or anyone else.

Mr. ANDREWS. When we had Mr. Gaud before the committee and asked him about this steel mill, we could not tell whether or not there had been any commitment made and after rereading his testimony, after it was transcribed. I could not conclude that there had not been any definite commitment or any halfway commitment made about the mill.

He did say in his testimony that if certain findings justified the mill, there was a possibility that the U.S. Government would finance or start the funding of the mill during fiscal 1964. He did not rule that out.

If my recollection of his testimony is not correct. I wish some member of the panel would comment.

Is that your understanding, Mr. Minshall?

Mr. MINSHALL. That is my recollection, Mr. Chairman.

Mr. GALBRAITH. Let me say one thing: I do not think anything I am saying is in disagreement with Bill Gaud, who is, incidentally, one of the most competent people I have worked with in the Government. A year ago last spring, AID invited the United States Steel Corp. to come to India and make a study to see whether the plant was feasible. This was an extremely good study by an extremely good group of people.

Mr. ANDREWS. That was United States Steel?

Mr. GALBRAITH. United States Steel. There was an impression by the Indians that if the United States Steel Corp. turned in a favorable report, this would be favorable to our going ahead with the plant. There is no doubt about that. You cannot invite people to study the feasibility of a plant without implying that if it turns out to be feasible, and sound, there will be no favorable reaction to it.

There is no question about that. However, as to there being a promise or a commitment to go ahead with the plant, there was not.

When General Clay testified before the Senate Foreign Relations Committee, or perhaps the House Foreign Affairs Committee, last spring, I was in western India. I read his testimony in which he said that there should be consideration given to the possibility of a commitment. My immediate reaction was that there might be a misunderstanding and it might also be implied that I had made a commitment. Accordingly, I then got out a statement saying there was no commitment and certainly none as far as I was concerned. It was, I said, a decision to be taken by the responsible authorities on its merits.

Mr. ANDREWS. So far as you know, no definite commitment had been made by any member of this Government to the Indian Government that we would participate in the financing of that proposed steel plant at Bokaro?

Mr. GALBRAITH. That is right, Congressman. I would also go further and say my knowledge on the subject is good.

Mr. ANDREWS. Proceed with your statement and we shall ask questions after you have completed.

Mr. GALBRAITH. This is a matter in which I think I can qualify myself as speaking perhaps for accidental reasons with something more than unusual competence.

In 1959 I was working on a book on the nature of industrial organization. I went to India—this was long before I became Ambassador—to look at the new Indian steel industry. This was a very interesting example of a country attempting to bring a steel industry into existence from almost scratch.

I spent some weeks looking at the private firms, how the steel company headquarters operated and I then visited the two publicly owned plants; the first one at Rourkela, built by the Germans, and the one at Bhilai built by the Russians. I talked at great length there and in Delhi with the people about the Indian steel industry.

I had on a previous trip also been to the Bokaro area and of course, I have since been back. At that time the Bokaro plant was not a lively topic of discussion. But it came up not very long after I arrived in India, 2½ years ago. So I had some background and some knowledge of the industry. I had some previous knowledge of the business from when I was an editor of Fortune.

I have been very close to the problem ever since.

There are some things which I believe and my conclusion which is well understood has been favorable to the mill. I think I have come to this conclusion on the practical ground of what is of interest to the United States. There are some things about the mill which are not too seriously in dispute and I will pass over those somewhat quickly.

Mr. ANDREWS. You do favor participation by this Government in the mill?

Mr. GALBRAITH. I do.

Mr. ANDREWS. Funding of the mill?

Mr. GALBRAITH. I am completely on record on that.

Mr. ANDREWS. Your position is this: As of this morning you have made no commitment and know of no person who has made a commitment or who had authority to do so for the U.S. Government, but your personal opinion is that you favor the mill?

Mr. GALBRAITH. There has been no question about that. This has been my formal recommendation to the Government.

Mr. ANDREWS. Off the record.

(Discussion off the record.)

VALUE OF STEEL MILL TO INDIA

Mr. GALBRAITH. I think the first thing that is not seriously in dispute is the need for the steel. India is a country that is very hungry for steel and this flat products mill, there is no question about the market for its output. This is confirmed by the studies of the Steel Corp. I might say parenthetically that one has to know what it is like in a country that is short of steel, as was our case during World War II, before one gets a feeling of how much importance is attached to steel.

This mill, together with the expansion in other mills, will still leave India with a relatively small steel industry and still leave India with a deficit in her steel requirements.

Actually, the present Indian steel industry supplying a population of close to 450 million people is not very much greater than that of Canada which supplies a population of—what—1/20 of that size?

The second point I think might be taken possibly out of the controversy is the impact of this mill on the Indian people. Here is something I would like to stress. We, in the past, have had a sound aid program in India. It had been a sound one prior to my service in India and I hope it did not deteriorate under my administration.

Aid has been well used for important things. We have, in general, however, disbursed our aid over a relatively large number of individual projects. We have invested heavily in helping the Indians to build up a power industry, for example. This was the largest use of our aid in India on a project basis. By the nature of this kind of a project it is of great interest to the people in the immediate area. It is not something that evokes great interest over the country as a whole.

There is nothing so important for the people of the State of Washington as a power project on the Columbia. It is not something that is of immediate interest to me in Massachusetts. The reverse is true in the case of Passamaquoddy. It is for Maine, less important in Los Angeles.

This steel plant is a national project and a large project. As a result it will focus attention on our assistance to India as nothing we have been doing there to date has done in comparable manner.

There is one other project which might be an exception and in which I have also been very active in advancing for much the same reasons. That is the big Porapur plant, the Atomic Energy plant, which is also a national symbol.

The Russians got a great deal of credit out of the steel plant they built at Bhilai, partly because they did a good job on the whole and partly because it was one of these national projects.

I have always felt we should do as good a job in our public relations as the Russians.

The third thing I might emphasize as being generally agreed is that this is a good plant from the point of view of our own heavy engineering, machine-building, and heavy construction industry. We are not, as you know, presently much expanding our steel industry in the United States. The result is that the firms that are geared to part expansion have a good deal of excess capacity and a good deal of unemployment.

Mr. ANDREWS. Your point is that the mill would create a market for this heavy equipment?

Mr. GALBRAITH. This mill would draw exclusively on products of this country and would draw where there is excess capacity. It would be taking the place—we should not disguise this—of electrical equipment or for alternative projects.

This plant, in short, would go into—if I may go off the record?

Mr. ANDREWS. Yes.

(Discussion off the record.)

Mr. GALBRAITH. For areas like western Pennsylvania, Cleveland and northern Ohio, northern Indiana, Illinois, which are in the heavy machine building industry, this plant which would provide needed jobs and orders one way or another, given the need for steel, this plant is going to be built. I would like to see it built by Americans rather than by somebody else.

I come now, just to mention the two things which are controversial about it, and very controversial, and I think are worth talking about at length and in detail.

The first is that this is a big plant and there is no question about it.

Mr. ANDREWS. I believe the estimated cost is approximately $1.9 billion?

Mr. GALBRAITH. Its ultimate cost, including the rupee cost.

Mr. ANDREWS. The amount proposed for us to finance is around $975 million?

Mr. GALBRAITH. For the full three stages.

Mr. ANDREWS. Right.

Mr. GALBRAITH. My answer to that would be a twofold one; first, it will be evident from what I have said before that I, myself, think it is sound strategy to concentrate more in a few large important jobs than to distribute our energy as we have in the past. And the dramatization of our role is actually aided by size. We should also keep in mind that while this is a large project, it is one that would spread out so that the amount in any given year, while considerable, would not be the equivalent of the total sum, or anything like it. For the first stage, the projections suggest we would get up perhaps to $180 million in the peak years.

I would, therefore, argue that the size with the drama that is associated with it is an advantage over the alternatives. We must keep in mind that we are not adding this to other projects. It is taking the place of other things. This is a hard decision, incidentally, because other things are pretty useful, too.

The final thing is that this mill is in the public sector. It is a publicly owned mill or would be a largely publicly owned mill. There is some discussion as to whether there might be some private participation in the stock, but it would be largely publicly owned.

STEEL MILLS NOW IN INDIA

Mr. ANDREWS. How many steel mills are there in India at the present time?

Mr. GALBRAITH. There are at the present time in operation five sizable mills.

Mr. ANDREWS. How many of the five are owned by the Government?

Mr. GALBRAITH. I am excluding some-odd-30 rerolling mills or other small outfits. I am excluding one small mill down in southern India which runs (or used to run) on charcoal. There are five major mills.

Mr. ANDREWS. How many of the five are owned by the Government?

Mr. GALBRAITH. Three are owned by the Government and two by private firms.

Mr. ANDREWS. This proposed mill at Bokaro would be the biggest of the five?

Mr. GALBRAITH. Ultimately it would be the biggest of the five, yes.

The argument, which I must say I respect, is that we have had the greatest success with private enterprise. Accordingly we should expect that other countries would follow our example. This is an argument which is certainly not without its compelling aspects. On the other side——

Mr. ANDREWS. This proposed mill would be owned by the Government?

Mr. GALBRAITH. Owned by the Hindustan Steel Co. which is a fully owned government corporation.

SUPPLY OF STEEL IN INDIA

Mr. ANDREWS. You say that at the present time the five major mills plus the smaller ones are not able to supply the need India has for steel?

If this proposed mill at Bokaro were built, would the total production satisfy the needs of India for steel?

Mr. GALBRAITH. No.

Mr. ANDREWS. Percentagewise, what would it be?

Mr. GALBRAITH. This is an impossible question to answer, Congressman. By the time you get out to the end products, you have hundreds and thousands.

You might be up to 100 percent in some and as low as 50 percent in others.

Mr. ANDREWS. You would not give us a guess percentagewise how much of the total need for steel would be met if this mill were completed?

Mr. GALBRAITH. I am not adding other difficulties. The demand for steel is growing by several percentage points a year. So even if the mill on the day it was finished, did close the deficit, the deficit would appear and start growing again and immediately.

If I gave you a percentage figure it would be grossly misleading.

Mr. ANDREWS. All right.

PUBLIC OWNERSHIP OF INDUSTRY IN INDIA

Mr. GALBRAITH. On the public case, I would make these points.

In the first place, there is in India a deep conviction in favor of public ownership of some part of the industrial structure. This is a conviction which exists and it is similar to the conviction of some of our people in support of power in the West, TVA, and so forth.

These are good people and people of sound democratic instinct. They want to be on our side but they believe in public ownership. It is a deep matter of faith. They have had a different experience with private enterprise than ours. Private enterprise came to India in the days of British rule. It was a projection of the big companies in London. Private enterprise, therefore, carries the obloquy of external firms coming into the country—foreign ownership and all the rest.

As Indian enterprise passes into the hands of Indians, as it is increasingly doing, these tendencies are disappearing. But they still exist. If we are intolerant of their beliefs, the people who believe deeply in public ownership have no alternative but to be against us, to be with the Communists. The Communists are of course, in favor of public ownership.

The Communists welcome a hard stand as against public ownership and there is no question about it. They used to whip me on any statement that seemed to say we are opposed to public ownership. I do not want to seem to be critical of General Clay. But I think it is fair to say, as a fact, that when the Clay report, when it came out last spring, the Indian leftwing seized immediately on its opposi-

tion to public ownership and with real pleasure. Here, they said, was real proof to the Indian Government that there was no future for any form of public ownership with the Americans.

OPERATION OF MILL

Just one other point: Arrangements have been provisionally discussed and with which, in my view at least, the Indian Government will agree, which will get us, in some respects, the best of both possible worlds. I have not been impressed by the efficiency of the Hindustan Steel Co. I say this because my practice in dealing with congressional committees is to be candid. I do not think, from my own fairly close studies of this company that it is as efficient as it should be.

The three new mills came in within a space of 2 or 3 years. Teething troubles were to be expected, but I still think there was room for better performance. I have suggested, along with Mr. Wood, my economic minister, that were this new mill to be approved, we would want some better organization. We have suggested an arrangement by which an American firm, an American construction and operating firm, would build the mill under an organization separate from the Hindustan Steel Co.

As part of the arrangement the American firm would not only build the mill, but run it in for a substantial number of years.

Mr. ANDREWS. Did you discuss the company that would operate it?

Mr. GALBRAITH. No, I did not.

In the first place it is not my decision and in the second place, it would have caused difficulties here in the United States. Any company you mention would seem to be getting a preference. So we did not mention companies. I think we avoided even mentioning any firm for illustrative purposes. There is a point here, to which I would draw the attention of the committee that is very important, not only to India and in all the underdeveloped countries. There is a tendency in these countries to think of a job as finished when you have got a plant built, when you have the machinery in, and the lines start moving. This is only half of the job. The other half of the job is to get a plant producing as an organic unit at low cost.

India needs not only a steel industry but a low-cost steel industry. She is marvelously equipped with excellent coal and the Bokaro plant sits on an enormous coal seam. She has one of the world's great ore reservoirs. But it is not enough to make steel in these countries. One must make low-cost steel. These are poor people and the Indians need also to expand their exports. This they do by having an efficient industry.

Therefore, the provisional proposal we have discussed would mean that an American firm would be operating this mill on behalf of the Indian Government for a substantial period. In other words, we would insure to the extent that American industry is efficient, that we would have an efficient operation.

I have set great store by that negotiation——

Mr. ANDREWS. In other words, if we built the plant there would have to be outside operators?

Mr. GALBRAITH. I have always thought that this part was more important. Who ran it was more important than who owns it. Mr. Chairman, this is my statement and I am ready for your questions.

DOMESTIC NEED FOR STEEL IN INDIA

Mr. ANDREWS. You mentioned exports. They are not thinking about making steel in India to export it? You say that with all six plants going, assuming the Bokaro plant is built, that would not meet the local demand for steel in India?

Mr. GALBRAITH. Any calculation of steel needs is overwhelming, you are quite right, and would be used at home.

Mr. ANDREWS. You did mention exports in connection with economic production?

Mr. GALBRAITH. That is right, but the Indian economy, to become self-sufficient over the long period of time, is going to take time to replace its dependence on outside help and needs to earn its own foreign exchange.

Some of this has to be earned from manufactured products and your manufactured products in this part of the world are competitive only if they are cheap. You have got Japan there which is also a very strong competitor, and the Indians have been building up, for example, a modest export market in two products, bicycles and sewing machines. These are two things a poor village family wants above everything else in the world.

They can only afford them if they are inexpensive and they can only be inexpensive if you have cheap, inexpensive raw materials.

I would not suppose that India would in the near future be an exporter of crude steel products.

Mr. ANDREWS. Have you finished your statement?

Mr. GALBRAITH. Yes, sir.

BACKGROUND OF CONTRACT FOR SURVEY

Mr. ANDREWS. What are the circumstances and considerations surrounding the awarding of a $686,000 contract for a survey of the proposed Bokaro steel mill?

Mr. GALBRAITH. What lay back of that?

Mr. ANDREWS. Yes.

Mr. GALBRAITH. The decision on this was taken here in Washington. Again, these are decisions that are taken by the AID agency, not by the Ambassador. I think I know the background of it although Mr. Gaud's comments on this would supersede mine if there were any conflict between them. He knows more accurately than I.

As I said in my statement, this is a very large plant. The engineering feasibility, the location, the raw materials, the requirements, and the very important question of the product mix had been studied by an engineering company, the Dastur Co. It is a competent company, but not a company with great experience. It was not felt by AID—and I think they were right—that we could consider this project until it had the imprimatur of a major American firm and engineering company.

May I say one further word on that which is of general interest? Some of the Indian officials about a year ago—quite a bit over a year

ago—were unhappy about the delay that was involved. This is related to the pressure for steel which is very great.

I made the point—one I have made many times—that we have not to date made a serious mistake in India, which has been the largest recipient of our aid. We have not made mistakes because we have taken the time to study things carefully, and indeed have also spent money on studies.

One of the worst things that will happen to the AID program—and I may say, parenthetically, to the Ambassador in charge—is when we act without care we have to explain the resulting error.

Mr. ANDREWS. You consider that survey to be very thorough?

Mr. GALBRAITH. That is a first-rate job. You have a copy of it right there.

Mr. ANDREWS. I am sure that you are familiar with it.

Mr. GALBRAITH. Yes, sir.

ADVANTAGES TO UNITED STATES FROM CONSTRUCTING MILL

Mr. ANDREWS. What advantages, if any, are expected to accrue to the United States for this expenditure of public funds?

You have touched on that in your opening statement.

Mr. GALBRAITH. I do not want to repeat my opening statement. But I would say this was the most important job to be done in India—to get a steel supply. It is the thing that is most urgent for Indian economic development and we should not shy away from doing the most important thing. I do not believe Americans should avoid big enterprises. I think we are quite up to undertaking——

Mr. ANDREWS. In other words, this proposed mill, in your opinion, is the very best thing that this country can do, so far as India is concerned, in the field of foreign aid?

Mr. GALBRAITH. Professors are sometimes as cautious as lawyers. I would say it has a top priority.

TOTAL ESTIMATED COST TO THE UNITED STATES

Mr. ANDREWS. What is the total estimated cost to the United States, should this plant be carried to its ultimate conclusion?

Mr. GALBRAITH. We are discussing here actually the first stage of this plant. The dollar cost which the steel corporation puts down in round numbers is $513 million. This would be over a period of 4 or 5 years, I suppose. There are two further stages beyond that.

Mr. ANDREWS. My question was: What is the total estimated cost to the United States, should this plan be carried to its ultimate conclusion?

I believe you stated earlier the total cost of the project would be approximately $1.7 billion, and the United States share of that would be approximately $975 million? Is that your understanding of it?

Mr. GALBRAITH. I hope I am not contradicting any testimony from my colleagues the other day, but my impression is that the only decision that would be taken now would be as to the first stage.

The further stages would be either out of Indian earnings, if they should develop to the point where they could handle it——

Mr. ANDREWS. We were told, if I remember correctly, and it is in the record, that those figures are correct; namely, the total cost would be $1.7 billion and our part would be $975 million.

Mr. GALBRAITH. The only disagreement I have is that no decision is being taken at the present time as to the second or third stages. These are some years in the future.

Mr. CONTE. No decision is being taken on the first, we have been told.

Mr. GALBRAITH. Obviously, the first one is up for decision, or we would not be talking about it here. I am not going to quarrel with you on that.

Mr. CONTE. As the chairman would say, you got caught running out of the henhouse with a hen under your arm? Then your answer you gave seems contradictory.

Mr. GALBRAITH. I certainly did not. We are not talking about whether a decision was made. We are talking about whether there is a decision to be made here.

Mr. CONTE. I'd like to go back to the record, if I may, Mr. Chairman.

Mr. ANDREWS. You say in the first stage that the cost would be $513,000,000? Is that the cost to the United States or the cost of the project?

Mr. GALBRAITH. That is the cost to the United States.

Mr. ANDREWS. That would be the U.S. part of the cost?

Mr. GALBRAITH. Yes, sir. I would have to get you those rupee figures, Mr. Chairman. I do not have them here with me.

Mr. ANDREWS. All right.

(The information follows:)

INDIAN CONTRIBUTION TO BOKARO IN FIRST STAGE

The Indian Government will contribute the $406,840,000 of Indian rupees for the first stage. No foreign exchange will be contributed by the Indian Government.

Mr. ANDREWS. Does the $686,000 amount referred to in the survey report cover the total cost of the services of the various companies that worked on the survey?

Mr. GALBRAITH. That is my understanding. You referred to the companies that participated?

Mr. ANDREWS. Yes.

Mr. GALBRAITH. That is my understanding.

SURVEY BY UNITED STATES STEEL CORP.

Mr. ANDREWS. Will additional engineering surveys be required if the proposed project is approved?

Mr. GALBRAITH. Some further work is required on the raw material problem. But I believe it is the present hope that this can be done by AID engineers.

Mr. ANDREWS. We were told that one of their technicians had recently left for India to make another survey.

Mr. GALBRAITH. That is right.

Mr. ANDREWS. To confer with Indian officials?

Mr. GALBRAITH. That is on the raw materials problem.

Mr. ANDREWS. You just stated you thought this survey by United States Steel was a good one and that they did a thorough job?

Mr. GALBRAITH. That is right.

Mr. ANDREWS. What additional information could a technician from AID come up with that is not covered in the United States Steel report?

Mr. GALBRAITH. That is a good question but there is also a good answer. The ore mass in central India on which this plant will draw has never been fully explored, but it is a great source of ore. It is now supplying ore to the Japanese industry. The iron content and, if I recall correctly, the alumina content, varies. Therefore, test borings have been necessary to establish the nature of the ore quality. The Indian Government has been following this study and has got under way a program of such borings to determine its quality. The AID engineer or engineers have gone over, as I understand it, to ascertain the nature and results from this test boring.

Mr. ANDREWS. Did not the United States Steel people do that?

Mr. GALBRAITH. The United States Steel people were not equipped and did not have, as part of their contract, going out and doing this boring. It is a fairly elaborate operation, as I understand it.

Mr. MINSHALL. Mr. Chairman, would you yield for a minute?

Mr. ANDREWS. Yes.

Mr. MINSHALL. Is that not one of the very essentials of this whole program, to determine whether or not enough ore is available?

Mr. GALBRAITH. It is not a question of whether the quantity is available, but the quality.

Mr. MINSHALL. It is one and the same thing?

Mr. GALBRAITH. The steel corporation would completely agree with you on that. They lay down here in the report the need for undertaking this survey. The Indian engineers are doing the survey rather than the Americans.

Mr. MINSHALL. One further question: Do you think this report is incomplete, the one the United States Steel charged $678,000 for?

Mr. ANDREWS. $686,000.

Mr. MINSHALL. $686,000?

Mr. GALBRAITH. No, I would not.

Mr. MINSHALL. You consider it a full and complete report for your purposes?

Mr. GALBRAITH. I think the steel corporation—and I am not speaking for the steel corporation or for AID—rightly said this is something that the ore exploration is mostly what the Indian government should do, not we. In other words, Congressman, if they had gone and done this test boring with American equipment and personnel, it would have cost more money.

Mr. MINSHALL. Do you know of any conversations or negotiations that you had with the United States Steel people to conduct a further feasibility report or study?

Mr. GALBRAITH. Beyond this?

Mr. MINSHALL. Yes.

Mr. GALBRAITH. I do not know of any.

Mr. MINSHALL. There has or has not been?

Mr. GALBRAITH. There have been none so far as I know.

Mr. MINSHALL. No negotiations?

Mr. GALBRAITH. None by me and none by AID.

Mr. MINSHALL. Thank you.

Mr. GALBRAITH. I am always uneasy speaking about what goes on in Washington when I am several thousand miles away in Delhi. I think I would have known of such negotiations. I have had none.

FINANCING OF OTHER STEEL PLANTS IN INDIA

Mr. ANDREWS. I understand there are three other steel plants in operation in India which were financed by Great Britain, Russia, and West Germany. Is that correct?

Mr. GALBRAITH. That is correct.

Mr. ANDREWS. What were the financing arrangements for each of those plants?

Mr. GALBRAITH. I can tell you in general terms.

The Soviet plant, I can get you the exact details later for the record.

Mr. ANDREWS. Correct the record and put in the correct figures and dates.

Mr. GALBRAITH. The Soviet one was financed by a loan from the Soviet Government, low interest rate loan, 2.5 percent, as I recall, covering the plant and repayable over a fairly long period of time.

The actual period of time, I do not know, but the terms were, in general, less favorable than ours—but fairly favorable terms.

The German plant was financed by relatively short-term loans, including some supplier credits, at commercial rates of interest.

The British plant, I do not have the financial arrangements for that in mind.

Mr. ANDREWS. If you can, insert in the record additional information about the three plants, including the British.

Mr. GALBRAITH. Yes, sir.

(The requested information follows:)

FINANCING ARRANGEMENTS FOR BRITISH, GERMAN, AND RUSSIAN MILL

The cost of the British, German, and Russian mill and the loans by these countries are shown below.

	Cost[1] *(millions)*
Durgapur (Great Britain)	$301
Rourkela (Germany)	385
Bhilai (Russia)	258

[1] Derived from the United States Steel report.

The terms and amount of the foreign loans in the above steel mills are as follows:

Steel mill	Date of agreement	Amount (millions)	Terms
Durgapur (Great Britain)		$74.2	
Public loan	Jan. 5, 1957	42.0	Treasury rate[1] plus ¼ percent, 20 years including 8-year grace period.
Private loan, Lazard	June 30, 1958	32.2	Treasury rate[1] plus 1 percent, 7 years including 5-year grace period.
Rourkela (Germany)	Feb. 26, 1958	163.4	6.3 percent, maturity 3 years.
This loan has been renegotiated, and maturity extended as noted.	Jan. 30, 1961	24.6	5¾ percent, maturity 4 years.
	Apr. 29, 1961	78.8	5½ percent, 13 years including 4-year grace period.
	May 4, 1962	60.0	Under negotiation.
Bhilai (Russia)	Feb. 2, 1955	136.0	2½ percent, 12 years including 5-year grace period.

[1] Great Britain's Treasury rate fluctuates. The effective rate on these loans is between about 5½ percent and about 6½ percent.

The Great Britain loan is repayable in sterling, the German loan in marks, and the Russian loan in Indian rupees.

At the 1962 yearend, the rate capacity at which these three mills were operating was as follows: Rourkela (West Germany) 87 percent, Bhilai (Russia) 100 percent, Durgapur (Great Britain) 93 percent.

ACCOMPLISHMENTS OF PRESENT STEEL PLANTS

Mr. ANDREWS. What has been the progress and accomplishments in each of these plants as compared with the original forecast?

Mr. GALBRAITH. I am not completely up to date on that question. All three plants have had teething troubles.

Mr. ANDREWS. Are these plants operated by the Indian Government?

Mr. GALBRAITH. They are operated by the Hindustan Steel Co., which is a wholly owned agency of the Indian Government; yes, sir.

All three plants have had teething troubles. The most serious of those are at the Rourkela—the German-built plant. My impression is that that plant is still giving some difficulties and is operating below capacity, and also there is still one blast furnace to be installed there.

The other two plants, on my last information, were functioning well, at or close to capacity.

Mr. ANDREWS. Both of them?

Mr. GALBRAITH. Both of them.

Mr. ANDREWS. At or close to capacity?

Mr. GALBRAITH. At or close to capacity. As I said in my prepared statement, or in my earlier testimony, I would not be sure that they are yet low-cost plants. I think they probably are producing steel at too high a cost.

Mr. ANDREWS. There are two other major plants in India that are owned and operated by private enterprise?

Mr. GALBRAITH. Yes, sir.

Mr. ANDREWS. Are they Indian companies or foreign companies?

Mr. GALBRAITH. May I correct the record to say that I would like to provide the up-to-date capacity figures on these plants?

Mr. ANDREWS. Surely.

Mr. GALBRAITH. To make sure I am correct.

Mr. ANDREWS. I suggested you correct the record and give us the latest information you can get as to the terms of the financing for these three plants.

Mr. GALBRAITH. And whether they are working to capacity?

Mr. ANDREWS. Right.

Mr. ANDREWS. Do you know anything about the operation of the two privately owned steel plants?

Mr. GALBRAITH. Yes, I am familiar with this in a general way, with both of them, but most immediately with the Tisco-Tata Iron & Steel Co. I have visited this and I am fairly well acquainted with the management.

Mr. ANDREWS. Is that plant operating at or near capacity?

Mr. GALBRAITH. I would imagine so.

Mr. ANDREWS. Do you know whether or not the cost of producing steel at that plant is cheaper than it is at one of the three government-operated plants?

Mr. GALBRAITH. I do not know whether these figures are known or not, but my impression is that it is cheaper but not cheap.

Mr. ANDREWS. You are referring to only one?

Mr. GALRAITH. Tisco-Tata Iron & Steel Co. is the largest plant.

Mr. ANDREWS. What about the other privately owned plant?

Mr. GALBRAITH. The other privately owned plant is smaller and I would guess that it is producing steel at lower cost than the publicly owned plants, too. These plants are fairly well run, and in the normal course of events one would expect them to be cheaper. The Indian iron and steel company is, in addition I believe known to be very well managed. I would like to say one word off the record.

Mr. ANDREWS. Yes.

(Discussion off the record.)

Mr. ANDREWS. I judge from your statement that the two privately owned plants are operated more efficiently than the Government-operated plants, and that the cost of production is cheaper in the privately owned plants?

Mr. GALBRAITH. Yes, sir.

I would expect the publicly owned plants, when they are fully run-in, to do much better than they are today.

Mr. ANDREWS. We all live in hope.

Mr. GALBRAITH. This would be a normal industrial expectation.

Mr. ANDREWS. What are the terms of the agreements between India and the three governments you have discussed, and you might want to supply additional information for the record.

Mr. GALBRAITH. Yes, sir.

Mr. ANDREWS. Did the country agreements include any quid pro quo arrangements?

Mr. GALBRAITH. What do you have in mind by that?

Mr. ANDREWS. Just any agreements other than the terms of the mortgage?

Mr. GALBRAITH. Not so far as I know. I would not suppose that they did.

OPERATION AND MANAGEMENT OF STEEL MILL

Mr. ANDREWS. Should this proposal be approved, would the agreement with India include any quid pro quo arrangement?

Mr. GALBRAITH. Not beyond the sorts of things that I have discussed earlier. We would be very much concerned with the management arrangements.

Mr. ANDREWS. Operation and management?

Mr. GALBRAITH. Operation and management.

Mr. ANDREWS. If you got right down to it and you reached the point of agreeing to finance the U.S. share of the total cost, and the question of operation and management came up and the Indians insisted that they operate and not have outsiders come in, what would be the situation?

Mr. GALBRAITH. Well, I would only speak for myself as a former Ambassador. My instinct would be to make us stick on this.

Mr. ANDREWS. In other words, if outside management did not operate the mill, then you would not recommend our participation in the project?

Mr. GALBRAITH. I would put the thing in a little more diplomatic form; unless it were clear that we could do a good unobstructed job of building the mill and running it in, then I would not want to do it. If I can say this without getting into trouble with a fellow citizen of Massachusetts, this is something on which the Indian Government is not in any doubt. They know that this is something I had very much in mind.

Mr. MINSHALL. Why consider putting it in the public sector at all?

Mr. GALBRAITH. I am glad you mentioned that because there is one of the things I omitted in my prepared testimony. This plan is beyond the capacity of either of the present private firms and they have made it very clear that this is so. They could not possibly raise the money for it and one of the strongest supporters of this project, most categorical of the supporters, is the head of the Tata Iron & Steel Co.

I might also say this mill has the very strong support of private sector firms in India generally.

Mr. Bharat Ram, head of the Indian Chamber of Commerce, roughly the counterpart of our chamber of commerce, has come out strongly in support of this mill.

He is particularly interested in the importance of this particular mill and is concerned with keeping the supply for the private enterprise in India, the private sector.

OWNERSHIP AND CONTROL OF THE STEEL MILL

Mr. ANDREWS. What would be the ownership and control of the Bokaro plant?

Mr. GALBRAITH. The ownership as now conceived would be by the Government of India or the people of India. The control, would for the initial period of time, be by the company that was building and bringing it in.

Mr. MINSHALL. Mr. Ambassador, if we gave the private sector the same kind of arrangement they could operate in the same way, you

say the public sector could, am I correct in that; what is your basic objection then to having the private sector get into this if they could handle it?

Mr. GALBRAITH. My basic point is the one I mentioned in my earlier testimony, Congressman. There is a strong—a very deep belief in India in favor of public ownership. Steel is one of the industries which has been marked out for mixed private and public ownership. The decision was taken years ago that this would be, broadly speaking, a public sector mill although they have not excluded some private participation.

As I said before, I do not want to force people who believe in public ownership, and believe in it deeply, to be against us. That is my basic position.

Mr. ANDREWS. Have the two privately owned companies enjoyed good relationships with the Government?

Mr. GALBRAITH. Yes, sir.

Mr. ANDREWS. How do you account for that if you say they have believed fundamentally in Government ownership of big projects?

Mr. GALBRAITH. No; I say the decision in the case of the steel industry has been to have a mixed, partly public and partly private, industry. The relations have been based partially on the fact that the demand for steel provides a market for both. They are not really fundamentally in competition.

Mr. ANDREWS. Since the demand for steel is so great over there, it looks to me like they would welcome a plant even though it were owned and operated by private industry.

Mr. GALBRAITH. Well, I only repeat what I just said to my good friend. There are Indian philosophies and convictions on these matters and they are different from our own. I try, at least in my own belief, to be tolerant of other people's views.

Mr. ANDREWS. If they have two privately owned plants operating over there and enjoying good relations with the Government and the man on the street, I do not see why the third one could not share the same experience.

Mr. GALBRAITH. If we were to do that—I am enlarging on the same answer—I am afraid that we would be accused of attempting to dictate the pattern or the shape of the Indian industrial development.

We would have more criticism for that intrusion than we would have reward for the help we are giving.

Mr. ANDREWS. Before you proceed, Mr. Flynt, I have a document which Mr. Galbraith wishes to submit for the record.

Without objection, it will be made a part of the record.

(The document referred to follows:)

THE BOKARO STEEL MILL

(Article prepared for the Washington Post by John Kenneth Galbraith)

For some years the Indian Government has been planning the construction of a flat products steel mill at Bokaro in the State of Bihar, some 150 miles northwest of Calcutta. As engineering studies have confirmed the feasibility of the plant, the Indian authorities have asked that this be one of the projects to be financed from our economic assistance funds. The decision, not surprisingly for it is an important one, has become the cause of considerable controversy.

I have, I suppose, been more intimately involved in this matter than any other American, and I more than welcome a chance to comment on it. And I have been struck by the fact that whatever their starting point, when there is full information on the project people almost always agree on its merits.

Let me first deal with those questions concerning Bokaro which are not seriously in dispute. Although it would be a large mill—an initial capacity of 1.4 million ingot tons and an eventual capacity of 4 million tons—there is no doubt that the steel is needed. In spite of the expansion of recent years, the Indian steel industry is still very small. It is roughly comparable in capacity with that of Canada and serves a population more than 20 times as large. While the plant would be costly, it would soon pay for itself in the imports that it would save. To import a million tons of flat steel products would cost the Indians about $200 million. A fully integrated mill with an annual capacity of 1 million tons of flat products—the first of the planned stages—would cost, according to the estimates of the experts of the United States Steel Corp., $513 million. Three years of operations would thus recover the dollar cost of the mill, and more. Since India combines her pressing need for steel with an equally acute shortage of dollars, the economic attraction is obvious. She could not, in fact, afford to import the steel that the mill could supply.

It is also agreed that the mill, so far from being damaging, would be profoundly helpful to the private sector of the Indian economy. The Indian steel industry is partly in public and partly in private ownership, a pattern, incidentally, which was followed by Japan and other countries in the early stages of industrialization. Because of the heavy demand for steel, there is no question of taking markets from the private producers. The head of the largest private steel mill, Mr. J. R. D. Tata, of the Tata Iron & Steel Co., stated last spring that Bokaro "is simply beyond the financial resources" of Indian private enterprise. He made clear his hope that the United States would finance the project and strongly reaffirmed this position in his annual report to his board of directors a few days ago. Meanwhile, Indian private steel users, large and small, are looking forward eagerly and even hungrily to this new source of supply. Their spokesman, Mr. Bharat Ram, the president of the Indian Federation of Commerce & Industry, the Indian counterpart of the U.S. Chamber of Commerce, and the recognized spokesman of private enterprise in India, emphatically endorsed the project this June.

There is also agreement that support for this project would be extremely well received in India. Unless a country is very short of steel it is hard to imagine how much popular interest there can be in increasing the supply. The Bokaro plant has acquired a vast symbolic interest in the subcontinent. On no subject during my tour as Ambassador was I so intensively queried as on the prospects for help on this project. When the American Mount Everest team returned to New Delhi after its successful climb it was said, jokingly, that the first question addressed to the leader at his press conference concerned his attitude on Bokaro. I have heard, incidentally, that I am supposed to have committed the American Government to this enterprise. Both the Indian Government and I are equally aware of the fact that American Ambassadors have no such breathtaking power to promise money. There is no commitment. It is a decision to be taken on the merits.

There is also agreement that Bokaro would usefully dramatize the role of American aid to India. Partly because large and dramatic projects are usually somewhat controversial, we have concentrated in the past on equally useful but less publicized enterprises. A hydroelectric plant in north India is very important to the people of the area. But in south India, it is of the same popular interest (say) the Passamoquoddy project in California. The Soviets got far more mileage out of their steel mill at Bhilai than we have from any one of our projects. I have thought our reticence a mistake. We should not look for dramatic enterprises merely because they are dramatic. But neither should we avoid such projects if they are good and useful. It is troublesome to discover the Soviets have a better sense of public relations than we.

Finally, there is agreement, or at least it would be hard to imagine disagreement, on the favorable effect of this plant on the American economy. Our own steel industry is not expanding. As a result, firms engaged in this kind of construction and machine building have a good deal of excess capacity and idle labor force. Heavy engineering firms in western Pennsylvania, Ohio, northern Indiana, Illinois, and elsewhere would especially welcome the business and employment. The rumors of the Bokaro plant had already brought their representatives to India long prior to my departure. They made no secret of their eager-

ness. If Bokaro is not approved, the orders would go for other types of equipment but not to industries where the need for business is so pressing.

I turn now to the case against the plant. This is twofold. First, that it is large. And, second, that it would be publicly or largely publicly owned.

While it would be a large plant, I have some difficulty in seeing the force of this objection. The cost would be spread over several years. And it is not as though Americans were unaccustomed to large enterprises. The cost would not be in addition to other aid. It would replace other projects, most notably in the field of electric power production (and also one might note in the public sector) and more general assistance to development that is not identified with any particular project. Because of the urgent need for steel the Indian Government has agreed to this substitution. It is the size of this project and its national character which will identify it so dramatically with our help. There is no intrinsic advantage in doing the second best things unostentatiously in a small way.

The stronger feelings are, of course, against the public ownership. Without wishing to challenge the convictions of those who feel deeply about the advantages of private ownership, I would like to plead for understanding on this issue.

In the first place, it will be seen that there is a strong practical case for public ownership, as private Indian capitalists concede and urge. As I have also noted, India is not the only country where the launching of a steel industry has required a large measure of public sponsorship and capital.

But there is also a strong preference in India for mixed public and private ownership of the steel industry. The case for public ownership is defended with something of the same passion as the case for public power in the Western United States. It is most important that we take a tolerant attitude on this issue. The experience of countries such as India with private capitalism has been different from ours. It is identified in many minds with the foreign ownership of earlier times. The Communists offer public ownership or socialism and excoriate private ownership. If we excoriate public ownership, and insist in an equally dogmatic way on private capitalism, we leave those who believe deeply in democratic socialism no choice but to aline themselves with the Communists. This is a mistake we have made in the past and which we have rectified in India with real gains for our positions. We know from experience in Scandinavia, Great Britain, Canada, New Zealand, and even our own past that a pragmatic combination of public and private ownership is quite compatible with personal liberty. If we offer a broad choice in economic organization as against the narrow Communist choice we cannot lose. If we offer a narrow alternative of a specific form of private capitalism to the narrow Communist choice we could lose.

This is not an academic issue. The Communists have been having a difficult time in India. The Chinese attack cost them heavily. They have been quick to seize upon gleams of daylight. The Clay Committee report, with its implied criticism of support to public enterprises, was greeted with unalloyed enthusiasm by the Indian leftwing press last spring. They took it as proof that the democratic Socialists had no future on our side. As I cabled at the time, the Communists were gleefully concluding on this matter that we were going back to our old maladroit ways.

We shouldn't. We have a right to insist that public enterprise be efficient. The other publicly owned steel companies in India have had serious teething troubles, and I have not been impressed by the efficiency of the operating company, the Hindustan Steel Co. As a result, the Indian Government has indicated a willingness in the case of Bokaro to set up a separate corporation and to accord the American builder not only a large measure of autonomy during the construction period but also, thereafter, for a several-year period of running in. In some ways what would be a public operation from the Indian viewpoint would be a private operation from ours. On this issue we should be both clear and firm.

But on the question of public ownership I would urge that we be tolerant and practical and that the test be not ideological preference but the American interest. There is sound precedent for such a practical view. In 1943, the late Senator Robert Taft went to Puerto Rico as a member of a subcommittee of the (them) Senate Territories Committee. On his return he addressed a letter to the War Production Board on behalf of a publicly owned glass industry in Puerto Rico. I quote from it as follows and urge a similarly broad view as regards India:

"I have just been in Puerto Rico with the Subcommittee of the Senate Territories Committee, investigating social and economic conditions there. In view of the number of people crowded into a small island, I believe that the only possibility of a decent standard of living lies in the industralization of the island. * * *

"The situation in Puerto Rico is not like that in the United States. * * * I have never been very strong for government-supported industry, but the situation in Puerto Rico is such that I believe the government has a proper function in promoting the development of new industry. * * *"

Mr. ANDREWS. Mr. Flynt.

Mr. FLYNT. Mr. Ambassador, by the same token, would it not be true that if we go in in support of a public steel mill that the people who favor private enterprise in India will have the same ill feelings toward us if the situation were reversed?

Mr. GALBRAITH. This would not be so. In the first place, this mill is supported by the head of the largest private mill. And the private industry generally accepts the concept of the government of a mixed economy. There are many dissenters but there is a broad acceptance of this idea. A great many of the private firms are very much interested in getting the increased supply of steel. Their idea is not who owns it but how quickly do we get the additional steel.

COMMUNIST INFLUENCE IN INDIA

Mr. ANDREWS. Is there any indication or any reason to believe there might be Communist infiltration of the proposed plant?

Mr. GALBRAITH. Not serious in any way. There is some Communist influence in the Indian trade union movement, but it would be no more of a hazard here than it would be anyplace else in the Indian economy. And I would not put it down as a major hazard elsewhere.

There is Communist influence in one of the major Indian unions. There is no question about that. It would be no more serious in this plant than in any other part of Indian industry.

Mr. ANDREWS. Just how strong is that Communist influence?

Mr. GALBRAITH. One of the three union groups has a very strong Communist leadership. This has long been admitted as such. There is no secret about it.

On the other hand, the Communist Party in India is not strong, and it has been, if anything, much in decline in these last few months. The Chinese invasion had a very bad effect on the Communist Party in India.

Mr. MINSHALL. What union is this that is dominated by the Communists.

Mr. GALBRAITH. I was afraid you would ask me that. I must check the name.

Mr. MINSHALL. Can you let us know a little later?

Mr. GALBRAITH. I will supply it; yes, sir.

(The information requested is as follows:)

TRADE UNION SITUATION IN THE STEEL INDUSTRY

There are about 3 million trade-union members in India, organized into several major unions. The Government of India recognizes as largest and most representative the Indian National Trade Union Congress (INTUC), which is estimated to have about 1 million members and which is linked closely to the dominant Congress Party of Prime Minister Nehru. The INTUC is considered to be relatively moderate in its political and economic orientation. The

Communist, All India Trade Union Congress (AITUC) is somewhat smaller than the INTUC, although the exact membership is difficult to determine, and it generally is more aggressive and better organized. Between them on the political spectrum is Hind Mazdoor Sabha (HMS), associated with the Praja Socialist Party, and the small Trotskyite United Trades Union Congress (UTUC). There also are thousands of independent local and regional unions of varying sizes.

All of the principal labor unions are active in the steel industry, and there is much rivalry among them for the allegiance of workers in this increasingly important organizing field. The INTUC has the largest membership in the industry, according to government figures. It has been challenged strongly by the AITUC in both of the older private sector firms, Tata and Indian Iron and Steel. In the Government-owned Hindustan Steel, Ltd. plants, AITUC claims that the management has shown favoritism to INTUC, which is recognized as the bargaining representative even at the Russian-built Bhilai mill, where in fact the HMS claims second place and AITUC is relatively weak. The union situation in these mills still is unsettled, as most workers are new to industrial employment.

Mr. ANDREWS. Have there been any acts of sabotage in any of these plants?

Mr. GALBRAITH. No; none at all.

THE INDIAN 5-YEAR PLAN

Mr. ANDREWS. Briefly, what is the 5-year plan of the Government of India? I understand that they are now in their third 5-year plan.

Mr. GALBRAITH. That's right. This is essentially a design, for integrated development of industry and agriculture, public and private, designed to get India moving into the age of industrialization.

Mr. ANDREWS. In other words, to build up the economy of India?

Mr. GALBRAITH. To build up the economy of India on a broad front.

Mr. ANDREWS. What year of the 5-year plan are they in now?

Mr. GALBRAITH. The third year.

Mr. ANDREWS. A third year of a 5-year plan?

Mr. GALBRAITH. Yes.

Mr. ANDREWS. How long do you think it will take them to achieve the ultimate goal?

Mr. GALBRAITH. It will be a long, long pull. Very long.

Mr. ANDREWS. Twenty-five years?

Mr. GALBRAITH. India still has a great many very poor people and in some ways, while they have made great progress in these last 13 years, one is appalled at how much there is yet to be done.

Mr. ANDREWS. We could talk for days about political and economic matters in India, but we are here today to discuss this steel mill, so we will stick to that subject.

SELECTION OF SITE FOR THE MILL

How was the site for the proposed mill selected? I know that the report says that a number of things will be required, including a complete township to support both laborers and managers for the plant.

Mr. MINSHALL. What is the general location?

Mr. GALBRAITH. The coal supply is in east-central India.

Mr. MINSHALL. It is actually eastern, is it not?

Mr. GALBRAITH. East-central India, including the provinces of West Bengal, Bihar, and Madhyappradesh.

The Bhilai plant doesn't show on this map, but it is in this vicinity here. It is on the railroad that runs between Bombay and Calcutta. The plant that was built by the Germans is somewhere roughly in this area. The Durgapur plant is up in this area, and the new proposed Bokaro plant is up in this area.

Mr. ANDREWS. All five existing plants are in the same general area and the proposed Bokaro plant would be in that same general area, which is the northeastern section of India?

Mr. GALBRAITH. Yes.

Here is Jamshedpur the site of the Potu plant.

Mr. ANDREWS. How far would that be from East Pakistan?

Mr. GALBRAITH. A hundred miles, I suppose.

Mr. MINSHALL. What is the largest city in this area? It is not near New Delhi or Calcutta. What city is it near?

Mr. GALBRAITH. The largest city related to the Bokaro plant is Calcutta.

Mr. ANDREWS. That plant would be about 150 miles from Calcutta, the Bokaro plant?

Mr. GALBRAITH. 150 miles northwest.

ANCILLARY CONSTRUCTION AND COSTS

Mr. ANDREWS. Going back to the question, I notice that the report says that a number of things would be required, including a complete townsite to support both laborers and managers for the plant.

In other words, you would start from scratch and build everything; the plant, the town?

Mr. GALBRAITH. That's right.

Mr. ANDREWS. What is there at Bokaro, now?

Mr. GALBRAITH. It is a dispersed industrial area, Mr. Chairman. There is a lot of coal mining in the area immediately adjacent to the site. There is no housing. Housing accommodations would have to be built.

Mr. ANDREWS. We have discussed the figure of $1,700 million as being the estimated cost of the complete steel plant. Did that figure include the housing and the other things that would be necessary to support the steel plant?

Mr. GALBRAITH. I would have to check that.

Mr. ANDREWS. You don't know?

Mr. GALBRAITH. I don't know, offhand.

Mr. ANDREWS. Find out and if the figure $1,700 million does not include housing, et cetera, supply for the record what the cost of the facilities other than the plant would be and also tell us now, if you know—if you don't, supply that for the record—how you would propose or how the Indian Government would propose to finance the construction of all facilities, including housing, railroad facilities, and everything needed in connection with the plant would be done.

Mr. GALBRAITH. I will do that.

(The information requested is as follows:)

FACILITIES NOT INCLUDED IN THE UNITED STATES STEEL COST ESTIMATE

The cost estimates do not include the foreign exchange and local currency costs of the following facilities:

Tenughat Dam	$31,127,000
Canal for Tenughat Dam	5,730,000
Bokaro townsite	40,000,000
Expansion of southeastern and eastern railroad facilities	(1)
Increased coal mining and washing facilities	25,000,000
Expansion of road network	(1)

[1] Not available.

Plans for financing these facilities have not been completed. The costs of the Tenughat Dam and the townsite would be in local currency. The remaining facilities would be a mixture of local currency and foreign exchange.

Mr. GALBRAITH. My impression is that the figure you give is the figure for the plant within the fence, without the ancillary services.

Mr. CONTE. I have, Mr. Ambassador, some figures here in regard to the Tenughat Dam, which is $31 million-plus, $5,700,000 for the canal, $40 million for the Bokaro townsite, including the water supply, and $32 million for the installation of the additional 125,000 M.W. generating capacity and $25 million for increased coal mining and washing facilities. I don't have any figures for the expansion of the railroad or the expansion of the road network.

Mr. ANDREWS. Might I say, if the gentleman will yield, that this makes a total of $133,857,000 and those figures for those purposes were disclosed in the report filed by the United States Steel Co.

Mr. CONTE. That's right, and they are not included, I don't think, in the cost of the Bokaro steel mill.

Mr. ANDREWS. And we have been talking in terms of $1,700 million.

Mr. CONTE. That is exactly right.

Mr. ANDREWS. Now, Mr. Ambassador, if you will, you check the figures against these and determine which is correct.

What about other requirements such as rail transport, power and water, highways, and particularly the availability of raw materials?

Now we have discussed highways and transport and power and water in these other figures we have just read into the record. I will ask you now to discuss the availability of raw materials.

Mr. GALBRAITH. On coal there is, of course, no problem. I mentioned the situation as regards ore. India has one of the world's largest reserves of ore. It is still, however, imperfectly explored as to quality.

Limestone, which is a further requirement and a less important one, is available—is presumed to be available in adequate quantities. I am not quite sure what the details are on that.

PROFIT POTENTIAL OF THE MILL

Mr. ANDREWS. I notice the report says the plant would not be profitable in the first step which appears to be from 1966 through 1971, but that it would become profitable beginning with the second step in 1971.

How valid, in your opinion, is that estimate?

Mr. GALBRAITH. I have great confidence in the steel corporation people and the position they make on this seems to me to be a very sound one. The economical finishing capacity, the rolling capacity has to be for a larger mill than the first step. So the finishing capacity would not be fully used by the ingot capacity of the first stage. So it is only as the subsequent stages build up to the capacity of the finishing end of the mill that you would have a balanced mill, and the mill would become profitable. This is the case they make, and it seems to me to make sense.

Mr. ANDREWS. You stated earlier there would be a teething period, as you described it.

Mr. GALBRAITH. This is not the teething period. If it were running very well, this imbalance would occur. The teething period is getting your blast furnaces going and getting knowledge of your blast furnace charge, and getting your labor force broken in. You must remember that you are dealing here with a labor force which has to be trained from scratch—which comes right off the farm.

Mr. ANDREWS. In your opinion, it would be impossible for this plant to operate without a deficit for a period of several years following the completion of the plant and the actual commencement of operations?

Mr. GALBRAITH. Well, I again put these things in a little more diplomatic form. All of these plants take a period of running in and we shouldn't be surprised at that. This would be true whatever the management.

Mr. FLYNT. Mr. Chairman, may I interject at that point?

Mr. ANDREWS. Yes.

Mr. FLYNT. Is the operating deficit of the proposed plant included in the estimated cost of $1.7 billion?

Mr. GALBRAITH. No, I believe not.

Mr. FLYNT. Any deficit operating cost would be in addition?

Mr. GALBRAITH. That would be a rupee cost paid by the Indians or the government.

Mr. ANDREWS. Who would subsidize the deficit during the first period between 1966 and 1971, and what would be the estimated deficit during that period?

Mr. GALBRAITH. I don't know whether the steel corporation came up with that figure or not. I will have to look and see.

Mr. ANDREWS. You don't know of your own opinion?

Mr. GALBRAITH. No.

TERMS OF LOAN

Mr. ANDREWS. I notice the report assumes for the purpose of this analysis, a 20-year loan at 5¾ percent interest. Isn't it true that should this loan be made, it would be more probably made for a term of 40 years at only three-quarters of 1 percent interest, and how does this compare with the interest rates and terms under the other three governmental arrangments referred to earlier?

Mr. GALBRAITH. Let me answer that question. That is a very important point.

We give the Indian Government, through the AID program, assistance at very low rates of interest. Three-quarters of 1 percent for 40 years.

Mr. ANDREWS. That is what this committee refers to as credits, rather than loans.

Mr. GALBRAITH. It does not follow that when this money is reloaned either to a private or a public firm by the Indian Government, that it should be reloaned at that rate. The Indian Government is very short of money; it is very short of foreign exchange. We are giving these loans in order not to put a strain on its foreign exchange. But when it reloans that money, the firms borrowing it should be subject to a stronger commercial test than three-quarters of 1 percent for 40 years. Almost anybody can make money at that. So in order to make the Indian firm subject to a strict commercial test, the reloaning rates are generally much higher, and in my view, should be much higher. There is no reason why an Indian firm that happens to get a loan by way of the Indian Government from the United States should have these concessional rates. So the steel corporation properly used commercial rates in calculating what the cost would be.

Mr. ANDREWS. But if the AID goes into this Bokaro program, the money we furnish will be on a long-term, 40-year basis, at three-quarters of 1 percent interest, and not payable for the first 10 years.

Mr. GALBRAITH. I don't think AID has taken any decision on that.

Mr. ANDREWS. I say if they go into it.

Mr. GALBRAITH. I really don't think this has been decided yet, what the terms would be. But if they were to go into this, the rates would certainly be concessional.

Mr. MINSHALL. I think the record should show at this point that we would have to borrow the money at a rate of 3½ percent.

Mr. GALBRAITH. But I would have to say, in response to you, Mr. Congressman, this is true of all of our AID operations.

Mr. MINSHALL. This is just another $1 billion added to the load.

Mr. GALBRAITH. It would be taking the place of other projects.

Mr. ANDREWS. Every dollar that goes into foreign aid is borrowed money. It is borrowed by this country, and we pay from 2 to 3¾, and sometimes 4 percent, depending on who holds the paper. The holder of an H-bond gets 4 percent interest after 18 months from the date of the bond's purchase. So in that case, this Government is paying 4 percent. Now, we are getting into the field of economics and so forth and so on, and we are here to discuss the Bokaro steel mill.

Mr. GALBRAITH. I would like, as an economist, to enter some reservations on this. We are not borrowing quite all this money.

Mr. ANDREWS. As I say, we don't want to get into an argument about economics. I am not an economist, but isn't it true, so long as we have a national debt and so long as we have a deficit in Government operations, we are doing business on borrowed money?

Mr. GALBRAITH. No, I would say ——

Mr. ANDREWS. We are not?

Mr. GALBRAITH. I would say overwhelmingly we are paying our way with taxes.

Mr. ANDREWS. That is not my statement. I will agree with you that taxes are overwhelming.

What is the plan concerning the actual construction of the plant?

Mr. GALBRAITH. I think I covered that in my earlier remarks.

Mr. ANDREWS. I think you did.

How would you award the contract?

Mr. GALBRAITH. Well, this is an AID decision and not something on which I am an expert.

Mr. ANDREWS. You are not familiar with that?

Has there been any discussion of the awarding of a contract?

Mr. GALBRAITH. No.

Mr. ANDREWS. Has there been any discussion of the eligible bidders, whether it be Indian, United States, or other countries?

Mr. GALBRAITH. I want to revise my testimony: There has been no formal discussion of a contract. One or two and maybe more American suppliers have been in India and some have been in to see me to ask what was happening on the contract, what was happening on the plant, whether it was in prospect and so forth. This is a normal search for business.

Mr. ANDREWS. It looks to me, Mr. Ambassador, like somebody is going a long way toward planning this plant, where no commitments have been made, somewhere along the line.

Mr. GALBRAITH. I wouldn't agree with that at all, sir.

Mr. ANDREWS. You say the contractors have been over discussing the possibility of business in connection with the construction of the plant.

Mr. GALBRAITH. At least two firms have been to see me in India to see what the prospects were, but this I would regard as completely normal. If you even have a rumor of a plant, firms will be there looking for it. I do not think this is a bad thing.

Mr. MINSHALL. What firms are those, if you know?

Mr. GALBRAITH. The Kaiser Co. was in, and Koppers.

Mr. MINSHALL. Any others?

Mr. GALBRAITH. Those are the only two I saw myself. There may have been others.

Mr. ANDREWS. Has there been any discussion of eligible bidders, whether they be Indian, United States or other countries?

Mr. GALBRAITH. Under the terms of the AID rules it could only be American contractors for anything having to do with dollar expenditures.

Mr. ANDREWS. Has there been any discussion of the type of construction and the supervision of construction of the contract?

Mr. GALBRAITH. Not beyond what I said in my earlier remarks that we would want to make sure there was a clear line for American direction of the contract.

Mr. ANDREWS. Any discussion of inspection and approval of the contract?

Mr. GALBRAITH. Not so far as I know.

Mr. ANDREWS. Production equipment, availability, and installation? Any discussion about that?

The maintenance of the plant: I believe you did say there had been some discussion, or maybe it was just your thinking about what should be done with reference to the maintenance of the plant——

Mr. GALBRAITH. No, there has been discussion, that if this one period of running in would be a long period.

Mr. ANDREWS. Do you know anything about the total manpower required for construction and the type of personnel required?

Mr. GALBRAITH. There is some discussion in the United States Steel report. Beyond that, I have no information.

Mr. ANDREWS. Do you know anything about the construction materials—availability and so forth?

Mr. GALBRAITH. There is also some reference to that, in this report, on prospective supplies of cement, lumber, and so forth. Indeed, this was part of the steel corporation's investigation.

Mr. ANDREWS. What about Indian construction capability? Would they have the capability to construct the plant?

Mr. GALBRAITH. This is a mixed situation. There would be some parts of the construction which would be paid for with rupees, which would be let out to Indian contractors. Civil engineering works, earth moving, and all this sort of thing would be a rupee cost. We would not want to do anything with dollars that could be done with rupees.

TOWNSITE FOR THE MILL

Mr. ANDREWS. Now, a few questions with reference to the proposed townsite that would be needed. What would be the size of the townsite and the location of it?

Mr. GALBRAITH. The Indian Government has for several years owned a considerable area of land in this vicinity and part of this would be used for the townsite.

Mr. ANDREWS. Donated by the Indian Government?

Mr. GALBRAITH. Yes, I believe so.

Mr. ANDREWS. What about ownership and operation?

Mr. GALBRAITH. I am not informed.

Mr. ANDREWS. Maintenance of the townsite?

Mr. GALBRAITH. I believe the practice in the other mills has been to set up a municipal corporation and run it as a regular town.

Mr. ANDREWS. Collect taxes and revenues?

Mr. GALBRAITH. Yes. Except, I think they rent the houses. I don't think they sell them. They do not sell the houses; they rent them so that anybody who gives up his job has to give up his house.

Mr. ANDREWS. The house goes with the job?

Mr. GALBRAITH. Yes.

Mr. ANDREWS. Then the municipal corporation would look after the streets, sewers, police, fire, medical, and other facilities?

Mr. GALBRAITH. That's right.

Mr. ANDREWS. That would be the same situation that you find in connection with other government-owned steel mills?

Mr. GALBRAITH. Yes, or it would be essentially the same situation that you have whenever you put a new industrial plant in a new location. At the Fairless works at Trenton, you had a brandnew townsite developed by Levitt for the steelworkers.

Mr. ANDREWS. We have discussed the cost of other facilities such as highways, railroads, water, dams, canals, power generating stations, distance, and so forth. Those figures Mr. Conte read into the record.

Mr. GALBRAITH. That's right.

Mr. ANDREWS. I believe you stated you would supply for the record what information you could as to how those costs would be met?

Mr. GALBRAITH. And on anything else I might have.

AVAILABILITY OF RAW MATERIALS, TRANSPORTATION, ETC.

Mr. ANDREWS. Tell us what you can about the availability, type, location and grade of raw materials, mining and washing facilities, transportation facilities in that area.

Mr. GALBRAITH. I think I have already made some reference to that, and I won't repeat myself. The coal situation, the plant is on a coalfield. The coal is somewhat high in ash content and has to be washed. Washeries would have to be built. The ore I have already referred to. The process water would come from the dam.

Mr. ANDREWS. How about the transportation facilities?

Mr. GALBRAITH. This is on the main Indian transportation network.

Mr. ANDREWS. Railroads?

Mr. GALBRAITH. Railroads go through the site.

Mr. ANDREWS. Highways?

Mr. GALBRAITH. I am not sure where the highway runs. This is primarily a rail operation.

Mr. ANDREWS. What would be the situation——

Mr. FLYNT. Mr. Chairman, will you yield for a question in connection with that?

Mr. ANDREWS. Yes.

Mr. FLYNT. Mr. Ambassador, what would be the volume of the supply of the free-flow water in addition to the water from the reservoir caused by the dam?

Mr. GALBRAITH. I will have to check on that. It is not a figure I carry around in my mind.

(The information requested is as follows:)

VOLUME OF FREE-FLOW WATER

There will be no free-flow water in addition to water from the reservoir.

Mr. ANDREWS. What about competition with other plants for raw materials if this Bokaro plant is built?

Mr. GALBRAITH. On coal, the coal would come from metallurgical grade coal to be coked directly for this plant.

On the ore, some that is now going to Japan would, I believe, go to this plant. The Japanese contracts would be shifted to some other ore fields. I think it is fair to say there is no competitive problem.

Mr. ANDREWS. In your opinion, there is enough raw material in that area to supply the needs of existing steel plants and the plant at Bokaro, if and when it's built?

Mr. GALBRAITH. That's right. I would rather say in the view of competent engineers, this situation exists.

Mr. ANDREWS. Is the same thing true with reference to management and manpower for the production of raw materials?

Mr. GALBRAITH. On all these things in a country like India you have to have a do-it-yourself program.

You will never have enough previously trained manpower and management, so along with the building of this plant, as with the building of the earlier plants, there must be a very large training program.

Mr. ANDREWS. Would there be private or public ownership of the raw materials?

Mr. GALBRAITH. The ore mines are publicly owned. As to the coal mines, I am not sure. There are both publicly and privately owned collieries in the area, and I am not sure upon which they would draw.

Mr. ANDREWS. What about the cost of producing a U.S. ton of steel in India now, in existing plants?

Mr. GALBRAITH. I am not sure those figures are available, but I will see what there is.

Mr. ANDREWS. Give us what information you can about that.

(The information requested is as follows:)

COST OF PRODUCING A U.S. TON OF FLAT STEEL IN INDIA

We do not have production cost data for flat steel products being manufactured in existing Indian steel mills. The cost estimate per short ton of plates, light gage, to be produced by the Bokaro mills, would be about $90. This does not include an excise tax of $11.02 charged on the finished product. This data is derived from the United States Steel report.

Mr. ANDREWS. What about the cost of producing steel at Bokaro, in the future? How would it compare with the cost of producing steel at existing steelmills?

Mr. GALBRAITH. We have had some reference to that already. In the first stage, when you are carrying the overhead of this much larger finishing capacity, it would certainly be higher.

TYPE OF STEEL TO BE PRODUCED

Mr. ANDREWS. Do you know anything about the type and quality of steel that would be produced at the Bokaro mill?

Mr. GALBRAITH. This is a flat products mill. This is the product that is most urgently in demand in India at the present time.

Mr. MINSHALL. How would they use this particular rolled sheet?

Mr. GALBRAITH. Congressman, it is basically your——

Mr. MINSHALL. What are they going to make with it?

Mr. GALBRAITH. It is generally a light manufacturing raw material.

Mr. MINSHALL. Are they going to make bicycles and sewing machines out of this? This is what you say they would need.

Mr. GALBRAITH. Some of this would certainly go to light equipment, yes.

Mr. MINSHALL. I can't see much sheet steel going into a sewing machine or a bicycle for that matter.

Mr. GALBRAITH. My impression, Congressman, is that the bicycle requirement for steel in India is not negligible, but is appreciable. This is a country which is in the bicycle age.

Mr. CONTE. Mr. Chairman, on that bicycle item, may I ask a question?

Mr. ANDREWS. Yes.

Mr. CONTE. We have a bicycle industry in my district, the Columbia Bicycle Co., which was one of the first in the United States. One of the great difficulties they have is trying to get a market for their bicycles. They are quite competitive now, but they don't seem to be able to get a license from foreign countries to sell bicycles. I am quite sure we don't have any market in India at all. During your tenure as Ambassador there, have there been any American bicycles sold in India?

Mr. GALBRAITH. I don't think so.

Mr. ANDREWS. Do they have applicable prohibitive tariffs or laws prohibiting the importation of bicycles?

Mr. GALBRAITH. I have no offhand information, but I expect they have a pretty rigid licensing system.

Mr. MINSHALL. I would like to state along the same lines of Mr. Conte, in the Cleveland and Elyria, Ohio, areas we had some of the largest bicycle manufacturers in the country. I think they made saddles and everything else, and they have gone out of business.

Mr. GALBRAITH. This is a very rapidly expanding business in India. I don't want to suggest that this is a big outlet for steel. A bicycle only uses a few pounds of steel, but it is one of the things for which there is a real scramble for steel, always.

Mr. MINSHALL. Sewing machines wouldn't take too much, either.

Mr. GALBRAITH. This is not big tonnage stuff.

Mr. MINSHALL. You brought it up. I didn't. You said this is what they needed and that is why they needed the steel mill.

Mr. GALBRAITH. I brought it up as illustrative of light manufacturing.

Mr. CONTE. We could eliminate a tremendous problem here in the bicycle shortage by giving India a development loan grant enabling them to buy bicycles. This would put some people to work in my area, where we have 6-percent unemployment.

Mr. ANDREWS. You have a good point there. However, we are discussing a steel mill here, today.

Mr. CONTE. And the steel is connected with bicycles.

Mr. FLYNT. In addition to the flat steel products, would this also include tube steel?

Mr. GALBRAITH. I don't know.

Mr. FLYNT. Would it possibly include a stainless steel component?

Mr. GALBRAITH. I would have to check up on that.

Mr. FLYNT. If that can be supplied, would you do so?

(The information requested is as follows:)

TUBE AND STAINLESS STEEL

Bokaro will not produce tube or stainless steel.

COST OF STEEL IN INDIA

Mr. ANDREWS. Mr. Ambassador, what would it cost, per ton, for the U.S. steel industry to lay down a ton of steel in India?

Mr. GALBRAITH. To import 1 million tons of flat products a year would, I am advised, cost about $200 million. It would be about $200 a ton.

Mr. ANDREWS. And tell us now, if you can, and if you can't supply it for the record, what it would cost to buy that ton of steel in India, produced in an Indian mine. Give us a comparable figure.

Mr. GALBRAITH. An Indian mill?

Mr. ANDREWS. Yes.

Mr. GALBRAITH. The cost of flat products in India?

Mr. ANDREWS. That's right. In other words, I want to get the cost of a ton of U.S. steel delivered in India compared to a cost of a ton of Indian steel.

(The information requested is as follows:)

Cost of purchasing steel products in the United States compared to production costs of steel products at the proposed Bokaro mill

Representative finished steel products	Total U.S. procurement costs [1] (per metric ton)	Bokaro production costs [2] (per metric ton)
Plate, light gage	$144.60	$94.41
Hot rolled sheet and strip, medium gage	207.00	96.68
Cold rolled sheet and strip, light gage	172.00	117.09
Galvanized sheet, heavy gage	178.00	134.28

[1] These figures include a base purchase price FAS Atlantic port and an average U.S. shipping cost to India. Freight rates vary according to shipping lines, quantity, and port of origin.
[2] These costs are taken from the United States Steel Corp. report on the Bokaro steel mill.

POSSIBILITY OF EXPANDING EXISTING PLANTS

Mr. ANDREWS. What consideration has been given to the expansion of existing plants?

Mr. GALBRAITH. There is an expansion program in process, or planned at—I hate to say all of the three public mills, but certainly in some of them. I can get you the details on that.

Mr. ANDREWS. Supply it for the record.

(The information requested is as follows:)

EXPANSION OF EXISTING STEEL PLANTS IN INDIA

Expansion programs are underway or planned for all existing steel plants in India, as detailed below:

1. *Bhilai.*—The Government-owned plant at Bhilai financed by Russia has a rated ingot capacity of 1 million metric tons per annum. This is to be increased to 2.5 million tons by the end of 1963. Construction work has already begun on new coke ovens and blast furnaces. The foreign exchange costs of the expansion were estimated last year at $114 million, including some subsidiary facilities. This is to be financed by credits from the Soviet Union.

2. *Durgapur.*—The rated capacity of this Government-owned plant financed by the United Kingdom is to be increased from 1 million tons to 1.6 millions by early 1966. Construction work for the expansion was started recently. It was reported some time ago that the expansion would cost about $125 million, including foreign exchange costs of about $70 million. The latter will be financed by the United Kingdom.

3. *Rourkela.*—The rated capacity of this Government-owned plant financed by Germany is to be increased from 1 million tons to 1.8 million tons by early 1966. Preparatory work has recently been begun. The cost of the expansion was estimated 2 years ago at $163 million, including foreign exchange costs of about $98 million. Actual costs may run somewhat higher. In April of this year, Germany made a $100 million loan to India to meet these foreign exchange costs.

4. *Tisco.*—The privately owned plant of the Tata Iron & Steel Co. has a capacity of about 2 millions per annum and is the largest in India at the present time. Although expansion plans are not yet definite, the company has submitted a proposal for expanding its plant by about 1 million tons.

5. *Iisco.*—The Indian Iron & Steel Co. plant hopes to expand its privately owned Burnpur plant from its present capacity of 1 million tons to 2 million tons by about 1966. To date, however, Government approval has been obtained in principle only for the first phase, a 300,000-on increase in annual capacity. It is reported that this will cost about $25 million, and that a World Bank loan may be requested to meet the foreign exchange costs.

6. *Mysore.*—The small Mysore Iron & Steel Works, owned by the State of Mysore, is to be converted into a special and alloy steel plant, possibly by mid-1965. West German and Austrian collaboration has been arranged for this project.

FOREIGN INVESTMENTS IN INDIA

Mr. ANDREWS. What about the Indian Government's discrimination against foreign investments, such as the General Motors case? Could you tell us anything about that?

Mr. GALBRAITH. The Indian Government does not discriminate against foreign investment as such. On the whole, it welcomes it.

In the case of General Motors as I understand it—this happened before my time—they were pressing General Motors to make greater use of domestically produced components as distinct from imported components in order to cut down the exchange loss. I gather General Motors felt they were being pressed too hard on this, and it wasn't a very big operation, and they suspended business in India. But the Indian Government does welcome foreign investment in India. It is a poor country and the prospects for foreign investment are not very extensive.

Mr. ANDREWS. Are there many foreign investors going into India now?

Mr. GALBRAITH. It varies by fields. Taking something like metals, they have considerable activity. Particularly in the field of aluminum production. But as compared with Europe or Canada, very small.

Mr. ANDREWS. Let me ask you this final question in that connection. Could a foreign corporation enjoy good relations with the people of India and the Government if they came in and built a plant of any kind?

Mr. GALBRAITH. I don't think any corporation would come in with the money that would be involved here.

Mr. ANDREWS. Let's take an automobile producing company or sewing machine company or bicycle company.

Mr. GALBRAITH. These firms, there are hundreds of them, and they enjoy, in general, excellent relations. The Indian Government does not seize plants, the tax system is fair, there is no question of confiscation, and the Government is honest. I think you will quite frequently find complaints that the Indian Government is very slow.

Mr. ANDREWS. How much control, if any, do the Germans, Russians, and English have over the steel plants that were financed by their Governments?

Mr. GALBRAITH. The Germans, none, except through technicians. A small number of technicians.

The Soviets, none, except through a relatively small number of technicians and I think perhaps they have a few more left there than the Germans.

On the British, that is the newest, and whether there is still some element of British management for completing construction, I don't know.

Mr. ANDREWS. Very little, if any?

Mr. GALBRAITH. Very little.

Mr. ANDREWS. Mr. Natcher.

ESTIMATED COST OF ERECTING STEEL PLANT

Mr. NATCHER. Do you consider the cost of erecting this steel plant of approximately $1,700 million excessive?

Mr. GALBRAITH. It is very hard to answer on that. There has been some suggestion that maybe the steel corporation leaned over backward not to underestimate. And there has been some suggestion perhaps that more of the dollars cost could be provided locally in rupees than this report suggests. But my impression is that the wise course of action would be to accept the steel corporations' figure.

Mr. NATCHER. Can you give us some idea of the cost of the plants erected by Great Britain, West Germany, and the Soviet Union?

Mr. GALBRAITH. I can get those.

(The information requested is as follows:)

Total investment in plants erected by Great Britain, Germany, and Russia

	Millions [1]
Durgapur (Great Britain)	$301
Rourkela (Germany)	385
Bhilai (Russia)	258

[1] Derived from the United States Steel report.

NECESSITY FOR ASSURING AN ADEQUATE SUPPLY OF COAL

Mr. NATCHER. You stated this coal contained quite a bit of ash, and would have to be washed.

What arrangement, if any, has been made from the standpoint of securing the necessary contracts from the private interests who own the coal property in order that the coal could be used with this plant if the plant is erected? Has any arrangement been made with the private interests who have the coal lands under control and under ownership?

Mr. GALBRAITH. Yes.

Mr. NATCHER. To what extent?

Mr. GALBRAITH. I would have to get the details on that, but the plans exist not only for opening up the coal supply, but also for the washeries. Some of the discussion of the washeries is in these reports here.

Mr. NATCHER. Mr. Ambassador, you are probably acquainted with the Tennessee Valley's operation of the new steamplant in the Green River Valley known as Paradise. This steamplant will be the largest steamplant in the world. It will generate about 1,280,000 kilowatts. It is located on Green River. Before this plant was erected or before any plans were made for the erection of the Paradise steamplant, two locks and dams were reconstructed on Green River in order that there would be an adequate supply of water and that there would be adequate navigation.

In addition to that, a contract was entered into which, by the way, is the largest coal contract ever entered into in this country, of some 65 million tons over a period of 17 years.

Now, all of these arrangements were made well in advance. They knew what would happen if the steamplant was erected—which, by the way, is to cost less than $400 million out of the $750 million bond issue approved by the Congress of the United States. They knew exactly where they would be from the standpoint of every facility necessary in the operation of the steamplant.

I am a little confused, Mr. Ambassador, about the proposal for the Bokaro steel mill from the standpoint of being at the mercy of private interests as far as coal is concerned and as far as ore is concerned.

Mr. GALBRAITH. Let me clarify my previous testimony, if I was misunderstood. The ore is publicly owned.

Mr. NATCHER. I understood you to say it was publicly owned, and also the coal, is that correct?

Mr. GALBRAITH. The coal in that field upon which Bokaro draws is partly in public ownership and partly in private ownership. Which, will be used for this mill I do not know. This has all been worked out—the plans have been developed in detail. If I may say so, you are pressing me into a considerable detail, here.

Mr. NATCHER. Isn't this necessary, Mr. Ambassador, before any money is appropriated by the Congress of the United States? Shouldn't we have some detail on it, and expert opinion, especially on the overall cost of $1,700 million, which seems to me—and as you well know, I know very little about these matters, but it seems to me that this cost is excessive to begin with. And I use the word "excessive" and it should be spelled with capital letters, throughout.

Mr. GALBRAITH. I am pleading my own lack of knowledge of the coal situation. I am not implying by that that the coal situation hasn't been thoroughly studied. My impression is that it has. I haven't read the studies.

Mr. NATCHER. Is this same type of coal used in the operation of the two privately owned steel mills in India?

Mr. GALBRAITH. Well, it is from the same area, certainly, and it is high ash coal that has to be washed; yes, sir.

Mr. NATCHER. In the course of your connection with the Federal Government, do you know about the coal pile that we have piled up in Korea? Do you know about that, sir?

Mr. GALBRAITH. No.

Mr. NATCHER. We can't use it. There are several million tons. It was shipped over there and they can't burn it.

I am just wondering if this coal in the vicinity of this proposed mill could be used for the purpose for which it would have to be if the mill was erected. You assume that it could?

Mr. GALBRAITH. I know, Mr. Congressman, of the studies, but I am not myself familiar with the studies. I have to plead that an Ambassador in this particular country has a fair range of things to do and some things are beyond one's horizon. I must say the coal industry is not one with which I am fully familiar.

Mr. NATCHER. Mr. Ambassador, I certainly want to concur in the statement of our chairman, Mr. Andrews, insofar as your duties in India are concerned. I think that you have done a good job. Your predecessor, if not your immediate predecessor, is a friend of mine, John Sherman Cooper. As you well know, he was the Ambassador to India. I thought he did a good job and represented our country well and made a wonderful Ambassador.

You made the statement, Mr. Ambassador, to our committee that if we go along on this project, it will focus the attention more as to our efforts in the AID program, and it will be a dramatic step.

Now, Mr. Ambassador, what else would we do in India other than this, if this proposed plan goes through? In other words, would we continue carrying our regular AID program in India?

You know a lot of the criticism we hear as members of this committee, in the AID program, is due to the fact that the people in the countries generally say that none of it ever gets down to the people. The people know nothing about it. Isn't this in direct opposition to what we are doing in Latin America today, from the standpoint of the AID program dealing more directly with the needs of the people?

Mr. GALBRAITH. Let me say one word. I thank both you and the chairman for the very nice comments, and I shall also say Senator Cooper is one of my closest friends.

Mr. NATCHER. And mine.

Mr. GALBRAITH. With no man, during the time I have been in India, did I consult with more frequently than with him. No man who has ever been in India is remembered with more affection than John Sherman Cooper.

It is impossible to understand the importance that is attached to steel if you don't have it. I think we had some sense of that in this country during World War II when it was scarce. And nothing supplies other business, keeps it going, nourishes small enterprise, nourishes these bicycle manufacturers and the sewing machine manufacturers that the Congressman and I have been talking about and hundreds of thousands of others like them, as a good supply of inexpensive steel. Steel in a country like India is something that does get right down to the people. One of the reasons that the private sector in India is so concerned about the steel industry is that steel is its lifeblood. This is a big plant, like the big powerplant in Kentucky. Both, though big, would serve the people.

Mr. NATCHER. Can you give me any idea as to whether or not the core drilling operation with regard to coal has been completed?

Mr. GALBRAITH. My impression is that this is a widely explored field, but you are again pressing me beyond my knowledge of detail.

Mr. NATCHER. At this point in the record, perhaps you could put in a short statement on core drilling.

(The information requested is as follows:)

CORE DRILLING FOR COAL

The data on coal availability, its quality and methods of collecting such data are being examined. No conclusions have been reached.

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. ANDREWS. Mr. Flynt.

BENEFIT TO UNITED STATES FROM ERECTING MILL

Mr. FLYNT. Mr. Ambassador, you have touched on this previously, but what substantial benefit would accrue to the United States as a result of the erection of this steel mill?

Mr. GALBRAITH. I think the central benefit, Congressman, is that this is an important thing for India. We would be identified with doing a thing of central importance and doing it well. We have done thermal and hydro plants of great importance for regions. This is something that will benefit everybody in this country.

PUBLIC VERSUS PRIVATE OWNERSHIP OF THE MILL

Mr. FLYNT. Do you think the interests of the United States would be benefited more greatly by public ownership of the Bokaro Steel Mill, or by privately financed ownership of the Bokaro Steel Mill?

Mr. GALBRAITH. I think we would derive our greatest benefit, Congressman, from taking the Indian decision on this and not trying to impose our own view. This is my opinion.

We've got to see that our money is well spent. I make a distinction in my mind between doing that and trying to impose our views on the Indian Government. As I said earlier, you have these very deep beliefs about public ownership there, and the Communists will make great capital out of the Americans coming in and trying to dictate to the Indians how their country should be run.

Mr. FLYNT. It is well known that the Government of U.S.S.R. believes in public ownership of steel mills.

Mr. GALBRAITH. That's right, but a great many people in Kentucky and Tennessee believe in public ownership of the——

Mr. FLYNT. That is correct, that the Government of the U.S.S.R. believes in public ownership of steel mills?

Mr. GALBRAITH. That's right, Mr. Congressman.

Mr. FLYNT. It is generally believed that the Government of the United States believes in private ownership of steel mills?

Mr. GALBRAITH. That is right.

Mr. FLYNT. When the Government of the United States financed the construction of a steel mill in India, they insisted, I believe, upon Government or public ownership?

Mr. GALBRAITH. The issue did not arise because it was a mill that was planned for the public sector.

Mr. FLYNT. That was done notwithstanding steel production in India is partly under publicly owned plants and partly under privately owned plants?

Mr. GALBRAITH. That is right.

Mr. FLYNT. Is it not true that if this were owned by privately held Indian interests, that it would more nearly balance the public-private ownership of the steel industry than if this should go to a publicly owned steel plant or mill?

Mr. GALBRAITH. The private firms have been expanding and are expanding. I think their answer would be that they could not take on this mill, and that there is no other private source of capital and private source of management that could undertake it.

I am citing here the views of TATA, the head of the largest private mill. I could quote his words: "Bokaro is * * * simply beyond the financial resources of Indian private enterprises."

Those are his words.

Mr. FLYNT. At the present time, India derives a good deal of its foreign exchange cash input from the sale of iron ore?

Mr. GALBRAITH. That is a substantial item.

ADEQUACY OF INDIAN IRON ORE FOR EXPORT

Mr. FLYNT. Is it correct that if the Bokaro steel mill were put into operation, India would lose all or a major portion of its income from export?

Mr. GALBRAITH. It would not lose any. There is enough for both.

Mr. FLYNT. Did you state, in answer to previous questions, that if the mill were built, a substantial part of the supply of iron ore now being exported to Japan would be diverted to the Bokaro plant?

Mr. GALBRAITH. What I said was that they would draw on it. The plan, I gather, is to draw on ore now going to Japan and allot another mine to Japanese export trade.

Mr. FLYNT. Another Indian mine?

Mr. GALBRAITH. Another Indian mine.

It is a substitution, but there is enough ore there for any purpose.

Mr. FLYNT. What is the name of the corporation owned by the Indian Government?

Mr. GALBRAITH. The Hindustan Steel Co.

Mr. FLYNT. During your previous statement, you used the expression "the steel corporation" a number of times. Are you referring to the Hindustan Steel Co. or to the United States Steel Corp.?

Mr. GALBRAITH. I will check the record on that. When I refer to the "steel corporation" I was referring to United States Steel. When I referred to the Hindustan Steel Corp., I should have used that term.

Mr. FLYNT. Is the technical or correct name of a company, the Indian company, the Hindustan Steel Co.?

Mr. GALBRAITH. That is correct; a 100-percent Government of India owned firm.

Mr. FLYNT. How many steel mills does the Hindustan Steel Co. operate at the present time?

Mr. GALBRAITH. Three.

Mr. FLYNT. Are these three the same three you described as being built by the Russian Government, by the West German business consortium, and by the British Government?

Mr. GALBRAITH. The Russian Government, a consortium of West German firms—the West German Government was not in it—and a consortium of British firms. The British Government was not in it directly.

Mr. FLYNT. How is the capital invested by the consortium of West German steel companies being repaid?

Mr. GALBRAITH. Out of general export earnings. It is, in fact, being rolled over—refinanced. It was on a very short term, and the Indian Government has renegotiated the loans or some of them with the German Government to lengthen the term.

Mr. FLYNT. I think that is all, Mr. Chairman.

Mr. ANDREWS. Mr. Conte?

Mr. CONTE. Mr. Ambassador, I want to join——

Mr. FLYNT. Before you begin questioning, would you yield?

Mr. CONTE. Yes, I yield.

Mr. FLYNT. I, too, would like to joint with our distinguished chairman and my colleague, Mr. Natcher, and other members of this subcommittee in thanking you for your appearance here before us today, and also to express to you our appreciation for the services which you rendered our country while Ambassador to India.

Mr. GALBRAITH. Thank you very much.

Mr. CONTE. Mr. Chairman, I want to joint with my colleagues in extending my congratulations and gratitude for the excellent job you

have performed during your stewardship in India as Ambassador during one of the most critical times in the history of independent India.

Mr. GALBRAITH. I appreciate that from my fellow citizen of the Commonwealth.

ADVISABILITY OF FORESTALLING EXPENDITURES FOR MILL IN 1964

Mr. CONTE. Mr. Ambassador, when you read the hearings conducted by the Subcommittee on Foreign Operation, you will notice how I brought up this subject on Bokaro. I was somewhat upset by the fact that in examining Mr. Gaud at great length, and when I tried to pin him down, he or other State Department witnesses would not go along with an amendment which would forestall the spending of any funds from fiscal 1964 budget for the Bokaro steel mill.

This I could not understand, for the report made by United States Steel stated that it would take at least 2 years to determine whether the raw materials were available or not, in order to construct and operate this steel mill. I just could not understand their reasoning.

At that time, I stated I was a friend of the foreign aid program, but I anticipated a great deal of controversy over this project and the feeling of Congress was running strong against the proposed mill.

I think my opinion has borne fruit because I imagine when the foreign aid bill comes on the floor next week there will be some very crippling amendments offered which will not only hurt the program in India but the entire foreign aid program.

I gained the impression that somewhere along the line we have made a commitment on this, and I am happy to hear that we have not.

If we have not, I reiterate my offer that no funds in the 1964 fiscal year appropriations should be used for the Bokaro steel mill. We should lay our cards on the table because I think it is impossible, even if you wanted to go into this, that you could give the Indian Government any money from fiscal year funds for this mill.

Mr. GALBRAITH. I would only respond that I am not a novice around this town. I was perfectly aware when I studied this problem that this would not be an easy decision. My impression is that an ambassador as a servant of the United States should present the hard course even if it is not popular.

On the question of the ore supply, I think it is the AID impression, or it was the impression of our technicians in Delhi, that probably time could be shortened. And possibly the Steel Corp. people themselves will agree that 2 years was an unduly long period of time but I do not wish to speak for them.

Mr. CONTE. We will have them in here this afternoon, and we will ascertain that from them. Even if you cut it down to a year, you cannot expend funds for this year, as Mr. Natcher well brought out. When they went into such projects in Kentucky they were on firm ground. They knew what they were doing.

They knew what they needed. I read this report backwards and forwards and I cannot, for the life of me, see how you can proceed on this project within the year.

You have a problem here in regard to raw materials, Mr. Natcher started to bring out, with respect to coal. Your iron ore is owned

by the National Mineral Development Corp., and your coal is owned by the National Coal Development Corp.

Mr. GALBRAITH. That answers your question. That is listed there.

Mr. CONTE. Your fluxstone is owned by the Hindustan Steel Limited; so you have three different agencies of the government here and no coordination whatsoever.

You have got to come in with some concrete plans to show that the Bokaro steel mill will have complete ownership or control of all of these three commodities which are essential to run a steel mill, and until you do that, you are going to be running in every different direction.

If we are going to have a successful operation of a steel mill you must have readily available raw materials.

Mr. GALBRAITH. I do not want to debate on a technical matter with you, Congressman. I think we would be going too far to say the same corporation should own all of its raw material sources.

Mr. CONTE. Should have control of them?

Mr. GALBRAITH. They certainly should be assured, and there is no question about that.

Mr. CONTE. Correct?

Mr. GALBRAITH. As far as the ore supply is concerned, as I said before, this is one of the great ore resources of the world and it is there.

The question of proving it out, to some extent—as I said in defense of Mr. Gaud and myself, the decision to go ahead is a prerequisite of doing a lot of the things you want to have done.

If we have not taken the decision, there is very little more we can do. We should perhaps say to the Indian Government that it should try to go ahead with somebody else.

We should not go along fooling them, carrying them along on further investigations of this or that.

Mr. ANDREWS. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. ANDREWS. How have we fooled them if we have not made any commitment?

Mr. GALBRAITH. I said we should not delay decision too long. I was not talking about the past.

Mr. CONTE. Wait a minute. I have to disagree with you there. I think you are putting the cart before the horse. I think first you have to determine whether these raw materials exist, and then you go ahead with your loan. You cannot get into your loan first and then determine whether these things exist.

Off the record.

(Discussion off the record.)

Mr. ANDREWS. The committee will stand adjourned until 2 o'clock.

AFTERNOON SESSION

Mr. ANDREWS. The committee will come to order.

Mr. Conte.

Mr. CONTE. Mr. Ambassador, I believe prior to the recess we were discussing the complications in constructing this steel mill in India. I had asked the question whether you felt that it would do any harm to this project if an amendment were offered and accepted by the

House and Senate to provide that no funds in fiscal year 1964 be used for the Bokaro Steel Mill.

Mr. GALBRAITH. I am obviously not speaking for the administration in this. But I would have to say I think it would be harmful, and the reason is that I think we should maintain a reputation for doing things, once we have made up our mind, with dispatch. My own view is that subject to straightening out of the problem of ore, ore quality, this is a good project. Steel is urgently needed and it is a part of the American reputation to do things right and on time. You ask my opinion, and I give it to you.

Mr. CONTE. You say once we make up our mind. How can we make up our mind within the year in view of this United States Steel report?

Mr. GALBRAITH. As I say, you have asked me my opinion. I have been living with this problem for 2 years. It is my opinion, as I said earlier this morning, that this is one of the great reserves of iron ore in the world, and it is now being exported. As the steel people themselves say in the report, and I think will confirm, it is not a question of availability of iron ore, it is a question of testing the quality. This is something which will go ahead more rapidly as and when there is a decision to go ahead with the project.

Mr. CONTE. Do you feel we are in any position at the present time to make a decision and if you do, could you give us a ball park guess of when that decision could be forthcoming?

Mr. GALBRAITH. This is a hard question. If I were sitting on your side of the table, faced with a problem of this size, my answer could be different. I have been living with this issue very actively for the last two and a half years, and I have been aware of it for some time beyond that. If I had not felt this to be the right thing to do, I would not be here advocating it.

Mr. CONTE. Mr. Ambassador, I can well appreciate your feelings, and I think maybe my feelings somewhat coincide with yours, that there is a need for steel in India. We are not in disagreement there. My point of contention with you is that we have paid $686,000 of the taxpayers' money for a report, study, investigation of the possibilities of constructing a steel mill in India known as Bokaro. This report is somewhat adverse.

ADEQUACY OF LIMESTONE DEPOSITS

Referring to page 28 of the report, it says:

The present and prospective requirements of existing steel plants will take the whole of whatever output of limestone can reasonably be expected from Birmitrapur and Purnapani; and there are, moreover, problems of quality and reserves in regard to both deposits.

Here in this report they say the present steel mills will take all of the limestone deposits.

This is a very important ingredient in making steel, limestone.

Mr. GALBRAITH. But I think they go on here someplace to say that the limestone for this will not come from there.

On the basis of information developed by the Geological Survey of India and the Indian Bureau of Mines, they have selected an area in the vicinity of Bhavanathpur, in the Palamau district of Bihar, for detailed exploratory work, and the Mine Industry of Steel and Heavy Industries has indicated that Bhavanathpur

would be the source of limestone for Bokaro, if the exploratory work yields favorable results.

I think there are some problems to be still worked out.

Mr. CONTE. Very serious problems.

Mr. GALBRAITH. Limestone, as you know, Congressman, is a product very, very liberally available in nature. I don't think there is anywhere in the world where the production of steel is limited by a shortage of limestone. It may be limited by coke, or ore.

Mr. CONTE. But the cost in transporting the limestone to the site might have a direct bearing.

Mr. GALBRAITH. It would have a bearing, but I doubt that there is any place in the world where your limestone cost is a decisive factor.

Mr. CONTE. Limestone itself may not be, but the cost of transporting the limestone to the site might be.

We have an abundance of limestone in Berkshire County, as you know. It wouldn't be very profitable, however, for Bethlehem Steel to buy limestone in the Berkshires and transport it to Pittsburg.

Mr. GALBRAITH. Without being sure, I do not think a steel company would be limited any place in the United States by the limestone supply.

Mr. CONTE. I would think they would want to consider the limestone deposits in the direct vicinity of where they are going to put the steel mill.

Mr. GALBRAITH. I am sure they would, but among all of the considerations, I myself would be very much surprised if the raw material would be a key factor.

Mr. MINSHALL. Mr. Ambassador, this limestone situation as stated in the United States Steel report is a very serious one. There is only enough for the existing mills. When you say limestone is readily available, would you think you can go out with a divining rod and find more limestone in the vicinity of this mill, or do you plan to ship it in from America or some other country?

Mr. GALBRAITH. I don't place any more faith in divining rods than you do. I am saying that as I understand the problem of plant location in this particular field, that limestone is very rarely a limiting factor.

Mr. MINSHALL. You say very rarely, but you don't know for a fact whether there is limestone economically available.

Mr. GALBRAITH. That's right, but as the report here indicates, the deposits at Bhavanathpur are presumed, subject to verification that we have been talking about, to be a source of this material.

Now, all I am saying is if it isn't available there, one can be 99 percent certain that it will be available at some other location.

Mr. MINSHALL. We have limestone in this country, but it wouldn't be economical to ship it from this country to India, would it?

Mr. GALBRAITH. No, but it would be expedient to ship it from numerous other locations.

Mr. MINSHALL. What do you have in mind?

Mr. GALBRAITH. India has other steel mills and a fertilizer industry for which limestone is available.

Mr. MINSHALL. I am amazed this report doesn't go into detail on this. I have a great regard for some of your abilities—but as a limestone expert, I don't think you are any more of a limestone expert than I am.

Mr. GALBRAITH. You are right on that.

I have been urging on the committee that——

Mr. MINSHALL. I am surprised this report would come out and make the statement they have, and then you just stated here a few minutes ago that you seem to think we are going to open up a closet door and a whole load of flux stone is going to fall out.

Mr. GALBRAITH. I think in your hearing later on today or tomorrow you will hear from the——

Mr. MINSHALL. We have too much of an investment in this thing to take chances like that, and furthermore, there are basic assumptions I want to go into later.

Mr. GALBRAITH. I would hope, in talking with the steel corporation people this afternoon or tomorrow, that this is something upon which you will press them. I have been told by them or others that in the case of limestone, it is most improbable that it is a decisive factor.

Mr. MINSHALL. They didn't mention that in their report, except to say that it was one of the critical raw materials that faced the Bokaro Steel Mill.

Mr. GALBRAITH. That's right. I was told by the team members before they left—and as I say, I can only take their word—that they did not believe there was any question of the supply of either ore or limestone as such. The question of proving out quality is something else.

Mr. CONTE. Mr. Ambassador, in view of the fact that there is a lack of limestone in the Bokaro site area, and they are now looking at this new area, which the report states is 200 miles away from the Bokaro site, would you tell the committee whether there is any rail transportation from that area to Bokaro?

Mr. GALBRAITH. I would have to look it up.

Mr. CONTE. Would you do that?

Mr. GALBRAITH. Yes.

TRANSPORTATION FOR LIMESTONE

The location of limestone and transportation to Bokaro are under examination in India.

Mr. ANDREWS. Why didn't the United States Steel team state in their report what you say about the limestone?

Mr. GALBRAITH. The general observation on raw materials which was made not once but several times, was that you have raw materials in India and in the neighborhood with which to make steel.

Now, I can only point out, Mr. Chairman, the logic of the situation. There are steelmills all around here using coal, using limestone and using iron ore and producing it at reasonable cost. I do not of my own knowledge know where the limestone comes from for Pittsburgh, but I know there are enough steel mills around Pittsburgh so you have raw materials available in Pittsburgh.

PROBLEMS OF RAIL TRANSPORTATION

Mr. CONTE. Mr. Ambassador, let's not be naive. You also know we have all types of the finest rail transportation moving into Pittsburgh from every direction, which you don't have in India.

Mr. GALBRAITH. I must tell you, Congressman, that India has a very good rail network.

Mr. CONTE. Now, you are getting into something here that is not borne out in this report. Most of it is three-gage railroads and just to transport some of this material up there it is going to take three unloadings and loadings. I will get that for you in the report. Now this is amazing. Your evidence here thus far is in complete contradiction of this report, which we paid a handsome sum for.

Mr. GALBRAITH. To what are you adverting there?

Mr. CONTE. I am talking about Bokaro and rail transportation.

Mr. GALBRAITH. Do you have the page in the report?

Mr. CONTE. I will find it. This is the Lake Erie report on transportation.

Mr. MINSHALL. I am looking at it right now.

Mr. CONTE. It says:

Bokaro is favorably situated with respect to coal or iron ore, movement and routes. Raw material transport will not impose an extra load because the site is in the midst of several important coalfields—

which you have pointed out.

Rail commodity shipment is hampered by the existence of three different gages on the Indian Railway. There are many points where goods have to be transferred from cars of one gage to cars of another. The result is delays, and restrictions on the number of cars.

Mr. GALBRAITH. They are talking about products and not raw materials.

Mr. CONTE. I am talking about train shipment to the area.

Mr. GALBRAITH. This is not the raw material shipment into Bokaro, but the product shipment out.

Mr. CONTE. I don't see where it would be any different.

Mr. GALBRAITH. All of the coal and all of the ore—I am not so sure of the limestone——

Mr. CONTE. I am talking about limestone. I concede, why take our time with iron ore and coal. I agree with you it is there.

Mr. GALBRAITH. Could I have the citation on that?

Mr. CONTE (continuing):

Most transshipment points, for example, are not equipped with any mechanical devices, so that the bulk of the work is done by slow, inefficient manual labor. The principal bottlenecks are at Mogulserai yard on the Eastern Railway and at Waltair on the Southern Railway. All of the steel mills are located so their products consigned to points in the south of India have to flow through Waltair, and the limited yards at that point are simply inadequate to permit free flow of material.

Mr. GALBRAITH. Let me suggest there, Congressman, you talk about products and not about limestone.

Mr. CONTE. Well, what's the difference? You are transporting something over the same line. If it is a three-gage railroad, you are going to have to——

Mr. GALBRAITH. Can I talk about this in general?

Mr. MINSHALL. May I cite from this record here first and you will have something to go on? I read from the cover now.

Transportation for the proposed Bokaro Steelmill, a study for United States Steel Corp., prepared by the Bessemer and Lake Erie Railroad.

Section 3, page 9, and under that subheading, "Transportation Factors Affecting Bokaro."

I quote from the very beginning:

The inadequacy of Indian transportation has two root causes; an unrealistic passenger and freight rate structure and failure to develop facilities necessary to support development in other sectors of India's economy. There is a growing awareness among India's policymakers of the infirmities to be found in their present transportation system. While recognizing the difficulties which impede renovation of the whole transport complex, the principal Cabinet members and responsible politicians are now actively encouraging development of existing and new types of transportation.

Then I skip a paragraph which is along the same vein, and the last paragraph on that page reads as follows:

At the present time the transportation conditions are a detriment to the whole economy of India. Movement of agricultural commodities and steel mill products is reasonably good, but the movement of all other rail traffic is most uncertain. The coal industry, to mention an important example, can at present mine more than can be hauled away.

And so forth and so on. This goes on page after page. You, of course, have reference to this report.

Mr. GALBRAITH. I must say, Congressman, I don't think there is anything in conflict between my comments and that. Everything is relative, but there is no other country in Asia which even approaches this rail network.

Mr. MINSHALL. This is on pages 9 to 13 of this report, and I only read two short paragraphs of it, but it goes on in the same vein. This is the study made by United States Steel Corp., prepared by the Bessemer & Lake Erie and the title is "Transportation for the Proposed Bokaro Steel Mill," and it is anything but encouraging.

Mr. ANDREWS. Without objection, I am going to ask that section 3, pages 9 through 13, be included in the record at this point.

(The information referred to is as follows:)

SECTION III. TRANSPORT FACTORS AFFECTING BOKARO

The inadequacy of Indian transportation has two root causes: an unrealistic passenger and freight rate structure, and the failure to develop an adequate network of transport facilities on the scale necessary to support development in other sectors of India's economy. There is, however, a growing awareness among India's policymakers of the infirmities to be found in their present transportation system. While recognizing the difficulties which impede renovation of the whole transport complex, the principal Cabinet members and responsible politicians are now actively encouraging the development of existing and new types of transportation.

The attitude of the railway board in particular has changed in the past few years, and what seems to have been an earlier negative attitude in regard to road and waterway development has given way to an attitude of encouragement for these competing facilities. This is particularly true in the field of short-haul trucking. The Indian railways have traditionally fought the development of roads parallel to rail lines and have only recently realized that such roads can relieve the railways of much uneconomic passenger and freight business. Neither long-distance trucking nor inland and coastal shipping have made any significant contribution toward meeting India's transportation needs, but this situation will probably improve as outlined in appendixes B and C.

At the present time transportation conditions are a detriment to the whole economy of India. Movement of agricultural commodities and steel mill products is reasonably good, but the movement of all other goods traffic is most uncertain. The coal industry, to mention an important example, can at present mine more than can be hauled away. Saunda Collieries alone at the end of July 1962, had 200,000 tons of uncovered coal awaiting movement for lack of rail cars. Transit times on individual carload shipments are inordinately long, it taking a month to 6 weeks to move a car across India in many instances. Shippers place orders for needed cars by a system of written requests designated as "in-

dents." The order, or indent, is kept on file with the railway until fulfilled. On August 31 the oldest indent on the Central Railway at Bombay had been placed on May 19. A similar situation obtained at Calcutta where, on the 22d of July, the Eastern Railway had indents filed (or placed) in November 1961. These are obviously extreme cases, but the average time from placing indent to placing of car was on the order of 5 days. Moreover, the indent system does not reflect the fact that with such unresponsive service many shippers do not even try to contract for rail movement. In the absence of well-developed highway and waterway alternatives, many necessary hauls are simply not accomplished, or if made are of a highly uneconomical character. A good example is afforded by the Indian Tin Plate Co. at Tatanagar. This company has an urgent need for movement of about 3,500 tons of tinplate a month at Calcutta, a distance of 158 miles, by rail. Lacking adequate rail service, shipments are usually made in 5-ton trucks over a road distance of 300 miles.

Rail commodity movement is hampered by the existence of three different gages on the Indian railways. Broad gage (5 feet 6 inches) constitutes about 47 percent of the trackage, but moves about 84 percent of the ton-miles. Meter gage (3 feet 3⅜ inches) has about 45 percent of the trackage, moving about 15.5 percent of the ton-miles, and the narrow gage (2 feet and 2 feet 6 inches) used primarily in mountainous regions, has 8 percent of the trackage, but handles only 0.5 percent of the ton-miles.

In spite of the fact that most shipments move exclusively on the broad gage portion of the system, there are still many points where goods have to be transferred from cars of one gage to cars of another. This, of course, results in considerable delay, inasmuch as the physical limitations at such transshipment points severely restrict the number of cars (and thus the volume of traffic) which can be handled in this manner. Most transshipment points, for example, are not equipped with any mechanical devices so that the bulk of the work is done by slow and inefficient manual labor. This imposes size restrictions on packages which can pass through the transloading process, which in turn inhibits the industrial development of areas served only by meter and narrow gage railways.

Even on the broad gage heavy traffic routes there are several bottlenecks arising from the pattern of existing railway facilities which limit the volume that can be handled between certain points, and movement through these bottlenecks is severely restricted. The principal bottlenecks are at Mogulserai Yard on the Eastern Railway and at Waltair on the Southern Railway. The bottleneck at Waltair is so bad that it is seriously impeding the industrial development of south India. All of the steel mills are located so that their products consigned to points in south India have to flow through Waltair, and the limited yard through-put capacity at that point is simply inadequate to permit the free flow of material.

Although Indian railway and transportation officials are well aware of these problems and are trying to overcome those which can be corrected, there is little hope that the physical restrictions on movement to meter gage territory can be alleviated. Likewise there is practically no prospect that substantial increments of capacity devoted to service improvement for small shippers will be secure, but plans are being implemented which should diminish most of the remaining difficulties before Bokaro goes into operation.

The biggest problem—that of coal movement—is well on the way toward solution. In August 1962, the coal controller (production) in Calcutta voiced his belief that within 6 months the railway car supply would exceed coal available for loading. The railways are constructing 500 55-ton coal cars a month: one reason for the coal controller's optimism. Further, the railways have been trying to encourage the formation of large coal stocking areas in the principal cities. These would justify movement to such areas of solid coal trains composed exclusively of these large cars. Handling in this manner would facilitate quick unloading and expeditious return of empty cars for reloads. It is estimated that coal distribution in this fashion would reduce by approximately one-half the time required for coal movement on an individual car basis. The coal would then be distributed from the stockpiles by truck to local consumers within a radius of 25 to 30 miles. There is some difficulty in initiating this plan, since it requires coordination between the coal mines, coal brokers, coal receivers, the trucking industry, the Ministry of Mines, and the National Coal Development Corp., but the railways are optimistic about the eventual outcome. Another interesting development which will help the coal industry is that for the first time steps are being taken to move coal by barge on the Ganges

River. This will avoid the bottleneck at Mogulserai and will help to ease conditions there.

Construction has already started on a rail bypyass around Mogulserai Yard, and plans are well underway to alleviate the bottleneck at Waltair. A new port at Haldea should allow more costal movement of coal, taking some of the burden from the railways now used to move coal across the width of India to the Madras, Maharashtra, and Gujarat areas. Development of the central India coalfields will also reduce the ton-miles necessary to provide coal to these areas.

Due to insufficient indigenous production, the railways have experienced considerable difficulty in getting the cars, locomotives, rails, and other material that they need. As a result many of these items have had to be imported, using scarce foreign exchange. To offset this drain on Indian reserves of foreign currency, the Government and the railways have evolved a long-term development program designed to maximize indigenous manufacture of railway requirements. A key facility in this program is a steam locomotive manufacturing plant at Chittaranjian, owned and operated by the railways, where 16 locomotives a month are produced using Indian components almost exclusively. Chittaranjian now also makes electric locomotives for direct current operation, and will start to manufacture types suitable for A.C. operation in January 1963.

This summer, in another step toward modernization, the Indian railways have contracted with American Locomotive Co. to participate in the establishment of a diesel locomotive manufacturing facility at Varanasi. This factory will commence production with a high percentage of imported components, but the ultimate goal is to manufacture all the elements in India. There is ample freight car manufacturing capacity in India, and the integral coach factory at Perambur can now build sufficient coach stock to meet current requirements. The rail mill at Bhilai Steel Works has started to roll 105-pound rail, and it, together with the similar facility at Tisco, should fill needed requirements for this basic element of the railway physical plant. The aggregate effect of these several developments will enable the Indian economy to produce substantially all of the railways' needs for rolling stock, track, and structures.

Despite the favorable factors mentioned above, it must be concluded that the Indian transport situation, and thus that of Bokaro, is beset with many problems. The additional burdens imposed by the third 5-year plan will be a further strain. Prompt, adroit, and flexible management will be required of the railway board and all transportation officials at every echelon if third plan transportation targets are to be fulfilled.

Mr. GALBRAITH. We are talking here about an industry which happily I know something about. I was for many years closely associated with one of the major rail networks on this continent and years ago had fairly intimate contact with the Indian railway system, long before I was Ambassador. All of these things are relevant. This is the best railway system in Asia. The best railway system out of the United States and Europe.

Mr. MINSHALL. It doesn't say that in this report. It says it is inadequate.

Mr. GALBRAITH. The railway service in this country is inadequate. Nobody is ever pleased with his transportation. I think we have pretty good transportation in America.

Mr. MINSHALL. I am merely quoting from this report. They say the transportation to the steel mill is inadequate.

Mr. GALBRAITH. Three of these steel mills, Congressman, are on the same line. They are all working, they are all getting their products in, and they are all getting their products out. Dieselization in the last couple of years has very substantially strengthened the motive power situation of the railroads. They are, there is no question about it, they have the legacy of history in this multiple-gage system. They started out to build a wide-gage system.

It turned out to be too expensive in the last century. People were dying of famine because you couldn't move food around, and they

substituted a meter gage and that was supplemented on an emergency basis later on with a narrowgage system. This is a misfortune. Australia has the same problem. This does not prevent the Indian railway system from getting the goods across the country. It does not prevent the present mills from operating.

Mr. ANDREWS. I would like to read one sentence here on page 11 from the report:

All of the steel mills are located so that their products consigned to points in South India have to flow through Waltair * * *

Mr. GALBRAITH. I believe that is a so-called "break-up gage point" where goods have to be shifted.

Mr. ANDREWS (continuing):

and the limited yard throughput capacity at that point is simply inadequate to permit the free flow of material.

Mr. CONTE. Mr. Chairman, that is one of the things I quoted. I don't want to argue with the Ambassador.

Mr. GALBRAITH. Congressman, I am here to be argued with.

Mr. MINSHALL. On Bokaro. You came to the right spot.

Mr. CONTE. The thing I can't understand is that we have plowed some hard taxpayers' money into this report and we are disputing it now.

Mr. GALBRAITH. On the contrary, Congressman, I say this one more time: The business of these people was to show where the weaknesses were. But one does not stop operations because you have a marshaling yard that isn't sufficient.

Mr. CONTE. I, for one, am not saying that we should stop. I am saying, let's lay our cards on the table and say no money will be spent in fiscal year 1964 for the Bokaro steel mill "because" of what this report says and until these weaknesses are corrected. Thus far no one in authority has come up here and disputed it.

Either we have thrown to the winds $686,000, or they haven't done their job and should be brought to tow. If they are wrong then bring me in another steel report from some other company telling me these people are all wrong.

Mr. GALBRAITH. I don't want to be argumentive either, but how does one correct these things? How does one correct the shortage of transportation? You correct it by finding out what's wrong, by highlighting these difficulties and doing something about it.

Mr. CONTE. You are exactly right. Why don't you come in here next year and tell us what you have done?

Mr. GALBRAITH. You and your colleague from Cleveland said a few minutes ago—you quoted from the report—that it was not possible to move all the coal that was above ground. That was true 12 months ago. Today, all coal is being moved that is above ground, and the reason for it is (and partly as a result not this study, of this of but earlier studies) there has been emphasis on improved locomotive capacity and high capacity diesels as result on coal movement to the centers of consumption in India, railroads have ceased to be a bottleneck.

Now, in any industrial society you always will have shortcomings. Nothing is ever perfect. The only think you can do is keep working on it.

Mr. MINSHALL. At page 9 of this report, the United States Steel report:

The coal industry, to mention an important example, can at the present time mine more coal than can be hauled away.

Mr. GALBRAITH. That's right, and this was written a year ago, and today, because of the dieselization of those lines——

Mr. MINSHALL. This was written just a few months ago.

Mr. GALBRAITH. Let's clarify the exact date on this.

Mr. CONTE. The report was made in March 1963.

Mr. GALBRAITH. And the team left India last autumn. This is August. Well, it is 9 months ago. In the last 9 months the movement of coal has completely caught up. One of the last things I did before leaving India was to go in to talk to the Railway Minister about the dieselization program and to congratulate him on solving this problem.

Mr. CONTE. Let's assume that that is correct. That is one weakness that has been corrected since this report was written.

Mr. MINSHALL. I don't assume that at all.

DISCUSSION OF BASIC RAW MATERIALS PROBLEMS

Mr. CONTE. It took about 4 months to make this study—at a cost of $686,000—I thought is was a handsome figure—on page 20 of their report, in volume II it states that it will take 2 years or more—

in our opinion, to find satisfactory long-term solutions to the basic raw material problems.

Now, what do you have to say about that, Mr. Ambassador?

Mr. GALBRAITH. I have already commented on that, Congressman. There is certainly a job of exploration to be done. My own guess is, and I believe the AID people here in Washington bear me out on this, that that was an unduly long time, and the drilling that the Indian Government has now underway or has completed is capable of shortening up that time very, very substantially.

Mr. CONTE. By how much?

Mr. GALBRAITH. I hesitate to say, but I would say——

Mr. CONTE. A year?

Mr. GALBRAITH. I think so, at least, yes.

Mr. CONTE. Less than a year?

Mr. GALBRAITH. I know that Mr. Bell, when he was testifying before the larger committee said that he thought that this was a matter of months. I haven't talked with him about it since I have been back, but this would be my impression, that these ore stocks can be proved out in a matter of a very few months.

Mr. CONTE. If that is the case, it will be January and you will be coming in here with your fiscal year 1965 budget, and at that time you can apply for your development loan fund or whatever grant you are going to make to India for this Bokaro steel mill. There will be no strain on anyone and you won't be hurt by amendment restricting 1964 funds for the project.

Mr. GALBRAITH. I will be coming in as a private citizen.

Mr. CONTE. I am talking about the State Department and the AID people.

Here again we find the report is wrong if you are right, for they say it will take 2 years to determine whether the raw materials are there or not. Now you say it will take several months.

Mr. GALBRAITH. I hope you will listen to the steel corporation on this. The steel corporation in my view did a good job, and I would like the record to show that.

Mr. CONTE. Mr. Ambassador, this is the old con game. You come in and you throw all kinds of compliments upon the steel company. They have done a good job. You have told that to the chairman, you have told that to every one of our members, and yet you disagree with everything that they say.

Mr. GALBRAITH. As I say, I think it was our general view that 2 years would be too long. I am not aware, sir, of having disagreed with anything else.

Mr. CONTE. This is a tremendous discrepancy, Mr. Ambassador, from 2 years to several months. That you must agree.

Mr. GALBRAITH. That is a difference, but I am not aware of disagreeing with anything——

Mr. CONTE. It is a wide difference, isn't it?

Mr. GALBRAITH. It is a wide difference. I am not aware of disagreeing with anything else.

Mr. ANDREWS. You did disagree with the statement on the transportation facilities.

Mr. GALBRAITH. With what the steel company here said or what the Lake Erie-Bessemer Railway Co. says about the shortages in transportation in India which have been known for many years. There is nothing to which the Indian railway system is addressing itself more than to these problems.

Mr. CONTE. If we knew that, why investigate? Why invest $686,000 in a study?

Mr. GALBRAITH. They are pointing out the things which still have to be improved, but——

Mr. CONTE. Well, you knew that.

Mr. GALBRAITH. I knew what these shortcomings were, certainly. I didn't know them in the same detail as this and in relation to this plant and location. But I don't think it is anywhere suggested that this plant should be held up pending—that the transportation is a decisive factor limiting the work on the plant. One has, in this business, to move everything forward at the same time. You know that.

Mr. CONTE. Certainly I know that, but I also know that some of these shortcomings will have to be overcome and will have to be answered before I , as a businessman, would want to invest a plugged nickel in this thing, and that is all I am trying to find out. I am not going to buy a pig in a poke. I say, let's hold this thing off, let's find out if these things are true or not. Let's find out if they can be overcome. I don't know.

Mr. ANDREWS. Would the gentleman yield just 1 minute?

Mr. CONTE. Yes.

UNWILLINGNESS OF UNITED STATES STEEL TO INVEST IN STEEL MILL

Mr. ANDREWS. Mr. Ambassador, when Mr. Bell was before the subcommittee, he was asked this question by Mr. Passman, the chairman of the subcommittee, which is found on page 41, part 3 of the record.

Mr. PASSMAN. They could use another steel mill?
Mr. BELL. Yes, sir.
Mr. PASSMAN. Is the United States Steel willing to go in and build it?
Mr. BELL. They may be willing to build it if somebody else pays the bill.
Mr. PASSMAN. Will they risk their own capital?—

speaking of United States Steel.

Mr. BELL. No, sir, they will not.

Would you care to comment on that?

Mr. GALBRAITH. Yes, sir. They certainly gave me the same impression.

Mr. ANDREWS. United States Steel?

Mr. GALBRAITH. Yes. But they are not interested——

Mr. ANDREWS. In investing their own capital there.

Mr. GALBRAITH. They have not in the past—so their people told us—been interested in conducting this kind of operation outside the United States.

The steel corporation does not in any other country have this kind of an operation.

DISCUSSION OF IMPORTANCE OF CONSTRUCTING STEEL MILL

Mr. CONTE. Mr. Galbraith, you pointed up that one of the reasons why this steel mill should be constructed is that we have many projects in India, but they are small projects and they are spread out. We need something that is going to be very dramatic. Is that right?

Mr. GALBRAITH. Yes.

Mr. CONTE. I am not quoting you exactly, but in essence that is what you said?

Mr. GALBRAITH. Yes.

Mr. CONTE. Mr. Ambassador, I am one of the Congressmen who fought and moved right in this committee for the Indus River Basin project. Do you call that a small project—$482 million, approximately?

Mr. GALBRAITH. Yes, but that is in Pakistan.

Mr. CONTE. It is going to benefit both India and Pakistan.

Mr. GALBRAITH. Well, the — no.

Mr. CONTE. Of course it is.

Mr. GALBRAITH. No. The Indians are I believe, putting up some of the money for this. All of the expenditures on the Indus plan are on the other side of the line.

Mr. CONTE. There is no water to be diverted for irrigation purposes to India?

Mr. GALBRAITH. This will cost money, though. The Indians will have to get the money for the water they get out of this.

The Indus project is an enormous project, and there is no question but what it fits your case, but it is regarded in that part of the world as not only let us say primarily, but exclusively, a Pakistan project. Let me put one further point in:

Primarily what the Indians get out of this is a replacement of water they already had. As I understand they get very little extra water. Some, but not very much.

Mr. CONTE. Well, Mr. Ambassador, since the inception of the AID program to India in 1946, to date—I want to be able to change the record at a future date, because I don't have an adding machine—but the total figures that I have before me, we have given approximately, in loans, development loans, soft loans, grants, Public Law 480, food for peace, about $5.1 billion to India. And certainly I don't consider that small. I think that is big money.

Mr. GALBRAITH. Yes, but may I say again what I have said before: I am not suggesting that our aid to India has been small. Our aid to India has been large. I think it has been generous. I also think it has paid off very well. I did say that we have in general in the past favored smaller individual projects.

Mr. CONTE. But there were some big projects involved.

Mr. GALBRAITH. There were some big ones, there is no question about it.

The biggest ones, however, tended, as I said in my earlier testimoney, to be regional projects. They do not have the same effect in north India as in south India or vice versa.

Mr. CONTE. Do you feel that the other steel mills that were constructed had an impact upon the feelings of the Indians toward the lending countries?

Mr. GALBRAITH. I certainly do.

Mr. CONTE. Well, Mr. Ambassador, at that point, let's look at the record.

Mr. GALBRAITH. The Soviets got a great deal of mileage out of that plant of theirs. Part of it is deserving.

Mr. CONTE. Something else you want to say about it? Go ahead.

Mr. GALBRAITH. Because of the fact they did, on the whole, do a pretty good job.

Mr. CONTE. Let's look at the record.

Here we have given in one form or another, over $5.1 billion worth of aid to India. There were, in my estimation, a lot of big projects. I have one for this year of $20 million that you approved when you were over there, for a double food-grain storage capacity. Fourteen engineering colleges in India. Sixteen million dollars alone last year in the malaria eradication program, which has amounted to $119 million thus far. And you place great stress on this Russian loan. Let's look at the loan for the record:

The Russians loaned the Indians a measly $136 million for that steel mill, compared to our $5.1 billion. And it was a hard loan at 2½ percent, repayable in 12 years.

Now, let's take the German one. Did the German one have impact upon the Indians?

Mr. GALBRAITH. Well, not nearly so much as the Soviet one did.

Mr. CONTE. The German loan was for $157 million at 5½ percent interest, repayable in 18 years; and the British loan was for $74 million, and it was a 12-year loan at 6 percent interest.

Now, let's take the hardest loan that you may give them for this Bokaro. What will the terms of that loan be?

Mr. GALBRAITH. As I say, you are going very far to make my case. That is the dramatic role here of steel. You can't understand how dramatic it is until you know what it is to have to do without steel or do with too little. And this was one of the reasons, one of the very important reasons why the Soviets got as much mileage as they did out of that Bhilai plant.

Mr. CONTE. You are not coming up before this committee or the Congress asking for a small loan of $136 million repayable in hard currency with a good interest rate, on a short term. You are coming in here asking for a loan that eventually will go $1 billion and will have, as you and I know, at least a 10 year grace period with no payments whatsoever, with an interest rate that will run about three quarters of 1 percent.

Mr. GALBRAITH. There is no question about it. Our terms are much more favorable than those of the other countries.

Mr. CONTE. You know they remind me, Mr. Ambassador—let me tell you what this reminds me of, and then I will let you answer.

I went down there to look at the refugee camp in Jerico. We pick up about $26 million a year, I believe, for aid to the refugees. I went out there, and I inspected that camp, I had lunch with them, I questioned different people in the camp, and believe me, it was a very, very small percentage who knew the United States did anything for those people.

Then they took me up on top of a hill, and they had a little water supply up there, and they had a pump to pump the water down to those people at the bottom in the village, and that pump cost $25,000 and it was given by Switzerland, and they had a big sign for everybody to see that this was given by the Swiss Government, and every native and every refugee in that camp knew that the Swiss had aided them, but they didn't know that the United States was plowing in $26 million a year in aid. Compare $25,000 with $26 million a year and the little we got out of this aid in propaganda and this is the same case that you are making here for India. You say that this Russian loan had a great impact, but what was it? It was a $136 million loan, repayable in hard currency, repayable back in 12 years.

Will you come in here for the same terms? You would have no difficulty in getting that type of a loan.

Mr. GALBRAITH. Why do you suppose I am here arguing for this steel mill? I am here arguing for the same reason that the Soviets had this success. Steel is important, and it is important to these people, and this is why it attracted the attention on behalf of the Soviets. They also did a pretty good job. I think we should do a better job.

I am not suggesting that the aid we have been giving in the past is small. We have been, as I say, generous, and I also may tell you, I have been an advocate of drawing attention to it. There has been, as you know, some complaints in India that I drew too much attention to our aid. This is a criticism that I was able to take in stride. I have felt that people should know what we were doing. I devoted a large amount of attention to making sure that so far as it was in my power, this was done.

Mr. CONTE. Mr. Ambassador, do you have any suggestion of any other program that we have now contracted for, or agreed with the

Indian Government to give them that we could cancel so we can plow our money into the steel mill, which you say will have a tremendous impact upon that Government?

Mr. GALBRAITH. My own feeling is that this should take the place of some of our hydroelectric power development. This is important, urgent, but it isn't—in a poor country you are always choosing. The steel is of immediate, higher urgency.

Mr. CONTE. They dovetail. If you do not have power you cannot run a steel mill?

Mr. GALBRAITH. That is right.

As things now stand, steel has a higher urgency in India, in the Indian economy, than power.

Mr. ANDREWS. Will the gentleman yield?

Mr. CONTE. Certainly.

Mr. ANDREWS. We have funded four powerplants for a total of about $122 million and there is a request before the committee next year for two more powerplants, at an estimated cost, if I remember correctly, of somewhere in the neighborhood of $50 million. Work has not started on any of those six plants. However, four of them have been fully funded.

Would you advocate eliminating those six powerplants for this steel mill?

Mr. GALBRAITH. No; I do not think I would. I would not advocate eliminating those, but I would advocate postponing some of the ones that are still to come and building the steel mill instead.

Mr. ANDREWS. Work has not started on any of them?

Mr. GALBRAITH. Those are funded. They are in the program and the power is needed.

My argument would be in favor of slowing down on new power and shoving ahead on steel.

Mr. ANDREWS. It looks like we are going full force ahead on power over there now with six in the works.

Mr. GALBRAITH. We have put one of our most successful operations in India and that has been power development. There is no question about it.

U.S. EXPORTS OF STEEL TO INDIA

Mr. CONTE. Mr. Ambassador, last year India imported 800,000 tons of steel and the United States lent India a total of $160 million to finance steel imports.

Do you know how much of that steel was bought here in the United States?

Mr. GALBRAITH. All of it; 100 percent. The days have long since passed when we could afford to have them buy in the world at large.

What figure did you give me of the purchases?

Mr. CONTE. 800,000 tons.

Mr. GALBRAITH. 800,000 tons.

Mr. ANDREWS. Do we have the dollar value on that? I know that we gave them $160 million to finance the imports and I believe that is about $200 a ton.

ASSISTANCE TO HINDUSTAN STEEL, LTD., MILL

Mr. CONTE. Mr. Ambassador, this year in our justifications we have a program for which has been requested $1,630,000—and estimated obligations for fiscal 1964 of $405,000—it is for—

overcoming deficiencies of organization and management policies and labor skills in the Government-owned Hindustan Steel, Ltd., so that production can be increased from 1.1 million tons in 1961 to 6 million tons of steel by 1966.

These are the mills that were constructed with Russian money, German money, and British money?

Mr. GALBRAITH. Yes. I am not sure of that. I do not know whether we are spending any of that money in Bhilai or not.

Mr. CONTE. Yes, we are. It says Hindustan Steel, Ltd., is a public sector organization operating three integrated steel mills and its mentions them. Each of them was constructed in the last 10 years with a large amount of foreign capital.

Mr. GALBRAITH. I am not completely up on the details of that. I know we have a substantial management and worker training program and I assume that that is it.

Mr. CONTE. Do you not think for a moment if we increase production from a paltry 1.1 to 6 million tons, that the Russians are going to get a lot of the credit for that?

Mr. GALBRAITH. No; this is more efficient production. This is a part of the general scope of assistance. I am a little bit out of touch with that, but my impression is that we have agreed to give some training to the management personnel at that plant. If we have to train people to compensate for some of the shortcomings of Russian training, maybe we should do it.

Mr. CONTE. They have Russian technicians there, do they not?

Mr. GALBRAITH. Yes.

Mr. CONTE. So we will be financing the Russians to——

Mr. GALBRAITH. No, no.

Mr. ANDREWS. Indirectly; they are there.

Mr. GALBRAITH. No; I would prefer to have it said that we were compensating for Russian shortcomings.

Mr. CONTE. If this could be brought to the attention of the populace of India, I would go along with you, but you and I know that that will not be so.

Mr. GALBRAITH. I do not know for sure about my successor but I would be perfectly happy to say that he will try very hard.

PROBLEM OF LABOR MARKET

Mr. CONTE. The report also says, Mr. Ambassador, that Bokaro is a rural agricultural area where no nearby city is located, and as the chairman brought out, no industrial ability besides coal mining. Locally available labor is almost entirely unskilled and to a considerable extent, illiterate.

Transportation of people is difficult since the Indian people, sociologically speaking, have close home ties.

The Indian people do not have the general background of industrialized life and therefore training must be very elementary. In various parts of India you encounter different backgrounds, different

religious beliefs, and languages. Illiteracy is another great problem and legislation supporting regulations is primarily designed for the protection of the workers and impedes or restricts management's freedom in matters of labor unions. Labor unions are politically oriented.

Have you gone into this facet, that there is no labor market there, that you are going to have to recruit people from all over India, people of different religious beliefs who are illiterate and to bring them there to train them to run this mill?

Mr. GALBRAITH. That is right; but that would be true wherever you put the mill in that country.

There is no place you could put it where this would not be needed. Where the German mill was built, Rourkela, it was a near desert. The same thing was largely true in Bhilai. The British mill had to train its people.

You are working in India with a largely illiterate labor force and there is also the question that the unions, although not a large factor in Indian life, are politically oriented. These things are all true but they are no more true, Congressman, of this particular site than any other possible site.

This is true everywhere.

Mr. CONTE. Except that this is a much larger project than the others. This is the equivalent of three steel mills put together?

Mr. GALBRAITH. This in the ultimate, yes.

LOANS FOR EXPANSION OF THERMAL POWER STATION

Mr. CONTE. Mr. Ambassador, you signed an agreement with Rajan Sundara for four U.S. loans totaling——

Mr. GALBRAITH. Mr. Sundarajan.

Mr. CONTE. Totaling $29 million for the expansion of thermal power station for increasing the producing of coking coals at Bhilai and to meet the growing demands of the Indian steel industry. Is it your opinion, Mr. Ambassador, that these loans would substantially increase the supply of thermal power at Bihar and adequately furnish the power required for the Bokara steel mill?

Mr. GALBRAITH. This is the Chandrapur powerplant, is it not?

Mr. CONTE. Andara.

Mr. GALBRAITH. I will have to check that. I am not sure just what that powerplant serves. If it is the loan I am thinking of, it is to a powerplant that is just a few miles from the site, but whether that is for existing power load or for some ultimate load, such as this plant, I do not know.

Could you give me the date of that loan?

Mr. CONTE. I do not have it but it was last year.

The power station in Andara Paradash——

Mr. GALBRAITH. No; that is another one. That is a different place. That is several hundred miles away.

Mr. CONTE. Mr. Ambassador, if they were going "Gungho" on power stations, why did you sign that contract?

Mr. GALBRAITH. I did not. I must urge you not to put words in my mouth even "Gungho."

What I said was that the urgency of power—I know a few things that are more urgent in India than power—but it is not as urgent as

steel. There is no question about the importance of power and the country is also power hungry.

Mr. ANDREWS. You told us they were steel hungry.

Mr. GALBRAITH. It is even hungrier for steel.

Mr. ANDREWS. You stated steel, in your opinion, was the top priority item.

Mr. GALBRAITH. That is right, but if I understand you, Mr. Chairman, you are saying the same thing I am. In India you are always choosing between needs and desperate needs. It is only in this case that the only thing I would say about power is that it is important but it is not as important as steel, not as urgent as steel.

Mr. ANDREWS. Mr. Conte.

AVAILABILITY OF CONTRACTORS

Mr. CONTE. In the report it says there is a shortage of contractors in India and that contractors are booked up for 5 years. I believe it is that long.

Are we going to have any difficulty, assuming that you go through with this, to get American contractors to go over there and build this steel plant?

Mr. GALBRAITH. I do not think so. My guess is that the industry is not going to be finding this business at all unwelcome. I might also say that my observation is that American contractors do an extremely good job when you get them into these places. They get along well with the people and are a credit to the United States.

CAPACITY OF PRESENT STEEL MILLS

Mr. CONTE. The present steel mills you have in mind in India are working up to capacity at the present time?

Mr. GALBRAITH. I promised the chairman to get the details on that.

Mr. ANDREWS. He told us the German plant is below capacity and the other two are at or close to capacity.

Mr. GALBRAITH. Subject to verification.

Mr. ANDREWS. And he said he would furnish the details for the record on the two privately owned plants.

Mr. CONTE. The report said that the capacity of these five plants was 6 million tons in 1962 and the total output was 4.8 million tons, metric tons.

I was just wondering whether, if they were not brought up to full capacity, if there would be a shortage of steel?

Mr. GALBRAITH. This morning I said that all three of the plants had teething troubles, more teething troubles than you would encounter in the United States: no question about that. A part of this was management but part of it is the fact that we are working with unskilled, illiterate personnel, green supervisors, and everywhere you look in India, you run into the problem of a beginning industrial civilization. To bring in a steel mill in India is not like bringing a steel mill over to Sparrow's Point.

My impression is that they are now up close to capacity and, as I say, I would like, other than the German mill, to check that. The German mill is still short one blast furnace.

Mr. CONTE. One final question.

Mr. Ambassador, do you feel that there would be any value for any members of this committee to visit India and discuss this matter with the Indian leaders and look over the site in Bokaro, and also to discuss this with some economists over there?

Mr. GALBRAITH. I have one general answer to that, which is always, yes. I have heard it said that some of my colleagues sometimes complain about Congressmen coming to visit them. But the congressional delegations I had in India during the 2½ years I was there worked hard and intelligently, and I think they learned a good deal. I think it was good for the Indians to see American legislators come in and I must say I never got notice of a congressional delegation coming out without a sense of pleasure that they were doing this.

Mr. CONTE. Specifically on this, do you think we could learn anything by visiting in India?

Mr. GALBRAITH. My answer would be "Yes." This certainly is the case. I think it would be very good for the members of the committee, or a group from Congress, to have a firsthand look at this situation.

Mr. CONTE. No further questions.

Mr. ANDREWS. Mr. Minshall?

Mr. MINSHALL. Mr. Chairman, I should like to state that I have had the privilege of visiting India several years ago. Although I took that trip as a member of Defense Appropriations, the knowledge I gained then has better enabled me to understand the situation before us on the Bokaro matter.

BACKGROUND OF BOKARO STEEL MILL PROPOSAL

Mr. Ambassador, you said you started working on the Bokaro steel mill proposition rather actively about 2½ years ago, but you also stated you had knowledge of it some years prior to that.

When was Bokaro first conceived?

Mr. GALBRAITH. That is a hard question to answer.

Mr. MINSHALL. Who gave birth to it?

Mr. GALBRAITH. It was in the spring of 1959 when I had my first detailed acquaintance with the Indian steel industry.

Mr. MINSHALL. Is that when you first were assigned to your post in New Delhi?

Mr. GALBRAITH. No; I went there as a private individual. I was working on a book on the nature of the problem of industrialization.

Mr. MINSHALL. What was the title of that book?

Mr. GALBRAITH. The book got put on the shelf in Cambridge when I went to India as Ambassador and I am now going back to——

Mr. MINSHALL. What is the general tone of it?

Mr. GALBRAITH. The general idea was to go into the problems that a country faces when it has to create an industry.

I do not want to go into detail on this but I had been teaching a large number of foreign students for some years at Harvard. I decided I needed to see this problem on the ground.

Mr. MINSHALL. Does it provide primarily for placing a country's industries in the public sector?

Mr. GALBRAITH. No; I certainly would not reach that conclusion. I would say it is essentially a practical judgment. Sometimes you

have to and sometimes you do not; but you cannot lay down any rule.

I went out there in 1959 and, as I say, I spent a month at the private sector mill at Jamshedpur and two other mills then just coming into existence; Rourkela and Bhilai.

At that time the Indian Government was talking about what it called the fourth steel mill.

I am not sure that the Bokaro site had been settled but it was being talked about.

So the plan of a further steel mill in that area had taken some form already by 1959.

Mr. MINSHALL. Do you know who first initiated the idea?

Mr. GALBRAITH. I would expect it was the Indian Planning Board, they are the people that brought the plans out. If they did not initiate it, they were the first sponsors for it.

Mr. MINSHALL. When did you go on duty there?

Mr. GALBRAITH. The first week of April 1961.

Mr. MINSHALL. You were aware of the situation in 1959 before you assumed your official duties as Ambassador?

Mr. GALBRAITH. Yes; the Bokaro plant had not made any impression on me at that time. First of all, I began to study and hear about the thing when I went out as Ambassador.

POTENTIAL IMPRESSION OF BOKARO PLANT ON PEOPLE OF INDIA

Mr. MINSHALL. Mr. Galbraith, there two key things that stand out in your testimony. One is your stating the need for steel in India, the other one is the need for placing a U.S. financed steel mill in India for one basic reason, namely, the impact it will have on the people of India—the impression it will make.

As Mr. Conte has so ably brought out, we have already spent in India in foreign aid from one spigot or another in either direct aid or development loans over $5.1 billion. By your own statements, today, you said that our efforts have fallen on blind eyes, and deaf ears. Therefore, it was necessary, and to quote you, "To do something big" to the tune of $1.5 billion for this Bokaro steel mill.

I wonder how you are going to get that across to 450 million Indians with communication facilities such as they are, with the literacy rate such as it is. It is a big country and communications are primitive.

Are you going to have an intensive mailing program? How are you going to communicate with the 450 million people of India? Are you going to stamp all of the bicycles and all of the sewing machines you said they needed, showing they were made in a U.S.-financed plant? How do you plan to do this?

Mr. GALBRAITH. I must plead with you too not to put words in my mouth.

Mr. MINSHALL. I do not think I put words in your mouth. I am merely quoting you on what you said.

I might have paraphrased it but I am sure the record will show I have not misquoted you.

Mr. GALBRAITH. I do not think the record will show that I said we have fallen flat on our face.

Mr. MINSHALL. That is my expression but the fact is that our aid program in India has made no impact and that, to me, is falling flat on our faces.

Mr. GALBRAITH. No, Congressman. I did not say——

Mr. MINSHALL. To the tune of $5.1 billion.

Mr. GALBRAITH. I did not say we had fallen flat on our face. I did not say we made no impact.

I consider our aid program in India and our Indian policy going back over the years of the Truman administration, the Eisenhower administration, and this administration, and under a succession of very wise men who have been associated with it, to have been one of the successes of our foreign policy. Ten and fifteen years ago, the choice was open as to whether India went the direction of China or whether it went the direction of a free democratic and progressive community along the lines of the West.

Now no one even thinks this choice is open. India has made that choice. The aid program as I was urging the other morning with a congressional group, is one of the things that made this difference. It eased this process, this terrible process you have seen with your own eyes in helping get a country off the ground.

This is a great achievement.

As far as the specific question here is concerned, I would not have picked out Bokaro and would not have supported Bokaro, and would not have argued for it if it were simply a glamorous project. It has this drama because it is an extremely useful and important thing. Therefore, that being the case, we should capitalize on it.

India does not have television and does not even have a very good newspaper network but even quite an illiterate people know the importance of steel. They will be aware, many of them, although not all of them, of the role which we play in this.

Mr. CONTE. Will the gentleman yield?

Mr. MINSHALL. I yield.

Mr. CONTE. Mr. Ambassador, I am not going to discount the aid we gave India. It served a useful purpose and I fought for it but I have to take issue with you.

It was not our aid that really picked them off their feet and brought them over to the West and got them off a nonalinement policy. It was the attack of the Red Chinese and our immediate military assistance to them.

You know this had the greatest impact of anything we have done in India. It woke them up.

Mr. GALBRAITH. I agree with you Congressman. But if India had not been able to put this forward, this industrial effort 10 years ago, with our help, she might not have been there to be picked up. The extremists and the radicals might well have made the decision prior to that time. There is no question about it.

But that the Chinese were a big awakening influence there; no question.

Mr. MINSHALL. Mr. Ambassador, what disturbs me is that just an hour ago you stated we had to do something big. Have I misquoted you? In other words the $5.1 billion we have spent on hydroelectric plants, et cetera, the projects were too small to make the impact they should have. You seem to think that the $5.1 billion did not get across and now you have one big project—a billion dollar one.

Mr. GALBRAITH. What I am saying is that we should always have our minds clearly on whether there is something we can do better.

One of the advantages of this project is that it is so much in the public eye.

Mr. MINSHALL. Describe how this one project is going to be so much in the public eye, when you already have three steelmills being operated by other countries, to say nothing of those being operated by TATA. How are you going to distinguish this particular steelmill's operations? What are you going to do to get it across?

Mr. GALBRAITH. I go back to what I said this morning: You get a sense of the urgency of this when you realize what it is to be short of steel. Shortage of steel slows down and arrests your entire industrial process. Let me say one word about that.

I went through this in 1940 to 1943 here in the United States when we were short of steel and one of the things which everybody in the United States knew about—many people knew of the decision to go ahead with a western steel industry—a mill at Fontana in California and a mill at Geneva, in Utah. The reason this was on everybody's mind was, again, steel has developed interest, the interest that it did, because it was scarce.

EFFECT OF BOKARO STEEL ON PRODUCTION IN UNITED STATES

Mr. MINSHALL. Mr. Ambassador, we are going to have the United States Steel officials here before we conclude these hearings. I should like to ask you now, however, how can you justify the construction of a $1.5 billion steelmill in India that is eventually geared to produce 4 million metric tons of steel a year when the steelmills in America are only operating at 60 percent of capacity?

Mr. GALBRAITH. I would make two points on that, Congressman. It is a very fair question.

Mr. MINSHALL. I am sure the unemployed steelworkers will read carefully what you say.

Mr. GALBRAITH. The first thing is that it is not a question of building the steelmill or having it imported from the United States. To import the steel in quantity that would be produced by this mill from the United States, or any substantial fraction of it, would be for something the Indians could not afford. I gave some figures to the congressional group the other day on this.

To import a million metric tons of steel, flat products, from the United States, costs somewhere in the neighborhood of $200 million. This would not be so far short of about 40 percent of the cost of the first stage of this mill. India does not have that kind of money and we are not likely to supply India with that kind of money to do it. That is the first point.

The second point I would very much address to the steelworkers and to the industry is this: If we do not build this mill sooner or later somebody else will do it. It takes a lot of steel to build a steelmill and that engineering work will come from the United States. Some of it, I venture to say, will come from your own area. We will have that business in this country. As I said this morning, it will be in an industry which needs the business.

Mr. MINSHALL. This is a matter of serious concern to the unemployed steelworkers, to be building a steel mill and increasing another country's steel capacity when we have as many unemployed steelworkers as we have here today. I grant you I am not an expert on this but we will have expert testimony along this line. On a temporary basis, this could increase our steel capacity, but after that temporary increase is over, we are going to find ourselves in a worse position than we are in today, as far as the unemployment of steelworkers is concerned.

Mr. GALBRAITH. These are matters of interpretation.

My interpretation would not be the same. My interpretation would be that we will get this engineering and construction business coming into our plants, but the practical possibility of long-term purchases of steel by India in the United States are not very good.

Mr. MINSHALL. Let us look a little bit beyond the ends of our noses on this thing.

We will probably get a little extra steel production and let us assume we do. I will go along on that assumption, that we are going to make heavy equipment and we will ship it to India. But let us face the facts that when they get into production it will then compete with our steel mills.

The same thing happened with the Marshall plan in Germany and also in Japan. After another generation, they are going to be competing with us and they will be competing with us along with all of these other countries now in the steel business and that is why I say it is a very shortsighted view. The extra steel required for the construction of Bokaro will have an infinitesimal effect on U.S. production.

I am not thinking just for myself, today, but I am thinking of my children and my children's children and the future of America in the years ahead.

Mr. GALBRAITH. There are important differences of points of view here. I would argue that India, like other countries in her situation, in one way or another is going to escape from this age-old poverty which has beset them and that if we do not help them escape, other forces, which we will not like, will take over.

For your children and my children and your grandchildren and my grandchildren, it is probably better that India industralize under democratic auspices as at present, rather than in desperation force her to experiment with alternatives.

Mr. MINSHALL. You are entitled to your view but neither of us, I believe, are experts.

I think our commonsense as we project it differs but we will have to wait for the experts on this question.

Mr. Chairman, I do not want to take any more time for the hour is getting late, for we are going into the United States Steel report at some length with the people who compiled it.

I appreciate having Mr. Galbraith's views and I feel he is sincere in what he says, but his basic beliefs and mine are at odds.

We have in the United States Steel report about 13 basic assumptions. We have gone into some of them. The only assumption in which everyone agrees is that India needs steel.

ADVISABILITY OF EXPANDING EXISTING MILLS IN INDIA

Mr. Ambassador, why wouldn't it be a better idea to expand the present steel mills in India? Let the Russians put in some more money. Let the British and Germans put in some more money.

Let us allow TATA to expand their existing facilities before we go ahead with this pig in a poke. I think we would be most foolish to go ahead and appropriate $500-some-odd million for the first phase of such a questionable project at this time.

Mr. GALBRAITH. It is obvious that we do differ.

I would just make two points: First, expansion is going on elsewhere, too. I would mention those details of the projected expansions at the other plants.

Mr. MINSHALL. You said earlier that we were going to make sewing machines and bicycles. We could manufacture in this country and send them a lot of bicycles for $1.5 billion.

Mr. GALBRAITH. I would point out to you that I was picking out those two things of a catalog rather than naming specific items. They were illustrative rather than naming the whole list of projects made out of steel.

Mr. MINSHALL. I do not know if they can make these products out of the kind of steel they are going to make at Bokaro.

Mr. GALBRAITH. I may have to concede to you on technical accounts there, because I do not know.

I was picking out samples of light manufactured products and you know light manufactured products are made out of flat steel. The other thing I would be quite serious about that it is evident I do not consider this an unwise project. I consider it a very wise and important one and I would urge in all earnestness we not ever get into a situation where all difficulties have to be corrected before we decide to do anything.

If that had been done, the Russians would not have built their mill. The British would not have built their mill. TATA, 50 years ago, would not have built their mill.

Mr. MINSHALL. We are putting in $552 million and this is just the beginning of it. They only put in, as Mr. Conte so ably pointed out, $136 million altogether, repayable in 12 years, on a hard-loan basis.

Mr. GALBRAITH. The purpose of this report, and again I say the purpose, I think, was very well served, was to focus attention on the things that needed to be done concurrently with the successful development of this enterprise.

Mr. MINSHALL. I still have not gotten a firm answer on how you plan to let the big mass of 450 million people know you are building a steel mill. What is the population now?

Mr. GALBRAITH. 440 million.

Mr. MINSHALL. Something in that ball park figure.

How are you going to do this?

Mr. GALBRAITH. Let me say just a word on philosophy on that: My own view is that the important thing is to have industrial development and progress. The hopes and aspirations of people lie in the things that come from steel, such as bicycles, sewing machines, and the irrigation pumps and so forth. That is the fundamental thing that people see and this is happening——

Mr. MINSHALL. How do they know it comes from an American steel mill and not a British, Russian, or German built plant?

Mr. GALBRAITH. I am saying the first gain from our aid program is the progress itself. The people who look at their position today and see that it is better than yesterday, they are amenable to moderate democratic processes.

If this is going to get worse, they become desperate.

Second, I do like to see this work we do in India identified with us. I was criticized the other day by somebody for having spent too much time on this. You may have seen my letter to the Times in which I defended myself on this point.

The one thing we got out of this plant is the natural concern of people for a highly important product.

PROBLEM OF INFORMING PEOPLE OF INDIA OF U.S. ASSISTANCE

Mr. MINSHALL. I have been in India, Mr. Ambassador, and that is what disturbs me. With the illiteracy rate, with the poverty, and the lack of communications, how are you going to get this word to this great mass of poor people?

Mr. GALBRAITH. There is no easy answer.

Mr. MINSHALL. They live in mud huts throughout the country with the exception of New Delhi.

It was just shocking to me. The people are never going to get the word on this.

Mr. GALBRAITH. It is something we have to keep working on and you have to——

Mr. MINSHALL. I have asked you three or four times, how are we going to get this word to them? I do not think you can, but I would like to know what your system is.

Mr. GALBRAITH. I mentioned one of the things I did last autumn. I got 30 or 40 newspaper correspondents and photographers and a train and I spent 10 days taking them around from one of our plants to another.

The native language papers as well as the Indian papers were included. I think in that 10 days' time we managed to draw the attention of a great many people to the things we were doing.

Mr. MINSHALL. What percentage of the Indian population reads newspapers?

Mr. GALBRAITH. The percentage?

Mr. MINSHALL. Yes; what is the newspaper reading population of India out of the 440 million?

Mr. GALBRAITH. I would guess maybe 20 or 25 percent at the very outside.

Mr. MINSHALL. Do you think all of these people read?

Did you get good publicity? In other words, nearly 100 million people heard of that train trip you took?

Mr. GALBRAITH. I had a lot more publicity, Mr. Congressman, than if I had not done it, and that is one thing.

Mr. MINSHALL. You are not going to have me appear so gullible to believe 100 million people heard of this trip you took with some newspapermen, are you?

Mr. GALBRAITH. Congressman Conte mentioned earlier today the question, or was asking me a question about a loan signature. The

reason I could not remember it was that I adopted the policy of having a substantial ceremony and a radio program in connection with every one of these signings.

You are asking me how many people heard that? Well, some, a few millions. What else?

We got out, I think, a pretty good paper, the American Reporter, with very wide circulation to editors, describing what we were doing.

When I had any visitor of importance, whenever I had any Senator or congressional group, I made sure they got out with the cameramen and so forth. There is no easy answer to this, but all I can say is that a good Ambassador works all the time.

Mr. MINSHALL. Thank you, Mr. Ambassador.

Mr. ANDREWS. Mr. Conte.

Mr. CONTE. Just one question, Mr. Chairman:

I do not want to trespass on the patience of our chairman who has been most kind to us today, but I believe we have explored this the way it should be explored. I think the answers have been forthright by the witness across the table and deserves further exploration.

Mr. Ambassador, some people on the floor of the House look at me with a jaundiced eye and wonder how I can stand on that floor year after year and fight for foreign aid the way I do and come back here to Congress. They say to me, "Don't you have unemployment in your district?"

MARKET FOR SEWING MACHINES AND BICYCLES IN INDIA

Sometimes I wonder. I wonder what the other side of the table is thinking and what they are doing in the administration. In my district we have pockets of unemployment which run 6 percent. I realize that this is not a valid argument against the Bokaro steel mill but you mentioned as one of your reasons for the mill is that they need steel for sewing machines and bicycles in India.

One of the industries having difficulties in my district is the bicycle industry. I did not realize there was such a market for bicycles in India. Here we have a foreign aid budget of $4 billion of which part could be used for Bokaro, what a boon to the economy it would be if you took $500 million that you are going to put into the steel mill and bought 30 million bikes for the people in India. Imagine that. Nearly every family in India would have a bicycle to travel around, with a nice little stamp on it, with the stamp of the foreign aid program, and this would really get down to the people.

I realize this is not quite possible, but you could do something for that industry and others through the foreign aid program. Yet, what do you do? When I say "you," I mean the administration. You come in with fancy doodangles like the ARA bill. Several weeks ago they asked for $450 million, spreading propaganda all over my district that if this bill goes through, it will create jobs. We had $450 million last year, I think, and it did not create one job in my district. There is no doubt that this would create many jobs in my congressional district.

I wonder if the aid people ever think of it in that light?

Mr. GALBRAITH. I must say I have been an advocate of the bicycle, as you can imagine.

Mr. CONTE. You, Dr. Dudley White, myself, and a few others.

Mr. GALBRAITH. A year ago there was a proposal in India to make a small car, a so-called people's car. I made a speech that I thought it was much more important to provide people with bicycles than a very small number of people with automobiles, and I was somewhat criticized for this. On the other hand, I suppose the problem, as you know, is, by the time everybody got bicycles to India, they would be pretty expensive.

Mr. CONTE. They would not be any more expensive than this. What could be more expensive than $5.1 billion and getting very little in return.

Mr. ANDREWS. This is an indirect way of giving them a bicycle. Give them the steel mill to make the steel to build the bicycles.

Mr. CONTE. We could deliver those bicycles dockside in India for about $25 apiece, and when you get through with this steel mill, with its built-in labor costs and everything else, those bicycles would cost about $100 apiece.

Mr. GALBRAITH. No.

Mr. CONTE. You have to include the cost of the mill.

Mr. GALBRAITH. No, they would not cost that much.

Mr. CONTE. They would cost a lot more than we could sell them for. If you are going to invest $1 billion in Bokaro based on what information you have, then give them 30 million bicycles for Christmas and make them all happy. Because I feel that this investment at this time would be unwarranted as the United States buying 30 million bicycles.

Mr. ANDREWS. Any other questions?

IDENTIFICATION OF U.S. ASSISTANCE IN INDIA

Mr. FLYNT. Mr. Ambassador, on the powerplants that have been built in India through the aid program, are there any identifying symbols or signs?

Mr. GALBRAITH. Yes.

Mr. FLYNT. Describe some of those to me.

Mr. GALBRAITH. The main entrance to all of the plants—and this is standard on the diesel locomotives which solved the coal problem we were talking about—and on any American aid product, we have a shield which resembles the shield of the United States, with vertical red and white bars at the bottom and the clasped hands of the economic assistance program. This designates it as an American aid project.

Mr. FLYNT. What sort of identifying stamps or symbols are on the bales or bags of food products, cartons and boxes of food products that are sent in?

Mr. GALBRAITH. There are two answers to that. On the food which we distribute directly, there is a stenciled shield of the United States with a sign saying, "Presented by the people of the United States to the people of India." That is on all of them. On the title I——

Mr. FLYNT. In what language is it?

Mr. GALBRAITH. That is in English.

Mr. FLYNT. Do most of these people speak or read English?

Mr. GALRBAITH. We also, I believe, put it in the local regional language, in addition, if there is a dominant language where people do not understand English.

(Off the record.)

Mr. FLYNT. In this connection, Mr. Ambassador, I have never been to India and have never seen any of these products and commodities that go over there, but I have been told from a source that I have reason to rely on greatly, that at the insistence of the Indian Government there have been instances in which we were urged and directed not to put on any of these cartons or boxes or individual containers any identifying symbol in the Hindu or local language that could be identified as having come from the United States.

Mr. GALBRAITH. This has not been true while I have been there. We have been at great pains so to identify it.

Mr. FLYNT. It also has been reported to me that although there was a policy of using the emblematic shield in a multicolor, red, white, and blue, in many instances and at the insistence of certain officials, the insignia went on but it went on in black and white only, and not in red, white, and blue.

Mr. GALBRAITH. We always have red, white, and blue. There is absolutely no truth to that one, because the only insignia we have is the red, white, and blue one. It is always in color unless it is a sack of grain which does not take the color. There have been cases of that sort, but I have never seen it except in color.

Mr. FLYNT. While I am on this, I might as well add one more that was reported to me, which is that in this case, sacks of food grain came in, in unmarked sacks, and were stenciled with marks and identifying symbols which would identify them as having been imported or given from the U.S.S.R.

Mr. GALBRAITH. No. I can assure you that that never has happened in India during the time I was there. I would have heard about it, and I also would have stopped it if it had happened.

Mr. CONTE. Mr. Ambassador, is it not so, for the great bulk of commodities which go over from the United States are not marked because we give them to the Indian Government and they, in turn, sell them?

Mr. GALBRAITH. I was talking about title III.

Mr. CONTE. This is title I.

Mr. GALRBAITH. Title I goes in in bulk, and you are quite right on that.

Mr. CONTE. For the record, we have given India $1.960 billion in title I. Compare that with $9.2 million total in emergency relief and $166 million for voluntary relief agencies. You can see there is a very small amount. The bulk of it goes unmarked.

Mr. GALBRAITH. This is one thing which has been very much on my mind. I am a little reluctant to go into the extent of my public relations activities there, because you would think I did nothing else. I got up a motion picture film showing the ships coming in and showing where the products went. I did the narration myself, showing what we did with it. It received wide circulation in the Indian theaters. Products also come in, in tankers. On one or two occasions I went down and had a press conference to welcome in a tanker shipment. I made speeches although I think speeches are greatly exaggerated as a medium of information—one of the easiest things in the world is to not listen to the speeches of an ambassador. To get attention for our food is something that I have had very much in mind. It is not easy.

Mr. CONTE. I want to commend you, because I have been all over the world, except Latin America, and I have not made my stops only at embassies; I have gone into the field and looked at the program. Believe me, I came back from Africa infuriated because we were not reaching people in Africa. We had a very poor information service in Africa. We were not explaining to them what we were doing for them. I just could not believe that we could be that naive. I am sincere when I say I want to commend you highly for this. I think it very important. I think every embassy should do this.

Unfortunately, no matter what you do, a good part of the surplus food that we send out throughout the world, not only in India but throughout the world, is sold to the government and they in turn, sell it out to wholesale houses who sell it to the people. There is a very little plus sign with the people themselves.

Mr. MINSHALL. I have one question which is brought up by the statement Mr. Conte and the Ambassador made. I have visited India, and, of course, no one is an expert on a country after visiting it for only 3 or 4 days. I made a special point, however, to make inquiry among American personnel there and American businessmen whom I met there and they thought, very frankly, the AID program was not doing anywhere near the job it should be doing.

This is no criticism of your personal efforts, Mr. Ambassador. You are only one person. But there is a limit to what one person can do. There is a limit to how many people one newspaper gets to.

Mr. GALBRAITH. You are quite right.

Mr. MINSHALL. 440 million people is a terrific amount of coverage to get to, especially in view of the conditions which exist in India. I have traveled all over this world and have seen only one other country where conditions are so deplorable. That is in Haiti.

Mr. GALBRAITH. I do not want to suggest for a moment that I got through to all the Indian people or even a majority or substantial fraction. All you can do is try.

Mr. MINSHALL. You tried, but we just have not gotten through. That is the point.

I have one other question to ask you. You are familiar, of course, with the Clay report?

Mr. GALBRAITH. Yes.

AID TO GOVERNMENTS ESTABLISHING GOVERNMENT-OWNED INDUSTRIES

Mr. MINSHALL. I should like to ask you to comment on one short sentence which appeared in that report. I quote exactly—I know you are familiar with it, but I want it for the record:

> The United States should not aid a foreign government in projects establishing government-owned industrial and commercial enterprises which compete with existing private endeavors.

If I understood you correctly, a little bit earlier you said you disagreed with a part of the Clay report. I presume that is the part of the report you disagree with.

Mr. GALBRAITH. I disagree with that.

Mr. ANDREWS. I have one final question, Mr. Ambassador. Did I understand you to say if we do not build this mill, someone else will?

Mr. GALBRAITH. I want to enlarge a little bit on that answer.

Mr. ANDREWS. I want to ask you who that someone would be.

Mr. GALBRAITH. I want to add another word to my answer to the previous question. If you construe the statement as saying that no public enterprise should put a private enterprise out of business, then it is obvious everybody would agree with it; but if you construe it as meaning there should never be both public and private firms competing with each other, I would not agree with it.

Mr. MINSHALL. The report speaks for itself there. You disagree with it. It is that simple.

Mr. ANDREWS. Now, did you get my question?

ALTERNATIVE TO U.S. ASSISTANCE IN CONSTRUCTING BOKARO

Mr. GALBRAITH. Yes. I do not know who, but given the pressure for steel, the urgency of it, in some way or other the Indians will go ahead and expand their steel mills. They have to.

Mr. ANDREWS. You cannot name the person or the corporation or the government that would build it if we did not?

Mr. GALBRAITH. My impression is that they do not have a clear prospect as to the alternative if we do not do it.

ADVISABILITY OF EXPANDING PRESENT PLANTS

Mr. MINSHALL. What would happen if these other plants were just expanded? It would put the British into the act. It would put the Germans and the Russians into the act.

Mr. GALBRAITH. I have to get to you the last details on that. My impression is that the decision to expand the Russian plant has already been taken.

Mr. MINSHALL. Are they expanding it?

Mr. GALBRAITH. Yes. My reluctance to respond to that is because I do not know whether it has been announced or not.

Mr. MINSHALL. How much more are they putting into their steel mill?

Mr. GALBRAITH. I can give it in tonnage figures. It would be about double in English tons.

Mr. MINSHALL. This would not in any way be the initial cost of $136 million?

Mr. GALBRAITH. No. This is beyond the initial cost.

Mr. MINSHALL. I understand that, but in addition, you are not implying it would be another $136 million?

Mr. GALBRAITH. Not by any means, no. You have the plant utilities and a lot of things within the fence, and you have the township and everything all built.

Mr. MINSHALL. Why would it not be easier, then—that is my whole point—to expand the present steel mills?

Mr. GALBRAITH. There are limits as to the amount of expansion you can do in any one place.

Mr. MINSHALL. It certainly could be done quicker and much cheaper and at no cost to the American taxpayer.

Mr. GALBRAITH. I come back to the main point. It is a question, not of doing one or the other, not of building the Bokaro plant or expanding the others. Given the pressure of the steel requirements, it is a question of doing whatever practical expansion you can do at the other plants, plus Bokaro.

Mr. CONTE. This could go on indefinitely, but, Mr. Chairman, I brought out that we are appropriating this year the balance of $1.6 million to increase production by new methods, which would increase the production of the steel, from 1.1 million to 6 million tons.

Mr. GALBRAITH. This puzzles me. By improved management you do not get any increase of that sort.

Mr. CONTE. Then the AID agency is giving our committee erroneous information.

Mr. GALBRAITH. I think it is just bad expression. What is in process here is a big expansion in output from 1.6 million to 6 million tons from these three mills. This has involved great management problems, and this is what the AID agency is helping on.

Mr. CONTE. You get 6 million by correcting management problems. You expand the mill so it will double its capacity. That brings it up to 12 million.

Mr. GALBRAITH. No.

Mr. CONTE. The need is only 10 million a year.

Mr. GALBRAITH. No. I do not know whether you are serious about this or not.

Mr. CONTE. Go ahead. Of course I am serious. I would not ask it if I were not.

Mr. GALBRAITH. Roughly speaking, the situation is this: The industry prior to the beginning of the expansion in the second 5-year plan was about 1.5 million tons. That was the Tata Iron & Steel Co., and the Indian Iron & Steel Co. The three new plants that have already come into production add roughly another 4.5 million tons, bringing it up to 6 million tons.

My impression is that the training program refers only to the management problems necessary to get them up to their full 6 million tons, which is their rated capacity.

Mr. CONTE. Mr. Chairman, I think this is important enough to read verbatim into the record. First of all, the obligation is for $1,630,000. This is from page 65 of the justifications, Agency for International Development, program and project data related to proposed programs, fiscal year 1964, volume IV, project description. Activity: Industry and mining, steel production, No. AC–27–AB–5. Former title: Steel training. Obligated $1,630,000, of which $405,000 is to come from this fiscal year.

Project goal: To overcome deficiencies of organization, manegement, policies, and labor skills in the Government-owned Hindustan Steel, Ltd., so that production can be increased from 1.1 million tons in 1961 to 6 million tons of steel by 1966.

Mr. GALBRAITH. Let me put the correct interpretation on that. This is the rated increase in production as a result of building these mills. This is to overcome the management and labor problems that are associated with that increase. It is not in itself designed to bring about the increase. The increase is inherent in the mill construction itself. The language may not be perfectly clear.

Mr. CONTE. It surely is not, Mr. Ambassador.

Mr. GALBRAITH. But I know what they are driving at.

Mr. CONTE. I am glad you do, because the committee would never gather that from this justification. We would gather the impression that if we invest $1,630,000 for this project, production will increase from 1.1 million tons in 1961 to 6 million tons of steel by 1966.

Mr. GALBRAITH. I have defended the AID organization enough today so perhaps they will permit me to say they were not very lucid in that one.

Mr. ANDREWS. Any other questions?

Mr. FLYNT. Yes.

Suppose in the alternative to this $1.7 billion project, the U.S. Government——

Mr. GALBRAITH. We are talking here about the first stage, which is considerably smaller than that.

Mr. FLYNT. I believe you told us the estimated cost to completion of this project would be approximately $1.7 billion, exclusive of the building of the town and community around it.

Mr. GALBRAITH. Except that the question before the House is not the full program, but the first stage.

EFFECT OF OFFER OF LOAN FOR CONSTRUCTION OF A PLANT

Mr. FLYNT. What would be the reaction of the Indian Government if the U.S. Government should offer, in the alternative, the construction of a plant estimated to cost $136 million at approximately 2½ percent interest per year, repayable in 12 years or less?

Mr. GALBRAITH. I think the honest answer is that they would be disappointed. They feel that we are closer and firmer supporters of them in financing their operations. We have given them easier terms and longer repayment terms than that.

Mr. FLYNT. They were both delighted and pleased to accept when substantially those same terms were offered by the Russian Government; were they not?

Mr. GALBRAITH. Yes. I have said many times today that there is no question that we have been a closer and better friend of India than the Soviets, and I think this is appreciated in India.

Mr. FLYNT. I believe you also stated that the planning and construction of the Russian mill had a great impact on the Indian people.

Mr. GALBRAITH. That is right, because the Russians had the good sense to pick out steel, knowing how urgent and important it is. This is one of the reasons I am here advocating the——

Mr. ANDREWS. It is too bad we did not get on steel years ago before we spent $5.1 billion.

Mr. GALBRAITH. And I am emphasizing steel to the committee for that reason.

Mr. CONTE. Mr. Ambassador, you say because we have done these things, they are much more friendly to us than they are to the Russians. When they met at Belgrade and they were all knocking us around like a punching bag when the Russians resumed nuclear testing, why didn't Nehru condemn the Soviets; why did he attack us as a colonial empire? Why did he not stand up on his two feet if he was our friend, at that time and defend the United States? Why did he not stand up and criticize the Russians for resuming nuclear testing? He certainly criticized us when we resumed nuclear testing. Is that a show and display of friendship? A good part of this friendship came about from all the good work you have done and a good part of it came about when the Red Chinese attacked them on the northern borders and the United States came to their defense.

Mr. GALBRAITH. It is very hard for an Ambassador or even for an ex-Ambassador to comment on the head of state to which he has been accredited, and I would just rather not comment on that.

Mr. FLYNT. You may take it off the record.

Mr. CONTE. I would like to get an answer to that.

Mr. ANDREWS. Go off the record.

Mr. MINSHALL. Also, I would like to have your comment on Mr. Menon, who played hanky-panky with the Russkies for so long. Off the record.

(Off the record.)

Mr. ANDREWS. This has been most interesting, Mr. Ambassador. Are there any further questions about that steel mill?

Mr. FLYNT. Yes. I want to finish my questions I began a few minutes ago.

EFFECTIVENESS OF RUSSIAN INSTALLATION OF A STEEL MILL

Are you suggesting that the Russians used better judgment, with more effectiveness, by the installation of a $136 million steel mill than we have done over a period of years with more than $5.1 billion of of economic aid in all forms?

Mr. GALBRAITH. The Russians, of course, have given a considerable amount of assistance beyond the steelmill.

Mr. FLYNT. But now you think what we need to do is to mimic the Sino-Soviet bloc aid, which takes in more than Russia, of $981 million.

Mr. CONTE. Let us get that Russian aid in there, if you do not mind, to have the record complete. Cumulatively, the entire Sino-Soviet bloc, which takes in more than Russia $981 million.

Mr. GALGRAITH. I would not use the word "mimic." In general, I think our policy in India has been more successful than the Soviet's. I do think the Soviet, in seeing the key importance of steel, made a shrewd move and one from which, frankly speaking, we should learn.

Mr. FLYNT. Which brings me to this, Mr. Ambassador: If steel is so important, why is it that somebody who preceded you as Ambassador from this country to India or someone in one of the predecessor agencies to the Agency for International Development, did not seize upon the idea that steel was important 10 or 12 or 15 years ago? It certainly has not suddenly become important. It has been important all along.

Mr. GALBRAITH. I do not want to be critical of my predecessors. Under preceding administrations, both Republican and Democratic administrations, India had some of the most talented Ambassadors that have ever been sent out of this country—Ellsworth Bunker, John Sherman Cooper, and Chester Bowles. My guess is that some attention by the Ambassador was given to steel. I think Bunker, my immediate predecessor, probably had it somewhat in mind.

The thing crystallized with this project and with the request to us for support for this project.

Mr. FLYNT. Did it crystallize with this project, or did it crystallize after Russia apparently made a success of their venture into the construction of the steelmill?

Mr. GALBRAITH. I think the success of the Russians certainly impressed us; yes.

Mr. FLYNT. Which I appreciate and which I am glad to have. But does that indicate to you that our AID officials have just been walking on a treadmill without accomplishing anything of a major nature?

Mr. GALBRAITH. No; not for a moment. As I have said repeatedly in the course of today's testimony, I consider that India is one of the places in the world where our policy has been most successful, and I consider that our aid in its various forms has been the fundamental factor in that success.

Mr. FLYNT. But in spending $5.1 billion, we have overlooked the one thing that you would put No. 1 priority on; to wit, steel.

Mr. GALBRAITH. I would say we should not do it. "Overlooked" is a word I would not like to use. I have not overlooked it. I will not be accused of that.

Mr. FLYNT. In fairness to you, I think the record should show that you did not go over there until April 1961, and that immediately upon your arrival you became interested in this No. 1 priority of steel.

Mr. CONTE. Before he got there.

Mr. GALBRAITH. No. I became really aware of Bokaro after I got there. I was familiar with the importance of the steel industry well before that time.

Mr. FLYNT. In fairness to you, I want the record to show that you are saying now what you said almost immediately upon your arrival in India, but I do go back to 12 or 15 years prior to that when, evidently, a great many people overlooked the importance of the one commodity to which you now attach No. 1 priority.

Mr. GALBRAITH. As I say, I do not want to seem to be critical, and I might also say the Kaiser Co. and the World Bank loan doubled the Tisco capacity of the Tata Co. It was a World Bank loan but an American firm. This was our first venture into the Indian steel picture. There was an American aspect to it.

Mr. FLYNT. In a private enterprise operation.

Mr. GALBRAITH. Yes. When you say why have we picked out public enterprise, the record should show we have done both. Our first venture there with Kaiser and the World Bank was with Tata, a private firm.

(Off the record.)

Mr. ANDREWS. I understood you to say, Mr. Ambassador, when you went out there in 1959 to gather information for a book, they were talking about a new steelmill.

Mr. GALBRAITH. Yes. I do not think it had a name yet.

Mr. ANDREWS. Any other questions?

I would like to ask this final question, Mr. Ambassador.

We have spent $686,000 to have a report prepared by the United States Steel Corp. in connection with the Bokaro mill. The purpose of that survey and report was to determine the feasibility of building a steelmill at Bokaro. The report points out many reasons that it would be impractical to build the mill. If AID goes ahead and constructs that mill, we have wasted the $686,000 spent for the preparation of the report. Would that be a fair statement?

Mr. GALBRAITH. Mr. Chairman, I would beg respectfully to take issue with you on that, I would say the United States Steel team that went out, in a very competent fashion pointed to the problems that must

be considered and the tasks that must be performed before the mill is a success, but nowhere in this report does the steel study team recommend against the mill or say these problems are insuperable.

Mr. ANDREWS. But they pointed out many reasons why it would be impractical to build the mill at this time.

Mr. GALBRAITH. No, I would not agree with that.

Mr. ANDREWS. That is my interpretation.

Mr. GALBRAITH. My interpretation, based on careful study of this report—I am not implying anybody else has read it less carefully than I—would be that the steel team feels that the plant is practical. As in all things done in India, there are certain tasks that must be performed to make it a success.

Mr. ANDREWS. All right, thank you, Mr. Ambassador. It has been nice to see you.

THURSDAY, AUGUST 15, 1963.

SURVEY OF BOKARO AREA BY UNITED STATES STEEL CORP.

WITNESSES

NORMAN B. OBBARD, EXECUTIVE VICE PRESIDENT, UNITED STATES STEEL CORP.
WILLIAM G. WHYTE
E. R. JACOBSEN
E. S. MacMICHAEL
J. S. TENNANT

Mr. ANDREWS. The committee will come to order.

We have with us this morning Mr. Norman B. Obbard, executive vice president of the United States Steel Corp., and members of his staff.

Mr. Obbard, this committee is making an investigation of the proposed steel mill being considered by the AID agency for construction at Bokaro, India. We have been told that the AID agency employed a survey team from the United States Steel Corp. to make a survey of the Bokaro area with a view of determining whether or not a steel mill could be justified and whether or not there was a need for a steel mill at that place and whether or not there was sufficient of the raw materials that would be needed for the operation of a mill.

We have studied the report made by the survey team from United States Steel and we would like to have the benefit of your good judgment on the subject which is being investigated by this committee.

Do you have a prepared statement that you could make to the committee?

Mr. OBBARD. I have no prepared statement, Mr. Chairman, but I would like to outline briefly what our obligations were under this contract with AID.

Mr. ANDREWS. Do you have with you any members of the team who worked on the survey?

Mr. OBBARD. Yes, sir. Mr. Jacobsen worked on the survey in India and Mr. MacMichael worked on the financial analysis of it.

Mr. ANDREWS. I wish you would tell us, Mr. Obbard, of the experience you have had in the steel industry, what position you presently occupy, how long you have held that position, how long you have been with United States Steel, and what experience you have had.

Mr. OBBARD. Mr. Chairman, I joined United States Steel on June 1, 1926, therefore I have been with them 37 years. I have occupied various positions. I started with American Bridge as engineer and draftsman. I successively became assistant to the vice president of contracting; I was in charge of our shipbuilding division during the war; I became vice president and general contracting manager after the war; and president of American Bridge in 1954. In 1956 I was made administrative vice president of United States Steel in charge of fabricating and manufacturing activities; and in January of 1960 I was made executive vice president international in charge of all of our various oversea activities. In that capacity, naturally, I have traveled through many countries, including India, and have examined in a general way steel operations throughout the world.

Mr. ANDREWS. You have had a very intimate association with the steel business since 1926?

Mr. OBBARD. In various capacities, yes.

Mr. ANDREWS. And I am sure you are familiar with all the problems that arise in connection with the production of steel?

Mr. OBBARD. That is a very broad subject, Mr. Chairman. I am generally familiar with them. I could not claim to be an expert in any particular phase.

Mr. ANDREWS. Now will you discuss with us in your own way the feasibility from all standpoints, including availability of raw materials, transportation, et cetera, and cost of this proposed steel mill at Bokaro, India.

RESPONSIBILITIES AND OBLIGATIONS OF COMPANY UNDER CONTRACT WITH AID

Mr. OBBARD. First, Mr. Chairman, I think I should outline briefly what our responsibilities and obligations were under the contract between us and AID. You are probably familiar with it. It was executed on June 18, 1962, and our obligations were strictly defined.

Mr. ANDREWS. I would like to insert that in the record at this point.

(A copy of the contract follows:)

CONTRACT BETWEEN THE UNITED STATES OF AMERICA AND U.S. STEEL CORPORATION

PIO/T 386-J-21-AD-3-20236

This Contract, entered into the 18th day of June 1962, between the Government of the United States of America, represented by the Contracting Officer executing this contract, and the U.S. Steel Corporation, a corporation duly organized and existing under the laws of the State of New Jersey (hereinafter called "Contractor"), with a principal office located at 525 William Penn Place, Pittsburgh 30, Pennsylvania;

WITNESSETH THAT:

Whereas the Government of India (hereinafter referred to as "Cooperating Government") has requested the UNITED STATES OF AMERICA to provide certain assistance in conducting a technical and economic survey of the projected Bokaro Steel Plant Project, and the UNITED STATES OF AMERICA has undertaken by agreement with said Government to provide such assistance; and

Whereas, in furtherance of the purposes of such agreement, the Agency for International Development (hereinafter called AID), an agency of the UNITED STATES OF AMERICA desires to secure the work and services set forth in Article I herein and the Contractor represents that it is qualified to perform such work and is willing to undertake the same; and

Whereas this negotiated contract is authorized by and executed under the authority of the Foreign Assistance Act of 1961, and Executive Order 10784;

Now, therefore, the parties hereto agree as follows:

ARTICLE I—STATEMENT OF WORK

A. Contractor shall conduct a technoeconomic survey of the projected Indian Steel Mill Project, exercising its best judgment and professional competence, to examine the relevant factors specified in Appendix A, attached hereto and made a part hereof, and such other factors as contractor considers relevant and to prepare and furnish a report thereon as required in paragraph B next below. Contractor shall not be required to perform any services not herein specified.

B. Within nine (9) months after the effective date of this contract, Contractor shall deliver to A.I.D./Washington, ten (10) copies of its report on the survey, which report shall be in the English language. The United States system of weights and measures shall be used throughout the report whenever weights and measures are referred to except that material and product quantities shall be expressed in the metric system.

C. Contractor undertakes to perform the work hereunder with competent personnel, but assumes no responsibility or liability in connection with any actions taken or forborne in reliance upon the report.

ARTICLE II—PAYMENT IN U.S. DOLLARS AND INDIAN RUPEES

A. A.I.D. will pay the Contractor, as consideration for its services hereunder the following amounts in U.S. Dollars:

1. For all work done by Contractor within the U.S. in connection with the study and report thereon, including engineering, accounting, supervision and other expenses incurred and further, including overhead and profit, the fixed price of $510,000.

2. For all work performed in India by Contractor's professional and technical employees and including some Consultants from the United States working under Contractor's subcontracts, a payment in lieu of compensation and all direct and indirect employment expenses for such persons, the sum of $3,000 per man-month, fractions prorated. Such payment will be made from the date of leaving his home or place of employment in the U.S. until return to such place except that travel time to and from India shall be limited to the time required to complete such travel by the most direct and expeditious public transportation and except for full days when such employees or consultants voluntarily do not make themselves available for performance of their assigned duties. Further, Contractor agrees to promptly advise and consult with the Contracting Officer whenever any of its employees or consultants in India are unable to perform their assigned duties by reason of illness or other incapacitation with a view to determining whether they should promptly return to the U.S. Reimburseable costs under this Item 2 shall not exceed the sum of $120,000 without the prior written approval of the Contracting Officer which approval must be sought and obtained before any such excess costs are incurred.

3. The net actual cost to Contractor for the services of Consultants from the United States employed under subcontracts hereunder over and above any amounts paid to Contractor hereunder for or on account of subcontractor Consultants. Reimbursement for such cost shall in no event exceed the sum of $30,000.

B. A.I.D. will pay the Contractor as further consideration for its services hereunder the following items in Indian Rupees (Rs.) except that in the case of travel, A.I.D. or U.S. A.I.D. may arrange for the issuance to Contractor of the required travel tickets and pay for such tickets directly to the carrier. The cost to A.I.D. for all such items shall not exceed the Rupee equivalent of $90,000 without the prior written approval of the Contracting Office which approval must be sought and obtained before any such excess costs are incurred.

1. For and in lieu of subsistence for each employee and consultant and in lieu of all personal costs incurred by such employees and consultants while in India but not beyond the termination of his assignment at a rate per month, the equivalent of $600.00.

2. For each employee and consultant assigned to work in India under this contract the cost of one round trip first class air transportation ticket (jet if available) from their home or place of employment in the U.S. to India and return, and the cost of up to 25 pounds of excess baggage.

3. For travel by wives of each employee and consultant assigned to work in India for a period of three months or more, the cost of one round trip first class air transportation ticket (jet if available) from the home or the place of employment of their husband to India and return, provided that the wife's journey to India shall not take place earlier than one month after the husband's departure for India under this contract. Transportation for wives under this item is intended for those authorized wives who plan to remain in India with their respective husbands for whichever is longer, one month or 50% of the remainder of her husband's assignment in India.

4. For travel by employees and consultants within India as necessary and required for performance of work under this contract, the actual cost of such travel.

5. For work done by Indian firms or persons under subcontracts, the actual cost of such subcontracts provided Contractor shall obtain the prior approval of the US A.I.D./India for all such subcontracts.

ARTICLE III—METHOD OF PAYMENT AND DOCUMENTATION

A. *U.S. Dollars:*

1. Payment of the fixed price of $510,000. will be made as follows: Seventy Thousand Dollars ($70,000) per month for six (6) months, commencing thirty (30) days after the end of the first month in which work is performed in India. The balance of Ninety Thousand Dollars ($90,000) will be paid thirty (30) days after completion of the work and delivery of the report required hereunder. Payment under Item A.2 of Article II will be made each month after services have been performed in India and within thirty (30) days after receipt of the required documentation. Payment under Item A.3 of Article II will be made after all services in India have been performed and within thirty (30) days after receipt of the required documentation.

2. Claims for payment of the aforesaid U.S. Dollar amounts must be submitted to the Office of the Controller, Agency for International Development, Washington 25, D.C., and accompanied by the documents specified in this paragraph as appropriate. Each document must be identified by the appropriate A.I.D. contract number.

(a) Voucher SF–1034, executed in original and three (3) copies.

(b) Contractor's detailed certified invoice, in original and one (1) copy indicating fully for each amount claimed the paragraph of Article II of the contract under which payment is to be made. With respect to payments claimed under Item A.2. of Article II, the invoice shall list the names of the employees and consultants and show for each the dates in authorized international travel and assigned work status and shall be accompanied by certification by the employees and consultants that for specified dates they were in authorized international travel and available work status, such certificates to be countersigned by Contractor's Chief of Party. With respect to payments claimed under Item A.3 of Article II, the invoice shall set forth specifically for each named subcontractor the net cost to Contractor for each subcontract.

B. *Indian Rupees:*

Those contract costs which are specified as Indian Rupee costs in Article IIB, if not furnished in kind by A.I.D./Washington or US A.I.D. shall be paid to the Contractor in a manner adopted to the local situation and as agreed to by A.I.D. or US A.I.D. and the Contractor. The documentation for such costs shall be on such forms and in such manner as US A.I.D. shall prescribe.

ARTICLE IV—SPECIAL AND GENERAL PROVISION

The parties hereto agree to be bound by the special provisions set forth herein next below and by all of the General Provisions set forth in "Appendix B; General Provisions" attached hereto and made a part hereof.

A. *Subcontracts:* In no event shall any subcontract under this contract be on a cost-plus-a-percentage-of-cost basis.

B. *Entire Agreement:* This contract contains contains the entire agreement between the parties hereto and all prior discussions, proposals, correspondence and understanding relative thereto have been superseded hereby.

IN WITNESS WHEREOF, the parties hereto have executed this Contract on the day and year first hereinabove written which is the date of signing by the last signatory hereto.

UNITED STATES OF AMERICA,
By:
Title. NESA Contracting Officer.
Date: 6-15-62.
UNITED STATES STEEL CORPORATION,
By: N. B. OBBARD.
Title: Executive Vice President U.S. Steel.
Date: 6-18-62.

I, M. L. Heald, certify that I am the assistant secretary of the Corporation named as Contractor herein; that N. B. Obbard, who signed this contract on behalf of the Contractor, was then Executive Vice President of said Corporation; that said contract was duly signed for and in behalf of said Corporation by authority of its governing body, and is within the scope of its corporate powers.

In Witness Whereof, I have hereunto affixed my hand and seal of said corporation, this 18th day of June, 1962.

[CORPORATE SEAL]

M. L. HEALD,
Assistant Secretary.

(Appendix A to Contract AID/nesa-21)

FACTORS FOR CONSIDERATION AND OUTLINE OF REPORT ON PROJECTED INDIAN STEEL MILL PROJECT

I. MARKETS FOR STEEL

a. Total Indian *domestic market* for steel products:
1. In start-up year of Bokaro facility.
2. At end of break-in period (3 years later).
3. In period beginning 5 years after break-in until 1975.

The above broken down into *major product groups and major consuming areas.*

b. Possible *export* markets for Indian steel products:
1. In start-up year of Bokaro facility.
2. At end of break-in period (3 years later).
3. In period beginning 5 years after break-in until 1975.

The above broken down into *major product groups* and *major consuming areas.*

(The comprehensiveness of a., and b., above will depend on the nature and accuracy of available statistical information.)

c. *Total market* for steel products, giving anticipated product mix for the above three periods.

d. Explanation of *method*, both physical and statistical, used in arriving at above forecast.
1. Sources used.
2. Other means employed.

II. SUPPLY OF STEEL

a. Share of total market (Paragraph I.c.), that can be supplied by existing Indian steel facilities (and planned expansions) in the three periods discussed.

III. UNFILLED DEMAND FOR STEEL

a. Determination of total market less available and foreseeable supply.
b. Development of a production plan and product mix which will logically fit into modern producing units that could supply the unfilled demand for steel in the three periods referred to in Part I—Markets for Steel.
c. Confirmation of mix demanded and ascertainment of product specifications through consumer contacts, as basis for mill design.
d. Ascertainment of present prices in India for products considered.

IV. RAW MATERIALS

a. Survey available sources of:
1. Iron Ore.
2. Coal.
3. Limestone.
4. Manganese.
5. Scrap.
to determine:
(*a*) Location.
(*b*) Adequacy of production facilities.
(*c*) Quality.
(*d*) Reserves.
(*e*) Adequacy of transportation facilities to proposed site.
b. Comment and/or recommendation on:
1. Selection of most favorable sources of raw materials.
2. Facility improvements required to support proposed plant with raw materials.

V. PLANT LOCATION

a. Confirmation that Bokaro is a suitable site for the steel mill in light of:
1. Market locations, including product transportation costs.
2. Raw material locations.
3. Site factors such as:
(*a*) Topography.
(*b*) Soil conditions.
(*c*) Water.
(*d*) Power.
(*e*) Fuel.
(*f*) Labor and housing.
(*g*) Climate.

VI. THE FACILITY

a. With regard to the facility, the techno-economic report will incorporate recommended:
1. Preparation of plant layout and preliminary engineering.
2. Flow diagrams.
3. Raw materials handling and, if necessary, beneficiation facilities—brief description with capacities.
4. Iron making—brief description with capacities.
5. Steel making—brief description with capacities.
6. Rolling mills—brief description with capacities—separately for various products.
7. Requirements for power and services.
8. Requirements for housing sanitation and ancillary facilities.
9. Requirement for training and management.
10. Schedule of construction.
b. Recommended capacities and product mix:
The report will appraise the sizes and tonnages of the initial line of products for the plant for the first stage production of approximately 1 million metric tons ingot steel output, bearing in mind,

i. the optimum capacity of plant and equipment selected;

ii. probable subsequent expansion of the planned production integrated into existing operations;

iii. probable future demand in India based on an examination of current consumption and anticipated developments; and

iv. transportation and other facilities necessary to cope with such levels of production.

It will recommend capacities and product mix,

i. for the first 5 years after the break-in period, and

ii. for the period following the above period until 1975 (possible second stage expansion).

VII. INVESTMENT COSTS

a. The cost of building the facility to be recommended under VI above will be broken down into costs that can be defrayed in Rupees and those to be paid in U.S. dollars. These will further be broken down into costs of:

1. Preparation of site (infra-structure).
2. Equipment.
3. Construction.
4. Contingency reserves.
5. Company formation.
6. General, prior to start-up:
   (*a*) Engineering.
   (*b*) Recruitment and training of labor; of management; formation of sales organization, etc.
   (*c*) Other owner's expenses (wages and salaries, etc.).
   (*d*) Interest on loans during construction.
7. Working capital.
8. Construction outside the plant fence (housing, etc.).

b. Total estimated cost to start of operations.

c. Scheduling of expenditures.

VIII. PRODUCT COST

a. The expected *operating cost components* will be set out for the following:

1. Raw materials—by sources, qualities, quantities and cost:
   (*a*) Ore.
   (*b*) Coke.
   (*c*) Stone.
   (*d*) Other.
2. Operating parts and supplies, by sources, quantities and cost.
3. Fuel and power, by sources, quantities and cost.
4. Labor, by quantities and cost.
5. Management, by quantities and cost.
6. Other operating expenses (e.g. rental payments).
7. Depreciation.

b. Expected *product costs* will be developed on the basis of the above for:

1. Iron.
2. Steel, ingots.
3. Steel, semi-finished.
4. Steel, finished, according to the various product categories that will make up the product mix.
5. Byproducts.

IX. CASH FLOW ANALYSIS

a. Full *Cash Flow* tables will be prepared, based on expected production costs plus sales and overhead expense and the expected proceeds from the sale of products in successive years at a constant level of costs and sales prices. Selected examples will also show the effects on cash flow of various adjustments in the selling price of the product mix. These figures will show the effect of allowance for depreciation, interest, income tax and repayment of any borrowings and cash available for technical replacements.

b. Expected *Profit and Loss* tables will also be prepared. The tables will be carried through for as many years as will be required for recovery of the investment and will indicate the expected years to recovery.

(Appendix B to Contract AID/nesa-21)

General Provisions

1. DEFINITIONS

As used throughout this contract the following terms shall have the meaning as set forth below:

(a) The term "Contracting Officer" means the person excuting this contract on behalf of the United States Government, and any other AID employee who is a properly designated Contracting Officer, provided, however, that in the case of contracts executed by an AID Washington Contracting Officer, the term shall mean an AID Washington Contracting Officer except as otherwise notified to Contractor in writing by an AID Washington Contracting Officer.

(b) The term "Cooperating Country" means the country receiving assistance from the United States and in which services are to be rendered under this contract.

(c) The term "US AID" means the United States AID Mission to, or principal AID office in, the Cooperating Country.

(d) The term "US AID Director" means the Director of the US AID, the Deputy Director of the US AID or a person duly authorized to perform the functions of the Director or Deputy Director of the US AID.

(e) The terms "authorized by AID", "AID approval", "approval of AID" and similar terms mean approval by the Contracting Officer.

(f) The term "head of the agency" or "Secretary" means the Administrator of the Agency for International Development; and the term "his duly authorized representative" means any person or persons or board (other than the Contracting Officer) authorized to act for him.

2. MODIFICATION OR AMENDMENT

No modifications or amendments shall be made to this contract except as provided in the "Changes" clause (see clause 3 below) and/or as may be mutually agreed upon in writing by the Contractor and the Contracting Officer.

3. CHANGES

(a) The Contracting Officer may at any time, by a written order, and without notice to the sureties, if any, make changes, within the general scope of this contract, in any one or more of the following: (i) statement of work or services, (ii) place of delivery, or acceptance, and (iii) the amount of logistic support and property of the U. S. or Cooperating Government to be furnished or made available to the Contractor for performance of this contract. If any such change causes an increase or decrease in the cost of, or the time required for performance of this contract, or otherwise affects any other provision of this contract, whether changed or not changed by any such order, an equitable adjustment shall be made (i) in the amount of the fixed dollar price to be paid to the Contractor, or the time for completion, or both and (ii) in such other provisions of the contract as may be so affected, and the contract shall be modified in writing accordingly. Any claim by the Contractor for adjustment under this clause must be asserted within sixty (60) days from the date of receipt by the Contractor of the notification of change: Provided, however, that the Contracting Officer, if he decides that there are special facts justifying such action, may receive and act upon any such claim asserted at any time prior to final payment under this contract. Failure to agree to any adjustment shall be a dispute concerning a question of fact within the meaning of the clause of this contract entitled "Disputes". However, nothing in this clause shall excuse the Contractor from proceeding with the contract as changed.

(b) If this contract is executed by an AID/Washington Contracting Officer, valid change orders may be issued olny by an AID/Washington Contracting Officer, or such other person as he may in writing designate for such purpose.

4. CONTRACTOR—U.S. AID RELATIONSHIPS

Contractor acknowledges that this contract is an important part of the U. S. Foreign Assistance Program and agrees that Contractor's operations and those of its employees and consultants in the Cooperating Country will be carried out in such a manner as to be fully commensurate with the responsibilities which

this entails. Although Contractor will be responsible for all professional and technical details of the work called for by this contract, its employees and consultants shall be under the general policy guidance of the U.S. AID Director.

5. CONTRACTOR, EMPLOYEES AND CONSULTANTS

(a) In all work and at all times covered by this contract, Contractor shall maintain its status as an independent Contractor and shall exercise complete control over its employees and consultants. Contractor and its employees and consultants shall conform to all applicable laws, regulations and ordinances promulgated by legally constituted authorities of the Cooperating Country and shall promptly correct any violations thereof called to their attention.

(b) Contractor shall be responsible for the professional and technical competence of its employees and consultants and will use its best efforts to select and employ for work in the Cooperating Country only those persons who in its judgment will be reliable and most likely to perform satisfactorily the terms of their employment agreements with Contractor, and who will comply with local laws, respect the local customs and conform to a high standard of moral and ethical conduct. Contractor shall furnish to AID on forms provided by AID, biographical information, including citizenship, experience, references and character information concerning all proposed employees and consultants prior to their assignment to work in the Cooperating Country, and with respect to all such information Contractor shall take such measures as are reasonable to assure the accuracy and correctness thereof. No person shall be assigned, for overseas work under this contract, nor shall any such person depart for the Cooperating Country or begin work in the Cooperating Country prior to AID's approval, notice of which shall first be given in writing to Contractor.

(c) Other than for work to be performed under this contract, no employee or consultant shall engage, directly or indirectly, either in his own name or in the name or through the agency of another person or entity, in any business, profession or occupation in the Cooperating Country; nor shall he make loans or investment to or in any business, profession or occupation in the Cooperating Country.

6. WORKMEN'S COMPENSATION INSURANCE

(a) Except as this contract may provide exclusively for the furnishing of materials or supplies, the Contractor before commencing performance under this contract shall provide and thereafter maintain Workmen's Compensation Insurance or security as is required by the Defense Base Act, as amended (United States Public Law 208, 77th Congress, as amended, 42 U.S.C. 1651 et seq.), for all employees engaged in performance of work under the contract outside the continental United States who are or were hired in the United States or who are American citizens or bona fide residents of the United States.

(b) For all other employees of the Contractors who are engaged in performance of work under the contract outside the continental United States (other than those who are or were hired in the United States or who are American citizens or bona fide residents of the United States), the Contractor shall, pursuant to the applicable law of the country in which such work is performed, provide security for compensation benefits for injury to or death of such employees sustained in the course of such employment, or in the absence of such law, adequate employer's liability insurance.

(c) In the event Contractor employs or contemplates the employment of any person in the category and for the purpose set forth in paragraph (b) above, he agrees to notify the Contracting Officer in order that a waiver of the application of the Defense Base Act may be obtained with respect to such person or persons.

(d) The Contractor further agrees to insert the provisions of this clause, including this paragraph (d), in all subcontracts or subordinate contracts hereunder, except subcontracts or subordinate contracts exclusively for the furnishing of materials or supplies.

7. EXAMINATION OF RECORDS

(a) The Contractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall until the expiration of three years after final payment under this contract, have access to and the right to examine any directly pertinent books, documents, papers, and records of the Contractor involving transactions related to this contract.

(b) The Contractor further agrees to include in all his subcontracts hereunder a provision to the effect that the subcontractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of three years after final payment under the subcontract, have access to and the right to examine any directly pertinent books, documents, papers, and records of such subcontractor, involving transactions related to the subcontract. The term "subcontract" as used in this clause excludes (i) purchase orders not exceeding $2,500 and (ii) subcontracts or purchase orders for public utility services at rates established for uniform applicability to the general public.

8. REPORTS AND INFORMATION

All information gathered under this contract by Contractor and all reports and recommendations hereunder shall be treated as confidential by the Contractor and shall not, without AID's written approval, be made available to any person, party or government other than AID, except as otherwise expressly provided in the contract. Contractor shall prepare and submit such interim and final reports as provided in Article I of the contract.

9. DISPUTES

(a) Except as otherwise provided in this contract, any dispute concerning a question of fact arising under this contract which is not disposed of by agreement shall be decided by the Contracting Officer, who shall reduce his decision to writing and mail or otherwise furnish a copy thereof to the Contractor. The decision of the Contracting Officer shall be final and conclusive unless within 30 days from the date of receipt of such copy, the Contractor mails or otherwise furnishes to the Contracting Officer a written appeal addressed to the Secretary. The decision of the Secretary or his duly authorized representative for the determination of such appeals shall be final and conclusive unless determined by a court of competent jursidiction to have been fraudulent or capricious, or arbitrary, or so grossly erroneous as necessarily to imply bad faith, or not supported by substantial evidence. In connection with any appeal proceeding under this clause, the Contractor shall be afforded an opportunity to be heard and to offer evidence in support of its appeal. Pending final decision of a dispute hereunder, the Contractor shall proceed diligently with the performance of the contract and in accordance with the Contracting Officer's decision.

(b) This "Disputes" clause does not preclude consideration of law questions in connection with decisions provided for in paragraph (a) above: Provided, That nothing in this contract shall be construed as making final the decision of any administrative official, representative, or board on a question of law.

10. ASSIGNMENT OF CLAIMS

(a) Pursuant to the provisions of the Assignment of Claims Act of 1940, as emended (31 U.S. Code 203, 41 U.S. Code 15), if this contract provides for payments aggregating $1,000 or more, claims for moneys due or to become due the Contractor from the Government under this contract may be assigned to a bank, trust company, or other financing institution within the United States, including any Federal lending agency, and may thereafter be further assigned and reassigned to any such institution. Any such assignment or reassignment shall cover all dollar amounts payable under this contract by AID/Washington and not already paid, and shall not be made to more than one party, except that any such assignment or reassignment may be made to one party as agent or trustee for two or more parties participating in such financing.

(b) In no event shall copies of this contract or of any plans, specifications, or other similar documents relating to work under this contract, if marked "Top Secret," "Secret," "Confidential," or "Official Use Only," to be furnished to any assignee of any claim arising under this contract or to any other person not entitled to receive the same: Provided, That a copy of any part or all of this contract so marked may be furnished, or any information contained therein may be disclosed, to such assignee upon the prior written authorization of the Contracting Officer.

11. NOTICES

Any notice given by any of the parties hereunder, shall be sufficient only if in writing and delivered in person or sent by telegraph, or cable, or registered mail as follows:

To AID: Administrator, Agency for International Development, Washington 25, D.C. Attention: NESA Contracting Officer;

To Contractor: At Contractor's address shown in the opening paragraph of this contract;

or to such other address as either of such parties shall designate by notice given as herein required. Notices hereunder shall be effective when delivered.

12. NONDISCRIMINATION IN EMPLOYMENT

In connection with the performance of work under this contract, the Contractor agrees as follows:

(a) The Contractor will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, creed, color, or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this Nondiscrimination clause.

(b) The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, creed, color, or national origin.

(c) The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency Contracting Officer, advising the said labor union or workers' representative of the Contractor's commitments under this Nondiscrimination clause, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(d) The Contractor will comply with all provisions of Executive Order No. 10925 of March 6, 1961, and of the rules, regulations, and relevant orders of the President's Committee on Equal Employment Opportunity created thereby.

(e) The Contractor will furnish all information and reports required by Executive Order No. 10925 of March 6, 1961, and by the rules, regulations, and orders of the said Committee, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Committee for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(f) In the event of the Contractor's noncompliance with the Nondiscrimination clause of this contract or with any of the said rules, regulations, or orders, this contract may be cancelled in whole or in part and the Contractor may be declared ineligible for further government contracts in accordance with procedures authorized in Executive Order No. 10925 of March 6, 1961, and such other sanctions may be imposed and remedies invoked as provided in the said Executive Order or by rule, regulation, or order of the President's Committee on Equal Employment Opportunity, or as otherwise provided by law.

(g) The Contractor will include the provisions of the foregoing paragraphs (a) through (f) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the President's Committee on Equal Employment Opportunity issued pursuant to section 303 of Executive Order No. 10925 of March 6, 1961, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance: Provided, however, That in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

13. COVENANT AGAINST CONTINGENT FEES

The Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona

fide employees or bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty, AID shall have the right to annul this contract without liability or in its discretion to deduct from the contract price or consideration, or otherwise recover, the full amount of such commission, percentage, brokerage, or contingent fee.

14. OFFICIALS NOT TO BENEFIT

No member of the United States Congress, or United States Resident Commissioner, shall be admitted to any share or part of this contract, or to any benefit that may arise therefrom; but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

15. GRATUITIES

(a) AID may, by written notice to the Contractor, terminate the right of the Contractor to proceed under this contract if it is found, after notice and hearing by the Administrator of AID or his duly authorized representative, that gratuities (in the form of gifts, entertainment, or otherwise) were offered or given by the Contractor, or any agent or representative of the Contractor to any officer or employee of the U.S. Government with a view toward securing a contract or securing favorable treatment with respect to the awarding or amending, or the making of any determinations with respect to the performing of such contract; provided, that the existence of the facts upon which the Administrator of AID or his duly authorized representative makes such findings shall be in issue and may be reviewed in any competent court.

(b) In the event this contract is terminated as provided in paragraph (a) hereof, AID shall be entitled to pursue the same remedies against the Contractor as it could pursue in the event of a breach of the contract by the Contractor. The rights and remedies of AID provided in this clause shall not be exclusive and are in addition to any other rights and remedies provided by law or under this contract.

16. TERMINATION FOR DEFAULT

(a) AID may by written notice to the Contractor terminate this contract for default in any one of the circumstances set forth in paragraph (b). Such termination shall be effective in the manner and upon the date specified in such notice and AID shall not be required after such date to make any further payments to the Contractor except as expressly provided below.

(b) The contract may be terminated for default if—

(i) The Contractor fails to perform the services within the time specified in Article I–B, or

(ii) The Contractor refuses or fails to prosecute the work, or any separable part hereof, with such diligence as will insure its completion within the fixed time for completion specified in Article I–B, or the Contractor fails to perform any of the other provisions of this contract, and in either of such events does not cure such failure within 10 days (or such longer period as the Contracting Officer may authorize in writing) after receipt of notice from the Contracting Officer specifying such failure;

Provided, that the performance of the work shall not be terminated for default because of any delays in the completion of work due to force majeure as defined in Clause 18, if the Contractor shall promptly and in any event within thirty (30) days from the beginning of any such delay notify the Contracting Officer in writing of the causes of delay. Upon receipt of such notice, the Contracting Officer shall ascertain the facts and the extent of the delay and extend the time for completing the work specified in Article I–B or otherwise excuse the delay when in his judgment the findings of fact justify such an extension or excusing, and his findings of fact thereon shall be final and conclusive on the parties hereto, subject only to appeal in accordance with the clause entitled "Disputes".

(c) In the event AID terminates this contract as provided in paragraph (a) of this clause, AID may procure, upon such terms and in such manner as the Contracting Officer may deem appropriate, services similar to these so terminated, and the Contractor shall be liable to AID for any excess costs of such similar services.

(d) If this contract is terminated as provided in paragraph (a) of this clause:

(i) AID, in addition to any other rights provided in this clause, may require the Contractor to transfer title and deliver to AID, in the manner and

to the extent directed by the Contracting Officer, any completed or partially completed plans, drawings, studies, reports, information and other property (including contract rights) which the Contractor has specifically produced or specifically acquired for the performance of this contract.

(ii) AID shall reimburse the Contractor or allow credit in accordance with the terms of the contract for all allowable costs, if any, specified in Articles II–A–2, II–A–3 and II–B of the contract which are incurred prior to termination hereunder and which have not been previously reimbursed or otherwise discharged. AID may withhold from amounts due the Contractor hereunder, such sums as the Contracting Officer determines to be necessary to protect the AID against loss because of any outstanding claims against the Contractor.

(e) If, after notice of termination of this contract under the provisions of paragraph (a) of this clause, it is determined that the failure to perform this contract is due to force majeure as defined in Clause 18 such notice of default shall be deemed to have been issued pursuant to clause 17 entitled "Termination for Convenience", and the rights and obligations of the parties hereto shall in such event be governed by such clause.

17. TERMINATION FOR CONVENIENCE

Notice of Termination for Convenience.—The Contracting Officer may at any time terminate this contract for the convenience of AID, by written notice ("Notice of Termination") to the Contractor stating the ground for termination. Such termination shall be effective in the manner and upon the date specified in the Notice of Termination and AID shall not be required after such date to make any further payments to the Contractor except as expressly provided below. The giving of Notice of Termination shall be without prejudice to any claims which AID may have against the Contractor.

(b) After receipt of a Notice of Termination, and except as otherwise directed by the Contracting Officer, the Contractor shall:

(i) stop work under the contract on the date and to the extent specified in the Notice of Termination;

(ii) place no further orders or subcontracts for materials, services or facilities except to the extent specified in the Notice of Termination;

(iii) terminate all orders and subcontracts except to the extent specified in the Notice of Termination;

(iv) assign to AID, in the manner, at the times, and to the extent directed by the Contracting Officer, all of the right, title and interest of the Contractor under the orders and subcontracts so terminated, in which case AID shall have the right, in its discretion, to settle or pay any or all claims arising out of the termination of such orders and subcontracts;

(v) settle all outstanding liabilities and all claims arising out of such termination of orders and subcontracts, with the approval or ratification of the Contracting Officer, to the extent he may require, which approval or ratification shall be final for all the purposes of this clause; and

(vi) transfer title and deliver to AID, in the manner, at the times, and to the extent, if any directed by the Contracting Officer the completed or partially completed plans, drawings, studies, reports, information or other property (including contract rights) which, if the contract had been completed, would have been required to be furnished to AID.

(c) After receipt of a Notice of Termination, the Contractor shall submit to the Contracting Officer its termination claim, in the form and with certification prescribed by the Contracting Officer. Such claim shall be submitted promptly but in no event later than one year from the effective date of termination, unless one or more extensions in writing are granted by the Contracting Officer, upon request of the Contractor made in writing within such one year period or authorized extension thereof. However, if the Contracting Officer determines that the facts justify such action, he may receive and act upon any such termination claim at any time after such one year period or any extension thereof. Upon failure of the Contractor to submit its termination claim within the time allowed, the Contracting Officer may determine, on the basis of information available to him, the amount, if any, due to the Contractor by reason of the termination and shall thereunder pay to the Contractor the amount so determined.

(d) Subject to the provisions of paragraph (c), the Contractor and the Contracting Officer may agree upon the whole or any part of the amount or amounts, if any, to be paid to the Contractor by reason of the termination of the contract pursuant to this clause, which amount or amounts may include a reasonable allowance for profit on work done; provided that such agreed amount or amounts, exclusive of settlement costs, shall not exceed the total contract price specified in Article II–A–1 as reduced by the amount of payments to the Contractor theretofore made pursuant to Article III–A–1 and the amount of all allowable costs specified in Articles II–A–2, II–A–3 and II–B of the contract which are incurred prior to termination hereunder and which have not been previously reimbursed or otherwise discharged. The contract shall be amended accordingly, and the Contractor shall be paid the agreed amount. Failure to agree on such amount shall be a dispute concerning a question of fact within the meaning of the clause of this contract entitled "Disputes."

(e) Any dispute arising out of the termination of this contract under this clause shall be decided in accordance with the procedure prescribed in the clause of this contract entitled "Disputes."

18. FORCE MAJEURE

(a) *Definition.*—Force Majeure means unforeseeable causes beyond the control and without the fault or negligence of the Contractor, including but not restricted to, acts of God, or of the public enemy, acts of the U.S. or Cooperating Government in either their sovereign or contractual capacity, acts of another Contractor in the performance of a contract with the said Governments, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, and unusually severe weather or delays of subcontractors due to such causes.

Mr. OBBARD. Briefly, it required us to analyze the projected market for steel in India by major product groups and major consumer areas; to explore the export markets; and to analyze the Indian requirements in the startup years at Bokaro.

We were then asked to determine what share of the total market could be supplied by the existing steel facilities, including their planned expansions in the three periods we were requested to survey.

From this information we were requested to develop a product mix for Bokaro that would be indicated by Indian market conditions. We were then asked to survey the raw materials that would be available to Bokaro, to determine the adequacy of these raw materials as to location, quality, reserves, and transportation facilities.

We were next asked to confirm that Bokaro would be a suitable site for the projected steel plant from the point of view of markets, raw materials, and the physical characteristics of the site.

We were asked to examine the type of plant, the facilities, capacities, and the product mix for a plant at Bokaro for expansion in stages through 1975.

Based on this plan we were required to develop capital costs, operating costs, product costs, and the cash flow analysis which would show the financial results in the operation of the plant.

We would like to call your attention to the fact that our contract states we are to conduct a technical and economic survey of the projected Bokaro steel plant project. In the appendix to the contract there are spelled out the factors for consideration, and it refers throughout to the Bokaro site.

If I may, I will use metric tons in answering any questions because those are the terms under which the report is made. A metric ton, as you know, is almost exactly 10 percent more than the regular U.S. net ton.

Also, I would like to use dollars, and where rupees are used they are converted at 4.762 rupees to the dollar, which is about the current rate.

Mr. ANDREWS. What is that rate?

Mr. OBBARD. 4.762 rupees to the dollar. That is also mentioned in the report.

With that I would like to say that the report has been very, very carefully prepared. We knew it was a matter of great importance and we made every effort to make it factual and entirely supportable.

I would be glad to answer any questions you might have on it.

Mr. ANDREWS. Mr. Obbard, is it the recommendation of United States Steel that the U.S. Government should finance the proposed Bokaro steel mill?

Mr. OBBARD. No, Mr. Chairman. We made no recommendation. Our contract did not require us to make a recommendation but simply to set forth the pertinent facts for the use of AID in making that determination themselves.

Mr. ANDREWS. You are familiar with the report made by the investigating team?

Mr. OBBARD. Yes, sir.

Mr. ANDREWS. Based on your experience as a man who has served many years in the steel industry, would you say that the information revealed in the report would justify the expenditure of approximately $1.7 billion for the construction of a steel mill at Bokaro, India?

Mr. OBBARD. Mr. Chairman, I could not properly answer that question. This report has been made under the specific requirements of our contract. The justification for building the mill would be a political, financial, and economic matter which we are not really prepared to answer.

Mr. ANDREWS. Assuming that political conditions were healthy for private investment in India, would United States Steel be willing to risk its capital for this investment?

Mr. OBBARD. If we made a study for our own investment purposes, Mr. Chairman, it would be a different type of study.

Mr. ANDREWS. Would you explain that statement?

Mr. OBBARD. There are many factors that we might look into, such as alternate sites; we certainly would look for Indian partners in such a matter; we would look for some understandings with the Indian Government as to their future policies in connection with investments of that nature; and we would make a study in considerably more breadth, I would not say depth, but more breadth than this specific study.

Mr. ANDREWS. When Mr. Bell, the Administrator of the AID Agency, was before the committee recently, Mr. Passman asked him this question, which is shown on page 41 of part III of the hearings:

> Mr. PASSMAN. Is United States Steel willing to go in and build it (speaking of the Bokaro plant)?
>
> Mr. BELL. They may be willing to build it if somebody else pays the bill.
>
> Mr. PASSMAN. Will they risk their own capital?
>
> Mr. BELL. No, sir, they will not.

Do you care to comment on that colloquy between Mr. Bell, Administrator of the AID agency, and Mr. Passman, the chairman of this subcommittee?

Mr. OBBARD. Well, now, Mr. Chairman, that, as I see it, is really two questions: First, whether we would be willing to build it, shall I say, on somebody else's money; and second, would we be willing to put our own money into such a mill.

Mr. ANDREWS. There is quite a difference between those two questions.

Mr. OBBARD. Yes, sir.

Mr. ANDREWS. The easiest thing in the world to do is to spend somebody else's money.

Mr. OBBARD. Well, it is not so easy. I do not think anyone should conclude that this is an easy or simple thing to build, and we have by no means concluded that if it were built by other moneys that we would be in a position to do the work. That would depend on business conditions, the number of men available, and many other factors.

REQUIREMENT FOR STEEL IN INDIA

Mr. ANDREWS. In your opinion, based on information contained in the report, are there requirements for additional steel in India and in that area of the world?

Mr. OBBARD. Based on reasonable assumptions, Mr. Chairman, which are set forth in our study—and reasonable assumptions are a continuation of aid of some sort to India and of a reasonable growth, which has been estimated at somewhat less than the Indian third 5-year plan——

Mr. Andrews. They are now in the third year of the third 5-year plan?

Mr. OBBARD. That is correct, and they are not reaching the expectations that were held out at the beginning of the third 5-year plan, which had a very rapid rate of increase.

I think perhaps if you will refer to our report, volume I, we have a chart showing the growth. On pages 22 and 24 are various charts showing the rate of increase projected.

Mr. ANDREWS. And you say the rate is not as rapid as had been anticipated?

Mr. OBBARD. In general we have projected the present rate which was achieved during the second 5-year plan on in order to arrive at a reasonable forecast of future steel requirements. That is somewhat less than the Indian forecast, but it nevertheless shows that provided progress goes forward and there are no major political upsets or wars, that there will be a need for additional capacity.

Mr. ANDREWS. Do you think, from your personal knowledge of the conditions in India and from the information that you have obtained from the survey and report, that the requirement for steel in India and in that area of the world could be met by expansion of production in the existing five mills that are operating in India today cheaper than by the construction of the proposed $1.7 billion mill at Bokaro?

Mr. OBBARD. Mr. Chairman, that is a matter which we were asked under our contract to investigate only to the extent of the present planned future expansions of the, I think, five major existing steel mills. We were not asked to study the comparative economics of expansion of present mills as against construction of a new mill.

Mr. ANDREWS. So you have no opinion that you could give the committee in answer to that question?

Mr. OBBARD. No, sir.

AVAILABILITY OF RAW MATERIALS

Mr. ANDREWS. With reference to the availability of raw materials, all types of raw materials, needed in the production of steel, and considering the availability of those materials in the Bokaro area, what is your opinion, based both on your personal knowledge and on the information revealed in the report, as to the availability of raw materials and the cost of putting them at the plant at Bokaro?

Mr. OBBARD. Mr. Chairman, we were given to understand, when contracting to make this study, that the question of raw materials had been resolved by the Indian authorities. When our survey team arrived—and of course to include a complete raw material survey in our contract would have taken much more time and was far beyond the scope of the contract—when our team arrived we found that there had not been a thorough study of the type that we are accustomed to make for our own purposes.

We did study the information available in India and, as stated in our report, we had to accept certain major assumptions given to us by the Indian Ministry of Steel and Heavy Industry. They recommended a program which appeared to be reasonable to us to use available coarse ore from the deposit set aside or earmarked, rather, for Bokaro. I might explain that those ore deposits are similar to others throughout the world in that on the surface they would be lumpy, which is pretty fair ore, and as you go down usually the ore becomes finer.

Mr. ANDREWS. What do you mean by finer?

Mr. OBBARD. More powdery and the proportion of lumpy ore becomes less.

Mr. ANDREWS. Does that mean it is of inferior quality?

Mr. OBBARD. No, the lumpy ore is all right. That is the same ore the Indian industry has been running on for many years. The fine ore has a high proportion of silica and alumina in it and no way has been found yet to agglomerate it, that is, put it in lump form for use in a blast furnace.

Mr. ANDREWS. Is that type considered inferior?

Mr. OBBARD. At the moment it is unusable, but the lumpy ore which is mixed with it is usable and by screening it and washing it there would be sufficient to start the furnaces and run, though we did not recommend that phase 2 be commenced until a solution has been found for agglomerating the fine ores or other ore deposits developed.

Mr. ANDREWS. Of the raw materials needed for the operation of a steel plant, which ones would be unavailable economically in the Bokaro area?

Mr. OBBARD. Well, there wold be sufficient raw materials of all types available if the various ministries involved performed the work which they say they will. For instance, in coal, which is of usable but not too good quality, Bokaro really sits on the coal fields. So there it is a question of the National Coal Development Corp. opening up the necessary mines, putting in coal washeries, and there must be some rather simple transportation provided which might be a rope cable.

Mr. ANDREWS. You are familiar with their rail transportation system. The report mentions the difficulty that would be encountered because of the need to reload at certain points due to the fact they have

three different gage railroads. That would add to the cost of delivery at the site, would it not?

Mr. OBBARD. The only railroad gage that is really capable of heavy tonnage is the broad gage, 5-foot 6-inch gage. They have built a line into the proposed site which would be sufficient with proper spur trackage for handling the work.

Mr. ANDREWS. Then shipping to the Bokaro area there would be no problem so far as coal is concerned assuming they get proper cooperation——

Mr. OBBARD. From the National Coal Development Corp., I believe is the right term.

Mr. ANDREWS. Are all the coal mines owned by the Indian Government?

Mr. OBBARD. Yes, in the main for the public sector mills.

Mr. ANDREWS. So coal would be no problem?

Mr. OBBARD. Provided the Indian Government does the work that needs to be done.

Mr. ANDREWS. What would be the other essential raw materials?

Mr. OBBARD. Iron ore.

Mr. ANDREWS. What about that?

Mr. OBBARD. Presently they have allocated the Kiriburu deposits. As I explained, there would be sufficient lumpy ore to commence operations possibly with the purchase of some ore from some other local mines. It would be necessary, as planned, for the Indian Government to make a substitution in an existing Japanese contract for that same lumpy ore so that the Japanese would draw their requirements from another location, and for step 2 and 3 operations it would be necessary to develop some method of agglomerating the fines.

Mr. ANDREWS. At the present time iron ore is being exported from that area to Japan?

Mr. OBBARD. That is right.

Mr. ANDREWS. So if a plant were built at Bokaro the exportation of ore from Kiriburu would have to stop in order to provide enough iron ore of good quality for the plant at Bokaro to operate economically?

Mr. OBBARD. Correct, but I would say that in the first step it does not require too much.

Mr. ANDREWS. It is the step that would cost about $513 million, is that right?

Mr. OBBARD. Of U.S. dollars, plus rupees.

Mr. ANDREWS. That is the first step of the proposed plant at Bokaro?

Mr. OBBARD. Which would require, I believe, about 2 million tons of iron ore annually.

Mr. ANDREWS. What is the next raw material that would be needed?

Mr. OBBARD. Limestone, and for that there would be two types of limestone required. The first would be for the blast furnaces and apparently a deposit can be developed about 200 miles to the west of Bokaro.

Mr. ANDREWS. In sufficient quantity?

Mr. OBBARD. Yes. As far as we know the drilling is only just commenced.

Mr. ANDREWS. Could that be transported the 200 miles economically?

Mr. OBBARD. Yes, sir.

Mr. ANDREWS. Does your company transport limestone to any of your plants from that distance?

Mr. OBBARD. Oh, yes; indeed.

Mr. ANDREWS. So that would be no problem?

Mr. OBBARD. No, sir.

Mr. ANDREWS. That is, the limestone for the blast furnaces?

Mr. OBBARD. That is right.

Mr. ANDREWS. What is the other type?

Mr. OBBARD. The other is a higher grade of limestone.

Mr. ANDREWS. A higher grade?

Mr. OBBARD. A higher grade or a different grade of limestone required for the steelmaking process.

Mr. ANDREWS. What is the situation with reference to the availability of the higher grade of limestone?

Mr. OBBARD. Exploration to develop adequate supplies is in process. We assumed for financial evaluation that the stone would come from the existing deposits in the Satna area.

Mr. ANDREWS. How far is that?

Mr. OBBARD. About 450 miles, I would say, to the west.

Mr. ANDREWS. Could that be economically delivered to the site?

Mr. OBBARD. It would be better to develop a closer deposit but very little detailed exploration work has been done on limestone.

Mr. ANDREWS. You do not know whether or not there is a site with that type of limestone nearer the Bokaro site?

Mr. OBBARD. We do not know, sir.

Mr. ANDREWS. Do you know if that is what the AID agency is now investigating?

Mr. OBBARD. I understand AID has a couple men in India now investigating the raw materials situation.

Mr. ANDREWS. That is our information. Now what is the next raw material that would be needed?

Mr. OBBARD. Those are the major raw materials. The rest are minor in quantity.

Mr. ANDREWS. I get the impression, Mr. Obbard, that the question of coal is not too bad provided the Indian Government cooperated and took certain actions?

Mr. OBBARD. That is correct.

Mr. ANDREWS. I also get the impression that the question of iron ore would be no problem if exporting that ore to Japan was stopped?

Mr. OBBARD. I do not think we can make as definite a statement as that, sir.

Mr. ANDREWS. Would you elaborate on it, then?

Mr. OBBARD. I think at the beginning of the first step there might be sufficient even with the Japanese exports.

Mr. ANDREWS. Stopped.

Mr. OBBARD. No; continued. Now as first-step production increased I certainly think that the Japanese should be served from another point.

Mr. ANDREWS. In India?

Mr. OBBARD. In India. I can refer you to this map. Might I explain that the present Japanese contract develops ore at Kiriburu. That is about 240 miles from Bokaro.

Mr. ANDREWS. It is from that spot that ore is now being exported to Japan?

Mr. OBBARD. Yes. It is being exported through Vishakhaptnam. The Indian Government is developing an ore supply at Bailadila.

Mr. ANDREWS. Is that an economical supply?

Mr. OBBARD. It is about the same.

Mr. ANDREWS. Good quality?

Mr. OBBARD. It is about the same quality as other Indian ores. It is closer to the seaport but it would take about 3 years to build the railroad.

Mr. ANDREWS. So then it is your opinion that so far as iron ore is concerned there would be no problem there so far as the first step of the proposed mill at Bokaro is concerned, and as to limestone they would need two types, one for the blast furnace, which would be available over a haul of 200 miles, and that would be economical. So the main problem is in reference to the higher grade of limestone which would have to be shipped 450 miles?

Mr. OBBARD. It is not a problem. We picked that because we know that suitable limestone is available there and also, when you say "no problem," I would like to qualify that by saying "no insuperable problem." The Indian railways have to be sure that the rolling stock for the traffic is available; the National Coal Development Corp. has to be sure that the coal is available. We have figured on the mine proper being controlled by the steel mill and working in conjunction with the steel mill.

Mr. ANDREWS. Mr. Obbard, have you been out in that area around Bokaro?

Mr. OBBARD. No, sir. I have been as far as Jamshedpur, which is not too far away.

SUITABILITY OF SITE FOR MILL

Mr. ANDREWS. What is your opinion as to the suitability of the site of Bokaro for a steel mill either in the first, second, or final stage as proposed by the Indian Government and the AID of the U.S. Government?

Mr. OBBARD. Physically the site is suitable provided that water and power are made available. Those come from yet another department of the Indian Government. The raw materials are no better and no worse than the present steel industries are working on.

Mr. ANDREWS. I am reading here from a statement issued by AID, dated April 28, 1963, on page 3:

> **Bokaro will not be profitable in the first step. It would become and remain so with full production in step II.**

Have you seen that report?

Mr. OBBARD. Yes. I have a copy of it.

Mr. ANDREWS. What is your comment on that statement?

Mr. OBBARD. Well, it must be remembered, Mr. Chairman, that our figures are based on the assumptions that these services and facilities from other Indian Government departments will be provided.

EXPENDITURES REQUIRED FOR PROJECTS ASSOCIATED WITH MILL

Mr. ANDREWS. I read further from that same report on page 9:

Assumed to be undertaken by Indian authorities are these major—outside the fence—projects, associated with and essential to Bokaro, for which estimates are also supplied.

Tenughat Dam	$31,127,000
Canal to Bokaro	5,730,000
Bokaro townsite	40,000,000
Added 125 megawatt generating capacity	32,000,000
Increased coal mine wash facilities	25,000,000
Total	133,857,000

Do I understand that it would be necessary to spend this much money for these projects before you could consider building a mill, even the first, second, or final stages at Bokaro?

Mr. OBBARD. It would have to be done parallel with the construction of the mill. There are some other items on which no estimates have been furnished. These are taken from page 109 of volume 2 of our report. You will notice there there is also expansion of railroad facilities.

Mr. ANDREWS. In other words, it would be necessary, in addition to the expenditure of $133,857,000 for the purposes we just described to spend the following amounts of money—what are they—as shown on page 109 of your report?

Mr. OBBARD. They parallel the dollar figures given in the AID digest, the summary——

Mr. ANDREWS. In addition to the $133,857,000——

Mr. OBBARD. There are also some railway and road work which we have not been able to estimate.

Mr. ANDREWS. They are described in your report on page 109 as an expansion of the southeastern and eastern railroad facilities. Do you have no estimate of the cost for such expansion?

Mr. OBBARD. Correct.

Mr. ANDREWS. Also, an expansion of road network on which you have no estimate of cost.

Do you know anything about the number of miles that would be needed in the expansion of the road work?

Mr. OBBARD. We do not, sir. We were not able to get any figures. I might point out that step I would require that some of the items on page 109 would be sufficient for the final mill such as items a and b, that is, the water supply, that the items thereafter, c, d, and f, that is, the townsite, power generation, coal mining, and washing facilities are only sufficient for the first step. That is shown at the top of page 109.

To carry it through to the third step would require more than is set forth here.

TYPE OF PLANT PROPOSED

Mr. ANDREWS. Now if this proposed plant is built, what type plant would it be?

Mr. OBBARD. It would be a modern plant principally for flat-rolled products—that is, plates, sheets, and so forth, which are apparently the growing deficiency area in the Indian economy.

TOTAL COST OF PLANT

Mr. ANDREWS. What can you tell us, Mr. Obbard, about the capital and operating costs that would be involved in the construction of the proposed plant in the first, second, and final stages?

Mr. OBBARD. We have that given in summary on page 4 of volume 3. Volume 3 is devoted principally to financial matters. I think this is repeated by the AID people. That is also quoted on page 9 of the AID release.

Mr. ANDREWS. Which shows that for the step I the cost would be $512,588,000 in foreign exchange expenditure. For the second step, $162,367,000. For the third and final step, $216,597,000, or a total of $891,552,000. Then the equivalent Indian rupee expenditure for the first step would be $314,653,000; for the second step, $75,488,000; and for the third and final step, $100,346,000; for a total of $490,-487,000.

The total of all foreign exchange expenditure and equivalent rupee expenditure would be for the first step, $827,241,000; for the second step, $237,855,000; and for the third and final step, $316,943,000; for a grand total of $1,382,039,000.

Mr. OBBARD. I must point out, in addition to that, you must have capitalized interest during the construction period and various deferred charges which are set out in the AID report.

Mr. ANDREWS. Which would be for the first step, $92,187,000; for the second step, $7,300,000; and for the third and final step, $23,240,-000, for a grand total for capitalized interest, deferred charges, et cetera, $122,727,000, making the grand total for the three steps of foreign exchange expenditure, equivalent Indian rupee expenditure, capitalized interest, deferred charges, and so forth, $1,504,766,000. In other words, that would be the cost of this mill when you take into consideration all elements of cost.

The total cost for the first step would be $919,428,000. If you carried that forward to the second step, the cost would be $245,155,000 extra. To carry it to the third and final step would entail an additional cost of $340,183,000, making the total cost of the Bokaro mill, if carried out to the finality of the plans that have been envisioned, $1,504,766,000; is that correct?

And in addition to that, in order to put a mill at Bokaro, India, you would have to spend $133,857,000 in addition to the $1,504,766,000 in order to get all of the facilities needed in the Bokaro area for the operation of a steel mill, plus undetermined cost in the area of railroads and roads; is that correct?

Mr. OBBARD. That is correct.

Mr. ANDREWS. So then my original figure of $1.7 billion is not too far out of the ball park, is it?

Mr. OBBARD. That is correct.

CONTRACTING FOR CONSTRUCTION OF PLANT

Mr. ANDREWS. Now, should the proposal be approved, Mr. Obbard, for the United States to finance this plant, will United States Steel be interested in bidding for the contract to construct and operate the plant?

Mr. OBBARD. As I explained earlier, Congressman, we have not given that full consideration and cannot do it until the matter is further along. We do not know whether we will have men available at the time when they might be required. We do not know what the terms of any proposed contracts might be, and we do not feel that we can make any proper answer to that at this time.

Mr. ANDREWS. Do you know whether or not engineering of Bokaro can or cannot be done locally?

Mr. OBBARD. There is in India a reasonably good force of consulting and design engineers, but we think that while they would be entirely competent to carry out detailed design work, for a large and most modern mill of this sort which would employ U.S. equipment, U.S. engineering should be used.

Mr. ANDREWS. If local firms were used, would it not be necessary for them to combine and greatly expand their staffs to get the job done?

Mr. OBBARD. It would need some expansion within the limits of the competent people available in India. I do not think they could do the whole job regardless of any expansion they might have.

Mr. ANDREWS. Do you know whether or not capable Indian contractor firms are fully committed at the present time for the next 3 to 5 years?

Mr. OBBARD. I have no accurate knowledge of that, Congressman.

Mr. ANDREWS. Does any member of your staff have any knowledge of the workload that Indian contractor firms have at this time?

Mr. OBBARD. I do not know, Congressman.

Of course, one must bear in mind all the other five plants have expansion programs underway at the moment so there would not be too much talent available, extra talent available in India for either design or construction.

Mr. ANDREWS. Do you know whether or not there is a lack of construction equipment in India at the present time?

Mr. OBBARD. There is a lack of some of the types of equipment which would be required—large equipment.

I believe our subcontractor's report, the Bechtel Co., lists the equipment which would be required. There would have to be a substantial amount of large construction equipment.

Mr. ANDREWS. Purchased from outside the country?

Mr. OBBARD. That is right.

AVAILABILITY OF PERSONNEL

Mr. ANDREWS. Do you know anything about the availability of mature, experienced superintendents, foremen and subforemen? What is the situation with reference to those conditions in India at the present time?

Mr. OBBARD. You mean for construction purposes.

Mr. ANDREWS. Yes, sir.

Mr. OBBARD. They are, as I said, pretty busy at the moment on the expansion of the other mills. There are some. The larger Indian construction contractors are certainly competent to do part of the work.

Mr. ANDREWS. On the bottom of page 9 and 10 it is stated in substance that an American contractor must be used with full respon-

sibility for the project and that not less than 90 percent of construction equipment must be imported. Are you familiar with that statement?

Mr. OBBARD. We employed a subcontractor, Bechtel International, who are thoroughly experienced in this.

AVAILABILITY OF EQUIPMENT

Mr. ANDREWS. I would like to read from page 8 of the Bechtel Corp. report dated January 14, 1963. As I understand it, Bechtel Corp. is one of your subcontractors.

Mr. OBBARD. Yes.

Mr. ANDREWS. This paragraph 4, on page 8, states:

Availability in India of modern, efficient, heavy construction equipment is extremely limited. This situation will probably not be alleviated in the next decade. Informed judgment agrees not less than 90 percent of construction equipment required for timely completion of Bokaro must be imported.

Mr. OBBARD. Yes, sir. That refers, of course, to the heavy construction equipment. I think that same report has a tabulation, or our report has a tabulation, on page 99 of volume 2, which gives the equipment required in some detail.

AVAILABILITY OF CONTRACTOR ORGANIZATION

Mr. ANDREWS. On page 21 of that report, the Bechtel report, I read:

During the period 1963–70, the industrial growth of India is expected to continue at not less than the rate during the past 10 years. Broadly, this means that existing reputable construction organizations will be fully occupied. Their individual capacity will be limited principally by availability of construction equipment.

Mr. OBBARD. That is correct, sir.

Mr. ANDREWS. Does that mean if work were started on the Bokaro mills, it would have to be done by outside firms?

Mr. OBBARD. It would have to be done by a major U.S. or outside India construction firm. The availability of local subcontractors depends very largely on the circumstances at the time.

Mr. ANDREWS. Reading further from the Bechtel report on page 23:

There is virtually a dearth of Indian contractor organizations qualified to perform major industrial, mechanical, or electrical engineering work. The question of adequacy of field supervision, therefore, is not material for these activities.

Quoting further:

Lack of competent field supervision for civil and structural engineering has been, and continues, a definite weakness of the Indian contractor organization.

Mr. OBBARD. That is correct.

Mr. ANDREWS. Would you care to comment on that report presented by the Bechtel Corp.

Mr. OBBARD. That bears out the stateemnt we have already made, that the construction should be handled by large, competent outside concerns which can provide the supervision, the equipment, and the coordination that is so necessary to progress any large job satisfactorily.

Mr. ANDREWS. Mr. Obbard, could you give us an estimate of what steel could be produced for at the proposed plant at Bokaro, if the plant is constructed under the first step, second step, and final step?

Mr. OBBARD. Mr. Chairman, we have that in some detail for the first step. It is set forth in volume 3, product by product.

Exhibit C–6 has the ingot cost.

Exhibits C–7 to C–16 have detailed product costs for various finished materials.

Mr. ANDREWS. Without objection, we will place these exhibits from volume 3, C–6 through C–8, in the record at this point.

(The exhibits referred to follow:)

EXHIBITS C–6.—BOKARO STEELWORKS

Product cost of ingots

MATERIAL

Description	MT/MT	Price per metric ton	Cost, metric ton ingots
Hot metal	0.8556	$22.50	$19.25
Iron scrap—molds and stools	.0346	20.58	.71
Other iron scrap	.0048	20.58	.10
Solid steel scrap, revert	.2355	31.00	7.30
Other steel scrap, revert	.0267	20.58	.55
Roll scale scrap, revert	.0504	5.25	.26
Sundry products recovered:			
Iron scrap, ladle	.0048	20.58	.10
Steel scrap, butts and conditioned ingots	.0206	31.00	.64
Steel scrap, other	.0267	20.58	.55
Additions:			
High carbon iron manganese	.00836	190.00	1.59
Medium carbon iron manganese	.00064	380.00	.24
Silicon carbide	.00014	303.00	.04
Aluminum	.00057	950.00	.54
Sodium fluoride	.00007	719.00	.05
Total, net material			29.34

COSTS OTHER THAN MATERIALS

Flux:			
Burnt lime	0.1475	$18.45	$2.72
Limestone	.0369	8.46	.31
Bauxite	.0050	10.00	.05
Oxygen (2,200 cubic feet)			.46
Other charging and melting			.49
Material handling			.18
Pit operations			1.28
Total other than materials			5.49
Total cost			34.83

	Semikilled	Rimmed	HT killed
Molds and stools	$0.62	$0.70	$0.96
Rimming and plates		.12	
Hot top service			2.69
Total, ingot cost	35.45	35.65	38.48
Excise tax	8.26	8.26	8.26
Grand total, ingot cost	43.71	43.91	46.74

NOTE.—Production, 1,400,000 metric tons.

EXHIBIT C-7.—BOKARO STEELWORKS

Product cost: Plates, light gage, commercial quality; size: 5 millimeters thick by 900 millimeters wide by 3 meters long

Description	Percent yield this process	Cost per metric ton this process		
		Cost of loss	Cost above	Total this process
Ingot, open top rimmed				[1] $43.91
Primary mill:				
Soaking pit			$1.20	1.20
Slab mill	86.21	$3.20	1.32	4.52
Slab conditioning	99.60	.17	.15	.32
Hot strip mill	96.68	1.00	4.44	5.44
Flatten and shear	90.44	2.67	1.33	4.00
Shipping			1.13	1.13
Total, operating cost				60.52
Excise tax on finished product				11.02
Administrative expense				7.05
Depreciation				26.84
Total, product cost, prime				105.43

[1] Includes excise tax on ingot, $8.26.

NOTE.—Prime yield from ingot, 75.08 percent; production, 202,612 metric tons.

EXHIBIT C-8.—BOKARO STEELWORKS

Product cost: Plates, medium gage, structural quality; size: 8 millimeters thick by 1,300 millimeters wide by 3.5 meters long

Description	Percent yield this process	Cost per metric ton this process		
		Cost of loss	Cost above	Total this process
Ingot, open top S.K				[1] $43.71
Primary mill:				
Soaking pit			$0.95	.95
Slab mill	85.03	$3.36	.93	4.29
Slab conditioning	99.60	.17	.15	.32
Hot strip mill	96.39	1.04	4.44	5.48
Flatten and shear	86.95	3.73	5.11	8.84
Shipping			1.13	1.13
Total, operating cost				64.72
Excise tax on finished product				11.02
Administrative expense				7.05
Depreciation				26.84
Total, product cost, prime				109.63

[1] Includes excise tax on ingot, $8.26.

NOTE.—Prime yield from ingot, 70.98 percent; production, 163,077 metric tons.

Mr. ANDREWS. Do you want to make a statement with reference to the charts?

Mr. OBBARD. Yes.

You will note that in the buildup of these costs there are included excise taxes. These amount in ingots to $8.26 a ton. There is a further excise tax on the finished product of $11.02 in the case of plates.

Mr. ANDREWS. Is that tax imposed by the Indian Government?

Mr. OBBARD. That is an excise tax imposed by the Indian Government.

I might further point out that due to the loss in the conversion from ingot to plate, that total excise tax adds up to approximately $22 per ton as is shown in our report. That must be considered when thinking of the total cost.

Mr. ANDREWS. Now, Mr. Obbard, in your opinion, what would a ton of steelplate produced at the proposed Bokaro mill cost to the ultimate consumer in India?

Mr. OBBARD. Well, sir, I would first like to point out that in these costs which you have put in the record there are not included financial charges for interest or repayment of debt.

Now, as regards the price to the consumer, there is a further addition which is unusual to us, but which I feel should be explained.

I should first say that the prices to consumers throughout India, in whatever part, are equalized so the freight rates are averaged out and the consumer in whatever part he may be in India pays the same price.

Mr. ANDREWS. Is that based on the old so-called Pittsburgh-plus plan that existed at one time in this country?

Mr. OBBARD. No. Far from it.

That Pittsburgh-plus included freight from Pittsburgh. This is an overall average price rather like the English system where they have a single zone price. It is a zone price like in England except that the zone covers all of India.

Mr. ANDREWS. In other words, a man living 1,000 miles from one of the existing steel plants today pays the same price for a ton of steel that the man who lives within a stone's throw of the plant pays; is that correct?

Mr. OBBARD. That is correct.

Mr. ANDREWS. That would also be the situation if another plant were built at Bokaro?

Mr. OBBARD. That is correct.

Mr. ANDREWS. Back to my question—what would a ton of steelplate cost the consumer in India if that one of steelplate were produced at the proposed Bokaro plant?

Give me the the benefit of your best judgment as to what that cost would be.

Mr. OBBARD. The selling price to the Indian customer would be $164 a ton.

Mr. ANDREWS. Now, what would the selling price to the ultimate consumer in India be for a ton of steelplate of equal quality, manufactured in the United States?

Mr. OBBARD. Peculiarly enough, it would be about the same price.

Mr. ANDREWS. $164?

Mr. OBBARD. I have to explain the Indian pricing system.

Mr. ANDREWS. You have explained that. That is kind of an OPA over there, is it not, so far as steel is concerned?

Mr. OBBARD. It is a little unusual to us, so perhaps I could explain it from the bottom up.

As far as the producing mill, they have to buy their labor and materials and take care of their depreciation. They have to pay the usual taxes we are accustomed to in this country—the corporation income tax is 25 percent plus a 25 percent surcharge, making a 50 percent corporation income tax. With all of that we are familiar.

We may regret the taxes, but we pay them.

Over and above that comes this excise tax which, as I explained, was about $22 a ton whether or not you are making money. Over and above that there is a spread between the price that the mill receives and the price that the consumer pays. The mill receives what is known as the retention price. The steel is actually sold to the consumer at $30 to $35 more than the retention price. Now, that was initiated originally when there was a general shortage of steel throughout the world. Imported steel was of high cost and the Indian Government equalized the price to all consumers. To perhaps put it graphically, if it was half Indian steel at $120 a ton, half imported steel at $180 a ton, that was averaged out and was sold to the consumer at $150 a ton.

Now, the price of imported steel, particularly from the Common Market countries, or Japan, is somewhat lower than the retention price of Indian-produced steel, therefore, that $30 to $35 a ton goes into a fund which is supposed to take care of this equalization but which is not consumed by this equalization by any manner of means these days, and to the extent of about $30 a ton is a margin which goes at the end of each year into the general funds of the Indian Government. Therefore, adding the excise tax and the difference between the present retention price and the sales price to the customer, you get about $50 a ton tax accruing to the Indian Government.

Mr. ANDREWS. Does the Indian Government have complete control over the distribution and sale of steel in the country?

Mr. OBBARD. Of all ordinary types of steel.

Mr. ANDREWS. So regardless of where the Indian Government gets it, or what they pay for it, the consumer pays the same thing for steel regardless of where it is produced?

Mr. OBBARD. That is right, regardless of where it is produced or delivered. In some cases some benefit of lower cost imports may revert to the consumer or the importer.

Mr. ANDREWS. The steel business must be very profitable to the Indian Government; is that right? I assume it is. They have a monopoly on it.

Mr. CONTE. Would you yield on the price of steel in India?

Mr. ANDREWS. Yes.

Mr. CONTE. When you mentioned the price of steel produced in India, do you consider the built-in costs of the steel mill itself, or is this just labor cost?

Mr. OBBARD. We have taken in all the costs except the finance charges, repayment of capital and interest.

Mr. CONTE. Have you gone on the assumption that the Bokaro mill would be built at a cost we have here in arriving at that figure?

Mr. OBBARD. Yes.

Mr. CONTE. You have?

Mr. OBBARD. Yes.

Mr. ANDREWS. In other words, they just take steel from wherever they can get it, average out the cost, and sell it to the ultimate consumer?

Mr. OBBARD. That is the general idea.

Mr. ANDREWS. Let me ask you this question.

Would it be more profitable to the Indian Government to produce the steel at Bokaro and put it in that pot, or import it from Japan and/or the United States?

Mr. OBBARD. From the present prices quoted from Japan, or Europe, it is just about a standoff.

Mr. ANDREWS. What is the Japanese quoted price of steel delivered in India?

Mr. OBBARD. The Japanese price—and again I will take plates.

Mr. ANDREWS. We are talking about a ton of steelplate?

Mr. OBBARD. Yes.

Mr. ANDREWS. Metric tons?

Mr. OBBARD. Yes.

Mr. ANDREWS. Which is 10 percent more than our standard net ton?

Mr. OBBARD. A ton of steelplate from Japan, f.o.b. Calcutta, including countervailing duty—technically the import tariffs have been waived—but a countervailing duty has been put on to approximately equalize the excise which I mentioned. I mentioned that excise as being approximately $22 a ton to an Indian steel producer. The countervailing duty is actually only $16 per ton for an importer.

Mr. ANDREWS. They can put on, or take off whatever they want to. My question is this——

Mr. OBBARD. Therefore, the net cost to the Government of India for the Japanese plate would be $102 a ton.

Mr. ANDREWS. $102 a ton?

Mr. OBBARD. That is right.

Mr. FLYNT. May we go off the record at this point?

(Off the record.)

Mr. ANDREWS. In other words, all steel that is imported into India is controlled by the Indian Government?

Mr. OBBARD. That is correct, sir.

Mr. ANDREWS. We are still talking about steelplate?

Mr. OBBARD. Yes.

Mr. ANDREWS. So a ton of steelplate delivered in India, consigned to the Indian Government, costs the Indian Government $102 a ton if the purchase is made from Japan?

Mr. OBBARD. That is correct.

Mr. ANDREWS. Now, what is the cost of that ton of steelplate to the Indian Government delivered in India from the United States?

Mr. OBBARD. $172 per ton. Imports from Japan I mentioned as net cost of $102 a ton; imports from European countries working under the Brussels Convention, which is——

Mr. ANDREWS. Common Market?

Mr. OBBARD. No, sir; an export price. May I call it a gentleman's agreement——

Mr. ANDREWS. All right.

Mr. CONTE. Which you would be jailed for here in the United States——

Mr. OBBARD. That is right, and we might put the gentleman in quotes—it would be $101 a ton.

Mr. ANDREWS. $101 from European countries; $172 from the United States; $102 a ton from Japan?

Mr. OBBARD. That is right.

Mr. ANDREWS. I guess they are the principal sources of supply to the Indian Government?

Mr. OBBARD. I would say those are clearly dumping prices.

Mr. ANDREWS. What does it cost the Indian Government to put into its inventory for distribution and sale a ton of steelplate made in India?

Mr. OBBARD. Of course, Mr. Chairman, we have figures only on the projected Bokaro plant.

Mr. ANDREWS. That is good enough.

Mr. OBBARD. Excluding the excise tax that would cost $87.63 plus financing charges which would be on the order of $14 a ton.

Mr. ANDREWS. We will say $102?

Mr. OBBARD. Yes.

Mr. ANDREWS. So the Indian Government is the sole controller of all steel sold in India?

Mr. OBBARD. That is correct, sir.

Mr. ANDREWS. They get their steel from four different sources principally—from their own country, which costs them $102 a ton for a ton of steelplate: from Europe which costs them $101; from the United States which costs $172 a ton; and from Japan which costs $102 a ton.

They take all of this steel and sell it to the consumer for $164 regardless of the source of production.

Mr. OBBARD. That is generally correct, sir.

Mr. FLYNT. Mr. Obbard, you mentioned that the prices from the European countries were clearly dumping prices.

Mr. OBBARD. That is right.

Mr. FLYNT. Does that mean below the normal world price in the sense you used the term there?

Mr. OBBARD. No; they are at the world price but they are below, substantially below, their internal domestic price.

Mr. FLYNT. Below the domestic prices in the country of origin?

Mr. OBBARD. That is correct.

Mr. FLYNT. Along that line, if India needs steel as badly as has been indicated to us, why would, under the Brussels agreement, the price be reduced to that low point which you described as a dumping price?

Mr. OBBARD. Because that is generally used by European countries in export to any country—the Argentine, Brazil, or anywhere else, and also the Europeans justify their dumping prices——

Mr. FLYNT. To keep up production?

Mr. OBBARD. Well, as against the Japanese.

Mr. FLYNT. That was my next question. Was it done to meet Japanese competition?

Mr. OBBARD. Yes.

Mr. FLYNT. Sold at substantially below their domestic price in order to meet Japanese competition?

Mr. OBBARD. That is right.

Mr. FLYNT. Would you then say that the dumping price as established by the Brussels agreement is below the cost of production?

Mr. OBBARD. I don't know, Congressman. It might be above incremental cost of production, but it certainly is below the true average cost of production.

Mr. FLYNT. Thank you, Mr. Obbard.

Mr. OBBARD. You understand what I mean by incremental price?

Mr. FLYNT. I think I do. Would you explain it? You can do it off or on the record. It is not a secret matter.

Mr. OBBARD. No; it is no secret.

Mr. FLYNT. I think I understand it but we would like clarification on it for our record.

Mr. OBBARD. Well, if you are running at 90 percent, the last 10 percent will cost just the additional labor and materials. And can be sold at a low price, although we ourselves consider that to be, and our laws consider that to be, an unfair business practice.

Mr. FLYNT. That was my understanding. Thank you for the clarification.

Thank you, Mr. Chairman.

STEEL EXPORTED TO INDIA

Mr. ANDREWS. Can you tell me, Mr. Obbard, the total tonnage exported from the United States into India?

If you do not have the figure would you supply it for the record?

Mr. OBBARD. We shall supply it, Mr. Chairman.

(The information requested follows:)

Exports of steel products from the United States to India

[In thousand net tons]

	Steelmill products	Other steel products	Total
1963—1st quarter	55.9	5.8	61.7
April	26.1	.9	27.0
May	30.2	.9	31.1
Total, 5 months	112.2	7.6	119.8
1962	240.5	6.7	247.2
1961	130.7	16.0	146.7
1960	150.6	2.9	153.5
1959	7.1	19.3	26.4
1958	25.1	14.0	39.1

NOTE.—Other steel products include fabricated plates and structurals, welding rods, tanks, cylinders forgings, castings, wire rope, trackwork, etc.

Source: AISI Annual Statistical Report, U.S. Department of Commerce.

Mr. OBBARD. So far as we are concerned, Mr. Chairman, we find that our company's exports to India are mostly specialty products; in other words, high quality steel such as our T–1, Cor-Ten, and special sections.

Mr. ANDREWS. You sell only to the Indian Government?

Mr. OBBARD. Or to licensed importers.

Mr. ANDREWS. It is the Government or a Government agent, is it not?

Mr. OBBARD. You have to get a license to be a private importer but it is controlled very strictly by the Indian Government.

COST OF PRODUCING STEEL AT BOKARO

Mr. FLYNT. Mr. Obbard, in the discussion a few moments ago, I was making my comparative notes on the page which contains exhibit C–8. There I show the total cost price of product costs from the projected Bokaro steelworks as $109 per ton.

In the record a while ago the figure $102 was used.

Is $109 the correct figure or is $102 the correct figure?

Mr. OBBARD. That was arrived at in this way, Congressman: We deducted from the $109.63 the $22 excise tax. We are trying to point out the cost to the Indian Government, and they receive their $22 excise tax. That brings it down to $87.63, or $88, and then there are interest charges which, as I said, are not added in here, which we put into the amount at about $14 a ton, so you come up to about $102 a ton.

Mr. FLYNT. Thank you.

Mr. OBBARD. In other words, you deduct the excise and add in the interest.

Mr. ANDREWS. Mr. Natcher?

Mr. NATCHER. Mr. Obbard, we want to thank you and the members of your staff for appearing before our committee at this time and for the excellent manner in which this subject has been presented.

COST OF CONSTRUCTING BOKARO STEELMILL

Why would the Bokaro steelmill cost $1,700 million, Mr. Obbard? Do you consider this estimated cost excessive?

Mr. OBBARD. No, sir; we built up our costs very carefully so that they are entirely capable of support.

We must remember that this is a flat-product mill, that is for plates, sheets, and the like.

It is not cheap to build because there must be consequential American supervision for the construction periods and for the breakin periods.

Even with all that, when you come out to the 4-million-ton third step you have a cost-per-ingot ton that is well in line with the costs of other Indian steel mills, although they were built mostly 5 or 6 years ago—let us say there was less inflation then—and if you will turn to exhibit F–1, volume No. 3——

Mr. NATCHER. On this exhibit do you show the cost of the other steel mills in India?

Mr. OBBARD. Yes, sir.

Mr. NATCHER. Mr. Chairman, I believe that should be in the record. Is the cost of the other steel mills in India in the record? That was to be furnished.

Mr. ANDREWS. Off the record.

(Discussion held off the record.)

Mr. NATCHER. Without objection, Mr. Chairman, we would like to have these figures submitted at this point in the record.

Mr. ANDREWS. Without objection that will be done.

(The figures referred to above follow:)

EXHIBIT F-1.—*Comparative capital cost, steel plants in India—appendix IX, Tariff Commission Report, April 1962, and Bokaro estimate, annual production at capacity*

	Tisco	Iisco	Hindustan Steel, Ltd.				Bokaro estimate [1]
			Durgapur	Rourkela	Bhilai	Total HSL	
Bokaro step I, gross investment (million)							$789.8
Production:							
Tons of ingots							1,400,000
Tons of salable steel							1,038,500
Investment:							
Per ton of ingots							$564
Per ton of salable steel							$761
Bokaro step II, gross investment (million)							$1,019.7
Production:							
Tons of ingots							2,500,000
Tons of salable steel							1,804,000
Investment:							
Per ton of ingots							$408
Per ton of salable steel							$565
Bokaro step III; Hindustan Steel plants after plan III expansion; Tisco and Iisco after additional investment authorized; gross investment (million)	$498.9	$190.3	$489.9	$693.2	$645.2	$1,828.3	$1,335.0
Production:							
Tons of ingots	2,032,100	1,016,050	1,625,000	1,800,000	2,500,000	5,925,000	4,000,000
Tons of salable steel	1,524,075	812,840	1,258,824	1,240,000	1,965,000	4,463,824	2,915,000
Investment:							
Per ton of ingots	$245	$187	$301	$385	$258	$309	$334
Per ton of salable steel	$327	$234	$389	$559	$328	$410	$458

[1] Estimated investment for Bokaro includes plant facilities plus capitalized interest. The ore mine and limestone quarry investments are excluded.

Mr. OBBARD. Might I point out, Mr. Congressman, this is a flat-rolled products mill, and that the most nearly comparable steel mill to it in India is the Rourkela mill, the German mill, which is also principally flat-rolled products.

Mr. NATCHER. Would it cost the United States Steel Corp., or one of the other companies in this country, the sum of $1,700 million to construct this plant in India?

Mr. OBBARD. Oh, yes, sir; it would cost us the same.

WATER SUPPLY AT BOKARO

Mr. NATCHER. You informed the committee that the study made pertained somewhat to the raw materials. What about water, Mr. Obbard? Would you not have to have an adequate supply of water for this mill?

Mr. OBBARD. You certainly must have.

Mr. NATCHER. What plans, if any, do you show from the standpoint of a water supply? Is this a lake, a reservoir, or what type of water supply?

Mr. OBBARD. Combined storage and a hydroelectric dam to be built by the India Damodar Valley Corp., built by a department of the Indian Government known as——

Mr. NATCHER. What river is this?

Mr. OBBARD. Damodar River.

Mr. NATCHER. Do you in the study show that this would be an adequate supply of water?

Mr. OBBARD. Yes, it would be. We had that looked into carefully by Stone & Webster.

Mr. NATCHER. Mr. Obbard, you stated that the coal supply was usable but not of good quality. I believe this coal has a lot of ash in it and has to be washed?

Mr. OBBARD. Yes.

ADEQUACY OF SUPPLY OF COAL

Mr. NATCHER. What about the supply? Is there an adequate supply of coal at this point, for the operation of this steel mill?

Mr. OBBARD. Provided the new mines are built, the washeries are built, there will be an adequate supply of coal.

India's long-term reserves of metallurgical coal are perhaps limited, but like many other metallurgical problems in India are perhaps not being fully explored.

The coal is high in ash. I think it is about 24 percent which washes down to about 18 or 19 percent.

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. ANDREWS. Mr. Flynt?

Mr. FLYNT. Thank you, Mr. Chairman.

Mr. Obbard, I want to thank you and your associates for the information which you have provided to us. I have asked substantial questions previously and I shall therefore limit these to those which have not been previously covered.

HINDUSTAN STEEL, LTD., PLANT

Are you familiar with operation of Hindustan Steel, Ltd.?

Mr. OBBARD. Reasonably so.

Mr. FLYNT. Is that a wholly owned subsidiary of India?

Mr. OBBARD. Yes.

Mr. FLYNT. A separate corporation, so to speak?

Mr. OBBARD. Yes, sir, under the Ministry of Steel and Heavy Industry.

Mr. FLYNT. Is its scope of operation limited to production?

Mr. OBBARD. They also have some of the ore mines tied to this, and some limestone and some coal washeries, but by and large they are simply steel producing companies.

Mr. FLYNT. An integrated company, so to speak, where it owns the source of raw materials——

Mr. OBBARD. Only the ore.

Mr. FLYNT. Do they have a guaranteed source of the other raw materials such as limestone and coal?

Mr. OBBARD. Limestone, yes. They own some of the limestone. Coal, no. That comes under a separate department of the Indian Government.

Mr. FLYNT. Do they have a guaranteed source of supply of coal?

Mr. OBBARD. What exactly would you mean by a guarantee?

Mr. FLYNT. Does the Government of India own the coal supply?

Mr. OBBARD. Yes, sir.

Mr. FLYNT. So therefore in their dealings for their required supply of coal they would deal with another agency of the Indian Government?

Mr. OBBARD. That is right.

Mr. FLYNT. We have established that the Hindustan Steel, Ltd., is an integrated production agency. Does Hindustan Steel, Ltd., operate in the field of purchasing finished steel products from other sources?

Mr. OBBARD. No. That is controlled by the steel controller.

Mr. FLYNT. An officer of the Indian Government?

Mr. OBBARD. Yes, which also purchases, of course, or allocates from the other two private enterprise steel mills.

Mr. FLYNT. I take it, then, that the steel controller is also an official, and his office is therefore a subagency of the Ministry of Steel and Heavy Industry?

Mr. OBBARD. I wouldn't know that, sir.

Mr. FLYNT. Can you obtain that information and supply it for us?

Mr. OBBARD. We can; yes, sir. It might be a Treasury function; I don't know.

(NOTE.—The iron and steel controller does report to the Minister of Steel and Heavy Industry.)

Mr. FLYNT. My third question along that line: We have established that the Hindustan Steel, Ltd., is the production agency. The steel controller is the official and/or agency which controls purchases of steel products from external sources.

Is there still a third agency which operates as a sales organization of steel products, both internally manufactured and externally imported?

Mr. OBBARD. The steel controller acts as a distribution and allocation agency for all steel consumers in India.

Mr. FLYNT. The steel controller, in addition to his purchasing duties, has certain sales capabilities and duties?

Mr. OBBARD. Yes, sir.

Mr. FLYNT. You have stated, I believe, that the ash content of the coal supply and deposits which would be available to Bokaro amount to approximately 25 percent? The ash content is 25 percent.

Mr. OBBARD. We can say that the average is over 20.

Twenty-four was the figure that was in my mind, but it is on that order.

Mr. FLYNT. Are you familiar with the approximate ash content of the coal deposits that are available to furnish the coal supply at Duragpur?

Mr. OBBARD. It is the same coal.

Mr. FLYNT. Is that also true at Rourkela?

Mr. OBBARD. Yes.

Mr. FLYNT. And Bhilai?

Mr. OBBARD. Yes, sir. The coal all comes from the same general area, and while differing a little from mine to mine it is of the same general nature.

Mr. FLYNT. Is that generally true of any other known coal deposits in India?

Mr. OBBARD. These are the only deposits presently known which are capable of use for metallurgical purposes. I think it is shown fairly clearly on the map.

Mr. FLYNT. Is it substantially the same coal area?

Mr. OBBARD. Substantially the same.

Mr. FLYNT. Thank you, Mr. Obbard.

Mr. ANDREWS. Mr. Conte?

QUESTION AS TO ADEQUACY OF CURRENT INFORMATION FOR CONSTRUCTION OF PLANT

Mr. CONTE. Mr. Obbard, in your report in volume 2 you stated it would take you and your team 2 years or more to find satisfactory long-term solutions to the basic raw material problems.

Do you still stand by that statement?

Mr. OBBARD. Yes, sir. We stated that this mill could be started through phase 1 with available known materials which are about the same as those now being used by other steel producers in India.

To produce greater volumes there should be long-term reserves properly explored and mapped to assure continued operation of this type of mill.

Mr. CONTE. Mr. Obbard, if you were constructing a mill here in the United States would you go ahead and construct a mill with that much information or would you wait until you had further information as to the raw materials available?

Mr. OBBARD. We ourselves as a private enterprise would want to be sure that we had our raw materials known to be available, blocked out, in our possession, and so on, for considerable time ahead. You do not build a steel mill for 5 or 10 years.

Mr. CONTE. This is a sizable investment?

Mr. OBBARD. Pardon?

Mr. CONTE. The mill itself is a sizable investment?

Mr. OBBARD. It is, indeed.

Mr. CONTE. Therefore, if you, United States Steel, were in this location you would not proceed at this time to construct a steel mill?

Mr. OBBARD. Perhaps I could answer that by saying that anywhere where we constructed a steel mill we would want to be assured of our long-term capabilities of securing suitable raw materials.

Mr. CONTE. I appreciate your answer but I want to nail it down to this specific case which we have in mind. This is where you have already made the study and you have come out with certain findings.

Based upon these findings, based upon what you know, would you construct the steel mill at this site within the next year?

Mr. OBBARD. With our money we would not. As I say, we have not made any study as to what the effect would be with our money.

Mr. CONTE. You said, Mr. Obbard, on page 28 (sec. 52), with regard to limestone that the prospective requirements of existing steel plants would take the whole or whatever production of limestone can reasonably be expected from Birmitrapur and Purnapani, and there are, moreover, problems of quality and reserves in regard to both deposits.

There again, if you were to construct a steel mill in Bokaro this would be a very serious limitation, would it not?

Mr. OBBARD. Limestone is not too compelling a factor. It is the third of the basic raw materials and it can be hauled farther.

As we say in our report, our team was rather amazed to find the little amount of factual information available on long-term reserves of steelmaking materials.

Perhaps I should say that to establish a long-term reserve is an expensive and time-consuming matter. It must be drilled out, it must be delimited, quality at various depths must be found.

I can only cite from our own experience, for instance in our Orinoco ore mines, we spent approximately $7 million in exploration before we decided to go ahead with the mine. It is an expensive and time-consuming—and we spent 5 years of time.

Mr. CONTE. But in the long run it is well worth it?

Mr. OBBARD. Because we know the material is there now.

Mr. CONTE. I don't want to put you in a spot in view of the fact you are the contracting party here with the U.S. Government, but we as conscientious legislators and public servants, beholden to the taxpayers, and regardless of what we may read in print, we take these things very seriously.

Mr. OBBARD. I appreciate that, Congressman.

Mr. CONTE. I would like to have your opinion as a citizen, not as an official of United States Steel, and with your knowledge in this area of steel, if you were sitting in my shoes, would you vote for this sizable sum of money at this point with the amount of information that we have to finance this steel mill?

Mr. OBBARD. Congressman, I am afraid there are many, many factors which I am not competent to comment on—for instance, the balance-of-trade problems, foreign exchange problems of India, what India needs first. India needs many things. What comes first in its requirements I would not be prepared to say.

Mr. ANDREWS. We were told by the former Ambassador to India that the greatest need in India today is for steel—the greatest need.

Mr. CONTE. I would like to have you finish answering, but before you do you should also know that the U.S. Government has given India in one form or another of foreign aid up to today, $5.1 billion. This is not peanuts. It is a sizable amount of money.

Also, we have a staggering national debt here of $309 billion. Interest alone is $9 to $11 billion a year to the American taxpayers.

I can sympathize with what the Ambassador said regarding India's No. 1 requirement today, but I would like to get some information from you or someone across this table, people I regard as experts. You know a lot more about this than I do. You can try to help me reach a decision on this matter.

From what you know, from the exhaustive study you have made, should the U.S. Government at this time—I am not talking about the future—and when I say this time I mean within the next 12 months, commit the United States to the construction of this steel mill?

Mr. TENNANT. Might I be permitted to say something here? I am general counsel to the United States Steel Corp. I really don't think you can ask us, who are hired to do a job here, a technical study, to give the kind of opinion that you are asking.

Any information on which we might base any such judgment comes from a contract we performed for an agency of the Government. I don't feel we should go out of our capacity as experts.

We are very happy to give you any technical information we have, but you are asking for a political judgment. I don't think that is our function.

Mr. CONTE. Let us rephrase the question. Based upon the information that you have, and we paid a very handsome sum for this study, $686,000—I think for that amount of money I deserve an answer.

Based upon the information that you have, do you think it is financially sound for the U.S. Government within the next 12 months to commit itself to this investment for a steel mill at Bokaro?

Mr. OBBARD. Congressman, I don't honestly believe I can give you an intelligent answer to that. As Mr. Tennant has said, our study has been limited not even to the entire steel industry but to a steel mill at one specific site.

We have not examined the whole steel picture except as it refers to this specific mill.

We have the greatest sympathy with the Indians and their aspirations, but we could not make an intelligent reply as to whether this money should or should not be committed by the United States. It involves political and other economic considerations far beyond our scope.

Mr. ANDREWS. But you do say you would not spend your own money for this plant at this time.

Mr. CONTE. He said yes earlier.

Mr. OBBARD. That is right, under these circumstances we would not——

Mr. ANDREWS. You wouldn't spend your own money. I observed earlier that the easiest thing on earth to do is to spend somebody else's money.

Mr. OBBARD. When I say not spending our own money——

Mr. ANDREWS. I understand what you mean. In other words, you are a good businessman. You are one of the topflight businessmen in America. You represent one of the greatest industrial firms in America, a company which has had a record of success through the years.

The saying is—as goes steel so goes the Nation. You enjoy the integrity, confidence, and faith of the American people.

When you tell me that you would not spend your company's money to build a plant at Bokaro within the next 12 months based on the information you have, with regard to conditions at Bokaro and including everything, raw materials, transportation, that is a pretty good answer for me.

Mr. CONTE. Actually, Mr. Chairman, it is 24 months because if you take his statement on the page I mentioned, it states it would take 2 years to ascertain whether the raw materials are available or not.

I asked the question of whether he stands by those words today, and he says yes.

Then I asked if he were to construct a mill, and he said anywhere in the world, he would want to know those facts.

Mr. ANDREWS. Of course he would.

Mr. CONTE. So it is 2 years before United States Steel or any other American steel company would make this kind of investment.

Mr. FLYNT. Mr. Obbard, I am equally interested in the answer to the question which was asked by Mr. Conte a few moments ago.

One reason I am particularly interested in it, and I believe Mr. Conte shares this interest, is that we are concerned about whether this mill, as presently contemplated, would be capable of paying out. If it

would pay out it might be considered in the true sense of the word, a loan, a development loan.

On the other hand, if it will not pay out, and if there is no foreseeable possibility at this time that it will pay out, then it would be a grant as opposed to a development loan.

Thank you, Mr. Conte.

Mr. MINSHALL. Mr. Obbard, if United States Steel were going to invest money in a mill like the proposed one at Bokaro, you would want to conduct further investigations before you made any kind of an investment; would you not?

Mr. OBBARD. We would, sir.

Mr. MINSHALL. Along what lines would this investigation go and how much would it cost, and how long would it take?

Mr. OBBARD. Of course, if we were investigating for our own investment purposes it would be a different sort of investigation.

As I said, before we would even start there would be many matters which would have to be decided.

Mr. MINSHALL. What do you mean different? Didn't you investigate the commercial feasibility of this mill?

Mr. OBBARD. That is right; for this specific site.

Mr. MINSHALL. How would your investigation differ from the one you have already made?

Mr. OBBARD. We would investigate possible alternate sites, and that is a very difficult thing to evaluate because Indian freight rates are not representative of true freight rates.

After all, steel fundamentally is simply an accumulation of heavy raw materials and distribution of a heavy finished product.

We would investigate other sites. We would perhaps investigate, we would certainly investigate, what the price picture in the future looks like.

I can mention the retention prices that the mills receive at present. Those have been set retroactively. For instance, they were set in September of last year retroactively from March 31 of last year for the 2 years preceding. That is an almost impossible situation for a commercial company when they are making and selling stuff without knowing what the price is, so there would have to be some conclusions on that matter with the Indian Government.

Mr. MINSHALL. What else?

Mr. OBBARD. We would certainly have an extensive investigation of raw materials. As I mentioned, in one small area in Venezuela we have spent $7 million before we started a mine. It is a very costly——

Mr. MINSHALL. Adding this all up how much would this further investigation cost and how long would it take? Just give a ball park figure if you can.

Mr. OBBARD. I have to exclude raw materials.

Mr. MINSHALL. What do you mean you have to exclude raw materials?

Mr. OBBARD. Because the drilling of and proper testing of raw materials is a long and complicated business.

Mr. MINSHALL. How long would this whole investigation take? That is what we want to know. We cannot exclude anything.

Mr. OBBARD. Well, sir, we figured that a superficial look at Indian raw materials would cost us about $5 million and take about 2 years, 2 to 3 years.

Mr. MINSHALL. You said superficial. How long would it take before you made a complete investigation?

Mr. OBBARD. A superficial one would have some drilling in it. It would not determine the exact size and exact tonnage in the ore bodies, but it would be a reasonably good one.

The commercial part I think we have investigated.

Mr. MINSHALL. You said in your original statement in response to one of the queries here earlier this morning that you would also conduct a study "in more breadth." What did you mean by that as contrasted with depth?

Mr. OBBARD. Depth means confined by contract to this specific site and this specific mill.

Mr. MINSHALL. In other words, the State Department and AID people told you to look at the feasibility of a steel mill at Bokaro, period.

Mr. OBBARD. That is correct.

Mr. MINSHALL. You were limited to that?

Mr. OBBARD. That is correct.

Mr. MINSHALL. Thank you, sir.

Mr. CONTE. Do you feel that as a banker lending this money to the Indian Government, actually giving it to them even though we are calling it a loan, you would definitely investigate further different sites and also the raw material contents within the area and outside the area?

Mr. OBBARD. We would, sir. It doesn't mean we might not come back to this site, but we would take into consideration other sites.

Mr. CONTE. I hate to belabor this issue, but based upon your report here, and I have read it, we could go into it for 5 hours. You have no employees here. This is barren land. You have to construct a city.

Mr. OBBARD. That is right.

Mr. CONTE. Construct canals.

Mr. OBBARD. That is right.

Mr. CONTE. Dams, railroad tracks; there are so many things you would have to do. Then I imagine you are familiar with the Indian populace, different religious groups and different tribes, and how you have all of these conflicts among the Indians.

You have to bring all these people into this new area. You will have to train foremen, train superintendents, you have to train employees. Some of these things seem like insurmountable problems.

For instance, you say it will take 3 years of training for foremen and assistant foremen; 18 months for the training of senior operators jobs; 9 months for the training of junior operators jobs; 3 months for semiskilled jobs; 3 to 4 years for apprentice and skilled maintenance men.

Based on all these things you also found the lack of limestone, lack of depth in iron ore, good iron ore unless you find some scheme to correct the present situation when you get down to the fine iron ore, you say you might go back to this site. Would United States Steel ever go back to this site?

Mr. OBBARD. If it were the best site available, which we don't know, and if the financial results and projections turned out all right, we might.

After all, you asked a direct question—would we invest our money. We do that on the basis of forecasts of financial results. As you see from this report, there is a 20-year payout for the entire investment.

There might be other people interested in that. We don't know. We ourselves could find better places to invest our money.

Mr. CONTE. You say you may? You could?

Mr. OBBARD. We could.

Mr. CONTE. No doubt about that.

Mr. OBBARD. What money we have we can invest—we are working, after all we won't get rich on 20-year payouts.

STEEL PRODUCTION IN UNITED STATES

Mr. CONTE. As a matter of background, sir, are you running your mill to capacity at the present time?

Mr. OBBARD. No.

Mr. CONTE. What percentage of capacity?

Mr. OBBARD. I would say about now we are running at about 60 percent.

Mr. CONTE. Is that about the general percentage of all steel mills?

Mr. OBBARD. In the range of 60 to 70 is the present range. It has dropped substantially since early in the year.

Mr. ANDREWS. And it is going down now?

Mr. OBBARD. We hope it is bottoming out, sir.

Mr. ANDREWS. I was reading a few days ago about the inventories building up.

Mr. OBBARD. They did during the spring but they are now being consumed, which is one of the reasons for our low rate of operations.

Mr. ANDREWS. You will get into high gear, you hope, when the new automobiles start coming off the line?

Mr. OBBARD. We hope so.

IMPORTATION OF STEEL

Mr. CONTE. Could you tell me how much steel is being imported in the United States from Japan, West Germany, and any other exporters?

Mr. OBBARD. We could, of course, give you the detail, but I think in the overall about 4.5 million U.S. net tons this year is a fair figure.

Mr. CONTE. And how much is produced in the United States this year?

Mr. OBBARD. About 100 million ingot net tons, which would be about 70 million product tons.

Mr. CONTE. Most of the steel that is being imported, 4.5 million tons a year, comes from Japan and West Germany?

Mr. OBBARD. I do not have the exact proportions. Japan, West Germany, and Belgium are large exporters.

Mr. CONTE. Luxembourg?

Mr. OBBARD. I speak of Belgium and Luxembourg as the same.

Mr. WHYTE. In the first 5 months of this year about 40 percent of the imports came from Japan.

Mr. CONTE. Today we are running our steel mills at 60 percent capacity, and we are importing 4.5 million tons, 40 percent of which comes from Japan.

JOBS TO BE PROVIDED IN UNITED STATES BY CONSTRUCTION OF PLANT

Something was said yesterday that jobs would be provided in the United States if this mill were constructed. Could you give us a ball park figure of how many jobs you believe would be created here in the United States by the construction of this steel mill and for what period of time?

Mr. OBBARD. I could not, sir. That would be mostly equipment and supplies.

Mr. CONTE. I am talking about steel now.

Mr. MACMICHAEL. We do not have a figure on that. We could give an estimate for the record.

Mr. ANDREWS. Make an estimate and insert it in the record.

(The following was submitted for the record:)

Production of the steel required for Bokaro step I would result in employment estimated at about 900 men for 3 years. The present total employment in the steel industry of the United States is approximately half a million.

Mr. OBBARD. Of course, it is inconsequential compared to the jobs lost by dumping. You people who come from the steel-producing areas know that.

Mr. CONTE. Not only dumping of steel, but we were told yesterday by the Ambassador that India is going in the bicycle manufacturing business and also sewing machines and this mill would provide the steel for those operations. And here I sit on this side of the table representing the district in which the Columbia Bicycle Co. is located and which is having its difficulties.

Mr. OBBARD. The steel that mill would produce would make a lot of bicycles.

Mr. CONTE. For this amount of money we could give them 30 million bicycles and my area could have a boom economy.

I would like to have that answer for the record because I know that the Steelworkers' Union will be in here this afternoon and they will chip away on how many jobs this will provide for the steel industry.

Could you tell me also for the record for what period of time these jobs would be created? You can supply that for the record too.

(The information follows:)

It is estimated that the additional employment would arise over a period of about 3 years, commencing 1 year after appropriation of the necessary funds.

Mr. CONTE. If this mill was constructed and the five existing mills were expanded—we also, for your information, have a $1.6 million item, which is peanuts, compared to Bokaro investment, to help them with management policies and engineering studies, et cetera—the five existing mills, as projected, would increase production from about 5 million tons a year presently to about 7.4 million tons in 1966. With the expansion of the present mills and the construction of the Bokaro mill, do you foresee the possibility of India having a surplus of steel?

Mr. OBBARD. Not for a good many years. The only reason that they might have an exportable amount is simply to get some foreign exchange. Some countries, like Japan, demand that a certain amount of steel be exported in order that they may build up their foreign exchange.

MAN-HOURS USED IN MAKING STUDY

Mr. CONTE. In regard to the study that was made by United States Steel, could you give me the man-hours that were involved in that study?

Mr. OBBARD. I believe we kept man-hours only on the individuals assigned to India on whom we received a per diem reimbursement. The remainder was spread throughout our organization. Perhaps I could give you our total employment costs. They were $379,000 for our own people working directly on the project.

Mr. CONTE. How long were they over in India?

Mr. OBBARD. Our actual crew in India were there for 5 months, would you say?

Mr. JACOBSEN. From 1 to 5 months.

Mr. CONTE. Could you give me the number of men who were there 5 months and the number who were there 1 month? Would that be too difficult?

Mr. OBBARD. No. We could give you a breakdown. We would like to include our subcontractors. We used subcontractors such as Bechtel and Stone & Webster on the site. We also use them in this country.

Mr. CONTE. The reason I ask that is because the AID has been very generous I notice while reading the contract that it provides round-trip tickets for the wives of the individuals sent to India and I wanted to know how many wives went over there and for what period of time. This is very generous. If a politician ever took his wife on such an assignment there would be criticism.

Mr. OBBARD. I think the contract provides if a man was there 3 months or longer he could take his wife after 1 month.

Mr. CONTE. It provides for travel by wives of each employee or consultant one round-trip, first-class transportation ticket, jet if available, provided the wife's journey should not take place earlier than 1 month after the husband's departure for India under this contract. That is somewhat of an unusual fringe benefit.

Mr. ANDREWS. Not for AID.

Mr. OBBARD. I am sorry, but it is our employment policy. When we send a man to a country like India for a period exceeding 3 months, we think it only fair that he should have the benefit of his wife's accompaniment after 1 month. And, incidentally, we picked up the living expenses for the wives ourselves. You were not charged on that per diem. That simply covers the men.

Mr. CONTE. You are very sympathetic and understanding. I do not think most companies, for that short period of time, would provide that benefit.

Mr. OBBARD. It is not an uncommon practice. It is the only way we could get really good qualified men to do it. This was no job for drifters or floaters or young inexperienced men. This was a job for men experienced in the business, and you cannot get those for nothing.

Mr. CONTE. In closing I have only one thing to say. I enjoyed reading the report. I do not agree with AID. Of course, you signed a contract with them and I cannot blame you for that. They set up the specifications for what they wanted. But I think it was very poor business judgment on AID's part to spend $686,000 of the taxpayers' money and not ask you to come to a conclusion whether the U.S. Government should invest this money in this Bokaro steel mill.

To me this report does not mean a thing. You have left me hanging and the more I read it I see all these obstacles—and to me they are tremendous obstacles—and yet you do not reach the conclusion that this should or should not be done and that the hard-earned taxpayers' money should not be thrown to the wind.

Mr. OBBARD. May I speak in defense of AID?

In the first place, they could not give us a contract, neither could we accept an open-end contract that covered an enormous subject like the whole economics of steel production everywhere in India. An open-end contract would have been at least twice as much and would have taken much longer.

In the second place, I understand AID was asked specifically by the Indian Government for this specific project and under the law had to have a report.

In the third place, we, as a company, use consultants many times. For example, we might ask Stone & Webster to examine the feasibility of a steampower plant at Gary. They are very good on such plants. We would expect them to give us the final kilowatt cost of such a plant, but it would be up to us whether we built a steampower plant at Gary. That is up to the owner to decide. A consultant's job is to present the facts to the owner for his decision, and you, one way or another, are the owners.

Mr. CONTE. I think I am familiar with consultant firms. They usually have a concluding paragraph in which they say they do not think this is a good investment or they do think it is a good investment. That is one of their functions.

Mr. ANDREWS. It is now 12:30. Could you gentlemen be back at 2 o'clock?

Mr. OBBARD. Certainly, sir.

Mr. ANDREWS. Thank you. This has been a most enlightening session.

The committee will recess until 2 o'clock.

AFTERNOON SESSION

Mr. ANDREWS. The committee will come to order.

Mr. Minshall.

Mr. MINSHALL. Mr. Andrews, at the outset, I want to thank the representatives of the United States Steel Corp. for giving of their valuable time to come before this committee on a voluntary basis to give us the valuable information they have about the Bokaro steel mill. I am sure we will find it invaluable and very helpful in coming to any final conclusions we might make on this committee. I think it will be most helpful, and I again want to thank you for your help.

As you probably well know, I come from the State of Ohio. I live in Cleveland. Cleveland is in the "Ruhr" of America along with Lorain, Youngstown, Pittsburgh, and Detroit.

The people in my area, Greater Cleveland, are vitally interested in this. We have Republic, National Tube and Youngstown Sheet & Tube, plus many others throughout this general area.

Bokaro would be an expenditure, as testimony has shown, of practically $2 billion. Based on the loan arrangement setup for this at the present time, three-quarters of 1 percent for 40 years, this is to me, and I think all thinking members of the Congress and business community, an outright grant.

BACKGROUND OF CONTRACT

Now, at the very outset I should like to ask Mr. Obbard just how was the feasibility contract prepared? Under whose auspices?

Mr. OBBARD. It was done after extended discussion——

Mr. MINSHALL. Give us the background and history of it—who you dealt with at the State Department, when you first heard of it, and so forth, so we will have a better understanding of what this is all about.

Mr. OBBARD. Of course, this mill has been talked and discussed in a general way for many years. Everyone has known it is in the third 5-year plan.

The first consequential discussions we had with AID were in the early part of 1962. We explained to Mr. Fowler Hamilton, who was then head of AID, that we did not normally do this sort of work except for our own purposes. On occasion we did it for outside people, but it would disclose a wealth of information that normally we would keep to ourselves as commercial people.

We do this sort of study on every consequential investment we undertake and therefore we could not say we did not have qualified and experienced men in doing this sort of work.

There were many discussions as to the scope of the contract, as to what it would cover, such matters as expansion of existing steel mills and other methods; namely, expansion of the private sector, were discussed in a general way, but it was finally concluded that what AID wished was for us to make a specific investigation of this site since it was the one the Indians had selected in their third 5-year plan and had done some preliminary work on. With that in mind, there were fairly extensive discussions as to the scope of the contract, what would be required and the terms and conditions under which we would undertake it.

We understand other concerns were also approached as to whether they would wish to undertake it. We explained if we were selected, it would be on the basis of our qualifications only and there would be no other considerations expressed or implied in any way as to further obligations as to construction or operation. Those would be matters considered when, as, and if they arose.

Mr. MINSHALL. Do I understand correctly that the terms of the contract were spelled out and were more or less dictated by the AID people? Am I correct in that assumption?

Mr. OBBARD. We have to admit for our part we did want a specific assignment properly framed so we would know the extent of our obligations and could perform them. In other words, a broad overall hunting license would have been nothing we could have undertaken satisfactorily, and I am sure it would have been nonacceptable to the Indian Government, who on their part were a little dubious as to the necessity of even making this study. They explained they had it in their plans. They had made some preliminary investigations and as far as they were concerned it was settled in their minds. However, AID, as I understand it, under the law has to have an evaluation of the project.

Mr. MINSHALL. Who, in drafting this contract between you and the AID people decided, or made the final decision as to limiting you to one site; namely, Bokaro?

Mr. OBBARD. I would say that was made by Fowler Hamilton. He visited India in the spring of 1962 with some other gentlemen from AID and on his return he in general specified the conditions as to what we should do and what our obligations would be. I might say he exerted some moral pressure.

Mr. MINSHALL. Did he give you any reasons for limiting your study to Bokaro?

Mr. OBBARD. I think he was under very strong pressure from the Indians themselves. We met the Indians, together with the AID people, as the contract negotiations went on, and they were very insistent we confine ourselves to this site. As a matter of fact, when our team got in India they were under some criticism that they were going beyond the scope of their contract in investigating the steel consumption requirements.

You may understand, we do not simply take, let's say, planning figures as being the exact requirement. We feel we have to go to the steel-consuming industry to see what they may reasonably be expected actually to consume. We made quite a deep study on that basis. Of course, Indian statistics are not of the best. We did our best to make a proper market survey in the way we would make it in this country, or in any other country.

Mr. MINSHALL. In your dealings with the Indians, were there any reasons why they should be so insistent on limiting it to one site?

Mr. OBBARD. They are strong believers in planning. It is in the plan and there it is.

Mr. MINSHALL. Did you suggest to them that alternate sites should possibly be considered?

Mr. OBBARD. That was discussed early in the negotiations, and the idea was rejected.

Mr. ANDREWS. Mr. Obbard, could you tell us who originated the idea, or the suggestion that a steel plant be built at Bokaro?

Mr. OBBARD. That was in the Indian Planning Commission's overall plan.

Mr. ANDREWS. They conceived the idea of requesting assistance in building a steel plant, and they suggested the site of Bokaro?

Mr. OBBARD. That is right. As the plans go on, there are other plans for other parts of the country.

Mr. ANDREWS. Do you know anything about any member of this Government giving them aid and encouragement, offering a little seed of suggestion that they clamor for this plan?

Mr. OBBARD. No, sir; I know of no such thing.

Mr. MINSHALL. To the best of your knowledge, there have been no commitments made by anyone in the Government from the Ambassador on down for this steel mill?

Mr. OBBARD. We know of no definite commitments. Our team in India found no evidence of such definite commitments.

Mr. MINSHALL. You emphasize the word "definite."

Mr. OBBARD. If conversations keep on long enough and extensively enough, sooner or later somebody can take something out of context which makes them believe there has been an implied commitment.

Mr. MINSHALL. You think that is what has happened in this case?

Mr. OBBARD. It may have.

Mr. ANDREWS. You would be surprised to know how little it takes to make a commitment.

Mr. MINSHALL. Off the record.

(Off the record.)

SIZE OF UNITED STATES STEEL CORP.

Mr. MINSHALL. Mr. Obbard, just for the record so it will be complete, would you tell us just how big a corporation United States Steel is? We all know it is one of the largest, if not the largest corporation in the world.

Mr. OBBARD. I think we would have to refer to the annual report which has the figures set out.

I might say we are now, perhaps, the second largest steel corporation in the world. Mr. Khrushchev has one which is equal at least to us.

Mr. MINSHALL. How many stockholders do you have? Do you know offhand?

Mr. WHYTE. There are 364,000 stockholders.

Mr. MINSHALL. I think they would be vitally concerned about the construction of any steel mills outside the limits of the United States that might affect their interests.

I should like to ask if you know how many steel mills the AID people have built in other countries and how many they are planning to build?

Mr. OBBARD. I do not know, sir. There is a listing for that.

Mr. MINSHALL. I realize you are not the best witness for this, but I thought you might know.

Mr. OBBARD. I do not know.

Mr. MINSHALL. We can get this.

Mr. ANDREWS. Without objection, that information will be inserted in the record at this point.

(The information follows:)

AID OR PREDECESSOR AGENCY COMMITMENTS FOR AID TO IRON AND STEEL INDUSTRIES ABROAD

The attached tables indicate assistance to foreign steel industries prior to fiscal year 1964.

No applications for assistance to steel mills are under active consideration for Africa or the Far East areas. The Bokaro plant is the only steel mill project which is under consideration in the Near East and South Asia region.

In the Latin American area, no firm loan applications for steel mills have been received, although assistance to the steel industry in Brazil has been proposed.

TABLE I.—*AID or predecessor agency commitments for aid to iron and steel industry—Summary by country and fiscal year of supporting tables II–IV, July 1, 1948–June 30, 1963 (preliminary)*

[Millions of dollars or dollar equivalents]

Region and country	Total through June 30, 1963	Fiscal year—												
		1949	1950	1951	1952	1954	1955	1956	1957	1958	1959	1961	1962	1963
Grand total	477.5	129.8	71.6	5.2	0.9	107.0	2.4	0.8	2.9	7.0	12.3	132.6	0.9	4.0
Europe	335.8	129.8	71.6	5.2	.9	107.0		.6	1.7	7.0		8.5		3.5
Austria	28.2	18.7	6.4						[1] 1.7	[1] 1.4				
Belgium	8.3	5.5	2.9											
France	75.5	70.0	1.3	4.1										
Italy	54.8	7.6	46.1	1.1										
Netherlands	14.9		14.9											
Portugal	.8	.8												
Spain	8.4				.9	7.0		.6						
United Kingdom	27.2	27.2												
Yugoslavia	17.6									[1] 5.6		8.5		(1) 3.5
European Coal and Steel Community	[2] 100.0					100.0								
Far East	2.9						2.4	.2	.2					
China, Republic of	.7						.4	(3)	.2					
Korea	2.2						2.0	.2						
Near East and south Asia	131.0										12.3	117.3	.9	.5
India	1.4												[1] .9	[1] .5
Turkey	129.6										12.3	117.3		
Latin America: Brazil	7.8								[1] 1.0			6.8		

[1] Represents the use of U.S.-owned foreign currencies generated by surplus agricultural commodity sales under sec. 402 and Public Law 480, title I; India includes the equivalent of $0.1 million in fiscal year 1962; all other data are dollar commitments.

[2] Data on proportion for steel only not available.

[3] Less than $50,000.

NOTE.—There were no commitments in fiscal year 1953 and fiscal year 1960.

TABLE II.—*European iron and steel projects financed in part by the United States under the European recovery program by country and project, fiscal year 1949–51* [1]

[Thousands of dollars]

Country and project	Project approval date	ECA dollar obligations
Total, all countries		$207,565
Austria		25,119
VOEST (Vereinigte Oesterreichisch Eisen-und Stahlwerke A. C.) Linz	Apr. 1, 1949	2,887
VOEST, Linz	do	8,362
Do	Apr. 6, 1950	2,169
Alpine Montan (Oesterreichisch Alpine Montangesellschaft), Donawitz	Feb. 25, 1949	4,147
Alpine Montan Donawitz	May 26, 1949	3,346
Do	Apr. 27, 1950	4,208
Belgium		8,343
S.A. Metallurgique d'Esperance-Longdoz, Liege	Apr. 1, 1949	2,329
S.A. Ougree Marihaye, Ougree	Feb. 9, 1950	2,866
Phenix Works at Flemmale-Haute, near Liege	Apr. 1, 1949	3,148
France		75,475
SOLLAC (Societe Lorraine de Laminage Continu), Hayange and Ebange.	June 14, 1949	56,164
USINOR (Union Siderurgique du Nord de la France), Denain (Nord) and Montataire (Oise).	Apr. 1, 1949	11,919
SIDELOR (formerly Societe Lorraine des Acieries de Rombas), Rombas.	Sept. 2, 1949	1,301
Sto. Anonyme des Forges et Acieries de Dilling, Dillingen in the Saar	Dec. 21, 1950	2,038
Acieries de Longwy, Mont Saint Martin	do	2,094
J. J. Carnaud et Forges de Basse-Indre	Feb. 25, 1949	1,959
Italy		54,769
FINSIDER	Aug. 18, 1949	32,390
FIAT, Turin and Avigliana	Aug. 4, 1949	7,408
Acciaierie e Ferriere Lombarde FALCK, Milan	June 30, 1949	1,649
Do	May 18, 1950	4,502
Cantieri Metallurgici Italiani (FALCK subsidiary), Castellamare di Stabia.	June 30, 1949	2,131
SISMA, Soc. Industrie Siderurgiche e Affini, Villadossola	do	2,538
TERNI, Societa per L'Elettricita, Terni	Apr. 6, 1949	1,315
RECAELLI, Giuseppe e Fratello Redaelli, S.p.A., Rogoredo	Aug. 17, 1950	1,067
Ilssa-viola, S.A. Pont St. Martin, Aosta Valley	Aug. 30, 1949	1,569
Ferrotubi S.p.A. (FIT), Milan	July 12, 1949	200
Netherlands		14,935
Royal Dutch Blast Furnace & Steel Co., Ijmuiden	Dec. 1, 1949	14,935
Portugal		847
A. J. Oliveira Filhos & Co., LDa., S. Joao da Madeira	Feb. 14, 1949	847
Spain		853
Sagunto steel plant [2]	June 23, 1952	853
United Kingdom		27,224
Steel Co. of Wales Ltd., Margram and Troste, South Wales	Apr. 1, 1949	25,373
Stewarts and Lloyds, Ltd., Corby, England and Clydesdale and Tolcross, Scotland.	May 26, 1949	1,851

[1] List includes 1 project approved in 1952.
[2] Financed under Spanish loan program, Public Law 759, 81st Cong., approved Sept. 6, 1950.

TABLE III.—*AID or predecessor agency obligations for iron and steel projects by country and project, fiscal year 1954–63 (preliminary)*

[Thousands of dollars]

Region, country, and project	Fiscal year obligated	AID or predecessor obligations [2]
Total, all regions		249,333
Europe		116,060
Spain		7,560
Altos Bornos de Viscaya cold rolling mill	1954–56	4,460
Empresa blast furnace	1954	3,100
Yugoslavia: Sisak Iron Works (development loan)	1961	8,500
European Coal and Steel Community: Contribution to capitalization (loan) [1]	1954	100,000
Far East		2,923
China, Republic of		695
Steel tube mill, Ya Tung Enterprise, Inc	1955–56	466
Tang Eng ironworks	1957	229
Korea		2,228
Wire Rope Manufacturing Co	1956	122
Chain Manufacturing Co	1956	111
Pusan iron works	1955	1,995
Near East and south Asia		130,350
India: Bokaro steel plant	1962	750
Turkey: Steel mill (Eregli) (development loan)	1959–61	129,600

[1] Data on proportion for steel only not available.
[2] Data on development loans are loan authorizations.

TABLE IV.—*Economic development projects from U.S.-owned foreign currencies* [1] *July 1, 1954–June 30, 1963 (preliminary)*

[Thousands of dollar equivalents]

Country and project	Source of funds	Fiscal year obligated	AID or predecessor obligations
Total			$20,680
Austria			3,154
Steel mill	480	1957	1,346
Steel mill and tool manufacture	480	1958	846
Steel and malleable foundry	480	1958	577
Fabricated structural steel	480	1957	385
Brazil			7,831
Minas Gerias steel plant	480	1961	6,831
Acos Vilares S/A	480	1957	1,000
India			618
Bokaro steel plant	402	1962	91
Wyman Gordon India Ltd, steel forge plant	480	1963	527
Yugoslavia			9,077
Iron works, Niksic	480	1958	5,610
Iron works, Sisak	480	1963	3,467

[1] Represents the use of U.S.-owned foreign currencies derived from sales of surplus agricultural commodities under sec. 402 and title I, Public Law 480. Data on Public Law 480 loans to Japan are not in sufficient detail to differentiate any loans benefiting the steel industry.

Mr. MINSHALL. The reason I bring this out is that this thing could grow like Topsy.

Mr. WHYTE. In the Congressional Record of about a month ago in a speech by, I believe, Senator Engle of California, he listed all of the money that has been loaned or granted by our Government through AID, through the Eximbank and the World Bank for steel and aluminum plants throughout the world. It is quite an interesting listing. If you like, I would furnish you the page number and the reference.

Mr. MINSHALL. I think it would be very interesting to have it.

How many employees do you have in the United States Steel Corp.?

Mr. OBBARD. Approximately 195,000.

Mr. MINSHALL. What is your annual average tonnage of production? You can supply it accurately for the record.

Mr. OBBARD. About 18 million tons of finished products over the past 5 years is the annual average.

Mr. MINSHALL. Annually?

Mr. OBBARD. Annually.

ADEQUACY OF STUDY

Mr. MINSHALL. In your initial remarks you said that the study was not complete in your opinion. You cited the fact they did not go into alternate sites and the fact if you were asked to go into it, you would want to look into the feasibility of Indian partners and who they were, you would want a more definite understanding with the Government, and you would want a larger study in breadth. Are there any other changes you would like to make in this report if you went ahead with it and did it in the manner in which you think it should be done?

Mr. OBBARD. I would like to correct the impression I do not think the study is complete. It is complete as regards this site and this operation. I mentioned that it lacked breadth inasmuch as we were confined to this site in our studies and only to the present and projected expansion plans of the existing Indian steel mills.

Mr. MINSHALL. With the knowledge you have at hand, you are not at all sure that Bokaro would be the most economical site on which to build this plant?

Mr. OBBARD. That is correct.

Mr. MINSHALL. Not to belabor the question, I believe you also said earlier if you were asked to go into this as a private corporation, the United States Steel Corp., to construct a mill in India, it would require about $5 million and several more years of intensive investigation.

Mr. OBBARD. The $5 million would be for the raw materials.

Mr. MINSHALL. Only the raw materials?

Mr. OBBARD. Only.

Mr. MINSHALL. And how much would it take to have a complete report?

Mr. OBBARD. Having reviewed and gotten the raw materials picture clearly, it would probably cost us another $1 million to make a study of the two or three sites we might select as to what in our opinion would be the best.

Mr. MINSHALL. We have also touched on rather briefly that if we did go ahead with this first phase of the Bokaro steel mill, how much would it affect the steel production in this country, the heavy

engineering production in this country, and how much would it affect employment, if at all?

It is my understanding that the present production of steel in the United States is approximately 100 millions tons annually. Am I correct in that?

Mr. OBBARD. This is ingot tons. About 70 million net tons of finished products.

EFFECT OF CONSTRUCTING BOKARO ON PRODUCTION IN UNITED STATES

Mr. MINSHALL. How would this Bokaro steel mill, the construction of it, affect industry in this country?

Mr. OBBARD. As a rough estimate, I would say that there would be required about 100,000 net tons of steel products annually spread over about 3 years, for step 1.

Mr. MINSHALL. In other words, it would be about one-tenth of 1 percent annually—a mere fraction of 1 percent?

Mr. OBBARD. Yes, sir.

Mr. MINSHALL. It would not affect really the steel production in this country in any measurable quantity?

Mr. OBBARD. That is right.

If you would spread the 300,000 net tons over 3 years, that would be 100,000 net tons a year as against 70 million U.S. production of finished products.

Mr. MINSHALL. Mr. Galbraith, who you well know, is a former Ambassador of India and has more or less guided this project from its inception. He stated very clearly only yesterday this would have a great impact on the American economy. You cannot say that, can you?

Mr. OBBARD. No, I could not say it would.

IMPORTATION OF STEEL AND STEEL PRODUCTS

Mr. MINSHALL. We also talked earlier this morning about the dumping of steel into this country from Japan and Germany and other Common Market countries.

Mr. OBBARD. Western Europe.

Mr. MINSHALL. I think this represents about 5 percent of the U.S. market; is that a fair percentage to state?

Mr. OBBARD. A little better than 5 percent. It is about 4.5 million tons out of a total of 70 million tons. That would be about 6½ percent.

Mr. MINSHALL. This really is not a true figure, is it, when you consider how it affects certain steel industries?

Mr. OBBARD. It depends. The figure I gave you was an overall figure and it does affect some districts much more severely.

For instance, the Cleveland district on pipe and barbed wire and wire rods; the east coast on pipe and reinforcing bars; the gulf coast, similarly pipe and reinforcing bars; and the west coast, pipe, nails, and merchant products.

Mr. MINSHALL. My information is that the pipe that has been sent to this country amounts to about 25 percent of our total production, and that the barbed wire amounts to about 50 percent of our total produc-

tion. If those figures are not correct, I wish you would supply them for the record along with any other specific items such as nails that would be affected so we can have the record as complete as possible.

Mr. OBBARD. We would be glad to do it.

(The information requested follows:)

Iron and steel imports into the United States

[United States net tons, thousands omitted]

A. TOTALS BY YEAR

	Total	Percent of U.S. shipments
1958	1,676	2.8
1959	4,510	6.5
1960	3,398	4.8
1961	3,123	4.7
1962	4,031	5.7
1963, 5 months	1,862	----------

B. RECENT TOTALS BY COUNTRY

	1962	5 months, 1963
Japan	1,072	742
Belgium-Luxembourg	1,278	605
Canada	390	159
West Germany	483	143
United Kingdom	271	126
All others	538	87
Total	4,032	1,862

C. RECENT TOTALS BY PRODUCT

	1962		5 months, 1963
	Total	Percent of U.S. shipments	
Ingots, blooms, etc	174	9.9	45
Wire rods	645	[1] 63.3	291
Structural shapes	366	8.4	181
Plates	150	2.4	84
Concrete reinforcing bars	607	25.4	218
Bars	385	4.5	173
Pipe and tubing	655	9.2	292
Wire and wire products	655	21.1	302
Sheet and tin plate	440	1.3	282
All others	227	15.2	79
Total	1,970	2.8	4,305

[1] Most wire rods produced in the United States are consumed in the industry.

Mr. MINSHALL. During our hearings on our Subcommittee on Foreign Operations, we went in of course to this Bokaro matter at some great length. I first "smelled the rat" on this whole project when I read one of these publications put out by the State Department, some kind of a dodger, when they quoted part of your report. The best they could report in their own publication was not too good, and that is when I requested a complete set of these volumes which led to many of these revelations we have had before this special panel, and also before our Foreign Operations Subcommittee.

BASIC ASSUMPTIONS

One of the most interesting things to me was in volume 1 on page 2 on your basic assumptions. You have about 12 or 13 of these basic assumptions. In other words, you have to "crystal ball" a lot of this proposed project.

I would like to have your comments on these basic assumptions. About the only one they are agreed on is, there is a need for steel in India.

Mr. OBBARD. Our basic assumptions were the ground rules that were worked out between ourselves and AID as the basis for the report.

Mr. MINSHALL. Yes.

Mr. OBBARD. For instance, in No. 1, we said we should only be required to calculate on the actual plant facilities. That such things as water supply, housing construction and so forth we would review but we would not make a definite report on them. As you have seen, they are just put in on convenient broad terms.

No. 2 is that the foreign exchange requirements would be met from dollar funds on a basis of 5¾ percent. I do not know what the terms of the loan to the Indian Government wold be from the U.S. Government, but these were the commercial figures we were asked to use for the loan from the Indian Government to this specific steel mill operation. It would be 5¾ percent for 20 years.

The third assumption was that the rupees for construction would be equity paid in by the Indian Government and that any additional rupee funds from the Indian Government should bear interest at 5 percent per annum on a 20-year basis.

The next assumption is that the current relationships between costs and sales proceeds would remain constant over the period under analysis. In other words, we had to assume that the excise rates and the retention prices and sales prices as they presently exist would continue.

The next assumption was that Bokaro would operate as to management as an entity separate from the present three public steel plants where Hindustan Steel Co. is having some difficulty managing successfully. They are requesting some training funds to improve and train their management.

The next was, there should be no discrimination against this mill. After all, so many of the factors are under the control of other departments such as the power supply, the water supply and coal supply, transportation, that to give this mill a fair chance it should be treated no better, but no worse, than the other Indian steel mills.

Next, we would use to the fullest extent Indian personnel. We would train them. We would include the money in here for training. That is only sensible and reasonable both in view of the Indian economy and in view of the costs. It should be possible to work eventually with Indian personnel at a lower rate than American personnel.

In other words, we would use American personnel only to the extent it was necessary, or rather, we would figure on using them, whether by ourselves or anyone else.

The next assumption was that Bokaro would be an integrated operation at least as far as the iron ore and limestone supplies are con-

cerned. I explained to you the difficulties of dealing with other government departments. To the extent practical, Bokaro should own and operate its ore mines and limestone quarries just as we do in this country.

The next assumption was that Bokaro would be designed for operation on coarse ore. That is the coarse ore fractions I described this morning as being the ones on which the present Indian steel industry runs and they are the only ones we know now that will work in a blast furnace.

Mr. MINSHALL. When you referred to fines this morning, you meant the texture of the ore, not the quality?

Mr. OBBARD. That is right.

Mr. ANDREWS. You said that was an inferior type ore.

Mr. OBBARD. It is inferior——

Mr. ANDREWS. And unusable?

Mr. OBBARD. At the moment, unusable.

Mr. MINSHALL. It is nowhere near as good as the taconite we are getting out of the Mesabi Range?

Mr. OBBARD. Taconite, while it costs quite a bit to produce, is a very superior product.

The next assumption was that the transportation, water, and power services on which Bokaro would be dependent and for which responsibilities lie with other departments of the Indian Government would in fact be available. In other words, the facilities must be there in fact, not in promise, to make this mill an operating possibility.

The next assumption was one requested by AID and the Indians that the mill would be designed to be expandible up to a 4-million-ton capacity. We put a footnote on that:

> It is important to mention here that in our opinion no expansion should in fact be envisaged until raw material problems affecting the project have been solved.

Mr. MINSHALL. In your opinion, they are far from having been solved?

Mr. OBBARD. That is right. I would not start on the second and third steps of Bokaro until they are solved.

Mr. MINSHALL. Also, you brought out in previous questioning, if you were a private concern, United States Steel Corp. would not start on the first phase?

Mr. OBBARD. Not until we saw the raw materials picture more clearly.

Mr. MINSHALL. Thank you, sir.

This report was dated, I think, March 1963.

Mr. OBBARD. That is correct, sir.

Mr. MINSHALL. To the best of your knowledge, is there anything in this report as it is presently written that has been changed in any major way because of the passage of time, or events?

Mr. OBBARD. No. The only additional matter is that a new tax for war risks has been passed by the Indian Government, I think in January or February of this year, which would add about $9 million a year to the operating costs of the mill.

Mr. MINSHALL. $9 million?

Mr. OBBARD. Yes.

Mr. MINSHALL. This has happened since the report was written?

Mr. OBBARD. Yes. That is mentioned in our report.

Mr. MINSHALL. Did you say that was a war tax? Go into detail on this tax if you will.

Mr. OBBARD. On page 26 of volume 3, paragraph 57, it states:

On January 1, 1963, the Government of India imposed a new compulsory scheme "emergency risk insurance" on business and industry. This scheme is in effect a tax on inventory and fixed assets. Under this levy the Government must be paid a quarterly insurance premium on the value of the inventory and the value of factory buildings, plant, and machinery, at the beginning of the quarter. On an annual basis, the rates are six-tenths of a percent of inventory and 1 percent on fixed assets. The insurance policy provided by these payments covers 80 percent of inventory or fixed asset losses resulting from enemy action. Because this fact was not learned until after evaluation had been completed, we have not taken account of the element of expense in our evaluation, but in step 1 the cost would amount to an estimated $9 million per year.

COMPARATIVE COST OF CONSTRUCTING MILL IN UNITED STATES

Mr. MINSHALL. We are told that this Bokaro mill would cost about $1.7 billion. I wonder if you are able to tell us how much a mill of the same capacity, namely 4 million metric tons, if it were built in Pittsburgh, or Cleveland, would cost?

Mr. OBBARD. It would cost about the same, except you would not have to have the supporting facilities—the housing, the additional railroad transportation, the power; therefore, it would cost about $1,250 million.

Mr. MINSHALL. That is about a $500 million difference.

Mr. OBBARD. Of course, the costs in India have been increased by ocean freight and duties which have to be paid on the equipment. There is a slight offset due to lower construction labor rates. By and large, it would cost about $500 million less in the United States.

Mr. MINSHALL. In making this feasibility study on the economic feasibility of the Bokaro steelmill, you stated over and over again that you were dictated the terms and breadth under which you would operate. You were more or less handcuffed.

Mr. OBBARD. When you are doing it on a contract, you must be sure that what you are required to do under that contract is spelled out to the satisfaction of your customer. As I explained, we could not expect AID to give us a blank check, neither would we take one. We expected a contract which would be specific, and which we would fully and faithfully carry out.

Mr. ANDREWS. As a matter of fact, you did what you were asked to do by AID? You went no further and you stopped no shorter?

Mr. OBBARD. That is correct, sir.

Mr. MINSHALL. To further develop an adequate feasibility study, you stated it would take at least $5 million and several more years to do the job properly.

Mr. OBBARD. Because of the lack of knowledge of the raw materials situation.

Mr. MINSHALL. That is all I have, Mr. Chairman.

Mr. CONTE. There is a phase we did not touch on at all and I might have overlooked it in the report.

OPERATION OF PROPOSED MILL

If this mill is constructed, would they set up a special corporation? Who is going to run the mill?

Mr. OBBARD. It is in the basic assumptions. The mill would be owned by the Indian Government, but it is our very strong recommendation, and all our figures were based on the fact that it would be run by a separate corporation which would be owned by the Indian Government.

Mr. CONTE. Regarding the other three public sector mills, are they set up under a special corporation?

Mr. OBBARD. They are set up under Hindustan Steel.

Mr. CONTE. And when the Soviets and Germans and British gave their loans to India, did they give them directly to India, or to the Hindustan Steel Mill?

Mr. OBBARD. I am not familiar with the arrangements behind the Russian mill. I am almost certain that the British and the German loans were handled by consortiums of equipment suppliers. The loans, I think, were to the Indian Government.

INCOME TO INDIAN GOVERNMENT FROM OPERATION OF BOKARO

Mr. CONTE. On this one here, your recommendation is that a special corporation, separate and apart from the Hindustan Steel Mill, be set up to run the mill, and we in turn would give our money to the Indian Government and they in turn would loan it to the new corporation?

Mr. OBBARD. That is correct. The assumption is they would loan the money at 5¾ percent. We did not recommend that the loan be made in any way, shape, or form. These were simply the assumptions we gathered. We discussed them with AID.

Mr. CONTE. That is good.

Now the chairman brought out an interesting point with regard to the Government of India charging the steel mills so much per ton—$22 a ton?

Mr. OBBARD. $22 excise, and $30 surcharge.

Mr. CONTE. Per ton?

Mr. OBBARD. Yes.

Mr. CONTE. Plus the $22?

Mr. OBBARD. Yes.

Mr. CONTE. So that would be $52?

Mr. OBBARD. Yes.

Mr. CONTE. $52 per ton. This mill would produce how many tons of steel?

Mr. OBBARD. Under step 1, about 1 million tons per year of finished products.

Mr. CONTE. Let's go to step 3.

Mr. OBBARD. On step 3, it would produce about 3 million tons per year. You can take a 75-percent yield from ingot to finished product.

Mr. CONTE. We can multiply 3 million tons——

Mr. OBBARD. I think we have the mathematics worked out for you as to what the Indian Government would get by way of excises and surcharge.

Mr. ANDREWS. Surcharge is another form of taxation, is it not?

Mr. OBBARD. It started as a legitimate equalizing fund. It has developed, under present circumstances, to practically another form of taxation.

Over the whole range of 20 years, assuming that the construction went forth in the steps we recommend, 5 years for the completion of the first, 4 years for the completion of the second, and 5 years for the completion of the third step, the Indian Government would derive from it in excise duties $1 billion.

Mr. CONTE. Over a period of 20 years?

Mr. CONTE. $1 billion.

Mr. OBBARD. In income taxes a half billion.

Mr. CONTE. $1½ billion.

Mr. OBBARD. Surcharges at the present rate—$1½ billion.

Mr. CONTE. And then 5¾ percent. Let us take the American contribution of $891 million. That is $45 million a year in round figures. Roughly it would be $3½ billion that the Indian Government would realize.

Mr. OBBARD. That is right.

Mr. CONTE. And the U.S. Government would realize, assuming they had currency to pay this off, a 10-year grace period with no payment at all, and then they would start making small payments.

Do you have that information in your figures, how the money would be repaid?

Mr. OBBARD. No, we have no knowledge as to any terms of loans between the U.S. Government and the Indian Government.

Mr. CONTE. The past history of all of our loans to underdeveloped countries has been a 10-year grace period and then three-quarters of 1 percent interest and a very, very small repayment over a period of 40 years. It would not be even close to $1 million we would realize during the first 20 years. The Indian Government would realize about $3½ billion.

Mr. OBBARD. And also would get about $1½ billion by way of profit and depreciation on facilities.

Mr. CONTE. So that would bring it up to $5 billion.

Mr. OBBARD. That is right.

Mr. CONTE. That is all, Mr. Chairman.

Mr. ANDREWS. Mr. Obbard, you and your staff have been most helpful to this panel. I want to personally and officially thank you for coming down and testifying before us.

As I said at the outset, the purpose of this panel is to study the overall proposal to build this steel mill at Bokaro. We will make our recommendation to the subcommittee and to the full Appropriations Committee.

Do you know of anything else you could tell us that will be helpful to us in our study which we have not touched on?

Mr. OBBARD. Mr. Chairman, I think you might be interested in the position of the private enterprise mills in India.

Mr. ANDREWS. Two of them.

Mr. OBBARD. Two of them. They are good mills and large mills.

Mr. ANDREWS. We had hoped to have a representative of one of those mills before the committee before we adjourned.

EFFICIENCY OF PRIVATELY OWNED MILLS

We were told by the Ambassador yesterday that the two privately owned mills operated much more efficiently and economically than the three Government-owned mills.

Do you agree with that statement?

Mr. OBBARD. Yes, sir, I would say that. Of course, we have studied them only to the extent that their expansion plans and operating plans are pertinent to the overall steel plan.

Mr. ANDREWS. He was talking about present-day operations there.

Mr. OBBARD. I would say that is correct, that they have been in existence a number of years, and they are a good operation.

OPERATION OF MILL AT PROFIT

Mr. ANDREWS. Assuming that this mill were completed, either in the first, second, or third stages, and went into full operation on D-day, how long after D-day would it be before the mill would operate profitably?

Mr. OBBARD. We have an exhibit in our report which shows the way in which we believe it could reasonably be expected to come into production. As you know, a steel mill does not come into full production on the day when the last brick is laid. We would expect the first stage to be brought into maximum full capacity 30 to 36 months after startup, and startup would be approximately 4½ years from the appropriation of the necessary money.

Mr. ANDREWS. My point is this: When the mill is completed and has started operations, how long would it be before it could operate in the black, so to speak?

Mr. OBBARD. Well, it would never be in the black under the present circumstances.

Mr. ANDREWS. Always operate in the red?

Mr. OBBARD. Well, on the basis of the ground rules set forth here, paying money at commercial prices and paying commercial prices for its materials, and receiving the present——

Mr. ANDREWS. In other words, if this mill were constructed, went into operation under the ground rules laid down by the proposals here, it would never operate profitably? Is that what you are saying?

Mr. OBBARD. On phase 1.

Mr. ANDREWS. Phase 1?

Mr. OBBARD. This mill should not be commenced unless there is an honest belief and prospect of bringing it through to phase 3.

Mr. ANDREWS. That means enlarging it?

Mr. OBBARD. Enlarging it to the full 4 million——

Mr. ANDREWS. Assuming that it was enlarged or built through phase 3, how long would it be after it began operating under phase 3 before it would operate at a profit?

Mr. OBBARD. If it started in the summer of 1963, and our figures were based on that——

Mr. ANDREWS. What do you mean, start of construction?

Mr. OBBARD. Appropriating the money.

Mr. ANDREWS. How long would it take to complete?

Mr. OBBARD. It would take 5 years.

Mr. ANDREWS. For phase 3?

Mr. OBBARD. Oh, no, for phase 1.

Mr. ANDREWS. Five years for phase 1.

Mr. OBBARD. Yes.

Mr. ANDREWS. And you have told us they could never operate profitably under phase 1.

Mr. OBBARD. It would never operate profitably through phase 1.

Mr. ANDREWS. And that would take 5 years?

Mr. OBBARD. That is right.

Mr. ANDREWS. What about phase 2? How long would it take to complete construction under phase 2?

Mr. OBBARD. It would take 5 years plus 4 years; 9 years.

Mr. ANDREWS. Could it operate profitably under phase 2?

Mr. OBBARD. Yes, depending on your definition of profit.

Mr. ANDREWS. Would the income be more than the expense of operating the plant?

Mr. OBBARD. Yes, in 1973 according to our figures.

Mr. ANDREWS. How long would that be after it started operations?

Mr. OBBARD. Five years.

Mr. ANDREWS. Five years after what period?

Mr. MACMICHAEL. Let me give you the numbers as they are here. In our report we had assumed the money would be appropriated in the summer of 1963, that the mill would start operations in 1968 in phase 1; that they would proceed forthwith to expand it, and that under that program the first year of any profit would be in 1973, so 1963 for the money and 1968 for the startup of phase 1 and 1973 for the first break-even year, 1976 for the startup of phase 3, and 1979 before accumulated deficits are erased.

Mr. ANDREWS. Then it would take 10 years——

Mr. MACMICHAEL. After the appropriation.

Mr. ANDREWS. It might take a year or two after appropriation before work started.

Mr. OBBARD. That is in the calculation, sir, about a year of engineering work.

Mr. ANDREWS. It would take 10 years before this mill could operate on a profitable basis.

Mr. OBBARD. That is correct.

Mr. ANDREWS. And that would be under phase 2.

Mr. OBBARD. That is correct.

Mr. ANDREWS. If you reach that point then it could operate profitably from then on out.

Mr. OBBARD. But might I point out, Mr. Chairman, that all these figures are based on 100-percent operation of the mill. In view of the forecasts of steel deficiency, this mill through phases 1, 2, and 3, the figures have been based on 100-percent operation; that is, allowing only for necessary furnace relining and maintenance.

Mr. ANDREWS. Do you have figures of operation for the five other steel mills in India?

Mr. OBBARD. So far as we know, sir, they are all now operating at about capacity. They have had difficulties but——

Mr. ANDREWS. One final question: You said it would take 10 years from the date the money was appropriated before this mill could operate profitably, and that would be under phase 2.

Mr. OBBARD. Yes.

Mr. ANDREWS. Is that comparable to what would exist in this country if a private company built a steel plant?

Mr. OBBARD. No.

Mr. ANDREWS. What is the difference?

Mr. OBBARD. The difference is the very severe squeeze put on by the low retention prices and the high excise duties on the mill's profits. They really are squeezed as to their returns.

Mr. ANDREWS. Thank you very much.

Off the record.

(Discussion held off the record.)

Mr. CONTE. Mr. Chairman, I want to take this opportunity to compliment the witness, Mr. Obbard, and his supporting witnesses who are here today.

It was the most intelligent and forthright presentation and it was one of the finest presentations I have ever heard since I have been a Member of Congress.

I only wish that some others would take a page from your book. It is an inspiration to sit here and talk intelligently as we did here today and to hear the intelligent answers we got to our questions.

Mr. ANDREWS. I wish the whole Congress could have heard you, Mr. Obbard.

Mr. OBBARD. Well, sir, as I explained at the beginning, I still have a great deal to learn about the steel industry myself. It is a very interesting industry.

It is my hope we run it on the basis of facts rather than emotion.

VIEWS ON PROPOSED STEEL MILL AT BOKARO

WITNESSES

DEAN CLOWES, INTERNATIONAL AFFAIRS REPRESENTATIVE, UNITED STEELWORKERS OF AMERICA

JOSEPH J. McDONALD, LEGISLATIVE REPRESENTATIVE, UNITED STEELWORKERS OF AMERICA

Mr. ANDREWS. We now have before us Mr. Dean Clowes.

Mr. CLOWES. President McDonald was scheduled to appear before the committee, Mr. Chairman.

Mr. ANDREWS. Will you identify yourself and state for the record what your job is and whom you represent, what experience you have had, and anything else you wish to say about yourself?

Mr. CLOWES. I am Dean Clowes. I am international affairs representative of the United Steelworkers of America.

With me is Mr. Joseph J. McDonald, our legislative representative.

My duties entailed in this job related to foreign affairs are keeping in contact with the free trade union movement throughout the world. This means that I travel a great deal.

I have spent a considerable amount of time in India. I was in India from 1960 through 1961 working in the new industrial steel belt. I visited the new steel plants on a number of occasions. Primarily my interest was with the trade unions and the labor movement of India, and specifically with the unions involved in their representation with the Hindustan Steel Co.

Mr. ANDREWS. They are the publicly owned steel plants and there are three in India?

Mr. CLOWES. That is correect.

Mr. ANDREWS. There are two privately owned plants. Have you had any connection with them?

Mr. CLOWES. Yes; I lived in Janshedpur. I also visited the Burnpur plant. I worked with the trade unions at both locations.

Mr. ANDREWS. You have a prepared statement for us?

Mr. CLOWES. Yes, sir.

Mr. ANDREWS. Will you read it? You may read it without interruption.

GENERAL STATEMENT

Mr. CLOWES. My name is Dean Clowes. I am a representative of the United Steelworkers of America, AFL–CIO. I wish to thank this committee for giving me this opportunity to express my views, and the views of our organization, on the proposal to give American financial and technical assistance to the Government of India in connection with an integrated steel mill to be built in Bokaro, which is located in Bihar State, almost 150 miles northwest of Calcutta.

As the committee is aware, the Government of India has requested this assistance from the United States. The plant would be the country's sixth integrated steel mill, and the fourth built and operated under public ownership. The other three publicly owned plants are at Rourkela, Durgapur, and Bhilai. Financial and technical assistance for these projects came respectively from West Germany, Great Britain, and the Soviet Union.

The two privately owned plants are the Tata Iron & Steel Co., Ltd., at Janshedpur, the largest steel facility in India, producing approximately 2 million ingot tons per year, and the Indian Iron & Steel Co., Ltd., at Burnpur.

Of all of these steel plants, it is charged that the one which has so far been the most successful is that which was built and operated with Soviet assistance. This, of course, has been tremendous propaganda for the Communists, not only in India but throughout southeast Asia. The development of steelmaking capacity is the first step toward industrialization, and the Soviet Union has devoted enormous amounts of energy and resources in attempting to show Asia, through its efforts in India, that the Communist way is the best way to accomplish that objective.

In 1962 India's total steel production amounted to 5,700,000 long tons or something over 5,500,000 net tons, compared with 1,700,000 long tons, or something under 2 million net tons in 1955. This is still far short of India's needs. Hence the desire for a fourth Government-owned steel plant.

Discussions between AID and the Indian Government concerning this project has been going on for some time. The Russians have also expressed an interest in this project, but we are advised that the Indians prefer an American mill and American support.

It will be recalled that the American Government in cooperation with the American Iron & Steel Institute and the Ford Foundation had provided for training of engineers to operate all three Government-owned mills. In 1956, Benjamin F. Fairless journeyed to

India and recommended this program on his return. The American steel industry, in particular United States Steel, Bethlehem, Jones & Laughlin, Republic, and National Steel have gone to great pains and expense to provide training for the engineers. The United Steelworkers of America of course also cooperated.

Last year, AID engaged United States Steel Corp. to make a technical and feasibility study of the Bokaro project. This report has now been completed. It points out, however, that there are some problems related to raw materials, transportation, skilled labor, and management. Therefore, the study recommends that if the plant is built by the United States it should not be turned over to Indian technical control until after a long training period under American management. We agree with this recommendation.

The basic question before this committee, however, is whether to commit American resources to this project. In deciding this question, we believe the following considerations must be taken into account.

1. Do we want to help a foreign country expand its steel capacity when our own steel industry is still operating at far less than full capacity, and desperately in need of new markets for its own products? This is a matter of serious concern to unemployed steelworkers. In 1962, most of India's purchases of American steel products were financed by our foreign aid. Thus, our assistance in building the Bokaro plant may tend to increase, rather than decrease, American steel shipments to Indian, since it takes a lot of steel to build and equip such a plant. India will not attain self-sufficiency in steel production in this generation, and the market for American steel which the new plant would represent in its construction is of significance.

2. The Bokaro steel plant, if built, will be state owned. Should the American Government contribute to this state enterprise?

India is already committed to a mixed economy, as are most underdeveloped countries. The new plant will not eliminate free enterprise in Indian, it will supplement it. Mr. J. R. D. Tata, who heads the largest privately owned steel mill in India and the 38th largest plant in the world, has given his support to the Bokaro project. His support states that the project does not constitute a threat to free enterprise in India or elsewhere.

3. The most important consideration, in our view, is the fact that this plant is going to be built, whether we decide to build it or not. If we turn down India's request, some other nation, probably the Soviet Union, will pick it up.

We agree with the recommendations of the United States Steel Corp. report, that the plant when completed should be continued for relatively long period under American management. What the Americans ought to turn over to India is an efficiently functioning American steel plant. It would be a serious mistake simply to ship the equipment to India and let them carry on from there. Furthermore, the contract should cover all phases of steelmaking, including provisions for labor. It would be a tragedy if after we built a mill the employees were to fall into the hands of Communist-dominated unions because of inconsiderate labor policy. We believe technical progress, democracy, free labor unions and prosperity go together in the United

States. We ought to be ready to prove that this is also possible in India.

Mr. ANDREWS. Thank you, Mr. Clowes.

What is your interest in the proposed Bokaro steel plant in India, if any?

Mr. CLOWES. As pointed out in our statement, this plant if built would certainly be a project which would require a considerable amount of American steel for construction plus steel for auxiliary equipment.

Mr. ANDREWS. In the construction?

Mr. CLOWES. In the construction.

Mr. ANDREWS. But after you have reached that point then what would the situation be?

Mr. CLOWES. We don't feel India will be able to export any steel except in rare instances, in our generation or perhaps the next generation. There will be a continued shortage of steel in India.

Mr. ANDREWS. Were any of the members of your union used on the survey team that made the study?

Mr. CLOWES. No, they were not.

EFFECT OF CONSTRUCTION OF PLANT ON PRODUCTION IN UNITED STATES

Mr. ANDREWS. What advantages or disadvantages do you think will accrue to the steel industry and steelworkers in America if this plant should be built?

Mr. CLOWES. None. Except in the construction phase of the project.

Mr. ANDREWS. You don't think it would cause unemployment?

Mr. CLOWES. No.

Mr. ANDREWS. Additional unemployment?

Mr. CLOWES. No.

Mr. ANDREWS. Do you consider those advantages or disadvantages to be synonymous with the steel industry and the steelworkers of the United States?

Mr. CLOWES. I would think that the new orders we would get during the construction of the plant and for the auxiliary equipment as well as the continuation of U.S. steel shipments presently being consumed in India would be dependent on the amount of foreign aid we continue to give.

Mr. ANDREWS. Does your organization favor or disapprove of the proposed financial assistance being requested by India from this country for the construction of a steel mill at Bokaro?

Mr. CLOWES. I don't think we are competent to determine cost figures so far as the—loan is concerned.

Mr. ANDREWS. I am not trying to determine the cost figure at this moment. My question is whether you favor the construction of the plant in Bokaro, India.

Mr. CLOWES. We have no objections to the project. However, we do have some reservations as indicated by our statement.

Mr. ANDREWS. No objections?

Mr. CLOWES. That is right.

Mr. ANDREWS. But you do not advocate it. Is that right?

Mr. CLOWES. That is correct.

OPERATION OF SOVIET STEEL MILL IN INDIA

Mr. ANDREWS. You state on page 2 that it is charged that the one which has so far been the most successful is that which was built and operated with Soviet assistance.

Mr. CLOWES. Yes.

Mr. ANDREWS. Would you elaborate on that? We are speaking of the steel mill in India.

Mr. CLOWES. The plant which was built by the Russians at Bhilai was a plant which already had been planned for construction in Russia, so what they were able to send to India was a planned steel plant. All of the equipment had been ordered. They could follow a time schedule so far as construction was concerned.

In addition they sent over their engineers, and as the plant went into operation they maintained a force of engineers at the plant to supervise production.

This is in contrast to what the West Germans did. The West Germans had about 300 contractors building different phases of the plant at Rourkela, and as each of the subcontractors finished their part of the operation they left to return home so what was turned over to the Indians at Rourkela was a finished steel plant without someone there to bring it all together and make it a functioning operation.

Mr. ANDREWS. That was the West German-financed plant?

Mr. CLOWES. That is right.

Mr. ANDREWS. You stated earlier that the Russians have also expressed an interest in this project.

Mr. CLOWES Yes.

Mr. ANDREWS. But, "We are advised that the Indians prefer an American mill and American support."

INTEREST OF RUSSIA IN ADDITIONAL PLANT

What can you tell us about any interest expressed by Russia in the construction of an additional plant in India?

Mr. CLOWES. During my stay in India I got the impression from newspaper articles and conversations with Government officials that the Soviet Union had expressed some interest in building the plant and building further facilities in India. In fact, at one point they had even suggested to the Indian Government that they would be prepared to put up Soviet small parts plants throughout India to supply the steel industry and other industries with parts.

You can appreciate if they could have done this, they could in effect control the entire industry of India.

They have suggested from time to time putting in other operations in India.

Mr. ANDREWS. Do you know of any firm commitments?

Mr. CLOWES. No firm commitments, just indications they would be willing to do this.

Mr. ANDREWS You asked a question here on page 5 of your prepared statement—

> Do you want to help a foreign country expand its steel capacity when our steel industry is still operating at far less than full capacity and desperately in need of foreign markets for its own products?

Mr. CLOWES. That is right.

Mr. ANDREWS. You are asking us that question?

Mr. CLOWES. This is a question, one of the questions, you have to consider in making your decision.

Mr. ANDREWS. Of course. Now I want to ask you that same question. What would your answer to that question be?

Mr. CLOWES. It is our feeling that the initial steel necessary for construction and to equip the mill will put some U.S. steelworkers to work.

Mr. ANDREWS. That is a one-shot proposition.

Mr. CLOWES. Correct.

Mr. ANDREWS. A one-way street. You go down that street and go into a dead end. That demand ends.

Mr. CLOWES. It is our feeling that with the construction of this plant there will be a greater demand for steel. India is not going to be able to meet its demands for steel for fabricating plants within our generation, and probably the next generation. They will not meet their own demands so there will be a continuing need for some importing of steel.

Whether or not this steel will be purchased from the United States in my opinion will depend a lot on our foreign aid programs. I don't think India would be buying steel from us today if it were not for our foreign aid.

Mr. ANDREWS. I think you are right.

Mr. CONTE. Mr. Chairman, we appropriated last year—let me get the figure. We contributed $160 million to India so they could import 800,000 tons of steel from the United States.

Mr. CLOWES. That is right.

Mr. CONTE. How long do you think we can keep that up?

Mr. CLOWES. It is probably dependent upon our foreign aid policy.

Mr. CONTE. On this type of foreign aid, we are subsidizing the Indians to buy steel from us.

Mr. CLOWES. I don't think India is in a position to buy steel from us without our foreign aid, either now or in the future, for quite some time in the future.

Mr. ANDREWS. You make the further statement on page 5, following that question we just discussed—

> This is a matter of serious concern to unemployed steelworkers.

Mr. CLOWES. That is right.

Mr. ANDREWS. You speak of American unemployed steelworkers?

Mr. CLOWES. That is right.

Mr. ANDREWS. How many are there now in America unemployed?

Mr. CLOWES. In the basic steel industry about 100,000.

Mr. ANDREWS. How many are working?

Mr. CLOWES. In the basic industry around 437,000.

Mr. ANDREWS. There are 437,000 employed?

Mr. CLOWES. In basic steel.

Mr. ANDREWS. What do you mean by basic steel?

Mr. CLOWES. The basic steel industry includes blast furnaces, steelmaking, and rolling facilities—the large operations, excluding fabricating plants.

Mr. ANDREWS. And there are 100,000 unemployed in the basic steel industry?

Mr. CLOWES. That is correct.

Mr. ANDREWS. How many are employed part time?

Mr. CLOWES. In the total of 437,000 employed would also be included people who are working less than full time.

Mr. ANDREWS. Can you give me a breakdown on that?

Mr. CLOWES. It would be very difficult.

Mr. ANDREWS. Do you have an estimate or a guess?

Mr. CLOWES. Production has been going down, as you know, ever since we entered into our new collective-bargaining agreement. There has been a cutback in orders so that there are some people now working less than 40 hours a week.

Mr. ANDREWS. Is that the standard workweek, 40 hours?

Mr. CLOWES. Yes.

Mr. ANDREWS. So of the 437,000 employed, some are employed less than 40 hours a week?

Mr. CLOWES. That is correct.

Mr. ANDREWS. When you correct your statement, if you will, put the exact number, or as nearly as you can, in the record.

Mr. CLOWES. All right, sir.

Mr. ANDREWS. Your figure of 437,000 employed does not mean that 437,000 steelworkers are working 40 hours a week?

Mr. CLOWES. That is correct.

Mr. ANDREWS. But you are definite that approximately 100,000 workers in the basic steel industry are without employment?

Mr. CLOWES. That is correct.

Mr. ANDREWS. Which means they are not working, period.

Mr. CLOWES. You must recognize that under our collective-bargaining agreement a worker remains as an employee of the company for 5 years even though he is not working. He has recall rights for a period of 5 years.

Mr. ANDREWS. How many of the 100,000 you stated are unemployed have those rights?

Mr. CLOWES. I would think all of those. In the first quarter of 1960 there were 532,000 workers employed in the basic steel industry; in June of 1963 there were only 437,000 employed.

Mr. ANDREWS. Is the rate of unemployment increasing in America?

Mr. CLOWES. In the steel industry——

Mr. ANDREWS. That is what we are talking about.

Mr. CLOWES. Yes.

Mr. ANDREWS. Mr. Natcher?

Mr. NATCHER. Gentlemen, I want to join with my chairman and the other members of our subcommittee in thanking you for your appearance at this time.

Mr. MCDONALD. We are glad to be here, sir.

Mr. NATCHER. I want to agree with your statement at the top of page 5. Again, just for the record, I want to read it:

> Do we want to help a foreign country expand its steel capacity when our own steel industry is still operating at far less than full capacity, and desperately in need of new markets for its own products? This is a matter of serious concern to unemployed steelworkers.

Mr. Clowes, I certainly agree with that statement. Thank you, Mr. Chairman.

Mr. ANDREWS. Mr. Flynt?

Mr. FLYNT. Mr. Clowes, we welcome you to our subcommittee hearing and Mr. McDonald, we are glad to have you.

Mr. MCDONALD. Thank you.

Mr. FLYNT. I wanted to go over the figures which appear at the top of page 3. I assume that the figures you use are in round numbers?

Mr. CLOWES. They are; yes.

Mr. FLYNT. On line 4, and my arithmetic may be bad, instead of something under 2 million net tons in 1955 I come up with a figure of 1,160,000, which would certainly be considerably less than 2 million net tons.

Mr. CLOWES. That is right.

Mr. FLYNT. And rounded off it would be in the nature of 1,160,000. In just a moment I will come to the reasons for clarifying this arithmetic.

Could you have your statisticians check that to see whether that should be changed?

Mr. CLOWES. All right.

STEEL PRODUCTION IN INDIA

Mr. FLYNT. The next question I come to ties in with that. This is on the production in India at the present time.

The Tisco plant, Tata Iron & Steel plant at Janshedpur produced approximately 2 million ingot tons?

Mr. CLOWES. That is right.

Mr. FLYNT. I believe you have been there, Mr. Clowes?

Mr. CLOWES. Yes; I have been through the plant several times.

Mr. FLYNT. Could you state for the record the approximate production of the India Iron & Steel Co.? Would it be in the nature of 1 million tons or 1½ million tons?

Mr. CLOWES. I will get you the exact figure.

The production of the Tata plant, the peak production, would be 2 million ingot tons. This was the target when it was expanded by the Kaiser engineers. It has not reached full capacity because they have had technical difficulties in their blast furnace operation. One of the furnaces has not operated too well, so that the last information I had was it would reach about 1.9 million.

Mr. FLYNT. And that is top?

Mr. CLOWES. Top.

Mr. FLYNT. Do you have the figures on the Indian plant?

Mr. CLOWES. Less than 1 million.

Mr. FLYNT. Which would indicate that the production of the Tata and Indian plants would constitute nearly 50 percent of the total production?

Mr CLOWES. Yes; at the present time.

Mr. FLYNT. Are they indicating a capability of continuing to increase their production?

Mr. CLOWES. There has been no indication of this; no. In fact, as you know, the Tata Iron & Steel Co. had to borrow a great deal of money from the World Bank in order to expand its facilities, something like $75 million if I am not mistaken. They borrowed this for their expansion program. From talks and conversations I have had with people at Tata, they indicated this is as far as they would go for the present.

Mr. FLYNT. Is that based on lack of skilled labor or on lack of raw materials?

Mr. CLOWES. Neither one. I think it is lack of capital. You must recognize that Tata has probably the largest group of skilled iron and steelworkers in India. This is a very old plant. They have been in operation for a great many years.

In fact, a lot of the trained personnel presently working in the other steel plants in India came from the Tata plant. The supervisors, the top officials of most of the public-owned plants are former Tata people.

Mr. FLYNT. They were able to increase their production substantially?

Mr. CLOWES. Yes.

Mr. FLYNT. By the expansion of their plant?

Mr. CLOWES. Yes, about doubled it.

Mr. FLYNT. With a $75 million loan?

Mr. CLOWES. That is correct.

Mr. FLYNT. That would indicate, then, that a $75 million loan to Tata produced the production capability of about 1 million tons per year.

Mr. CLOWES. That is correct.

Mr. FLYNT. Multipyling the output by 6, which would give us 6 million ingot tons, and also multiplying the $75 million capital investment by 6, would it be fair to give us roughly $450 million based on the same margin of increasing returns to produce the 6-million-ton capacity?

PRODUCTION ESTIMATE FOR BOKARO PLANT

Is it your understanding that six million tons is the production estimate after the completion of phase 3 of Bokaro?

Mr. CLOWES. I don't think it will quite reach that amount. However, you can't make this assumption. You must recognize that Tata was able to use a lot of their existing facilities in their expansion program. They didn't have to build a completely new steel mill. They just added on. This costs much less than if you had to start out from scratch and build a steel plant, and town facilities, et cetera.

Mr. FLYNT. Yet Bokaro would be located in the same general area with the existing plants, approximately five in number?

Mr. CLOWES. Correct.

Mr. FLYNT. That set of facts would lead you to conclude that the best return on the investment would come from an entirely new plant at Bokaro or substantial plant additions to the five existing plants?

Mr. CLOWES. As I understand it, when they built the three new public plants, they made provision for expansion. They are going to expand those facilities. They cannot expand enough to meet their requirements and hence the need for the Bokaro project.

INTEREST OF OTHER COUNTRIES IN CONSTRUCTION OF PLANT

Mr. FLYNT. On page 6 of your statement I am inclined to agree with you that the most important consideration is the fact that this plant is going to be built, whether we decide to build it or not.

Have you seen any indications from either the U.S.S.R., Great Britain—which, of course, has substantial interests in the economy of

India—or the West European or West German consortium? Have you seen any indications that either or all three would make an offer of approximately $1 billion with a 40-year timetable, 10 years grace period, and less than 1-percent interest on the repayment?

Mr. CLOWES. No, I have not, but I noted in yesterday's paper the Indian Government said, "We are going to start construction in 1966 whether the United States makes their contribution or not."

Mr. FLYNT. Was the Soviet contribution at the Bhilai plant approximately $136 million?

Mr. CLOWES. I think that is about right.

Mr. FLYNT. On a repayment period of 12 to 18 years, at approximately 2.5-percent interest?

Mr. CLOWES. That is correct.

Mr. FLYNT. Each of those figures is substantially different from what the proposal for the Bokaro plant is?

Mr. CLOWES. Yes.

Mr. FLYNT. I think all of us on both sides of this table are vitally concerned with both the magnitude of this in terms of steel production and dollar cost, as well as the impact that this plant will have, not only on Indian production but on world production.

FUTURE OF INDIA IN STEEL MARKET

How soon can you foresee India entering a world export market insofar as exports of steel are concerned?

Mr. CLOWES. I cannot foresee it in our generation or the next generation.

This is a personal opinion, of course.

Mr. FLYNT. Are we in accord that at the end of World War II, the Japanese steel industry was generally prostrated?

Mr. CLOWES. Correct.

Mr. FLYNT. Since that time with substantial assistance from the United States, predominantly U.S. assistance, they have not only met most of their domestic requirements but have entered the world market?

Mr. CLOWES. Correct.

Mr. FLYNT. And are able to sell steel at a profit, at a rate of approximately $102 a ton where the comparable U.S. product would cost $172 a ton?

Mr. CLOWES. Yes.

Mr. FLYNT. Does that lead you to believe that we might begin to lose our position in the world market in this particular type of steel, which is steel plates?

Mr. CLOWES. No. Again, you have to recognize that the work force in India is entirely a different work force than the work force in Japan. Also, they do not have trained management people in India. They have turned over the running of the steel plants to people who have been civil servants, and who have little idea how to operate a steel plant. This is a real drawback in India. This is one of the reasons we felt so strongly that if this plant is to be built then we should insist that the Americans who are going to build the plant stay there to operate it because the Indians, in my opinion, are not competent to do this at the present time.

Mr. FLYNT. How long do you think it would take them to become competent?

Mr. CLOWES. Quite some time. There would have to be some drastic changes to their approach to management.

Mr. FLYNT. Fifty years?

Mr. CLOWES. At least that under present practices.

Mr. FLYNT. Seventy-five years?

Mr. CLOWES. At least 50 years, I would think, unless there are drastic changes.

Mr. FLYNT. Do you feel that in view of that long time frame, before they would be in a position to become competitive, even in the production of steel for Indian domestic consumption, that we should perhaps back up a little bit on the magnitude of our thinking in the Bokaro project, and reappraise it in terms of a small one that they might reasonably be able to operate, let us say, in 20 or 25 years, as contrasted with 50 or 75 years?

Mr. CLOWES. I do not think I am competent to answer that question. I think they have made a certain amount of decisions based on their economic development programs and they assume that they need this amount of steel. I would, in my own personal opinion, fear that they would need a greater amount of steel than is presently indicated.

Mr. ANDREWS. Will the gentlemen yield?

Mr. FLYNT. Yes.

Mr. ANDREWS. We were told by experts that if you built a smaller plant which is described in the report as phase 1, or stage 1, you could never expect it to operate at a profit.

Mr. FLYNT. I have not been talking about a profit.

Mr. ANDREWS. Thank you.

TRAINING OF PERSONNEL

Mr. FLYNT. The training period for the skilled laborer, highly skilled laborer, and informed supervisory personnel, how soon do you think that they could be trained for this type of work?

Mr. CLOWES. I would think it would take a number of years; 10 or 15 years, to really train a good supervisory work force, responsible work force.

They would have to change a lot of personnel policies that presently exist.

Mr. FLYNT. Then if it would take 10 or 15 years, do you see any urgency for proceeding with either authorization or appropriations for this project during fiscal 1964, the current fiscal year?

Mr. CLOWES. Again, I do not feel that I am competent to answer that. I think this would be dependent on the economic development of the country and their economic programs and how this is related to other projects.

Mr. FLYNT. If it would be 12 to 15 years before the supervisory and foremen and highly skilled labor force could be developed and the construction time, including about 1 year for engineering studies, that would still give a timelag of some 6 years.

Do you think that perhaps we could defer urgent action on this for, let us say, 1 to 2 years from now while we have time to complete a more thorough study than we have had time to have presented to us?

Mr. CLOWES. Again, I would not be competent to answer that.

Mr. FLYNT. Would you want us to have the benefit of the most thorough and complete study of this project before our Government undertook to make an investment of this magnitude?

Mr. CLOWES. Certainly. I would think we should give the most careful consideration to this and I think if we are going to go into this project, we ought to do it right.

Mr. FLYNT. Do you think that the Soviet Union could make better progress in this than we could?

Mr. CLOWES. How do you mean that?

Mr. FLYNT. Well, from the statements that have been made by you and by the preceding witness, it would be a substantial period of time before this plant could operate because of the shortage of skilled labor and supervisory personnel. Since those things take time, and also the firming up of supply sources for raw materials will also take a substantial period of time, it leads me to believe that there may not be the urgency for this project that some of its advocates have expressed.

I wonder if you would concur in that?

Mr. CLOWES. I would think that what has been envisioned by the United States Steel report is that they would take over American technicians to run and operate the plant. They would not turn this over to the Indians.

They would have the Indian personnel working under Americans, under American supervision. The Americans would be responsible for production. This would probably be the best training system you could use. This is similar to the system used by the Soviet technicians.

Mr. FLYNT. Do you know whether any commitments of any kind have been made to the Indian Government with regard to the Bokaro steel mill?

Mr. CLOWES. No, I do not.

Mr. FLYNT. How soon do you think we should proceed to firm up any plans or commitments on a project of this size?

Mr. CLOWES. Again, I do not feel I am competent to answer that.

Mr. FLYNT. Thank you, Mr. Clowes.

Mr. ANDREWS. Mr. Conte?

Mr. CONTE. Mr. Clowes, I want to join my colleagues in expressing our appreciation to you for coming before this committee today. I feel somewhat close to the labor unions and the labor movement. Back in 1940 I was a member of the union. I worked in the General Electric Co. as a machinist and I have never lost my interest in the labor movement.

EFFECT OF CONSTRUCTION OF PLANT

I was interested in several observations that you made and one is that if this steel mill is built, there will still be a demand for steel to be imported by India?

Mr. CLOWES. Correct.

Mr. CONTE. We were told here today that Japan is delivering steel to India, f.o.b. at $102 a metric ton and that compares with about $174 for American steel?

Mr. CLOWES. Yes, sir.

Mr. CONTE. If this steel mill is built, in the course of 20 years, the Indian Government stands to realize a profit by excise taxes, retainers, and interest charges of about $5.5 billion. You know as well as I that it is going to be very competitive to try to sell them steel and compete with the Japanese who are selling steel at about $72 a ton cheaper than we can sell it to the Indians.

You know who will get the orders.

So I do not think we can look forward to any bonanza for the steel industry in the United States.

Secondly, you mentioned that if the steel mill is built, it will provide jobs in the United States for steel to be used in the construction of the mill.

EFFECT OF DUMPING OF STEEL IN UNITED STATES

We were told this morning that this would amount to a drop in the bucket compared to the jobs that are being lost in the United States because of dumping by Japan, Belgium, and Luxembourg here in the United States. I think this is a very serious thing.

Mr. CLOWES. I understand that presently before the Congress there are some bills with regard to dumping and that this will take congressional action to correct this problem, if it exists.

Mr. ANDREWS. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. ANDREWS. Was it the Treasury Department or the Tariff Commission that recently held investigations and concluded there had been no dumping in America?

Mr. CLOWES. The Tariff Commission recently made this decision related to steel wire rods.

Mr. ANDREWS. Do you recall the amount of steel the companies claimed had been dumped in America?

Mr. CLOWES. I do not have those figures.

Mr. CONTE. That would depend on legislation?

Mr. CLOWES. Yes, sir.

Mr. CONTE. If that goes through the Congress? We know how long this could take. However, even if we could realize a small amount of employment, and it would be very small, it would be nowhere near in comparison to the jobs we have lost because of foreign steel dumping in the United States?

Mr. CLOWES. We would not subscribe to this entirely.

Mr. CONTE. You do not think we have lost jobs in the United States because of foreign steel?

Mr. CLOWES. We have lost jobs, as you know. However, about 35 percent of our capacity is not being used in the steel industry and we have got to get markets for our steel. I do not feel that the foreign competition has been a major source of the problem in the steel industry. Automation, new facilities, and competition of other materials, such as aluminium and plastics has been primarily responsible for loss of jobs in the steel industry.

Mr. ANDREWS. What is the problem, if the gentleman will yield?

Mr. CLOWES. Lack of demand for steel; we have got to get greater demand for steel. We have got to have greater use of steel in this country.

Mr. ANDREWS. Do you not agree that every time we build a new steel mill anywhere in the world, you add to the supply?

Mr. CLOWES. That is correct.

Mr. ANDREWS. You do not add to the demand by simply building an additional plant.

Mr. CLOWES. Well, take India for an example. They have put in three new steel plants and they have expanded two other plants. They are actually importing more steel into India today than they were before they had these plants.

Mr. ANDREWS. Thank you, Mr. Conte.

Mr. CONTE. Mr. Clowes, if they are importing steel it is because we are paying for the import of that steel?

Mr. CLOWES. A part of it, as I pointed out in my statement, is because of our foreign aid program, naturally, but still they have a great demand for steel.

Mr. CONTE. How many jobs would be involved in producing 5½ million tons of steel?

Mr. CLOWES. That would be difficult to say.

Mr. CONTE. Give me a ballpark guess, approximately?

Mr. CLOWES. We are producing now around 110 million ingot tons per year with around 437,000 people.

Mr. CONTE. Right.

Mr. CLOWES. So another 5 million tons would be about 5 percent.

Mr. CONTE. That would be about 20,000 jobs?

Mr. CLOWES. Yes.

Mr. CONTE. How many people do we have unemployed?

Mr. CLOWES. In the steel industry, 100,000.

Mr. CONTE. It would be quite a bit of help if we could put 20,000 people to work?

Mr. CLOWES. It certainly would.

Mr. CONTE. That is exactly how much steel was imported from Japan, Luxembourg, and Belgium in the last year, 5½ million tons of steel. They can buy steel dockside in San Francisco or Los Angeles about $70 a ton cheaper than we can produce it right here in the United States. This is a very serious problem.

Mr. CLOWES. It certainly is.

Mr. Conte. We financed some of those steel mills in Japan and elsewhere. As a result of financing those steel mills, we have 20,000 people today that would be working and this is something we have got to consider.

Mr. ANDREWS. Will the gentleman yield?

Mr. CONTE. Certainly.

Mr. ANDREWS. We were told that India planned to export some of the steel produced at Bokaro. How would that help your situation?

Mr. CLOWES. I do not think they will export steel from there, at least in our generation.

Mr. ANDREWS. I do not know whether they could or not but I say we were told by a competent witness that they did plan to export some of the steel to generate foreign currency.

Mr. CLOWES. Certainly if they were going to sell steel in the markets we are presently in, that would——

Mr. ANDREWS. I do not know whether or where they are going to sell it, but the export is to generate foreign currency.

Mr. MINSHALL. Will the gentleman yield before we leave this dumping item?

Mr. CONTE. Yes.

Mr. MINSHALL. This 5 percent, or in excess of 5 percent, that represents the amount of steel being dumped in this country is not a true figure because geographically, and especially in Cleveland, Ohio, where I live, and in the pipe and barbed wire industry for example, it represents about 25 percent of the pipe produced being dumped, and about 50 percent of the barbed wire.

In some unions you are going to have a 50-percent change in employment and in pipe, you are going to have a 25-percent change. That's quite a figure to add to our unemployment figures.

You would not approve of an arrangement like that, would you?

Mr. CLOWES. No.

Mr. MINSHALL. You do not approve of that?

Mr. CLOWES. We do not approve of dumping. We have taken serious objection to dumping and we feel there are some corrections needed under our present laws and procedures.

We are supporting bills to strengthen the antidumping provisions we presently have, but it is up to you people to enact the legislation. We can talk about it but you are the people who have to do something about it.

Mr. CONTE. I am not squeamish in telling you that I am with you, but by the same token, I do not want to be with you and find out that what I am doing is being undermined by the construction of a steel mill that eventually is going to hurt my people, hurt my people in the United States.

An Indian newspaper coming out of the Embassy stated they needed a new steel mill because they were importing 1 million tons of steel in India. If Bokaro is built, upon completion it will produce about 4 million tons a year, and that cuts off automatically that importation of 1 million tons of steel.

Mr. CLOWES. This has not worked out that way.

When they built the three new plants in the public sector, it required India to import more steel now than they did before these plants were built.

U.S. ASSISTANCE TO IMPROVE EFFICIENCY OF MILLS IN INDIA

Mr. CONTE. Let me tell you why: It is difficult to pin down some of these things because the witnesses across the table—and I do not mean you but I am talking about the AID witnesses—before our full subcommittee, they came up for $1,630,000. This was to overcome the deficiencies of the organization, management, policies, labor skills, of the Government-owned Hindustan Steel, Ltd., so that the production can be increased from 1.1 million tons in 1961 to 6 million tons of steel by 1966.

This is the reason: They are not up to full production and even though you said in your statement that this one which is constructed by the Russians was the most efficient, everything is relative. How efficient is it as compared to an American steel mill?

It is very inefficient?

Mr. CLOWES. That is correct.

Mr. CONTE. That is why we are plowing $1.6 million to try to get them to increase production from 1.1 million to 6 million by 1966.

When you expand all of the three public steel mills, and you build the Bokaro steel mill and put that into full capacity, and if you run it with American people as you recommend, at that time I think you will see that there will not be any need for the importation of steel.

We might lose, not a favorable market because India has never been a favorable market, but we will be losing somewhat of a market. This is something that we should consider.

I do not take issue with whether it should be in the public or private sector, because you have to deal with the form of government you are negotiating with. We were told by all the other witnesses, Mr. Gaud, by the people this morning, that the TATA steel mill, the private sector steel mill, it was the most efficient by far of all of the steel mills in India.

Mr. CLOWES. The thing that you have to remember about TATA, this is an old plant. It has been in operation for a great many years. They have a trained work force but they have a lot of obsolete facilities there, too.

They had at TATA—before expansion—40,000 people producing 1 million tons of steel.

This is not very efficient. You have to recognize that some of these people are working in town services, but they had 40,000 people producing 1 million tons of steel. At Sparrows Point over in Baltimore, they produce 9.5 million ingot tons and have a work force of something like 25,000.

Mr. CONTE. Here, again, everything is relative. Let us compare it with steel mills in India. This is where Ambassador Galbraith said they had the most efficient mill of the whole five.

Mr. CLOWES. At the Russian plant at Bhilai. They are now up to about 1 million ton capacity. They have a work force of somewhere around 18,000 or 19,000 including town people. You have to remember when they built the Bhilai plant they had to build a whole community and hire people to take care of the infirmaries, schools, stores, and all of the ancillary needs.

By comparing work forces, TATA certainly had a great many more people to produce 1 million tons of steel than are presently being employed at Bhilai to produce a million tons.

Mr. ANDREWS. Will the gentleman yield?

Mr. CONTE. I yield.

Mr. ANDREWS. Mr. Clowes, you stated a minute ago, India was still importing steel?

Mr. CLOWES. Correct.

Mr. ANDREWS. You predicted that if the Bokaro mill was built, they would still import steel?

Mr. CLOWES. Correct.

Mr. ANDREWS. Is not most of the steel imported by India from the United States?

Mr. CLOWES. No.

Mr. ANDREWS. What percentage would you say?

Mr. CLOWES. I would think that we are probably exporting to India 240,000 tons of steel per year.

Mr. ANDREWS. What is the figure you had, Mr. Conte?

Mr. CONTE. That was last year, 880,000 tons.

Mr. ANDREWS. One further question.

Mr. CONTE. At a cost of $160 million.

Mr. ANDREWS. There is a limit to our ability to be generous with 100 nations in the world and if we go in there and put up approximately $975 million to finance the Bokaro mill—and it will possibly run more than that because the Indian Government will have to build about $133 million plus of community facilities in the way of housing, et cetera, at the millsite—that will mean we are going to have to cut down in other areas of foreign aid to India. If we do that, then we cannot pick up the check for steel exported from here to India. Had you thought about that?

Mr. CONTE. Before he answers, Mr. Chairman, let me tell him what the Ambassador said. The Ambassador said exactly that, if this project goes through we are going to have to cut out some other projects.

Mr. ANDREWS. There is no question about that. Commonsense tells you that. India has received aid from us to the tune of about $5.1 billion and the request for this year is approximately $900 million. That is just about the price tag of this Bokaro mill.

We do not do business overseas like we do in this country and whenever we tell them we are going to finance a project, we put the money on the line.

If we build a power dam in this country that costs $100 million, that $100 million is financed over a period of sometimes 10 or 15 years as work progresses, but our foreign friends, who have been the beneficiaries of our generosity through the years, say: "No; we do not do business that way. We must have the money in hand before the contract is signed."

Figure it out for yourself. If they get $900 million from this country in any one year, it is going to mean that is it, so far as foreign aid is concerned.

IMPACT OF RUSSIAN MILL IN INDIA

Mr. CONTE. Mr. Clowes, you mentioned in your statement—and I cannot seem to find it—that this steel mill which was financed by the Russians, had a tremendous impact in India?

Mr. CLOWES. Correct.

Mr. CONTE. You realize that this steel mill, as Mr. Flynt told you, was financed with a 12-year loan, 2.5 percent interest, repayable in hard currency, and it was only for $136 million. I would be on the floor of the House fighting and spearheading such a loan for the Indian Government. I know what kind of a loan we are going to give to them.

It will be close to $1 billion, 10-year grace period, three-quarters of 1 percent interest, which we will never expect to get back. They are development credits as past experience has shown and we never expect to get this money back. I want you to think about this.

Let me explain to you how this is going to work: We give this money, close to $1 billion, to the Indian Government, and this new mill will form a corporation.

The Indian Government will lend the money to the corporation at 5¾ percent interest, plus for every ton of steel that is made in India, you know, there is a charge which the Indian Government puts on which amounts to $52 a ton. The Indian Government will realize in 20 years, out of this $1 billion alone, $5.5 billion. We are lucky if during the same period we receive back $1 million out of the $1 billion. They can take part of that $5.5 billion and buy steel from Japan, Luxembourg or other European countries. This could well be to our detriment, if there is a greater need for steel than what they are producing after Bokaro is built.

Mr. CLOWES. I would like to say that the loan and building this plant is something that is the responsibility of the people who are in the Congress and the people who are in the Foreign Aid Agency, the people who are responsible for negotiations.

This is certainly not within our purview to negotiate contracts and conditions on the financing of steel plants. We were asked to come before this committee and give our views on this steel plant. There are a number of problems in connection with it. As we have indicated in our statement.

We think that there should be some safeguards in the project, if built, but if we are going to do it, we should do it right. It is you people who are going to make the decisions as to whether this is going to be built.

Mr. CONTE. We appreciate your coming up here and giving us the benefit of your knowledge, but we are also deeply concerned, as you are with the fact that there are 100,000 people in the steel industry unemployed. We want to help you as much as we can.

You said in your statement on page 6 that if we do not build it, somebody else will. You know, even though you are not in a position to negotiate or to be a financier, or economist, and neither am I, there is not a country in the world outside of the United States that would go in there and give India such a generous development credit.

If the U.S. Government had come in and told us they were going for a loan similar to the terms of the Soviets, I do not think we would be holding these hearings right now.

FINANCING OF STEEL MILLS IN INDIA

Let me tell you about some other loans.

Here is a German loan for $157 million, 5.5 percent interest, repayable in 18 years.

Then we have our good old British friends who milked this country for years and years and decades and decades, and who were so good-hearted they gave them a loan of $74 million, repayable in 12 years, at 6 percent interest.

This is what we are up against.

If the U. S. Government and the AID people were to go in there and be hard-fisted businessmen and compete with these loans, even go down to 2 percent repayable in 20 years, which would be a very

favorable loan, I think we would be on the floor of the House supporting this measure.

Here they want to give them this money, almost $1 billion, for a steel mill which, in this report, which you have no doubt read, leaves a lot of doubts in my mind as to whether it is a good investment.

There is a lack of transportation, there is a lack of water, there is a lack of personnel. We are going to have to create a whole new city and bring employees from all over India. There is a lack of limestone.

There is a lack of good iron ore. There are many, many dozens of questions that have been brought up by United States Steel which, incidentally, cost the taxpayers over $650,000 to make this study; which questions have not been answered.

That alone would be enough to squash this thing, but assuming these things can be overcome, then we get into this question of whether it is going to hurt our people, hurt the unemployed steelworkers, whether it's the best terms we can get for our money.

I have no further questions.

Mr. ANDREWS. Off the record.

(Discussion off the record.)

Mr. ANDREWS. On the record.

Mr. Minshall?

Mr. CONTE. Mr. Chairman, one other thing, if I may and I will not prolong this.

I want to refer to this bicycle question again. The fine Ambassador said that one of the reasons they want to construct this mill was because India had gotten into the bicycle age. He said there was a great demand for bicycles in India and sewing machines, and the steel they produced here would stamp out these commodities.

I said to him:

> Mr. Ambassador, we have places in my district with 6 and 8 percent unemployment. Parts of my district are declared depressed area. The President comes up with gimmicks, such as ARA bill, and labor comes in and supports it because they are going to create jobs.

They have not created one job yet in my congressional district and I have a bicycle industry there, the first one in the United States, that is struggling to survive.

It is struggling to keep its head above water.

If you want to do something for them, give these people 30 million bicycles, I said, give every Indian family a bicycle. We would have a period of prosperity in the First Congressional District of Massachusetts. I think it is high time we started thinking about our people. I only bring this to your attention because I felt that the Ambassador hadn't made a strong case and because there is a shortage of bikes in India.

That is all.

Mr. ANDREWS. Mr. Minshall.

Mr. MINSHALL. Mr. Clowes, I, too, would like to thank you and Mr. McDonald for appearing voluntarily before this committee. As you know, I live in the heart of the Ruhr of America in Cleveland, Ohio. We are surrounded by steelmills, Lorain, and we have also Youngstown and farther to the southeast, Pittsburgh.

I have many of these steelworkers who live in my 23d Congressional District, which is a suburban area of Cleveland. I have a high admiration for them and the fine work that they are doing.

Mr. Clowes, you are an authority on labor matters and I notice on page 7 of your statement, about the second or third line, you say that the contract could cover all phases of steelmaking, including provisions for labor.

What did you have in mind when you said "including provisions for labor?"

Mr. Clowes. There have been a great many problems in the steel industry of India, and in my opinion, the Indian Government or Hindustan Steel have not taken the necessary precautions to insure the uplift of the working class in India by building these new communities and industrial facilities.

If you go into the new steel plants you find people barefoot tending blast furnaces. The west German facilities were built and they forgot to put in washrooms. They have not taken into consideration the need for safety and they have not complied with the Indian Government Labor codes.

These are the kinds of things which cause discontent. It is going to be possible for the Communists to take over the work force of these plants unless adequate labor provisions are instituted. As an example, at the plant built by the British, they held an election last year for the executive committee of the union and 10 out of 11 positions were won by the Communists because of these inconsiderate labor policies.

The Communists have taken advantage of this.

Mr. Minshall. What is the labor situation as far as Communists in unions in India are concerned?

It is my understanding that one of the three largest labor unions in India is dominated by the Communists today.

Mr. Clowes. That is true.

Mr. Minshall. What union is that?

Mr. Clowes. You have in India three major labor federations. One is the INTUC, which is attached to the Congress Party, the party in power; the HMS, which is attached to the Socialist Party; and the AITUC, which is attached to the Communist Party.

In some of the major facilities in India, you have the AITUC, at Hindustan Machine Tools, and Hindustan Aircraft. These are controlled by the Communist unions.

Mr. Minshall. If we build this steel mill in India—which, from what I have heard I hope we do not—I think it is a ridiculous, idiotic idea.

I, for one, as I said some weeks ago, am going to make every effort to insure that funds for this steel mill are not available. It makes the AID case even weaker when the fact of the Communist-dominated unions in India is brought out.

What is to prevent them from taking over the unions that are going to operate this proposed steel mill?

Mr. Clowes. If there is bad labor policy, a continuation of the existing policy in the present Government-owned steel plants; nothing.

Mr. MINSHALL. Do you not think that is rather ridiculous for us to go ahead and build a steel mill when the Commies can take over the mill and operate it?

Mr. CLOWES. If we get involved in building this steel plant, we have to make adequate provisions so these things do not happen.

Mr. ANDREWS. How would you do that?

Mr. CLOWES. By making sure all of the labor codes are adhered to, recognition of unions, making sure that provision is made for proper safety, making sure that the workers get the proper kind of equipment, that they have toilet facilities and water facilities and are treated with dignity.

Mr. ANDREWS. Would you propose to man the mill with American workers or Indian workers?

Mr. CLOWES. Indian workers.

Mr. ANDREWS. What assurance would you have they would not go over to the Communist Party if you gave them all the benefits?

Mr. CLOWES. I think if they were treated with dignity and given proper hearings, and could air their complaints through effective machinery this would not happen.

Mr. ANDREWS. You would not have any assurance they would not join the Communists. I am talking about the Bokaro mill.

Mr. MINSHALL. They will infiltrate that overnight.

Mr. ANDREWS. What would be the situation if we had a war, which we all hope and pray we will not, and India sided with the United States? What would those Communist workers in those steel mills do?

Mr. CLOWES. I think you always face a threat any time you have Communists in control of unions or Communists in industry, they are always a threat. The Indian Government seemed to move hurriedly when they had the invasion by the Chinese. They put a lot of these people in jail. They seem to have a close check on them. However, I think they have a tendency not to regard the Communists in the trade union too seriously.

Mr. MINSHALL. One of the main arguments made by Ambassador Galbraith for this steel mill is the fact that steel necessary to go into the construction of this mill would create more employment in this country.

I notice in your statement you say "Thus, our assistance in the building of the Bokaro plant" and you qualify your statement, I must confess—

> may tend to increase rather than decrease American steel shipments to India since it takes a lot of steel to build and equip such a plant.

How much steel would it take to build this plant?

Mr. CLOWES. Again the United States Steel report indicated——

Mr. MINSHALL. How many tons of steel would it take? "A lot" is a very general term.

Mr. CLOWES. I do not think it is the steel itself. It is the man-hours that go into the production that is important. I cannot competently answer that.

Mr. MINSHALL. You said "a lot." How many tons?

Mr. CLOWES. I cannot give you that figure.

Mr. MINSHALL. You pulled "a lot" out of the hat.

Mr. CLOWES. How many man-hours does it take to make a piece of rolling mill equipment?

Mr. MINSHALL. The experts from the industry say it will take at the most 100,000 tons of steel to build the Bokaro plant, including steel for the heavy equipment, and this amounts to a fraction of 1 percent of our total yearly capacity and this will be spread over a period of 5 years.

Mr. CLOWES. It is the man-hours involved to produce the rolling mill equipment and other equipment that is important.

Mr. MINSHALL. You are not going to get very many man-hours when you only increase the total steel capacity one-tenth of 1 percent.

How many men do you have working for the steelmills today?

Mr. CLOWES. A great many companies involved——

Mr. MINSHALL. You have more men going off and on sick leave than this would create employment for? The effect on total man-hours would not even be noticed.

Mr. CLOWES. Again you have to recognize that companies like United Engineering would be producing the equipment that would go into these plants.

Mr. MINSHALL. I think this statement of yours, with all respect to you, is completely in error. We had facts and figures, backed up by the chief accountants and top officials of the United States Steel Co. who spent months, on this Bokaro plant study. I think they know what impact it would have on our industry. Their testimony was it would be negative; hardly anything at all.

Mr. CONTE. They said it would be negative in comparison to the jobs lost to dumping.

Mr. MINSHALL. That is true. But it would increase our steel capacity only 100,000 tons. Our annual capacity is 100 million tons. Less than one-tenth of 1 percent of our capacity.

Mr. CLOWES. As I tried to point out to you, man-hours and not production of steel is the important thing.

Mr. MINSHALL. Tell us how many man-hours this would be. You are not going to increase the man-hours very much.

You are a reputable steel union, one of the finest in the country.

Mr. CONTE. What you are trying to say is, some of the equipment that goes in would produce man-hours of work?

Mr. CLOWES. It would not be a great deal of steel actually, but the man-hours going into the manufacture of rolling mill equipment, transformers and everything else would be high. I cannot give you the exact number of man-hours.

Mr. CONTE. Again I want to thank the representatives of the steelworkers union for coming here. Those are all the questions I have.

Mr. ANDREWS. Thank you very much.

MONDAY, AUGUST 19, 1963.

PROPOSED STEEL MILL AT BOKARO, INDIA

WITNESS

GEN. LUCIUS D. CLAY

Mr. ANDREWS. The committee will come to order.

We have with us this morning a great American, Gen. Lucius Clay.

General, I want to say first that we appreciate your taking time out of your busy schedule to come down and testify. We have under consideration at this time the proposed Bokaro steelmill in India. We have heard several witnesses. We know that you did an excellent job as chairman of a committee which looked into the overall question of foreign aid. We have read your report, and we are impressed with many recommendations in that report.

The investigation by this panel deals solely with the proposed Bokaro steelmill.

Your committee did report to the effect that you were opposed to using aid money to establish government-owned businesses or operations in competition with businesses owned by free enterprise.

General CLAY. Yes, sir.

Mr. ANDREWS. That was a categorical recommendation of the committee.

General CLAY. Yes, sir.

Mr. ANDREWS. General, I have explained to you the purpose of the hearings of this panel. We would be glad to hear any statement you care to make with reference to the proposed mill at Bokaro, India. As we understand it, the mill would be owned by the Indian Government.

At the present time there are five steel mills in India, two of which are owned by private enterprise and three owned by the Indian Government or a corporation of the Indian Government. The proposed mill, if developed through the third stage, which is the maximum size or capacity of the mill, would cost approximately $1.7 billion, and the share of that financed by the AID agency of the U.S. Government would be approximately $975 million.

We would be glad to hear from you your views with reference to this proposed mill.

GENERAL STATEMENT

General CLAY. Mr. Chairman, I would like to state that at the time we made our report, the United States Steel report on this mill had not been presented. Thus, our committee did not have before it the United States Steel report.

I have had an opportunity myself to read that report since we submitted our committee report. Therefore, the comment which we had made in the report was directed in a general sense, rather than in a specific sense, and it was, of course, as you stated, to the effect that we were opposed to the U.S. Government lending money to other governments to build enterprises which were in competition with existing free enterprises.

I think we were very much impressed with the very fact that the Alliance for Progress in South America is based upon the establishment of conditions which would attract free enterprise. It has been stated repeatedly in connection with the Alliance for Progress that unless large sums of free enterprise money come into South America, it is hopeless for government alone to try to bring about an economic rehabilitation of South America.

It seemed impossible to us that we could lend money for government enterprises in one part of the world while trying to attract free

enterprise to do the job in other parts of the world. It seemed, therefore, that to give money for this type and kind of enterprise was completely inconsistent with what we were trying to do elsewhere, and particularly in South America.

It has been stated by the owners of the steel industry, which is free enterprise in India, that they do not object to the Government going into the steel business on a larger scale. I am somewhat doubtful as to the value of their testimony in this case, because, very obviously, they would be completely at the mercy of Government-fixed prices from the Government steel mill, and the Government could, if it wanted to at any time, stifle the private steel industry of India.

This, we believe, is contrary to what we believe in. While we certainly do not have the right to dictate to any other country what kind of economy it should have, it does seem that we should have the right to say where our money will be used when it goes into economies which are in conflict with our own economic beliefs and views.

Mr. ANDREWS. At that point, may I read from your report, page 5:

> We believe the United States should not aid a foreign government in projects establishing government-owned industrial and commercial enterprise which compete with existing private endeavors.

I want to say that I completely subscribe to that statement, and I assume that was the unanimous opinion of the committee.

General CLAY. No, sir. There was one dissenting opinion.

Mr. ANDREWS. Only one?

General CLAY. Only one.

Mr. ANDREWS. So far as that particular statement is concerned?

General CLAY. The whole report was unanimously signed by nine of its members. Mr. Meany, of the American Federation of Labor-CIO, dissented from the report in its entirety, and submitted a different viewpoint.

POSITION ON UNITED STATES FINANCING THE MILL

Mr. ANDREWS. General, based on your experience and knowledge of this proposed project, do you recommend that the United States undertake the financing of Bokaro?

General CLAY. At the present time, I do not believe that the full economics of the project have been established. There is considerable question as to the availability of power, water, and transportation facilities. Certainly, until it has been definitely established that power, transportation, and water will be available, the project has yet to be established as one of economic merit.

Mr. ANDREWS. Assuming that further study reveals that the plant itself would be economically justified, that all raw materials could be found and transported economically, et cetera, as you know, the proposal is to build this for the Indian Government, and it would be a plant operated in competition with existing privately owned steel plants in India. Under those conditions, would you recommend that the plant be financed and operated as a Government-owned steel mill?

General CLAY. No, sir, I would not. I think there are ways and means, if this project were fully justified economically, if it is badly needed for Indian growth, by which money could be advanced, not necessarily all by the United States, to the Indian Government for

it to establish an authority or some other type or kind of agency which would be committed, however, over the years to sell its shares to the public and become, in the course of time, a private enterprise. I cannot conceive any other way by which it would justify support from the United States.

Mr. ANDREWS. What benefits, if any, do you think the U.S. Government would receive should the proposal be approved?

General CLAY. I think the U.S. Government is committed to a program of support of southeast Asia and Asia against the Chinese colossus, and that if we are unable to develop the full strength of the Indian and Pakistani people, we can never look forward to a time when we will have a reasonable balance of power in Asia. Thus, if we continue committed to the defense of southeast Asia, in the long run we will spend a great deal more money and be under a continuing commitment that might be lessened if we can get a self-supporting India and self-supporting Pakistan that are no longer at arm's-length with each other.

Mr. ANDREWS. Do you know of any commitment which has been made by any official of the U.S. Government to the financing of this proposed plant at Bokaro?

General CLAY. I do not know of any. I understand our Ambassador has stated that he believes a commitment has been made. I have checked as far as I can within both the State Department and AID, and I am advised they have not made any commitments. So, to the best of my information, there is no specific commitment of the United States to finance this project.

ADVISABILITY OF APPROPRIATION FOR PROJECT FOR 1964

Mr. ANDREWS. Do you believe, based on information developed so far and now available, that the Congress should appropriate funds for this project in the 1964 budget?

General CLAY. I would certainly say there is not enough information available at this time for a specific commitment of funds to be made to this project——

Mr. ANDREWS. In fiscal 1964?

General CLAY. In fiscal 1964—unless there was a specific request for relatively small sums for further study. I believe the whole question of further consideration of this steel mill must await further studies on the additional facilities, on firm understandings that these facilities will be provided, and, finally, as to what the ultimate ownership of the project will be.

I have a very real belief that India needs the steel mill. I am not questioning the need of India for this steel mill. The United States Steel people, under a very thorough survey, are convinced there is a very definite and real shortage of steel in India.

Mr. ANDREWS. I do not think there is any question about that in the minds of any of the witnesses.

Are you familiar with the study of the project made by the United States Steel Corp.?

General CLAY. Yes, sir.

Mr. ANDREWS. How does the United States Steel study compare with your report of the project?

General CLAY. Of course, the United States Steel study is a far more detailed engineering study than anything we had available when our Committee was meeting. This report had not then been made. I think it is a very excellent study, and I think it would indicate quite clearly that if the additional facilities were provided, in the long run this would be an economic project, one that eventually would stand on its own feet.

The report, however, did not go into the philosophies that were involved as to Government ownership versus private ownership. It was a simple engineering report.

Mr. ANDREWS. It was a factual engineering report.

General CLAY. Yes, sir.

Mr. ANDREWS. My understanding of the report is that no recommendations were made as to whether or not a mill should be built, but only the facts were given, and the conclusion of the report was that at the present time the mill could not be economically justified.

It appears to me if we spent $686,000 for that report and then the AID Agency went ahead in the face of that report and committed funds in fiscal 1964 for the construction of that mill, we have wasted the $686,000 spent on that report. That is just my opinion.

Do you agree with the statements and conclusions of the United States Steel report?

General CLAY. Knowing the caliber of the people who made the report, I have confidence in its being a factual and correct report, and I accept without any question the conclusions and the recommendations made in the report. I am sure it is a sound engineering report.

STATUS OF CURRENT STEEL MILLS IN INDIA

Mr. ANDREWS. Are you familiar with the three steel mills financed by West Germany, Great Britain, and Russia, now in operation in India?

General CLAY. Only in the sense that I have seen reports on them. I have not actually seen them, Mr. Chairman.

Mr. ANDREWS. What has been the success and political impact of those mills?

General CLAY. I think the mills are still not running at full capacity due to the difficulties in the training and development of crews, but they are reaching capacity and they certainly have contributed to the economic development of India.

As to whether or not they have been operated to make a return on the investment, I do not know. I have seen no figures that I could accept on that score.

Mr. ANDREWS. Our information is that the two privately owned steel mills operate much more efficiently and economically than do those three now under the operation of the Indian Government.

General CLAY. I think that is without question accepted as a fact. The privately owned mills have had the benefit of trained management and trained crews, and have been operating at reasonable efficiency. The Government-owned mills have had great difficulty in developing management and personnel, and a new mill would have even greater trouble in developing operating personnel.

Mr. ANDREWS. My next question was: What will be the probable impact of the Bokaro plant, if approved?

General CLAY. I think it would have great difficulty in developing the right type and kind of people to operate it. In point of fact, I believe the United States Steel report pointed out if such a mill were built, it should be kept under American management for a considerable period of time before it was turned over to Indian management. If we should provide money for such a mill, I think it would be imperative that it have a substantial period under American management. I think this would be the greatest assurance of its ability to operate economically.

TERMS FOR FINANCING PLANT

Mr. ANDREWS. Do you believe the proposed plant would be financed by Russia or some other government if it is rejected by the United States?

General CLAY. I think there is always the possibility that other governments and other countries, including Russia, might finance such a mill. I suspect, if they did, it would be on much harder terms than we have proposed to finance it. I think India might get the money at higher rates of interest over shorter payment periods.

Mr. ANDREWS. Harder loans.

General CLAY. Harder loans. I think it is possible they could get the money under harder loans.

Mr. ANDREWS. Of course, if the United States, through AID, were to undertake the financing of this plant, it would be done under a loan which would last for 40 years at three-fourths percent interest, and nothing repayable for the first 10 years. That is the type of loan that AID proposes to use in connection with the financing of this plant.

General CLAY. I think in our report which we made on the AID program, one of our very strong comments was that the United States could very well harden the loan terms in many instances. Certainly, if this mill is to prove economic in its operation and is to represent a return to the Indian Government, and if it also is to pay taxes as a private mill does, then indeed as soon as it reaches such a basis, the type and kind of loan we are talking about would seem to me to be unnecessary, and we could have much harder terms than anything we have talked about.

It might well be in the initial years you would have to have soft terms, but if this mill is worth building at all, it would be able to carry loans under much harder terms than the ones that we are talking about now.

TIME REQUIRED TO OPERATE MILL AT PROFIT

Mr. ANDREWS. The United States Steel representatives stated that it would be approximately 10 years before the plant could operate at a break-even basis. Do you believe this is a sound estimate?

General CLAY. Of course, this is based on the assumption, also, that the second step would not be available for some 7 years, I think. It would require a period of breaking in the second step for it to become economical.

I do agree with the report.

I also doubt very much that it would be possible to build the two steps much faster than that.

Mr. ANDREWS. We were told that the mill could never operate profitably under the first step.

General CLAY. I think that is correct, yes, sir.

Mr. ANDREWS. And that if the third step were completed, then it would be 10 years from that date before the mill could be expected to operate profitably.

General CLAY. I think in making that report, the steel company engineers were undoubtedly giving considerable consideration to the difficulties in training operating personnel and to the lack of natural mechanical ability which exists in India, which makes it very difficult to get operating personnel. I do not think such a mill in this country would require anything like that period to become profitable.

Mr. ANDREWS. Do you believe the Indian Government would be able to repay the proposed loan, or would you consider that the project would actually be a grant?

General CLAY. I think we have to assume, when the Indian Government has signed a paper promising to pay, it will pay, because there has been no record yet of any default on such notes by the Indian Government. Thus, I would believe that we would have to accept, if they agreed to repay this money, that it would be repaid.

Mr. ANDREWS. Do you believe the loan agreement with India should include provisions concerning the ownership, control, and operation of the project?

General CLAY. Yes, sir. I think if this project goes forward at all, it is essential that it be done under a lengthy period of American management, that it be done under provisions by which the ownership, at least in substantial part, eventually passes into the hands of the public, and that it has a board of directors on which the public ownership of shares would be recognized and would have the deciding and major voice in its policies and operations for the future.

MILITARY SITUATION IN INDIA

Mr. ANDREWS. General, what is the current military situation in India? You can answer that either on or off the record.

General CLAY. I think I would like to answer part of it on the record and part of it off.

Mr. ANDREWS. You tell the reporter.

General CLAY. This is on the record.

Actually, as a result of the Chinese invasion, there has been a new willingness in India to support a defense establishment. In the period prior to the Chinese invasion, a somewhat pacifist Government so neglected its defense department that it probably reached the lowest point in Indian history. It was thus not able to make a very good show of itself upon the Chinese invasion and, indeed, some of its very best troops, as I understand it, were paying more attention to the Pakistan border than they were to the Chinese border.

With the invasion, however, a very real change has been made in the defense department, and every effort is being made by the Indian Government to rebuild its army and its air force, its army particularly. I think this is very important, because it is a very real step toward the creation of a balance of power in southern Asia.

Unfortunately, the differences between Pakistan and India require both of these countries to keep their defense establishments pointed at each other, so their combined strength is not available, at least at the moment, as a deterrent to Chinese power. Their combined strength would be a very real deterrent to Chinese power.

Thus, I do believe there is a better understanding and a revived interest in maintaining the defenses in India than had existed for some time. I think it is very necessary for us to encourage this, to try to build it up.

Now if I may go off the record.

(Off the record.)

USE OF MILL FOR MILITARY PURPOSES

Mr. ANDREWS. General, is there any indication that the production from the proposed plant might be used for military purposes?

General CLAY. India is building a small military production base. However, from what I know of it, Mr. Chairman, it would not require any great amounts of steel, and I would say it would not be a factor in the need for this mill per se.

Mr. ANDREWS. In the event of military conflict in the Middle and Far East, do you feel the proposed plant would remain in Government control?

General CLAY. I think if you went into a long, protracted war out there, the Government would probably take over almost everything at first, and at the end of the war it would depend on who won it.

Mr. ANDREWS. We were told that the unions which operated at least one and, if I remember correctly, all three of the Government-owned plants over there, were completely dominated by the Communists. Do you know anything about that?

General CLAY. No, sir, I do not.

Mr. ANDREWS. Again I want to thank you, General, for appearing here before us.

General CLAY. Thank you, Mr. Chairman.

Mr. ANDREWS. Mr. Natcher.

AVAILABILITY OF RAW MATERIALS, ETC.

Mr. NATCHER. General Clay, I wish to join with my chairman in thanking you for your appearance at this time and the excellent manner in which you have presented this subject.

Are you acquainted with the steel mill that is either in operation or under construction in Greece at the present time?

General CLAY. I know of it, but I am not in detail fully familiar with it, no, sir.

Mr. NATCHER. During the past several days, I have read reports in the press from time to time concerning the overall cost of this particular mill. It seems when it started out it was to cost in the neighborhood of probably $128 million, and now it appears to exceed this figure by probably another $100 million. The operation of such large plants as Bokaro and the mill that is now under construction in Greece, of course, requires the necessary raw materials, as you well know, General Clay. Other witnesses have testified before our committee to the effect that the coal supply is not good, that the coal in

the vicinity of this mill contains too much ash, for instance, and that it will require washing and treatment. Did you run into that in your investigation along this line, General Clay?

General CLAY. Only as we read it in the United States Steel report, in which I, for one, have complete confidence. I think they stressed the fact that there needed to be further study to be sure not only of the availability of raw materials, but of other facilities, too, such as power, water, and transportation.

Mr. NATCHER. As I understand, this location is right out in the middle of a field at the present time, generally speaking. There is no community there. In addition to the plant, it would require housing and all other facilities for the people to operate this mill. Is that your information, General Clay?

General CLAY. Yes, sir.

Mr. NATCHER. According to the information which has been submitted to our committee, General, it would require some $133,857,000 in addition to the mill itself, for the operation of this particular plant. It would require a canal, a dam, a townsite, and different washing facilities for the coal, and generating facilities which are not in existence at this time.

General CLAY. That is correct.

Mr. NATCHER. That is all I have. Thank you, General Clay.

Mr. ANDREWS. Mr. Flynt.

Mr. FLYNT. General Clay, let me welcome you to our subcommittee, and also thank you for taking the time to come down and discuss this matter we have under investigation and inquiry.

At the present time, you are connected in an executive capacity with Continental Can Co.?

General CLAY. Yes, sir. I have retired as an officer but continue as a director.

REQUIREMENT FOR COMPLETE SURVEY OF PROJECT

Mr. FLYNT. This company, like many other successful companies, is constantly looking for both methods and locations to establish new plants, new mills of one kind or another, as the demand for your many products requires.

General CLAY. Yes, sir.

Mr. FLYNT. Could you very briefly tell us the kind of study that your company makes prior to beginning a new plant?

General CLAY. I think we would proceed very much as this study has been made, by employing competent engineering firms to survey the facilities available and the cost of erecting the plant, by using our own economists and also employing outside economists to predict the potential market and the return that we could secure from the investment that we would be proposing to make.

Then if it was overseas, we would take a thorough look at the stability of the country in order to know whether or not we felt warranted in going into the country. Today, due to the guarantees under AID, that is not as much a prbolem as it used to be, because you are guaranteed against takeovers through government action of that particular type.

I think these are the factors we would want to consider before we went into any such endeavor.

I have never been sure in my own mind, if the Government of India had not been willing, that a U.S. firm might well have formed agreements and arrangements with the Indian steel mill owners to produce a steel mill built and financed in substantial measure by private enterprise.

Mr. FLYNT. If you expanded a substantial amount for a comprehensive report, and the report as furnished, on the basis of a contract which provided for the report, showed on its face that the report as it then existed was incomplete and that it would require from 1 to 2 years' additional study in order adequately to complete the report, as a businessman what would be your recommendation at that point?

General CLAY. If large sums of money were involved in this report, if it represented a very substantial capital investment on our part, we in our company certainly would not move until we had full and complete reports. It it was a lesser project you might take more of a risk, but on a project that involves this much capital structure, you certainly would not move on it until you had full and complete reports.

Mr. FLYNT. To my knowledge, this is about the largest and most comprehensive single project ever recommended for implementation by the Agency for International Development or any of the predecessor agencies. From your study of this program, are you of the same belief?

General CLAY. I think it is certainly the largest of the industrial type. I am not too sure that it is as large as some of the river development programs might turn out to be, but it certainly is the largest single project of an industrial type that I know of.

Mr. FLYNT. This being true, do you believe that it is of utmost consideration, if this project is undertaken, that it be brought to successful fruition?

General CLAY. I think nothing could be more damaging to us than to start this project and not see it through to a finish.

Mr. FLYNT. We were told by one of the witnesses who preceded you that the company in which he was one of the principal executive officers recently spent 5 years and expended approximately $7 million in conducting an investigation in Venezuela preparatory to beginning a mining operation there, the size of which would be considerably smaller than this proposed industrial development in the Bokaro steel mill.

It would therefore seem to me that before we jeopardized the position of the United States, the investigation should be completed insofar as it is possible to complete it, and that we should not proceed on the basis of a partially completed study of this Bokaro steel mill proposal.

Would you agree with that and, if so, would you like to expand on it?

General CLAY. I think I would agree with it very much. In fact, I think Mr. Bell, of the AID administration, himself has stated that he had to have a great deal more information than he has now before he was prepared to make a final and ultimate recommendation. I think you would have to have positive assurance of the availability of the raw materials and facilities needed and the availability of personnel of the caliber and character needed to make this kind of project a success.

This would mean, I believe, the establishment of a very large training program to have people trained and ready to go by the time the mill was ready to go.

I think a great deal more work is necessary before a final commitment to this project. How much, I do not know, because I suspect the availability of materials, the extent of iron and coal, and so forth, have been subjected to other investigations by the Indian Government in connection with their own steel mills. There may be more information available on this aspect than we know of now.

Nevertheless, until this project can be completely sewed up, it would be very wrong to make a final decision.

In addition, as I said before, Mr. Chairman, and I would like to repeat, I can think of nothing worse than, if we once commit ourselves to this project, to let it be a failure. If we commit ourselves, it must be a success. We must be sure there are factors there to make it a success.

Mr. ANDREWS. You mean both financially and from an operational standpoint?

General CLAY. Financially and engineering wise. It would be a very bad reaction and reflection on our ability as the greatest industrial nation in the world to start on a project of this magnitude unless we were fully committed to it and know we are going to make a success of it.

Mr. MINSHALL. In view of the Communist infiltration into several of the unions in India, do you not feel there is a strong possibility that there might be a great push to make this effort, if we did go into it, fail, just for their own propaganda purposes?

General CLAY. This gets into a very difficult field. I think there would be every effort by the Communists to make it fail, but if we were not competent to carry it through in spite of their efforts, then we should not do it, because the whole purpose of building India up as an industrial country is to provide better opportunities for their people and, therefore, greater incentive for them to be other than Communists.

There is no question that anything we do in this respect will meet with tremendous Communist opposition. I do not know how important that factor is. I would only say that, regardless of that factor, if we build this mill we must be sufficiently sure of management control in its early stages to be able to fight such a battle through and win it, and I think we could.

Mr. FLYNT. Along that very same line, in your opinion, would that make it not only desirable but, indeed, imperative that before a final decision is made and before any commitments are made, the investigation be completed far beyond the point which the investigation has now reached?

General CLAY. Yes.

Mr. FLYNT. I believe you stated earlier that you have read the report submitted to the Agency by the United States Steel Corp.

General CLAY. Yes.

Mr. FLYNT. You are familiar, then, with the five existing steel mills—two privately owned, the Indian Iron & Steel Co., and the Tata Iron & Steel Co., Ltd.; and the three Government owned and operated steel mills, one installed as a result of a loan from the Union

of Socialist Soviet Republics, the second from a West German business consortium, and the third from the United Kingdom?

General CLAY. Yes, sir.

Mr. FLYNT. Is it your understanding that the value of these five mills ranges generally from a low of $100 million to a high of approximately $175 million, or have you other figures which may not have been made available to us?

General CLAY. I do not know, sir. I cannot answer that question. I have not seen any evaluation of those mills. I was under the impression that the Russian mill was substantially higher than that in cost. I do not think we have any way of knowing, really.

Mr. FLYNT. The cost or the potential operating capacity?

General CLAY. Yes.

Mr. FLYNT. If those figures are substantially correct, would it seem to you that the proposal for a three-phased operation, the first phase of which would cost approximately $575 million, would be an appropriate start, or do you think it should be modified downward?

General CLAY. I think this particular mill in this particular location can pay out only provided it is a substantial mill, a mill of large size. I doubt very much if a smaller steel mill there would serve a very useful purpose in helping India out of its steel deficit or in the long-range economic operations.

Of course, this business of constructing mills in stages, with the initial stages not very profitable, is a rather common occurrence in this country. This is the way we build mills in this country. I think the United States Steel Co. has applied some of its own techniques in its recommendations with respect to this mill.

Of course, you do have the difference in that they do have other profitable operations which carry their period of financial loss, whereas I do not understand that the Indian Government has at this moment any profitable steel operations.

Mr. FLYNT. Then, your interpretation of the report is that if this project is undertaken, it should be undertaken with the objective in view of completing the entire three-phased operation at an estimated cost of approximately $1.7 billion?

General CLAY. I do not think the project stands on its own merit unless it is completed in full eventually. It takes that to make it economical.

Mr. FLYNT. In view of the magnitude of the comprehensive project in three phases, would you say that that is all the more reason that it is mandatory that the investigation be as nearly complete as possible before any further commitments are made?

General CLAY. From the financial standpoint, I think it is essential. Even beyond that, though, I think if the United States is to lend the money for this project, it must commit itself fully to the completion of the project in its entirety. If it does not, we had better not get into it. We are going to hurt ourselves more than we help ourselves. If we are going to go into it, we should go into it with the full realization of what the total project is.

Certainly, if we are to do that, we should have all the information we can obtain as to its merits before we enter into the commitment.

Mr. FLYNT. Thank you, General Clay. I would like to tell you in the presence of my colleagues on this committee what I have told you previously, that we in your native State of Georgia continue to be proud of you and your accomplishments.

General CLAY. Thank you very much, sir. I appreciate that.

Mr. ANDREWS. Mr. Conte.

TERMS OF FINANCING MILL

Mr. CONTE. I wish to join the committee, General, in saying we are certainly pleased to have before us such a distinguished gentleman with such a distinguished career. The last time I saw you was in Berlin, when you were doing such an effective job in a period of crisis. You certainly made our trip most enjoyable and gave us food for thought at that time.

The waterfront has been covered fairly well by our chairman. One point has not been brought out, General.

In the questioning of the representatives of United States Steel, I wanted to know how this mill would be financed. In essence, they said we would lend the Indian Government this $981 million, and they, in turn, would set up most likely a corporation to run the mill or the Hindustan, Ltd., which is a Government corporation, would run it, but they would suggest a private corporation of the Government, a separate corporation of the Government, to run the mill. The Indian Government would lend them this money at 5¾ percent interest. Plus receiving this interest from the steel company, they would receive $52 a ton for each ton of steel that was produced at that mill. Taking that into consideration with the 5¾-percent interest and depreciation, in the course of 20 years the Indian Government would realize $5.5 billion. Under the terms of the loan we would give, the United States would be fortunate if it realized $1 million during that period of time.

I know you and your committee have given this foreign aid program an exhaustive study, and I wonder if you looked at that type of proposal and whether you agree with that type of proposal.

General CLAY. Earlier, Mr. Conte, I commented in a general way to the effect if we were to lend money on this mill, after the initial few years when it began to turn in some revenue, the terms of the loan should be definitely hardened, and it should not be on the low-interest, long-term payout that we now propose. To me, it would certainly make no sense whatsoever for us to lend money at three-fourths of 1 percent to the Indian Government for a steel mill which we are financing, if the Indian Government is to turn around and lend it at 5¾ percent and have the advantage of this windfall.

Obviously, during the first 2 or 3 years when the project is under construction, it will not be able to pay any interest to anybody except out of the principal which has been loaned for the construction of the mill.

As I understand the AID people, they did establish certain conditions, and these conditions themselves may stop the mill. They stated, No. 1, if they loaned this money there had to be a separate corporation established other than the present Government corporation, that it had to have a substantial percentage of its directors from outside of Government, that it had to be managed for a period of not

less than 5 years, and preferably 10 years, by American management under a firm contract, that it also had to have provision at a subsequent date for the sale of a percentage of its stock to private owners, and finally, that the question as to the rate of interest to be paid by the authority to the Indian Government had to be in balance with what the Indian Government was paying to us.

Mr. Bell has established these criteria, and in my opinion these criteria materially improve the nature of the project. However, I do not understand that the Indian Government has agreed that a majority of the ownership of this corporation will be allowed to pass into private hands.

Mr. CONTE. Also, I think the crux of the whole thing is this: Mr. Bell or Mr. Galbraith or anybody else in this program has not said they would strike for a good hard loan. I can appreciate your point in taking issue with this mill being constructed in the public sector, but I do not think they would have difficulty getting it through the Congress in the public sector because this mill would not be in competition with American mills. But the thing that bothers me is the fact we have been so darn foolish, not only in India but throughout the world, in making these soft loans. I think it is high time—and I have read your report two or three times and I agree with a good part of it—it is high time we begin being sound businessmen in these things.

AVAILABILITY OF RAW MATERIALS

On page 18 of volume II, I brought out that United States Steel had said it would take 2 years to determine whether raw materials were available to construct the Bokaro steel mill. I asked Mr. Galbraith about that and he said they revised it downward and now feel they could do it in 3 or 4 months.

The next day we had representatives of United States Steel here and I again quoted from page 18 of volume II and asked if they stood by their word, and Mr. Obbard, vice president of United States Steel, said they stood by it and thought it would take more than 2 years to determine whether raw materials were available to construct the Bokaro steel mill.

Mr. Galbraith, in the Washington Post, says, and I quote:

> Three years of operations would thus recover the dollar cost of the mill and more.

United States Steel says at least 10 years it will be in the red and then only if the three phases are carried out can it become a successful operation. His statement does not correspond with statements made by United States Steel.

Mr. ANDREWS. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. ANDREWS. The representatives from United States Steel told us they could never operate profitably in the first step.

General CLAY. I think that is right.

Mr. ANDREWS. That is in the record from the steel experts.

Mr. CONTE. Let us assume for a moment Mr. Galbraith was right—only an assumption—that in 3 years this mill would operate at a profit. Then why could not the Indian Government, if this were true, get a loan from the Export-Import Bank or the World Bank?

It would be a pretty good loan, would it not, if the mill will be profitable in 3 years?

General CLAY. I think if it could be profitable in 3 years they would have no trouble getting a loan from the International Bank.

Mr. CONTE. Thank you, General.

TERMS OF LOAN FOR FINANCING PLANT

The other thing that bothers me is, Mr. Galbraith kept talking about the Russian loan. I brought out to him at that time that the Russian loan, as far as we know, based on the testimony of Mr. Gaud of the AID agency, was a loan in the amount of $136 million bearing interest at the rate of 2½ percent repayable in 12 years. This differs greatly from a $981 million loan with a 10-year grace period and with three-fourths of 1 percent interest. I am willing to take the floor of the House and fight for a loan similar to the Russian loan or a German loan or a British loan. The German loan was in the amount of $157 million, bearing 5½ percent interest, repayable in 18 years; and the British loan was in the amount of $74 million over a 12-year period and bearing 6 percent interest.

General CLAY. May I say just one thing off the record?

Mr. ANDREWS. Yes.

(Discussion off the record.)

Mr. CONTE. General, based upon testimony given by Mr. Obbard, vice president of United States Steel, that the Indian Government stands to realize a profit of $5.5 billion if the United States should give this development loan to India and they in turn construct the Bokaro steel mill, is it not possible that the Indian Government could utilize that profit to pay off the Russian, the German, and the British loans, all of which are hard loans?

General CLAY. Certainly in terms of Indian currency they could, so theoretically the answer to that is "Yes." Their ability to do this would depend on their ability to convert the Indian money into the currency of those countries.

Mr. CONTE. In view of the fact the Indian Government has gotten these three hard loans, the Russian, the German, and the British loans—incidentally, the German loan was a consortium of German businessmen——

General CLAY. Yes.

Mr. CONTE. Is it your feeling we could enter into a fairly good hard loan with India on this project or some other project in India?

General CLAY. I think we could get certainly better loan terms than we have. I doubt very much if this project in itself could carry hard loan terms for the first 10 years of its existence. After that it should be able to carry very good loan terms. If we go into it, I think we should go into it on a recognition that terms of payment for the first 10 years would be relatively soft, but after that they would harden so that they could come eventually to terms of a conventional type loan. I think this is feasible and that the project should be able to take that kind of debt structure.

Mr. ANDREWS. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. ANDREWS. We were told about the method of steel sales in India and it was a very unique method. The Indian Government, under that unique method of distribution, will make money on steel regardless of what it costs them to get that steel into the country.

General CLAY. Yes.

Mr. ANDREWS. So it could be that even though steel were produced uneconomically in this proposed mill, the Indian Government would realize a profit on the steel when they sold it in that unique method; is that correct?

General CLAY. That is correct; I think it is probably happening now.

Mr. CONTE. It is happening. On the steel produced they take off the cream, $52 on every ton produced in India, and on steel imported in India they take $22 a ton off.

Mr. ANDREWS. Regardless of what they pay for the steel, they sell at a profit. Some they buy at $102 a ton and some at $172 a ton but they make money on every ton of steel they sell.

General CLAY. These figures should be taken into consideration in fixing the loan terms.

Mr. ANDREWS. I agree with you.

Mr. CONTE. That is exactly right.

MANAGEMENT OF MILL

You mentioned something about an agreement from the Indian Government that the mill should be U.S. managed for how long?

General CLAY. Five years minimum.

Mr. CONTE. They could not possibly run that mill themselves, because United States Steel said it would take 3 years to merely train the foreman, and 18 months to train the senior operative jobs, and 9 months to train the junior operative jobs, plus the fact, as the chairman brought out, there is not a city or township in Bokaro and they will have to bring these people from all over India, and you know better than I do because I have never been there, that there are different religions and different language barriers and it will be difficult to bring these people there as a unit to run this mill. The three sector mills they have now are not running at capacity, and even though steel union representatives testified they were well run, in another part of the AID program there is an item of $1.6 million for a grant to India to send American personnel to train these people how to run their present steel mills to increase capacity at those mills.

General CLAY. I think the period of 5 years Mr. Bell talked about is a period in which absolute management control would be in the U.S. Government. I think there would have to be management experts there longer than that, but this would be a period when U.S. management would be in complete control.

Mr. CONTE. There is no doubt about it, they cannot manage what they have. They are asking for help in the amount of $1.6 million for American personnel to train these people how to run their present steel mills.

That is all, Mr. Chairman.

Mr. ANDREWS. Mr. Minshall.

Mr. MINSHALL. Off the record.

(Discussion off the record.)

Mr. MINSHALL. General, I, like my colleagues, feel very comforted, and I know the American people feel very much the same way, to know we have a man of your great talents and ability in reserve to come here voluntarily to testify before our subcommittee in the hearings on the Bokaro steel project.

Several years ago I had occasion to visit you in Berlin during the crisis. On the same trip while in Vietnam I had the opportunity of visiting also with your son, Colonel Clay. He did an outstanding job out there. I know he will follow in your great footsteps.

General CLAY. Thank you, sir.

Mr. MINSHALL. General, we have covered the basic questions about the Bokaro steel mill project and anything else I might ask would be putting frosting on the cake. There are several significant things I would like to emphasize:

No. 1, one of the basic reasons Mr. Galbraith gave when he testified on the need for this mill in India, aside from the steel need which we all agree upon, was that our $5.1 billion we had already put in India over the years had not done the job it should, economically or militarily. He felt we needed something to make a great impact to counteract the effect of the Russian and German and British loans on the people in India.

Would you care to comment on that?

General CLAY. I do not think we should ever approve a project because of what we think is the impact it may have in the country it is being built just because a project is being placed there. If a project is not basically sound and cannot be operated to bring a reasonable return on the money invested, in the long run any visible impact will be lost and you will come out with a loss of prestige and not a gain.

Mr. MINSHALL. In other words, you look upon this project with some apprehension and misgiving?

General CLAY. I think we must be completely confident, if we go ahead with it, that not only will it succeed but we will support it until it succeeds. Otherwise we should not go into it.

NEED FOR MORE COMPLETE SURVEY

Mr. MINSHALL. It has been testified by you and by the United States Steel people that they would not consider going into it unless we could go successfully into all three phases, because even though the first phase may be feasible it would not be profitable. As it stands now it would take several years' more study and $5 million more before we could come up with a complete and satisfactory feasibility study.

To summarize what we have gone through here this morning, there is no doubt in your mind that we should have considerably more study on this steel mill before we go ahead with it?

General CLAY. I think we should have sufficient study to be completely sure it would be a successful operation.

Mr. MINSHALL. Do you agree with the statement made by United States Steel, by Mr. Obbard, the vice president of United States Steel, that it would probably take several years and $5 million more in feasibility study money before we could come up with something we could look at?

General CLAY. If, as an industrialist, I was investigating a steel mill, those are the people I would go to, and I would accept their answers as being completely reliable, which I do.

Mr. MINSHALL. Mr. Chairman, that is all I have and I want to thank General Clay again for coming down here. I had the privilege of talking to him on the telephone informally about a week ago and at that time he said he would be glad to come here, and I think he has been of great help to the committee.

Mr. ANDREWS. Definitely.

At this point in the record we will insert this paper entitled "Background and Summary of a Techno-Economic Survey of a Proposed Integrated Steel Plant at Bokaro, Bihar State, India, Commissioned by the U.S. Agency for International Development, by United States Steel Corp., Pittsburgh, Pa., March 1963."

(The document follows:)

AGENCY FOR INTERNATIONAL DEVELOPMENT

BACKGROUND AND SUMMARY OF A TECHNO-ECONOMIC SURVEY OF A PROPOSED INTEGRATED STEEL PLANT AT BOKARO, BIHAR STATE, INDIA

(Commissioned by the U.S. Agency for International Development, by United States Steel Corp., Pittsburgh, Pa., March 1963)

BACKGROUND

The Agency for International Development (AID) has received from the United States Steel Corp. (USS) the report of a technical and economic survey concerning an integrated steel mill for construction of which the Government of India has requested American financial and technical assistance.

The United States Steel report makes no recommendation as to whether AID should assist the project. Its purpose is to assist AID in deciding on its response to an Indian request. It analyzes technical and economic aspects of the proposed mill, and identifies problems likely to be encountered.

If built, the mill would be located at Bokaro, Bihar State, in India's chief region of heavy industry. Bokaro is about 150 miles northwest of Calcutta (see map). It would be the country's sixth integrated steel mill and the fourth built and operated in the public sector of the Indian economy. An integrated steel mill is one which carries the steelmaking process from procurement of raw materials, through production of iron and then ingot steel, to rolling of basic shapes for use by industrial steel consumers (in this case plates, sheets, and strips) and production of coke oven byproducts.

The other three public sector plants, all operated by Government-owned Hindustan Steel, Ltd., are at Rourkela, Durgapur, and Bhilai. External assistance for these came, respectively, from West Germany, Great Britain, and Russia. The two private plants are the Tata Iron & Steel Co., Ltd., at Jamshedpur, and the India Iron & Steel Co., Ltd., at Burnpur. The Government of India wishes to start Bokaro construction during the third 5-year plan, now entering its third year.

For its services under the contract with AID, United States Steel received $686,344. Subcontracts for parts of the survey work were performed by the Bechtel Corp., the Bessemer & Lake Erie Railroad Co., Koppers Co., Inc., Arthur G. McKee & Co., and the Stone & Webster Engineering Corp. In addition, engineering and cost data were furnished to United States Steel by 32 other American firms. The contract was awarded in April 1962.

SUMMARY

Principal elements of the report are very briefly stated in the numbered paragraphs which follow immediately. Somewhat more detailed material, also derived from the report, is supplied thereafter. The source throughout is the report, whether paraphrased, quoted indirectly or quoted directly.

REPORT HIGHLIGHTS

I. India needs greater steelmaking capacity, even taking into account planned expansion of existing mills.

II. Bokaro can partially fill the needs by a three-step program providing 1.4 million metric tons of annual ingot-producing capacity by 1971, 2.5 million tons by 1975, and 4 million tons by 1980. Flat steel product tonnage made from these ingots will be 1 million tons in 1971, 1.8 million tons in 1975, 2.9 million tons in 1980.

III. A successful plant at Bokaro requires that—

(*a*) Qualified operating personnel, Indian and American, be assured;

(*b*) Supplies of several important raw materials be available and brought under ownership control of Bokaro management;

(*c*) Provision be made, in some cases by other agencies than the Ministry of Steel and Heavy Industries, for—

(1) Adequate rail transport;

(2) Adequate supplies of power and water;

(3) Expansion of coal mining/washing facilities;

(4) Adequate area highways; and

(5) A townsite to support both laborers and managers.

IV. Total step I investment would be $919,428,000 of which the foreign exchange share would be $512,588,000. For purposes of its analysis, United States Steel assumed a 20-year loan at 5¾-percent interest. Total investment over a period of years would be $1,504,766,000 of which $891,522,000 would be from external sources and $613,244,000 from Indian sources. Other items cited in (*c*) above are estimated at $133,857,000, including foreign exchange needs not yet determined.

V. Bokaro will not be profitable in the first step. It would become and remain so with full production in step II.

Need for greater capacity

India's present integrated steel mills have a rated capacity of 6 million metric ingot tons annually although in 1962 they produced 4.8 million tons. Problems accounting for this lag are expected to be resolved. Without Bokaro, planned expansion of existing plants embraces 11 million ingot tons by 1971.

In terms of products, rather than ingot tonnage, the following table indicates estimated future relationship of supply, demand and deficit for Indian steel products in general, without Bokaro:

[In thousands of metric tons]

Year	Demand	Supply	Deficit
1966	6,916	5,595	1,321
1971	11,235	8,684	2,551
1976	17,000	11,075	5,925

In terms of specific things Bokaro would make, flat steel products, the following table indicates deficits and Bokaro's effect thereon:

[In thousands of metric tons]

Year and step	Deficit before Bokaro	Supply from Bokaro	Remaining deficit
1966—I	1,427	1,040	387
1971—II	2,348	1,800	548
1976—III	4,910	2,910	2,000

Manpower

Manpower problems are of "special importance" to Bokaro. "Unless fully qualified personnel, whether Indian or American, could be supplied right from the start of the project's implementation, there would be grave risk—as can be seen from the experience of other recent steel plants in India—that very costly

equipment would be unproductively used or even damaged. And, on the other hand, whatever American personnel might be needed during the early period of the plant's existence should be replaced by Indians as rapidly as possible in the interest of operating economy."

"Under the most favorable circumstances at present the manning of a sixth integrated steel plant would be extremely difficult." This is because large numbers are needed and the only source of experienced personnel is five existing steel plants. These, however, have expansion plans of their own. "Thus Bokaro would to a very large extent have to develop its own Indian organization by hiring untrained people and training them for their respective jobs. A considerable number of Americans familiar with American equipment and methods would consequently be required to provide this training and to assure proper operation until Indian personnel were fully qualified."

The Bokaro area has virtually no useful labor supply except in lowest categories. It is rural, remote, and poorly served by transport facilities. It is unattractive to the great majority of potential Indian employees, who would come from elsewhere. "The situation is even worse as regards American employees * * * and would make it difficult to attract good expatriate personnel." Thus a nearby townsite must be built and operated, including medical, recreational, educational, and shopping facilities, transport to and from the plant, and better access to the outside.

Characteristics of Indian labor as to physique, discipline, language, and other factors, plus special considerations rising from extensive government involvement in labor relations matters, require an overall plan for manpower. The United States Steel-suggested plan consists of eight closely coordinated programs in manpower and recruitment, training, personnel placement, utilization of personnel resources, compensation, employee and union relations, safety, and employee communications. Its implementation has a direct effect on conclusions about profitability of the mill.

A 10-year American management contract is assumed, although some technical help would be necessary for a longer period. Twenty Americans would be needed immediately, increasing to 670 in 1968, the expected year for starting production, decreasing to 40 in 1977. The peak figure includes 270 management and supervisory personnel and about 400 production and maintenance workers. Indian work force is expected to be about 8,200 for step I. The American management contract is a prerequisite to attaining 100-percent capacity 4 years after startup and to maintaining the relatively small and efficient work force.

Construction would involve about 20,000 men.

Raw materials

Raw materials concerned are iron ore, limestone for blast furnaces, limestone for steelmaking, and metallurgical coal. Among important assumptions made for iron ore and blast furnace limestone are that mining and quarrying will be integrated with steelmaking operations, will be under Bokaro management, and thus will be available at cost. Among assumptions about limestone for steelmaking and coal are that they will be purchased at market prices, largely from Government agencies.

"It became apparent to us at an early stage in our investigation that wholly insufficient consideration was being given to the raw materials aspect of the Bokaro project. This deficiency appears to be due primarily to the fact that present plans are for the three principal raw materials to be supplied by three separate Government entities * * *. No individual or group with overall steelmaking raw materials experience has been made responsible for coordinating Bokaro's raw materials program. We do not believe that any modern integrated steel project should be undertaken today in any country without such coordination of raw materials planning.

"In addition to this lack of coordination, work in respect of raw materials has lagged behind planning of other aspects of the Bokaro project. Arrangements regarding iron ore and coal sources are still undergoing important changes, and exploration work on the proposed source of limestone is only just beginning. We therefore found it necessary to make certain major assumptions regarding raw materials for Bokaro. We wish to stress this point and emphasize the importance, if the project is to be undertaken, of verifying the reasonableness of these assumptions or developing adequate alternatives. This work of verification will be a considerable undertaking in terms of personnel, time, and funds; from the standpoint of time alone, for example, it will take 2 years or more, in our opinion to find satisfactory long-term solutions to the basic raw materials problems."

Transportation, power, and water

All three of these problems affect Bokaro directly but arise outside its plant and are thus largely beyond its management's control. It is pointed out that within a radius of 135 miles, drawn from Jamshedpur, is concentrated 80 percent of India's steel production capacity, the raw material on which production is based, and 30 to 35 percent of steel-consuming industry. Only the Bhilai steel plant is outside this circle. "The construction of an additional steel plant within the area—in addition to major expansion of the four plants other than Bhilai—would increase the demand for these commodities and services, which are already in short supply."

Transportation.—The Bessemer & Lake Erie Railroad, a subcontractor for United States Steel, found that "transportation problems related to the proposed steel plant at Bokaro are difficult but not insuperable." Transportation will be expensive and will require unusually competent management from Bokaro. The plant is reasonably well located for coal and iron supplies, less well for moving out finished products. Moreover, the transportation situation will impose additional needs in unloading and storage facilities at the plant site.

United States Steel considers, however, that "the adequacy of the transportation system is far from assured and that fulfillment of present plans for construction of track and supply of rolling stock is a prerequisite for efficient and fully productive operation of Bokaro." Further warnings are, first, that "there will be very little point in granting steel mills top priority if the rest of the economy has to suffer such shortages of transportation that the steel produced cannot be further processed and distributed for consumption;" and, second, that steel, power, and transportation development programs are absolutely interdependent and "must proceed pari passu [at equal pace]."

United States Steel has accepted the assurance of the Minister of Steel and Heavy Industries that he is aware of the danger to steel if the railroads fail, that he works closely with the Railways Board, and that steel would not be allowed to falter for want of transport. But it stresses "that the plant's successful operation would be gravely prejudiced if transport plans are not fulfilled."

Power.—As with transportation, the report assumes that priorities necessary to adequate power for Bokaro will in fact be granted. Further assumed is that the report of a special Indian committee (Sachdev Committee), recommending power consumer priority for railway traction, coal, iron, and steel production, and waterworks, will be implemented. New generating capacity at points in the Damodar Valley Corp. system is essential and must be installed at least concurrently with steel plant construction.

Water.—Key element here is construction by the Damodar Valley Corp. of a dam and reservoir at Tenughat, for needs of Bokaro and other new industries, plus a supply canal to Bokaro. Again it is stressed that "investments and construction programs must therefore be carreid out in time to meet Bokaro's requirements and closely coordinated with the construction and step-by-step expansion of the steel plant."

Financial considerations

Background.—"In spite of the many difficulties of organizing new industries, overcoming shortages of materials and essential services, and raising low living standards and productivity, future Indian economic progress seem assured. In many places, the seeds of modern technology and production methods have been planted. To the extent that aid continues, the peaceful economic revolution of India will be promoted and hastened."

"Most Indians are still very poor and it is possible only to show slight statistical proof of improvement of living standards since the series of plans began in 1951. However, the massive dimensions of Indian population tend to obscure the fact that a real start has been made in creating a modern industrial base."

Four-fifths of the country's investment in plant, equipment, and infrastructure of transportation, power, and supporting facilities comes from Indian sources. The third plan specifies investing 75 billion rupees in the public sector and 43 billion in the private.

Representative of third plan goals is a 50-percent increase in the rate of growth for industrial production and national income. However, the upward trend is more likely to follow the gradually ascending path of recent years rather than accelerate sharply, a prediction borne out by Indian performance under the first 2 years of the third plan. This forecast is based, first, on the

prospect that external assistance may be so insufficient or delayed as to fail to fully meet India's needs for equipment and material, and second, on the view that basic factors such as transportation and power seem inadequate to the needs of the growing economy and unlikely to become adequate in the near future.

"There are serious questions about the long-term sufficiency and timing of such aid (United States, European, and Soviet bloc). For specific projects such as the expansion of the three existing public sector steel mills and power facilities' expansion, the actual letting of contracts to foreign suppliers is running months and years behind schedule * * *. A large part of the problem is the time-consuming difficulty of translating planned major industrial projects successively into detailed equipment specifications, orders on foreign equipment makers, manufacture, delivery, and installation of machinery at Indian sites."

"Our analysis of the future supply of steel in India has been prepared against the background of existing governmental regulations and policies concerning the ownership of steel-producing plants and controls on steel prices and distribution. Current Government policy classifies the steel industry as one of those industries intended basically to be Government-owned; it assumes, however, the continued existence of the present privately owned steel mills * * *. Present price controls and the current level of the retention prices do not appear (judging both from public statements made by TISCO and IISCO and from the results of this study) to permit an adequate return on invested capital * * *. Expansion in the privately owned steel industry is, therefore, most likely to be confined to the rounding out of existing facilities, and the major burden of providing future steel supplies will fall to the Government.

"This statement of the basic assumptions we have made in projecting future Indian steel capacity, and the reasons for it, are not meant to imply either criticism or approval of Indian Government policy. It is meant to describe objectively the factors we had to take into account in our forecasting, and which help to explain why the future supply of Indian steel so forecast shows that the Government-owned sector will by 1976 have expanded its capacity so very much further above the present level than the private sector."

Cost.—Heavy initial capital expenditure is characteristic of construction of flat products steel mills. There is a rapid capital expenditure decrease as production capacity is increased. Thus plant costs for step I are higher than experienced on a worldwide basis. Chiefly this refects the fact that plant layout and mills themselves are designed for their ultimate capacity of 4 million metric ingot tons annually. In the Bokaro case costs are also raised by its location, which dictates ocean freight and customs expenses as well as oversea employment of Americans. Additionally Indian conditions cause abnormally long construction periods and impose characteristics of general remoteness.

In step I a total estimated investment of $919,428,000 will be needed. Of this $512,588,000 is a long-term foreign exchange loan, $401,440,000 Indian Government equity in rupees, $5,400,000 a loan owed Japan on a coal mine Bokaro would take over. Step I spending is spread over 5.5 years with operation commencing 4.5 years after start of construction. Step I ratio of long-term debt to equity is 56 to 44 percent.

Disbursements are projected as the following table shows.

[In thousands of dollars]

	1963	1964	1965	1966	1967	1968
Total cost	3,925	100,491	298,602	280,953	118,988	24,282
Foreign exchange portion	1,950	53,992	182,765	190,597	75,207	8,147

The table below indicates estimated investment for the entire three-stop project with an ultimate 4 million ingot ton capacity. Calculations beyond step I are an appraisal, assuming capacity operation and constant cost-price ratios, rather than a projection calculated in detail:

[In thousands of dollars]

Step	Foreign exchange expenditure	Dollar equivalent Indian rupee expenditure	Total	Capitalized interest, deferred charges, etc.	Total
I	$512,588	$314,653	$827,241	$92,187	$919,428
II	162,367	75,488	237,855	7,300	245,155
III	216,597	100,346	316,943	23,240	340,183
Total	891,552	490,487	1,382,039	122,727	1,504,766

Assumed to be undertaken by Indian authorities are these major "outside the fence" projects, associated with and essential to Bokaro, for which estimates are also supplied:

[In thousands of dollars]

Tenughat Dam	31,127
Canal to Bokaro	5,730
Bokaro townsite	40,000
Added 125 megawatt generating capacity	32,000
Increased coal mine/wash facilities	25,000
Total	133,857

Cost data for expanding railroad facilities and road network are not available. Dam and power station projects would have some foreign exchange requirements, as yet unknown. "The ultimate investment involved in establishing the Bokaro plan would therefore substantially exceed $1⅔ billion on completion of step III."

Profitability.—"Operations of the plant at step I levels alone would be unprofitable even though operations are projected at full capacity following completion of startup * * * Each year of the projected period produces a cash deficit which reaches $270 million in 10 years or an average annual deficit of $27 million." Presumably Government of India loans will cover these deficits.

"Upon examination of the profitability of Bokaro it is evident that the heavy burden of excise duties and large interest payments on loans are the greatest influences on the results. Production costs on the other hand indicate that Bokaro could be a relatively low-cost steel producer based upon the facilities proposed and the assumptions made with respect to raw materials, manpower, and managerial control."

The projected Bokaro expansion in step II to 2.5 million ingot tons, with operations beginning 4 years after start of step I production, will result in profitable operations when close to 100 percent of capacity is reached and will remain profitable thereafter.

"Since the Government of India is assumed to own the mill, it is relevant to mention that during the 20-year period an estimated $1 billion of revenue would accrue to the Government of India from the Bokaro operation, through excise duties on ingots, finished steel products, and coal chemical byproducts. Income taxes paid by Bokaro would give the Government an estimated half billion dollars. In addition, the "surcharge," or difference between the retention price and selling price, would amount to about $1⅕ billion during the same period and would accrue to the Government." The selling price is the price paid by a plant's customers, the retention price the amount it is permitted to keep. Both are set by the Government.

Mr. ANDREWS. The committee is adjourned sine die.

THURSDAY, JULY 25, 1963.

INTERREGIONAL PROGRAMS

WITNESSES

FRANK M. COFFIN, DEPUTY ADMINISTRATOR FOR OPERATIONS, AGENCY FOR INTERNATIONAL DEVELOPMENT
LESTER E. GORDON, ACTING ASSISTANT ADMINISTRATOR FOR PROGRAM, AID
LEIGH M. MILLER, LEGISLATIVE PROGRAMS COORDINATOR, AID
PETER J. DAVIES, CHIEF, PRIVATE ENTERPRISE DIVISION, AID
ROY R. MADDEN, CHIEF, ADMINISTRATIVE BUDGET, AID
EDWARD F. TENNANT, CONTROLLER, AID
STANLEY B. SCHEINMAN, LEGISLATIVE PROGRAMS COORDINATION STAFF, AID
KATHERINE CLARK, CONGRESSIONAL LIAISON STAFF, AID

Mr. PASSMAN. The committee will come to order.

We have with us this afternoon the Honorable Frank M. Coffin, Deputy Administrator for Operations, Agency for International Development. Mr. Coffin is a former distinguished Member of Congress, and we welcome him most heartily.

Mr. Coffin, if you have a statement to make to the committee with respect to the interregional programs, we shall be pleased to hear from you.

Mr. COFFIN. Thank you very much, Mr. Chairman.

GENERAL STATEMENT

Mr. Chairman and members of the committee, I am pleased to appear before you to discuss the fiscal year 1964 AID request of $37,242,000 for interregional programs. As you will recall, interregional programs is a category of activities carried on mainly in the United States, but which fulfills functions which are primarily in support of oversea programs. The expenses incurred are of a type most appropriately funded on a worldwide basis rather than allocated on a country or regional basis. They represent costs which differ from administrative costs in that services are being provided for implementation of programs in cooperating countries, as contrasted with general administrative functions connected with the direction and supervision of such programs.

Two very important functions of interregional programs are funded largely under four interregional activity classifications which I shall discuss subsequently. (AID/W program staff, program support by other U.S. Government agencies, participant services, and communications resources). These functions are:

PARTICIPANT SUPPORT

The services, furnished to an estimated 10,000 nationals of some 75 countries receiving training in the United States, include the individual arrangements which must be made with 250-odd universities and colleges and with thousands of private firms and governmental and other institutions which are best suited to the trainees' goals un-

der bilateral programs in various technical fields. AID personnel and the capabilities of other Federal agencies are required to provide these services. Participant support costs paid from interregional programs funds fall into the general categories of (*a*) reimbursement of AID training staffs, (*b*) expenses of technical staffs of other agencies providing training, and (*c*) necessary special program services such as insurance fees, English language training, and contracts with outside organizations for training in certain specialized fields (public safety, community water supply, and the like).

TECHNICAL CONSULTATION AND SUPPORT

The diversified nature of the country programs necessitates a wide range of technical support activities, such as the dissemination of current technical publications to field technicians, the handling of contractual arrangements, and procurement. Such services are furnished through: (*a*) the Communications Resources, Contract, and other staffs of AID/W; (*b*) participating agency facilities and staffs; and (*c*) special program activities for the development of training techniques and the acquisition of training aids.

CLASSIFICATIONS OF INTERREGIONAL PROGRAMS

I will briefly describe each of the 11 classifications of interregional programs.

AID PROGRAM STAFF, $16,519,000

The AID/W program staff is made up of that segment of the Agency's Washington personnel directly concerned with the support of program operations. It includes personnel concerned primarily with program implementation: contract officers, development loan officers, training officers, technicians, and research and evaluation personnel. The increase in this category over fiscal year 1963 estimated expenditures is required to: (*a*) place the centralized Office of Public Safety on a full-year basis; (*b*) provide for increased workload growing out of the greater concentration on development lending; (*c*) strengthen the staff training program, which suffered from inadequate funds during the year just past; and (*d*) meet legislative requirements for an increased number of security investigations of contractor-employed U.S. nationals.

PROGRAM SUPPORT BY OTHER GOVERNMENT AGENCIES, $5,398,000

This item is for reimbursement of other U.S. Government agencies for their services in providing training to cooperating country nationals.

PARTICIPANT SERVICES, $3,400,000

To the extent that training provided by universities and other private and public institutions is reimbursable on a tuition-fee basis, such expenses are met from country or regional program funds. The costs of training provided by U.S. Government agencies are met from the "Interregional programs" category. Certain other training services of a specialized character are funded on a worldwide basis from the "Participant services" category of interregional programs. Such

services include participant orientation, reception services, English language training, interpreter services, health and accident insurance fees, land-grant college fees, and training in specialized fields as required.

COMMUNICATION RESOURCES SERVICES, $800,000

The Agency conducts a program of training and guidance, and furnishes methods and materials to make field personnel more effective and to equip cooperating countries with communications means which will stimulate self-help efforts. In this way provision is made for the local evaluation, acquisition and/or production, and dissemination of media for use by participants, technicians, and the foreign counterparts of U.S. technicians in all types of AID programs. Materials and techniques for training in education at all levels are developed and tested, technical film strips provided on a loan basis, a technical inquiry service conducted, and technical materials and advice furnished on a wide variety of problems in the area of communications.

PROGRAM SUPPORT BY DEPARTMENT OF STATE, $7,540,000

Certain services provided by the Department of State in Washington and overseas to meet communications, health, fiscal, transportation, and custodial requirements are charged to user-agencies on a pro rata basis. The portion of these costs attributable to AID program personnel and operations is charged to interregional programs. AID expects to use such services to approximately the same extent as in fiscal year 1963. The increase of $90,000 in estimated costs is due to pay increases authorized by the Postal Services and Salary Act of 1962.

INTERNATIONAL AID COORDINATION, $390,000

AID maintains a small staff as part of the U.S. mission to the OECD. It performs the function of supporting the ministerial level representation to the development assistance committee (DAC). The increase of $21,000 over the fiscal year 1963 level consists largely of incremental pay costs.

BOOK GAP, $1,100,000

Books are a major requirement in building human resources. An extreme shortage of books in all fields of knowledge exists in nearly all aid-recipient countries. AID's long-range objective in the book field is to assist in developing writing, publishing, and distributing capabilities, while our immediate objective is to make available books required in carrying out current programs. The increase in funds projected for fiscal year 1964 (approximately $550,000) is to be used to implement and expand activities initiated toward the end of the last fiscal year, and to conduct studies of measures needed to augment publishing capacity.

NUTRITION SURVEYS, $200,000

These surveys were launched during the Korean hostilities to combat malnutrition, which had been found a major handicap to military efforts. In the last few years the emphasis of such surveys has shifted from military to civilian populations of developing countries. There has been a corresponding shift in responsibility for the survey program

from the Department of Defense to AID. Beginning in fiscal year 1964, surveys will be financed from country or regional program funds. The $200,000 requested here is for expenses of the secretariat and for somewhat less than $25,000 of followup costs of surveys already carried out.

TRAINING IN COOPERATIVES, $500,000

AID contracts with U.S. private rural electric cooperatives, credit unions, and related organizations for consultative technical services to AID/W and to field missions. These services are financed from interregional program funds, while actions resulting from consultants' recommendations are ordinarily financed from regional funds.

EXCESS PROPERTY OFFICES, $445,000

AID is authorized by section 608 of Public Law 87–195 to acquire domestic or foreign excess property in advance of a known need, and to repair, maintain, and transport such property as necessary in connection with AID programs. AID excess property branch offices which have been established in Frankfurt and Tokyo will acquire an estimated $38 million and dispose of an estimated $28 million in excess property during fiscal year 1964. The increase of $137,000 in operating costs for the current year over the last fiscal year consists of $122,100 for additional staff required to carry out the program and $15,000 for increased pay costs.

GENERAL TECHNICAL SERVICES, $950,000

Technical services in support of country activities are provided on a centralized basis under this program, which funds a series of agricultural, health, educational, labor, and other activities which it would be impracticable to fund on an individual country basis. These services include advice and consultation from private institutions and Government agencies on a wide range of program problems, covering such specialized subjects as seed production and protection, community water supply design, medical education, and numerous others. The increase of $186,000 requested for fiscal year 1964 is for stepped-up training in community water supply development, for pilot projects in English language teacher training and adult education, to finance short-term consultants on municipal services, and for a number of related purposes.

These are the broad outlines of activities which AID wishes to fund under interregional programs. I shall be happy to provide additional details to the subcommittee in response to members' specific questions.

Mr. PASSMAN. Thank you, Mr. Director.

COMPARISON OF FISCAL YEAR 1963 AND FISCAL YEAR 1964 REQUESTS

In 1963, I believe you had interregional programs of $34,274,000; is that correct?

Mr. COFFIN. Yes.

Mr. PASSMAN. How much have you reduced your request for fiscal 1964?

Mr. COFFIN. The 1964 request is for $37,242,000, or $3 million above the estimate for fiscal 1963.

Mr. PASSMAN. Let us have another try at this subtraction. I believe it is $2,968,000, is it not?

How much money did you justify for interregional programs last year?

Mr. MADDEN. $31,300,000.

Mr. PASSMAN. Would you have another look at your figures?

Mr. MADDEN. Let me make a little modification. The amount was $30 million, even. This year we have in here a couple of programs that were not classified as interregional in 1963. To make things comparable with our request for this year, it would be $31,300,000.

Mr. PASSMAN. To what other programs do you refer?

Mr. MADDEN. General technical services was one of them, engineering services is another, and training cooperatives is a third. If that does not make the difference, the $35,000 for book gap will.

Mr. PASSMAN. If that does not make the difference, what would the difference be?

Mr. MADDEN. I am sure I could reconcile the difference, the $1.3 million which was not in the 1963 program.

Mr. PASSMAN. If you will, kindly put that information in the record.

Mr. MADDEN. I would be glad to.

(The information requested follows:)

INTERREGIONAL PROGRAM EXPENSES

Fiscal year 1963 request to Congress (adjusted for comparability with fiscal year 1964 presentation)

Amount requested under interregional expenses, vol. IV (p. 241), of fiscal year 1963 presentation	$30,000,000
Comparability adjustment:	
Add amounts requested under nonregional activities in vol. IV (pp. 219, 239) general technical services—education and social development:	
General technical services	990,000
Engineering services	275,000
Book gap	35,000
Total	1,300,000
Total	31,300,000

Mr. PASSMAN. In 1961 you had a program of $21,539,000; in fiscal 1962, $23,402,000; and in 1963, you had an estimate of $30 million, but you programed $34,274,000; and your 1964 request is $37,242,000.

FACTORS RELATIVE TO INCREASES IN INTERREGIONAL PROGRAMS

How do you justify an increase of almost 77 percent in this item since fiscal 1961?

Mr. COFFIN. One of the key activities making up a substantial part of this is participant training, with all of its costs, the costs we pay other agences and the costs of our in-house personnel. We are still not the leader of nations in bringing other students for training to this country.

Mr. PASSMAN. You say we are not the leader?

Mr. COFFIN. We are not.

Mr. PASSMAN. In what way do you mean that comment?

Mr. COFFIN. I mean that other countries do more of this than we have done.

Mr. PASSMAN. Do you mean that they bring our students to their countries more than we bring their students to ours?

Mr. COFFIN. Other countries bring more students and trainees from developing countries to their own country, whether it be Britain or France.

Mr. PASSMAN. What is our program, about 10,000 a year?

Mr. COFFIN. Yes, sir.

Mr. PASSMAN. What countries would surpass us in that respect?

Mr. COFFIN. I do not have the figures with me, except in my head. I would say France exceeds us.

Mr. PASSMAN. From their former colonies they bring their subjects to France; is that the way it is?

Mr. COFFIN. Yes; from many of the new African nations.

Mr. PASSMAN. How does that compare with the number we bring from Guam, the Virgin Islands, and so on?

Mr. COFFIN. These are not colonies, but countries which were formerly territories of France. Also, the United Kingdom, I think, has a very high figure. Let me make it clear that under our program we bring nobody from territories of the United States.

Mr. PASSMAN. You can understand why the members of this subcommittee would be disillusioned when you start off with a program of $21 million in 1961, and in a period of 3 or 4 years, including 1964, you go up by 77 percent. However, that is in line with the history of practically every foreign aid program we have ever started, even the Peace Corps. We thought it would start in about 10 nations, but it has already expanded to 51 nations. There seems to be no such thing as starting a program in this worldwide giveaway operation and keeping it small.

Mr. COFFIN. Other factors would be, for example, in the program staff, the Office of Public Safety, which is a new function in its emphasis on training for police actions, riot control.

Mr. PASSMAN. Is this a program you started after you presented your requests for funds last year? You submitted no justifications?

Mr. COFFIN. We have always had public safety, the teaching of police, traffic control, but the functions have expanded in the counterinsurgency field.

Mr. PASSMAN. Let us read some of these fiscal 1963 items into the record so the taxpayers will know what we are talking about: AID Washington staff, which is the biggest one, I believe, $10,200,000. Program Support by other U.S. agencies, $5,460,000. Participant Services, $4,560,000. Communication Resources Services, $900,000. Program Support, Department of State, $5,700,000. AID staff, training, and development, $2,200,000. AID Foreign Service staff and complements, $590,000. AID USRO, $250,000. Training in cooperatives, $140,000.

Would you list the comparable figures for fiscal 1964, and indicate whether or not you have any new programs in 1964 which you did not have in 1963?

Mr. COFFIN. The AID Washington program staff estimate for 1964 is $16,519,000.

Mr. PASSMAN. That is jumping up $6 million, is it not, over the request for fiscal 1963?

Mr. MADDEN. In 1964, the staff training and development and the Foreign Service staffing complements have been merged with AID Washington program staff.

Mr. PASSMAN. Have I made a statement of fact that, looking at your 1963 figures, the only thing we have mentioned when we compared what other nations were doing would be participant services, and that would be the No. 4 item, would it not, with respect to costs?

Mr. MADDEN. That is right.

Mr. COFFIN. That is correct.

NEED FOR INCREASES IN WASHINGTON PROGRAM STAFF

The AID Washington program staff has increased, as I said in my statement, partly because of the centralization of the Office of Public Safety and its increased responsibilities, partly because of the necessity for staff people working on capital development.

Mr. PASSMAN. What do you mean by working on capital development?

Mr. COFFIN. Making development loans; not only making them but following them up.

Mr. PASSMAN. Do you mean finding projects for which development credits could be made?

Mr. COFFIN. The need I am referring to is the need, when the loan is made, to see that it is carried out well, that the right documents are obtained, that progress reports are not only received but followed up on and, if there are difficulties, to get people to resolve them.

Mr. PASSMAN. How did you handle this matter prior to the establishment of this new agency? Prior to 1961, what office handled it?

Mr. COFFIN. You remember the Development Loan Fund was not established until 1958.

Mr. PASSMAN. This phase of AID started in 1961, did it not?

Mr. COFFIN. Yes, but you say how did we handle it before AID?

Mr. PASSMAN. What part of the AID operation handled this particular item, capital projects, prior to the time you established this agency?

Mr. COFFIN. That is what I am trying to say. In the making of loans in the early years of the Development Loan Fund and even in the first year of AID, the principal activity was in planning, preparing, and executing loan agreements. The money is drawn down slowly as the concrete is poured, as plants are ready for erection. It is at the point of execution, carrying out the work in the field, that we need people to see to it that it is going according to schedule, that any problems which arise in getting materials or varying from the specifications are resolved fairly and quickly. This is what we mean by capital development implementation personnel. It is a need we shall increasingly meet. We did not need it in the first year or so of development lending because the activities in the field had not moved along to that point.

Mr. PASSMAN. We have increased our giveaway program now to the point that dollarwise it is higher; is that it?

Mr. COFFIN. The progress of this development lending has come to the point that, if we are to get our money's worth, we must have

people to see to it that projects move as they should. You cannot do it all by——

Mr. PASSMAN. Your average annual disbursements in this part of our worldwide giveaway program have hit an average of about $3,200 million, I believe. It was much higher in the earlier years.

Mr. COFFIN. This figure includes military as well as economic.

Mr. PASSMAN. I put it all together because we have to consider the entire program.

BOOK GAP PROJECT

The first project is a book gap project, for which you are requesting $1,100,000, an increase of 100 percent over the obligations for fiscal year 1963.

Mr. COFFIN. Yes, sir.

Mr. PASSMAN. Why is it necessary to increase this project to such an extent?

Mr. COFFIN. Mr. Chairman, I think it is the judgment that books are important, both in the shortrun effect of getting key books in areas where they can and will be used, and also to the longer run object of getting publishing and distributing facilities in the countries. I think last year was the first year that we started this, and we felt this was enough worthwhile to put at least $1,100,000 into it. Many people say we should do far more. Admittedly, this is just a small kind of seed money for books.

Mr. PASSMAN. We have started so many projects and programs that, in the aggregate, the costs are staggering.

You start a new item, and in the following year it is double the original amount.

Mr. COFFIN. This is the only part in our program where we draw upon the immense variety of resources of our society through books to distribute them abroad, not as USIA does for a broad understanding of the culture of the United States, but, rather, to help these countries in technical fields where they need such help. Actually, it is a cheap way of giving it, Mr. Chairman.

Mr. GARY. How do you distribute these books?

Mr. COFFIN. Mr. Gary, we have asked a number of the missions in the field what they think would be most useful in that country with ministries and libraries in the host countries. They have given us a list which we have gone over, and we have sent, not to every country, but to a number of countries, a collection of books for development purposes.

Mr. GARY. They are placed in libraries in those countries?

Mr. COFFIN. Yes. They are made available to governmental people, but they are placed in libraries in those countries.

Mr. PASSMAN. I thought the USIA was the book distributor for our Government.

Mr. COFFIN. I alluded to that, Mr. Chairman. Their purpose is different.

Mr. PASSMAN. The USIA books go into libraries, do they not?

Mr. COFFIN. Yes. For example, they would be distributing the "Life of Jefferson," we will say, because this gives a basic insight into the values and objectives of our country. From our point of view, we do not do it for general information or for cultural exchange, but

to assist people in understanding the development problems, what they must do to plan, what they must do in education, a good way of starting an agricultural co-op, and that kind of thing.

Mr. PASSMAN. Last year, on page 706, you people said you would need $35,000 for this book gap program for fiscal year 1963, but according to page 820 of the justifications this year, you obligated $550,000. So, it has gone from $35,000 as a request, to a $550,000 reality.

Then you doubled it again for fiscal year 1964, and you are asking for $1,100,000. Am I using the figures correctly?

Mr. COFFIN. Yes.

Mr. PASSMAN. You justified $35,000, but you obligated $550,000, and you have jumped it now to $1,100,000 for fiscal year 1964.

Mr. COFFIN. I would put it this way, Mr. Chairman: This is a program that we think got going very well.

Mr. PASSMAN. Financially it is a big success.

Mr. COFFIN. Our usual criticism is that we are not doing nearly enough in this field.

Mr. PASSMAN. Financially?

Mr. COFFIN. No; the number and quality of books.

Mr. PASSMAN. I, for one, have never criticized you for not doing enough in the field of spending money.

Mr. COFFIN. I want to assure you, Mr. Chairman, that I did not have you in mind.

Mr. PASSMAN. You do not know at this time how much, if any, will be obligated out of this inflated amount for fiscal 1963, do you?

Mr. MADDEN. $33,049,000.

Mr. PASSMAN. How much did you say?

Mr. MADDEN. We obligated in 1963 for the interregional programs——

Mr. PASSMAN. We are in the book gap category now.

VOLUNTARY AGENCIES TECHNICAL ASSISTANCE INFORMATION CLEARINGHOUSE

On page 823, I observe that you appear to be increasing the cost of the Voluntary Agencies Technical Assistance Information Clearinghouse by over 300 percent in fiscal 1964.

Mr. COFFIN. That is correct.

Mr. PASSMAN. What is the reason for this increase?

Mr. COFFIN. The reason here is that this is the only source of information for the voluntary agencies as to what Government organizations and private organizations are doing in technical assistance, and an invaluable source of information not only for us but for the voluntary agencies, church agencies, CARE, and other groups that have their own programs.

Mr. PASSMAN. I think we have established that the capital projects in the aid program number 2,296, and sometimes under a capital project you may have as many as 100 subprojects. So, if you took the entire 50 members of the Committee on Appropriations and divided them into 10 subcommittees and asked them to do the same type of examination on this budget request that is done on all the other bills, it would take them at least 6 months to complete the task. We are getting more projects than we can possibly ask questions on.

TECHNICAL INQUIRY AND REPORT SERVICE

Page 825 indicates that you propose to expand the Technical Inquiry and Report Service project by approximately 25 percent. Is that correct?

Mr. COFFIN. That is correct.

Mr. PASSMAN. I do not know how you think up all these different projects.

Mr. COFFIN. One good answer, Mr. Chairman——

Mr. PASSMAN. I would appreciate it if you would give us a good answer.

Mr. COFFIN. This is not capital assistance. This is information. It is helpful information. If it is well used in the field, it is worth a lot more than we put into it.

Mr. PASSMAN. It looks as if there is a duplication at just about every level. USIA——

Mr. COFFIN. They would not be in this field, Mr. Chairman.

Mr. PASSMAN. Just what do you do here in this Technical Inquiry and Report Service?

Mr. COFFIN. This would be a mission director in the field working with a minister from another country. There is a problem, perhaps, in agricultural extension work, and they need information, not just for the minister but perhaps for the personnel of these countries. They would send back an inquiry to Washington, and we would go through our files, using our people here, and provide a brochure or pamphlet on that subject.

It is somewhat as the Department of Agriculture does with its many publications.

Mr. PASSMAN. Is this done by contract service?

Mr. COFFIN. No. This is done within our Communications Resources Services.

Mr. PASSMAN. The justifications indicate that these are contract services.

Mr. COFFIN. We might call upon the Department of Agriculture to provide a pamphlet, or the Department of Commerce, or the Federal Aviation Agency if it had something to do with the management of an airport.

NUMBER OF TECHNICIANS OVERSEAS

Mr. PASSMAN. What was the number of U.S. technicians overseas at the end of fiscal year 1961, 1962, and 1963? Will you provide that information for the record.

(The information requested follows:)

Number of direct-hire U.S. employees overseas, end of fiscal years 1961–63

	Administrative employees	Program technicians	Total
Fiscal year 1961	931	3,606	4,537
Fiscal year 1962	1,039	3,519	4,558
Fiscal year 1963	982	3,669	4,651

DIGEST OF CURRENT TECHNICAL INFORMATION PROJECT

Mr. PASSMAN. How much are you increasing the cost of the Digest of Current Technical Information project, on page 826? That seems to be up by about 66 percent.

Mr. COFFIN. I do not have that at the moment.

Mr. PASSMAN. Do you scatter this in about 20 different items so they will not look so large, or do they render 20 different services? As we go through, we find technical information on this, technical inquiry on another, and a digest on something else.

Mr. COFFIN. The difference between the digest and what we were just talking about——

Mr. PASSMAN. How about those in between we talked about?

Mr. COFFIN. We were talking about inquiries and reports as distinct from digests. Digests refer to publications on specific technical subject matters which are of general interest. For example, if we need something in irrigation, there would be a document put out several months or a year later, but it would still be on irrigation as a part of the series.

Mr. PASSMAN. You have the book gap, Voluntary Agency Technical Assistance, Technical Inquiry and Report Services, then the Digest of Current Technical Information project. Why could not all of this be consolidated into just one item, if they are rendering the same service out of the same office and you are still dealing with technical information?

Mr. COFFIN. It depends upon the end use. The end use in some cases is one pamphlet. The end use in another case is a series of extracts from our own work in a specific field on a continuing basis. I am speaking about the production of materials on a single technical subject.

Mr. PASSMAN. I am speaking about if you have a girl mailing, why do you have to have this under so many different headings? Why could you not have it in one office?

Mr. COFFIN. It is in one office, the Division of Communications Resources.

Mr. PASSMAN. But you are asking for your funds broken down in several different items.

Mr. COFFIN. We are trying to be responsive to you, Mr. Chairman, in showing the precise end products.

CONTRACT SERVICES

Mr. PASSMAN. Is it all done by contract service?

Mr. COFFIN. No; it is not all done that way.

Mr. PASSMAN. According to the justification, it appears to be contract services.

Mr. COFFIN. Some of it is done by our own staff in Washington. Some is done by contracts with other agencies.

Mr. PASSMAN. I am only going by what your book says. On page 826, "Contract services." On page 825, "Contract service." On page 823, "Contract service." On page 820, "Contract service."

Mr. COFFIN. I am not following you, Mr. Chairman.

Mr. PASSMAN. If you look at the bottom of the page——

Mr. COFFIN. What page?

Mr. PASSMAN. I listed all the pages. Instead of U.S. technicians, it says: "Contract services."

Mr. COFFIN. Let us take 820.

Mr. PASSMAN. That is "Contract service." 821 is "Contract service." 822 is "Contract service." 823 is "Contract service."

Mr. COFFIN. I see what you mean.

Mr. PASSMAN. Anyway, put something in the record, in explanation, will you?

(The information requested follows:)

JUSTIFICATION OF BREAKDOWN OF INTERREGIONAL EXPENSES INTO NUMEROUS PROJECTS

The projects listed as Communications Resources Services from page 821 through 826 are the operations of a single Division and together total $800,000. This is the same amount programed for these activities in fiscal year 1963. They are presented under six project headings to more fully inform Congress and to reconcile them with the presentation pattern used for country programs.

The costs presented on these pages refer to the nonsalary portion of the activity. Personnel costs are included as a part of the AID with program staff. Of the $800,000 in the six communications resources projects $227,000 are for commodities and $573,000 are for services obtained through contracts with Government and private agencies.

AID staff members plan and monitor the services performed by the contractors, determine the technical information materials to be purchased as commodities, arrange for the writing and printing of special material produced by AID technical personnel, and identify and procure considerable quantities of technical information carried in publications that are obtained free from Government and other sources.

Contractors are used to develop, write, or adapt technical information for specific needs, prepare answers to technical inquiries sent in by the field missions, obtain and circulate technical and operational information from voluntary agencies, and review and digest current technical and professional literature for use by U.S. oversea technicians and their host country colleagues.

(Discussion off the record.)

Mr. COFFIN. I want to say this means that we have contracts with other agencies.

Mr. PASSMAN. You contract either with other agencies or some outside contractor. It could be either.

Mr. COFFIN. Yes.

This is done to avoid an expanded in-house service.

Mr. PASSMAN. I am not recommending that you expand. I want to indicate you are not doing this work, as we would find on the pages here, with regular U.S. technicians. You are contracting.

Mr. COFFIN. We think that is the sound way to do it.

Mr. PASSMAN. You have program support by other U.S. Government agencies of $5,398,000. We have been discussing in the top category of projects, on page 819.

INTERNATIONAL COOPERATIVE TRAINING CENTER PROJECT

On June 30, 1962, you had $45,000 unliquidated under the "International Cooperative Training Center Project," found on page 827. You obligated $205,000 in fiscal year 1963, and you will have the total of these two sums, $250,000, unliquidated on June 30, 1963. You did not spend a dime of your 1962 and 1963 money. You finished both years with the money intact.

Despite that fact, you are requesting now $75,000 more for fiscal 1964.

Could you give us a little information as to why, with the 2 full years' sum on hand, you are asking for $75,000 to be added to that amount?

Mr. FORD. On what page is that?

Mr. PASSMAN. 827.

This is not the exception, Mr. Coffin. We find this is following pretty close to the rule as we go through the justification pages. Would you have a look at this item and insert something in the record?

Mr. COFFIN. I shall be glad to.

(The information requested follows:)

EXPLANATION OF UNLIQUIDATED BALANCES—INTERNATIONAL COOPERATIVE TRAINING CENTER

The unliquidated balance of $250,000 as of June 30, 1963, will cover the cost of operating the Center during the period June 1, 1963, to May 31, 1964. As of that date it is proposed to add $75,000 to the contract to cover instructional and overhead costs of the Center ($62,500) and services of the Board of International Cooperative Training, Inc. ($12,500) for the period June 1, 1964, through December 31, 1964. After that time it is anticipated that AID support for the Center will be limited to fees payable for participants sent to the Center for training.

AID POLICY ON PAYMENT OF INDIRECT COSTS

Mr. FORD. Mr. Coffin, do I understand in this case the contract is signed with the University of Wisconsin?

Mr. COFFIN. Yes.

Mr. FORD. How do you handle the indirect costs problem with the University of Wisconsin? Are you familiar with the problem of direct and indirect costs?

Mr. COFFIN. Generally.

Mr. FORD. What is the policy of the Agency? Do you give Wisconsin and other universities and colleges their full indirect costs, or do you permit a percentage of the indirect costs?

Mr. COFFIN. I think we follow generally the policies that other governmental agencies use in dealing with them. Each contract has to be negotiated to see what is fair, what percentage of cost shall be allowed. This is one subject where we are doing as we are in our review of contracting procedures generally.

Mr. FORD. This is a contract, and contracts are somewhat different than grants.

Mr. COFFIN. Yes.

Mr. FORD. There is a general policy established in the appropriation bill in the area of grants to colleges and universities, where they only allow 15 or 20 or 25 percent for indirect costs in relationship to the direct costs.

Mr. COFFIN. Mr. Tennant informs me that our policy is to allow the actual overhead or the actual costs on an audited basis. This involves a lot of investigation and negotiations.

Mr. FORD. This means, then, if in "A" university the indirect or overhead costs are 72 percent, and in "B" university the overhead or indirect costs are 25 percent, you allow them in both cases?

Mr. COFFIN. Whatever their actual costs are.

Mr. FORD. You make no investigation of the validity of the overhead or indirect costs?

Mr. COFFIN. They are audited. It is subject to audit as to what their actual overhead is.

Mr. FORD. You have no flat percentage figure that you will allow?

Mr. COFFIN. No. Mr. Tennant may correct me if I am wrong. We have been criticized a great deal because a university entering into an association with us would not know ahead of time what its basic arrangement would be because it would be subject to audit. They would prefer a system under which we would have general ground rules that they could count on as to how much would be allowed for indirect costs.

Mr. MILLER. Perhaps I could cast a little light on that. Public Law 87-638, which was approved by the Congress a year ago, last September, authorized the use of a 6-percent formula in computing indirect costs under Government research and development contracts with universities and other educational institutions. This applies to research and development contracts only.

The AID policy with respect to overhead expenses for operating type contracts has been that they would be on an examination of the actual overhead on an audited basis.

I might say also we have——

Mr. FORD. I am not sure that is the right policy, but that is what it is.

RURAL ELECTRIC COOPERATIVES PROJECT

Mr. PASSMAN. I note that the $75,000 you are requesting for the rural electric cooperatives, on page 828, finances the cost of a consultant, a secretary, interregional travel, and oversea cost. Is that the expense for one consultant?

Mr. COFFIN. This would be consultant, expenses, his secretary——

Mr. PASSMAN. For one individual?

Mr. COFFIN. Yes, sir.

Mr. PASSMAN. Would it cost less to hire a full-time U.S. Government employee for this project? You have some real experts in Washington on this electric cooperative matter.

Mr. COFFIN. I don't believe so, Mr. Chairman.

Mr. PASSMAN. Do you mean that we do not have experts in Washington on electric cooperatives?

Mr. COFFIN. I don't believe we can match the expertise which exists in the cooperatives in the United States. A foundation figures it costs $35,000 for just one man overseas for a year.

This is a consultant who would be working on projects in a number of——

Mr. PASSMAN. What will this consultant do, Mr. Coffin?

Mr. COFFIN. He will help the field missions when it appears that it makes sense in a given country to establish a rural electric cooperative. He will help them in their organization and training of people, their negotiations with the host country, any laws that need to be passed, anything that needs to be done to set up that kind of institution.

Mr. NATCHER. Mr. Coffin, I believe last fall you sent certain representatives to Ecuador. Do you know about this?

Mr. COFFIN. Not personally, Mr. Natcher. Is this on co-ops?

Mr. NATCHER. Yes.

Mr. COFFIN. I wouldn't be surprised.

Mr. NATCHER. I was wondering whether or not any final report had been made as to the feasibility of locating co-ops in Ecuador. I wonder if you could find out and let me know.

Mr. COFFIN. I would be glad to, Mr. Natcher.

Mr. PASSMAN. You are dealing with one cooperative consultant, worldwide? Do you have any other technicians under any other phase of the Agency operating in the same field?

Mr. COFFIN. On rural electric co-ops?

Mr. PASSMAN. Yes.

Mr. COFFIN. We have other contracts with other cooperatives. I think this is the only source with outside expert knowledge on rural electric cooperatives. We are dealing with one man, but he has the resources of his national association to draw from.

Mr. PASSMAN. I yield to the gentleman from Arizona.

Mr. RHODES. Which of these countries receiving aid are in any position to establish rural electric cooperatives? Do you know what country this could be accomplished in?

Mr. COFFIN. Yes. I would think a number of Latin American countries, Turkey would be a country where the electric system is such that this makes sense, and even parts of India. Taiwan certainly is another. Admittedly, in a small African country, where power is not available, you wouldn't have it. But in countries where we would have built power dams, for instance, then it would make sense to see that the ruaral countryside is activated through that dam.

Mr. RHODES. Do you know whether we are furnishing any money to establish rural electric cooperatives anywhere in the AID program?

Mr. COFFIN. I could find out.

Mr. RHODES. If you would, please.

(The information requested follows:)

AID SUPPORT TO ESTABLISH RURAL ELECTRIC COOPERATIVES

AID has not financed any rural electric cooperatives, but studies have been completed and are being prepared from which financing of pilot projects may be made.

Mr. ANDREWS. If you decided to build one of these electric co-ops in any of these countries you are now surveying, do we plan to finance the co-op?

Mr. COFFIN. We wouldn't finance it in the sense of paying for its operating expenses, its secretary and space. We would help them get organized, show them how to keep their books, and the kinds of laws they need. The idea would be that they would have to operate this themselves.

Mr. ANDREWS. How could these countries finance an REA project? They are quite expensive.

Mr. COFFIN. I think you will find there are a number of credit institutions in those countries which would make loans to co-ops and we would make loans to some institutions which in turn would make subloans to various kinds of cooperatives.

Mr. ANDREWS. That would be helping them financially.

Mr. COFFIN. In that sense we would give some assistance.

Mr. RHODES. Of course, the gentleman from Alabama knows, as I do, that the genius behind electric cooperatives is cheap money. If you can get 2-percent money in the United States it doesn't take an expert to tell you how to start a cooperative.

Mr. ANDREWS. If they get money under this loan they get it under 2 percent.

Mr. RHODES. That is my point.

Mr. COFFIN. I want to say something about cooperatives. A great deal of criticism about this program is that all we do is to deal with big infrastructures and not with the people. Credit unions have small programs and get to people in the countrysides.

Mr. RHODES. I was questioning the type of cooperative with which you deal here. I didn't mean consumer cooperatives and marketing cooperatives because I know nothing about them, but I know a little about rural electric cooperatives.

I have great doubts as to whether there are very many places in the world where this type of endeavor should be undertaken.

Would you please furnish for the record a list of the countries which the gentleman who is the incumbent of this position visited in this past year?

Mr. COFFIN. Yes, sir.

(The information requested follows:)

COUNTRIES VISITED IN FISCAL YEAR 1963 BY CONSULTANT, RURAL ELECTRIC COOPERATIVES PROJECT

The project director of the contract with the National Rural Electric Cooperative Association, Inc., James Ross, last year visited Brazil, Uruguay, Argentina, Chile, Peru, Bolivia, Colombia, Panama, Costa Rica and Nicaragua to discuss possibilities for development of rural electric cooperatives.

Mr. FORD. Can we put in his name, his salary under this program, and what his salary was before he was assigned to this program?

Mr. COFFIN. Yes, sir.

(The information requested may be found on p. 1722.)

Mr. FORD. As I understand it, what you have done is to sign a contract with the National Rural Electric Cooperative Association. They have supplied the man and they are providing the overhead on a reimbursable basis. Is that correct?

Mr. COFFIN. Yes.

CREDIT UNION DEVELOPMENT PROGRAM

Mr. PASSMAN. Immediately following that information—why would a full-time U.S. employee not be cheaper for the "Credit union development program" project, on page 829, as I notice this project costs us approximately $43,000 a year?

Mr. COFFIN. The answer is that the AID program is well advised not to try to duplicate all skills in its own complement. If we can find skilled people who work in the United States who can bring with them access not only to their National Credit Union but the experience of thousands of credit unions in the United States, this is the way of getting the richness of our society into the AID program in a very sensible way.

Mr. PASSMAN. I am sure Mr. Ford's question would be broad enough to cover these items, but if not, we would like to know how much is the consultant paid per day. Give us all the incidental expenses involved. Tell us how long he will be employed, whether he is being paid on a per diem basis, a monthly salary, and so forth.

Mr. COFFIN. It states "Salary," Mr. Chairman.

Mr. PASSMAN. If it is that way, we wish you would verify it.

WORLD COOPERATIVE LAND BANK PROJECT

Page 832 has an estimate of $75,000 for a new project entitled "World Cooperative Land Bank."

This estimate is to provide funds of methods to establish such a bank. Is that correct?

Mr. COFFIN. That is correct.

Mr. PASSMAN. When we create all of these different types of banks, and so on, and we finally familiarize all these people with the advantages, and if we do not have money to capitalize them, where are they going to get the money?

Mr. COFFIN. That is the reason for a study. We don't want any such institution to get started unless there is a reasonable prospect that it can be started.

Mr. PASSMAN. I read in the paper that 250 Peace Corps men are down in one Latin American country training those people how to set up cooperative banks. I thought that was a good number in just one country assigned to this one project, to teach them how to form cooperative banks.

COSTS OF COOPERATIVE PROJECTS

Mr. FORD. May I ask that the question I raised about the Rural Electric Cooperative Association be expanded? In looking through the justifications I note that similar contracts have been arranged with the Credit Union National Association, the National Farmers Union, FCH Co., Inc., a subsidiary of the Foundation for Cooperative Housing, and perhaps one or two others.

I think we should have the same kind of information we asked on the one expanded to include all of these. The name of the individual, salary before, salary now, and any other pertinent information in connection with it.

Mr. COFFIN. I would like to see it in a comprehensive submission, also. There is a section of the law which states we shall give emphasis to working with cooperatives. It makes sense to pull these several contracts together.

Mr. FORD. Whatever the facts are.

(The information requested follows:)

DETAILS ON COOPERATIVE PROJECTS

There are six contracts with national organizations in the United States to assist in the development of cooperatives, credit unions, and savings and loan associations as defined in the Humphrey amendment to the Foreign Assistance Act of 1961. The organizations are the Foundation for Cooperative Housing, National Rural Electric Cooperative Association, Credit Union National Association, National Farmers Union, National League of Insured Savings Associations, and the Cooperative League of the U.S.A. A project director has not been hired for the contract with the Foundation for Cooperative Housing. A project director is being hired for the contract with the Cooperative League of the U.S.A. Detailed information on the other contracts is shown on the following pages.

These are funded under contract services in order to marshal the resources of cooperatives, credit unions, and savings and loan associations behind the development programs and to be able to hire the type of specialists with the broad experience in organization, management, and administration that are needed in the most economical manner and for the best end results.

FCH Co., Inc.

Maximum estimated costs

	Limitations
Salaries:	
Office of project director:	
Project director	$15,000
Secretary-translator	6,000
Total	21,000
Fringe benefits (11 percent)	2,310
Total	23,310
Consultants	4,260
Travel and per diem:	
Project director	3,000
Consultants	600
Materials supplies	1,000
Miscellaneous expenses	500
Indirect costs, Washington office	7,350
Total estimated amount	[1] 40,000

[1] Funds obligated for 1 year.

NOTE.—Contract is for 1 year.

National Rural Electric Cooperative Association

Project director: James E. Ross.
Rates of pay: $10,767.
Former position: Staff economist.
Former salary: $9,964.

Maximum estimated costs

	Limitations
Salaries:	
Coordinator	$10,767
Secretary-translator	5,207
Overtime	400
Social security and payments for contractor's established retirement plan	1,488
Travel (outside of Washington area) and allowances	1,000
Miscellaneous expenses	2,100
Indirect costs at maximum rate of 85 percent of base salaries	13,578
Total estimated costs	[1] 34,540

[1] Funds obligated for 1 year.

NOTE.—Contract is subject to renewal after annual review.

Credit Union National Association

Project director: Olaf Spetland.
Rate of pay: $13,000.
Former position: Director, World Extension Division, CUNA.
Former salary: $13,000.

Maximum estimated costs

	Limitations
Salaries:	
Project director	$13,000
Secretary-translator	6,000
Social security and payments for contractor's established retirement plan and group health and life	2,175
Travel (domestic and foreign) and allowances	14,000
Miscellaneous expenses	3,000
Indirect costs at maximum rate of 25 percent of base salaries	4,750
Total estimated costs	42,925

NOTE.—Contract is for 1 year.

THE NATIONAL FARMERS UNION

Project director: Dr. John Eklund.
Present salary: $15,000 per year.
Portion from AID: 60 percent.
Former position: Director of education, NFU.
Former salary, $15,000 per year.
Administrative assistant: Marie N. Borgneis.
Present salary: $7,000 per year.
Portion from AID: 80 percent.
Former position: Secretary to secretary-treasurer, NFU.
Former salary: $7,000 per year.

Maximum estimated costs

	1st 12 months	2d 9 months
Salaries:		
Project director (60 percent of $15,000)	$9,000	$6,750
Administrative assistant (80 percent of $7,000)	5,670	4,410
Clerical (33 percent of $5,400)	1,804	1,403
Clerical (100 percent of $7,858)	7,956	6,188
Denver, 1 accountant, 43 percent time basis ($7,560)	3,291	2,560
Total	27,721	21,311
Fringe benefits, 11 percent	3,077	2,344
Total	30,798	23,655
Travel and per diem:		
Project director	7,800	5,850
Advisory committee	2,250	3,000
Insurance: Compensation, defense base act	400	300
Materials and supplies: Washington office	1,200	900
Miscellaneous expenses	1,500	1,125
Indirect costs, Washington office	2,184	1,608
Total	[1] 46,132	36,438

[1] Funds obligated for 1 year.

NOTE.—Contract is for 21 months.

NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATIONS

Project Director: Thomas Bradley.
Rates of pay: $11,750 per annum.
Former position: Consultant to Worcester Savings & Loan Association and National League of Insured Savings Association.
Former salary: $11,000.

Estimated budget

	First 12 months	Second 12 months
1. Salaries:		
Project Director	$11,750	$12,300
Secretary-Translator	6,000	6,300
1(a). Fringe benefits:		
Social security	300	300
Retirement	800	1,200
Workmen's compensation	20	22
2. Travel and per diem: Project Director	10,363	5,348
3. Materials and supplies	1,000	800
4. Miscellaneous expenses	2,000	1,200
5. Indirect costs	5,467	5,530
Total	[1] 37,700	33,000

[1] Funds obligated for 1 year.

NOTE.—Contract is for 2 years.

COOPERATIVE LEAGUE OF THE U.S.A.

Maximum estimated costs

	1st 12 months	2d 12 months
Salaries:		
Project Director (applicant under consideration)	$15,000	$15,000
Rate of pay (being negotiated) secretary-translator	5,200	5,200
Fringe benefits:		
Social security	348	348
Retirement	1,000	1,500
Workmen's compensation	24	24
Travel and allowances:		
Within United States	1,100	1,000
International	4,800	4,800
Materials, supplies, rent, and utilities: Office of Project Director	1,500	1,500
Miscellaneous expenses	2,200	2,200
Indirect costs	7,793	7,893
Total	[1] 38,965	39,465

[1] Funds obligated for 1 year.

NOTE.—Contract is for 2 years.

INTERNATIONAL BANK FOR COOPERATIVES STUDY

Mr. PASSMAN. There is another new project entitled International Bank for Cooperatives, for which you are also requesting $75,000. This is a study of methods for setting up such a bank. Is that correct?

Mr. COFFIN. Yes.

Mr. PASSMAN. We go right out of cooperatives into the study groups which are setting up banks. There is a program for setting up an International Bank for Cooperatives?

Mr. COFFIN. This leads to ways and means by which private resources can be used for co-ops overseas.

Mr. PASSMAN. $29,000 was unliquidated on June 30, shown on page 834. Has that money lapsed?

Mr. COFFIN. They are all obligated; $35,000 is obligated.

Mr. PASSMAN. I believe the contract became effective in April of 1963. Is that working a little fast?

Mr. COFFIN. Is what working fast, Mr. Chairman?

Mr. PASSMAN. The contract became effective in April of 1963?

Mr. COFFIN. Yes.

Mr. PASSMAN. It was signed for a year. If it is a 1-year contract, one shot, and you have the money, why would you need $35,000 again for fiscal 1964?

Mr. COFFIN. I understand that it took some time to get the project——

Mr. PASSMAN. It is a one-shot project. You funded it. Why would you want to repeat for fiscal 1964?

Mr. COFFIN. We want to extend this contract. We want to continue the work which was set up and which is going on.

Mr. PASSMAN. You want 1 year's funds, then. You did not get around to obligating the money until April of 1963. Now you want an additional $35,000 for fiscal 1964?

Mr. COFFIN. For fiscal 1964.

Mr. PASSMAN. You have not been able to spend the 1963 money because you did not obligate the funds in time to disburse them.

Would you check that matter and put something in the record on it?

Mr. COFFIN. What I would like to do on this one, Mr. Chairman, is to give you the story from the inception of the contract, what has been done, and what is intended to be done.

Mr. PASSMAN. Tell us first how you liquidated the entire year's funds in 90 days.

Mr. COFFIN. I would be glad to.

We didn't. We obligated $35,000; $29,000 is unliquidated but obligated.

Mr. PASSMAN. You wanted $35,000 for fiscal 1963. You obligated $35,000.

You signed a contract in April of 1963. You disbursed only $6,000, leaving on hand to be disbursed in subsequent periods $29,000.

Mr. COFFIN. It has been pointed out to me that April is the date of the contract order. The contract was executed prior to April. We are talking about a task order.

Mr. PASSMAN. It says to take effect April 1.

Mr. COFFIN. That is the task order. There were a lot of details——

Mr. PASSMAN. Is that not when they started working?

Mr. COFFIN. I am not sure whether that is the date of starting work. Perhaps there was a lot of work which had been done in preparation.

Mr. PASSMAN. You spent only $6,000 in fiscal 1963, leaving the $29,000.

Please put something in the record about the mechanics of this matter.

Mr. COFFIN. I understand your question and I think it is a very legitimate one.

(The information requested follows:)

COOPERATIVE LEAGUE TECHNICAL SERVICES PROJECT

Contract negotiations to obtain the resources of the Cooperative League of the United States of America to help in one AID program began several months prior to a meeting of the Cooperative Advisory Committee to the Administrator on December 14, 1962. It was anticipated that this contract would be signed by April 1, 1962. The signing of the contract was delayed in order to be certain that there was agreement in the method of determining overhead costs and the interpretation of the contract. The contract was made for 2 years and was finally signed on the 28th of June. Money was used from fiscal year 1963 funds in order to insure that work would proceed as quickly as possible. An immediate start is necessary because of the length of time that had elapsed since the inception of negotiations. Funding from fiscal year 1964 is being requested in order to insure the second year's operation. A 2-year contract was necessary to be able to get a qualified person to administer this project. A person is now being processed through security to act as project director.

ASSISTANCE TO COOPERATIVES PROJECT

Mr. PASSMAN. Page 835 contains a project entitled "Assistance to Cooperatives." In fiscal year 1964 the estimate is $82,000. What is the reason for this project and what does it cost to complete?

Mr. COFFIN. This will contain a number of projects which will need funding in fiscal 1964 as savings and loans associations where the preparatory work has been done and we need to have funds ready to obligate in 1964 to take advantage of the work which has been done during the past year.

Mr. PASSMAN. When we finally get these people familiar with the advantages of these things, where are they going to get the money to capitalize the operations?

Mr. COFFIN. All of these projects we have been talking about are projects where we put in the money to help other people get organized in the rural——

Mr. PASSMAN. But when they get organized and do not have the money?

Mr. COFFIN. This is the way they are brought about saving. We have already seen that in the savings and loan——

Mr. PASSMAN. I am not dealing only with one item.

Mr. COFFIN. I understand that.

But these projects are the way we get at the people in the villages and rural areas.

Mr. PASSMAN. If they do not have the money and you set up a building association, where will they get the funds to capitalize this association?

Mr. COFFIN. We have already seen in some of the developing countries, even though their per capita income is very low, that if they have a device and institution they will put in pesos and peseros into the association.

Mr. PASSMAN. Some, but we are supplying a good bit of the capital all over the world; are we not?

Mr. COFFIN. And their government also will put in capital.

Mr. PASSMAN. After we put it into their government.

Mr. COFFIN. We put in some of it, but not all of it by any means.

GENERAL TECHNICAL SERVICES PROJECT

Mr. PASSMAN. Page 837 shows you are increasing from $764,000 in fiscal 1963 to $950,000 in 1964 for the general technical service project. What is that project?

Mr. COFFIN. These are activities where we call upon either other departments or universities or associations to give us specialized services which we have spelled out in our project descriptions, some agricultural services, something in the field of community water supply which is important in many underdeveloped countries, malaria eradication, industrial manpower surveys. Again we don't feel it is wise for us to try to do the whole job with in-house personnel.

Mr. PASSMAN. We are dealing here with a regional matter and not individual countries.

Mr. COFFIN. That is right.

Mr. PASSMAN. This is supplementing the projects for individual countries?

Mr. COFFIN. That is right.

Mr. PASSMAN. That does not make the matter any less complicated, does it?

Mr. COFFIN. Development is not a simple process, Mr. Chairman.

Mr. PASSMAN. I know, but we go over this and you would think it is a reprint of some of the things we went over when dealing with individual countries. If they do not get it in individual countries they get it in the interregional program.

Mr. COFFIN. You have your own library in your office but you also have the Library of Congress to draw upon or the Legislative Reference.

The point is that there is a need for both, tailored service and a general service available to any problem.

RECEPTION SERVICES PROJECT

Mr. PASSMAN. In connection with the reception services project, on page 839, I observe that the 1964 request is $165,000 and the estimate will provide for services for 5,500 arrivals during fiscal 1964. Who will arrive and where will they arrive?

Mr. COFFIN. If a foreign student from the Far East arrives in Seattle or San Francisco, for example, somebody has to be on hand to see that that student is housed, that he is provided with food, that he is given his schedule, where he goes next, and so on.

Mr. PASSMAN. He gets off the plane and a receptionist is there. They usually come in groups. They say, "We shall put you up in barracks 9," and so on.

Mr. COFFIN. Or in a private home.

Mr. PASSMAN. That is arranged for prior to their arrival, is it not?

Mr. COFFIN. Yes.

Mr. PASSMAN. So the receptionist merely takes them to, or instructs them on, how to get there?

Mr. COFFIN. Yes; but there are many times when the planes are delayed, or they come in early. Upon the functioning of these people depends the foreign student's first impression of the United States.

Mr. PASSMAN. Let it be favorable, but if you bring in 100 people would that reception cost be about $3,000?

Mr. COFFIN. You are dividing the arrivals into the total funding?

Mr. PASSMAN. It states "Reception services."

Mr. COFFIN. You must remember that a student may be in a particular town for more than a day. He may be there a week before he goes to his university or his training center.

Usually they have some orientation.

Mr. PASSMAN. Would you agree that this figure sounds excessive?

Mr. COFFIN. No; I would not, Mr. Chairman.

Mr. PASSMAN. You are paying $30 per person to some person on contract to receive these young men and women when they come in and see that they get on the next train that is going out or the next plane, or take them over to some private home.

Mr. COFFIN. There is customs service, passports, and all the rest.

Mr. PASSMAN. Please have a look at this item and let us see, for instance, who you contract with.

Mr. COFFIN. We shall be glad to provide the information.

(The information requested may be found on p. 1728.)

REPORT ON INADEQUACY OF STATE DEPARTMENT HOSPITALITY FUND

Mr. FORD. I just happened to be reading the U.S. Advisory Commission on International Educational and Cultural Affairs report, April of 1963. On page 49 of the report it states as follows:

Another financial problem which has deeply disturbed the Commission is the ridiculous inadequacy of the official hospitality fund allocated for use by

our State Department Educational and Cultural Affairs people either in the United States or in the embassies abroad.

The present allowance, $1,000 for a year's hospitality in the United States for over 5,400 foreign grantees sponsored by the State Department alone, is so low as to be undignified and a constant source of embarrassment.

The major burden of hospitality for foreign visitors is borne, and properly borne, by a vast network of volunteer private individuals and agencies. There are, however, occasions, necessary occasions, when in keeping with the interest and dignity of the United States, foreign visitors, particularly top foreign leaders and specialists, should be treated to a minimum of courtesies and hospitalities at an official level.

This the State Department representatives are not at present able to do. We strongly recommend that the Congress take the necessary steps to correct this indignity.

Is this what we are talking about?

Mr. COFFIN. The references there, Mr. Ford, were wholly to State.

Mr. FORD. What made me feel they were one and the same thing is that it mentioned 5,400 here and in the justification you indicate 5,500.

Mr. COFFIN. Yes, but I don't think that is the same figure.

RECEPTION SERVICE FOR AID PARTICIPANTS

Mr. PASSMAN. This is strictly reception here when they arrive.

Mr. COFFIN. Mr. Ford refers to people being brought in under the cultural exchange law, foreign-leader grants.

We don't do that. We would not bring in the leaders of these countries. Normally, we would bring in people for training required for an approved AID project in agriculture, industry, public administration, labor, or similar field of activity.

Mr. FORD. Can we see whether there are other agencies and whether the State Department has other funds in addition to these for this same purpose?

Mr. COFFIN. Yes.

(The information requested follows:)

AVAILABILITY OF RECEPTION SERVICE FUNDS—U.S. GOVERNMENT AGENCIES

The total amount of funds available to the Department of State annually for hospitality for exchange students is $1,300. Three hundred of this amount is made available by AID to provide hospitality at ports of entry for AID participants.

AID has approximately $2,500 each year for hospitality for 5,500 participants.

Section 636(g) of the Foreign Assistance Act authorizes $300,000 of military assistance funds to be used for extraordinary expenses in connection with the training of foreign nationals under the military assistance program. Approximately 22,500 trainees participated in this program in fiscal year 1963.

Mr. PASSMAN. If this Reception Service is broader than I noted, getting them to their hotels or motels, getting them to their homes, to their airplanes, and so forth, so indicate. We would like to have a breakdown on what is involved.

Mr. COFFIN. What is done and what is the cost?

Mr. PASSMAN. That is right.

(The information requested follows:)

BREAKDOWN OF COSTS AND SERVICES OF RECEPTION SERVICES PROJECT

In addition to making hotel reservations, arranging onward transportation, and getting the participants to their hotels or homes, the reception services assist participants in securing U.S. currency, with customs clearances, medical

attention when necessary, and arrange through volunteer groups for community hospitality if they have free time between planes.

The fiscal year 1963 budget for these activities is given below:

Reception Center services—AID reimbursement— 1963 fiscal year

	Number	Amount
Personal serivces:		
Actual rates for staff	16.0	$108,868
Less lapse rate, .6 man-year	.6	3,920
Subtotal	15.4	104,948
Civil service retirement, 6½ percent		6,675
Foreign Service retirement		402
Health benefits		679
Insurance		347
Overtime and holiday pay		11,500
Cost of living allowance, Honolulu		4,583
Pay increase		4,500
Total personal services		133,634
Program expenses		[1] 11,200
Entertainment		300
Administrative support		[2] 11,366
Total		156,500

[1] Transporting Reception Center staff to and from dock or airport and related costs.
[2] Communications between Reception Centers and Washington, D.C.

Mr. PASSMAN. I note under "Reception service projects," on page 839, that you anticipate 5,500 arrivals during fiscal year 1964 and the "Meridian House Foundation project," on page 849, will provide reception services to 5,200 participants and the orientation and related services program will be conducted for 400 to 700 participants.

Does this mean that all but 300 participants will be received in Washington and all but 800 participants will receive orientation services?

Mr. COFFIN. I think that is true, Mr. Chairman.

Mr. PASSMAN. Why would you be bringing 5,200 participants to Washington?

Mr. COFFIN. For this reason, Mr. Chairman. The Meridian House program is a program which takes about a week for each participant.

During that week they have not only a series of orientation sessions in classes but there are about 700 Washington and Virginia and Maryland families who take these students to their homes on at least one occasion. This is the way they see the United States before they go either to our other agencies in Washington or to the university.

Mr. PASSMAN. I am not referring to what you do after they get here. I am questioning whether or not, out of 5,500 participants, you have to bring 5,200 of them to Washington. Some of them may be going to the University of California. Some may be coming from the Philippines. Would you bring them all the way to Washington to see our beautiful Capital City before you return them to California?

Mr. COFFIN. I am not sure whether we do.

Mr. PASSMAN. If we do, let us stop it or find some good reason why it should not be stopped. If you will supplement what you just said and let us know whether that would be the way it is handled, if you bring them in from Far Eastern countries, whether you bring them all the way to Washington to see our beautiful city at the expense of the taxpayers and then take them back to their place of study which may be a university in California.

Mr. COFFIN. We know this. The Meridian House has about half of the participants. We know these 5,000 they have is about half.

Mr. PASSMAN. This states 5,200.

We want to know whether these participants coming out of the Far East, say the Philippines, perhaps South Vietnam, Korea, would not be sufficiently impressed to go right on to their place of study, whether it is for 6 months or a year, rather than bringing them all the way to Washington to show them the sights.

Mr. COFFIN. We shall be glad to give you that information.

(The information requested follows:)

JUSTIFICATION FOR WASHINGTON RECEPTION AND ORIENTATION PROJECT

Participants from Far East countries entering the United States on the west coast do not come to Washington prior to commencement of their training unless the training facility is located near Washington.

If these participants remain in the United States for more than 6 months, however, an effort is made to bring them through Washington at the time of their departure for a program evaluation interview or the communication seminar.

NONPROJECT ACTIVITY, INTERREGIONAL PROGRAM

AID WASHINGTON PROGRAM STAFF

Mr. PASSMAN. The second portion of this interregional program is for nonproject activity. The program is $30,292,000. The biggest portion of this activity is the AID Washington program staff for which $16,519,000 is requested.

INCREASE IN FISCAL YEAR 1963 WASHINGTON PROGRAM STAFF OBLIGATIONS OVER REQUEST

I note your statement on page 175 that fund limitation during fiscal 1963 resulted in a program inadequate to meet AID's needs for better trained personnel.

I also note your program for this purpose $14,078,000. What was the amount requested and justified last year for this purpose?

Mr. MADDEN. $12,990,000.

Mr. PASSMAN. You had better have another look.

Mr. MADDEN. The figure I quoted is comparable to the $14 million.

Mr. PASSMAN. I am talking about what you justified to the committee last year in this program.

Mr. MADDEN. It was broken down in three parts, sir. My figure merges those three parts into one.

Mr. PASSMAN. You actually justified $10.2 million. That is what you put in the record?

Mr. MADDEN. Yes, sir. In addition, we justified——

Mr. PASSMAN. Let us keep it on the one item. You requested $10,200,000 but for the same item you programed $14,078,000. Is that right?

Mr. MADDEN. No, sir.

Mr. PASSMAN. You had better reprint these justifications. I am looking at your insertion on page 730. Then I look at your justifications on page 819, and it specifically states:

AID, Washington, program staff, $14,078,000.

Mr. MADDEN. I will have to see what you are looking at, sir.

Mr. PASSMAN. Come over and we shall be glad to share our book with you.

Mr. MADDEN. That is this year.

Mr. PASSMAN. Surely 1963. Here is the same thing. You justified $10,200,000 and programed $14,078,000.

Mr. MADDEN. But you will see in last year's presentation two items which do not appear in 1963 and 1964 in this year's book. That is because these two items, shown separately last year, have been merged with "AID, Washington, program staff" in this year's presentation.

Mr. PASSMAN. Is that done to confuse the committee? If that was the purpose you did a good job.

Let us see whether that adds up.

Mr. MADDEN. $12,990,000.

Mr. PASSMAN. You actually programed $14,078,000, did you not?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. Where is the fund shortage, as the book indicates? We are at page 175.

You spent $2 million more than you justified and for which you had a fund. It does not add up.

PROGRAM SUPPORT BY OTHER GOVERNMENT AGENCIES

In connection with the amount for the Program Support by other Government agencies, bring up to date the table submitted for the record last year on page 735, part 3 of the hearings.

(The information requested follows:)

Interregional program expenses—Program support by other U.S. Government agencies—Breakdown by agencies

Agency	Fiscal year 1962			Fiscal year 1963			Fiscal year 1964		
	Training services	Technical consultation and support	Total	Training services	Technical consultation and support	Total	Training services	Technical consultation and support	Total
Agriculture, Department of:									
Man-years	142.3	19.8	162.1	143.0	22.8	165.8	147.1	23.4	170.5
Total cost	$1,357,135	$210,833	$1,567,968	$1,449,800	$252,700	$1,702,500	$1,499,500	$264,700	$1,764,200
Commerce, Department of:									
Man-years	23.3	14.8	38.1	22.2	15.0	37.2	21.7	14.5	36.2
Total cost	$214,022	$166,506	$380,528	$229,300	$176,500	$405,800	$220,700	$184,500	$405,200
Defense, Department of:									
Man-years	0.2		0.2	0.2		0.2	0.2		0.2
Total cost	$1,480		$1,480	$2,000		$2,000	$2,000		$2,000
Farm Credit Administration:									
Man-years	1.8		1.8	1.7		1.7	1.7	0.1	1.8
Total cost	$44,387	$562	$44,949	$44,000	$1,000	$45,000	$47,000	$1,000	$48,000
Federal Aviation Agency:									
Man-years	18.3	12.0	30.3	16.7	11.0	27.7	17.4	11.2	28.6
Total cost	$175,365	$132,635	$308,000	$163,100	$128,900	$292,000	$160,000	$130,000	$290,000
Federal Communications Commission									
Man-years	5.3		5.3	5.3		5.3	5.4		5.4
Total cost	$57,653		$57,653	$62,000		$62,000	$66,300		$66,300
Health, Education, and Welfare, Department of:									
Man-years	87.5	9.1	96.6	89.5	9.0	98.5	93.5	9.6	103.1
Total cost	$741,667	$101,342	$843,009	$796,800	$106,000	$902,800	$867,000	$116,000	$983,000
Housing and Home Finance Agency:									
Man-years	15.4	5.8	21.2	15.0	5.2	20.2	14.0	8.7	22.7
Total cost	$132,223	$49,556	$181,779	$141,000	$58,000	$199,000	$120,000	$80,000	$200,000
Interior, Department of:									
Man-years	28.3	11.1	39.4	33.4	11.3	44.7	33.0	11.2	44.2
Total cost	$191,650	$116,401	$308,051	$269,800	$118,400	$388,200	$272,000	$120,000	$392,000
Labor, Department of:									
Man-years	100.1	2.7	102.8	99.7	2.7	102.4	99.6	2.7	102.3
Total cost	$1,074,249	$45,318	$1,119,567	$1,110,000	$50,000	$1,160,000	$1,148,000	$52,000	$1,200,000
Post Office Department:									
Man-years				0.5		0.5	1.0		1.0
Total cost				$6,200		$6,200	$12,300		$12,300
Tennessee Valley Authority:									
Man-years	1.5		1.5	1.5		1.5	1.5		1.5
Total cost	$14,000		$14,000	$14,000		$14,000	$14,000		$14,000
Treasury Department (customs):									
Man-years	2.0		2.0	1.9		1.9	1.9		1.9
Total cost	$22,805		$22,805	$20,500		$20,500	$21,000		$21,000
Total all agencies:									
Man-years	426.0	75.3	501.3	430.6	77.0	507.6	438.0	81.4	519.4
Total cost	$4,026,636	$823,153	$4,849,789	$4,308,500	$891,500	$5,200,000	$4,449,800	$948,200	$5,398,000

AID WASHINGTON PROGRAM STAFF

Mr. COFFIN. On this $14 million figure, Mr. Chairman, shall we submit how these several figures were put in to get a comparable basis?

Mr. PASSMAN. You requested $10,200,000. There was a complaint about the $14,078,000. They said it is up because two other items were consolidated.

Adding those consolidated items you get a total of $12,995,000.

After all of your consolidations you still obligated $14,078,000 which would make the information on page 175 null and void.

Mr. COFFIN. We shall be glad to explain the statement, Mr. Chairman.

Mr. PASSMAN. It is just that way.

Mr. COFFIN. That is right. If the statement is accurate——

Mr. PASSMAN. Let us establish whether or not it is accurate.

On page 730 of last year's justifications you will find you requested $10,200,000, AID, Washington program staff. Is that correct?

Mr. COFFIN. That is right.

Mr. PASSMAN. We commented about the obligation going to $14,078,000 and the supporting witness said that was because you consolidated two other items.

Mr. COFFIN. That is right.

Mr. PASSMAN. Then we moved into the consolidation part and he gave us $12,990,000, so you run out of anything to consolidate and you still obligated about $2 million more than the total request.

Are we correct in our assumptions so far?

Mr. MADDEN. There is a $1 million difference rather than $2 million.

Mr. PASSMAN. Even $1 million or $500,000. You take the figures—$12,990,000. It is $1,088,000. That still would rule this out when you said:

> Fund limitation during fiscal 1963 resulted in a program inadequate to meet AID's need for better trained personnel.

Could you find the extra $1,088,000 for us?

Mr. MADDEN. We had a Federal pay raise which accounts for part of it.

Mr. PASSMAN. How much is the pay raise portion?

Mr. MADDEN. I would guess about a half million dollars.

Mr. PASSMAN. How would you know if you have not checked it? Try to find out.

Off the record.

(Discussion held off the record.)

COMPARISON OF FISCAL YEAR 1963 REQUEST WITH OBLIGATIONS FOR INTERREGIONAL PROGRAMS

Mr. FORD. In this category of interregional expenses, what did you justify last year at the time you were before the committee?

Mr. COFFIN. Do you want the gross amount?

Mr. FORD. The total.

Mr. MADDEN. The figure comparable to this year's request $31,300,000.

Mr. FORD. This is what you justified?

Mr. MADDEN. Yes, sir.

Mr. COFFIN. This is taking items justified in other places but the same items which are in our unified justification this year.

Mr. FORD. According to the testimony of last year we were talking about a $30 million program.

Mr. COFFIN. Yes.

Mr. FORD. In the meantime have you made some program changes so that the figures are not entirely comparable? Is that your point?

Mr. COFFIN. Yes.

Mr. FORD. On the basis of comparability with what you are justifying this year you justified last year at this time $31,300,000?

Mr. COFFIN. Yes, sir.

Mr. FORD. That was the justification in the hearings?

Mr. COFFIN. Yes.

Mr. FORD. What did you execute in fiscal 1963? What did you obligate?

Mr. MADDEN. $33,049,000.

FACTORS OF INCREASED COSTS OF INTERREGIONAL PROGRAMS

Mr. FORD. In what areas did you have increases? You obligated about $1.7 million more than you justified.

Mr. COFFIN. One area would be the pay raise.

Mr. FORD. How much was that?

Mr. MADDEN. I don't have that figure available. I am estimating about a half million dollars.

CENTRALIZATION OF PUBLIC SAFETY PROGRAM AND STAFF

Mr. FORD. What else brought about this additional obligation?

Mr. MADDEN. The public safety program got underway.

Mr. FORD. Where is that in the justifications?

Mr. COFFIN. I don't believe it is. I think the centralization of the public safety staff took place after the congressional presentation.

Mr. FORD. Is it in the justification book for fiscal 1964?

Mr. COFFIN. Yes.

Mr. FORD. On what page? In what category does it fall in the justification book which is before us now?

Mr. COFFIN. Program staff.

Mr. FORD. How much was involved in fiscal 1963 and how much are you requesting for fiscal 1964?

Mr. MADDEN. In 1963 the planned figure——

Mr. FORD. Your planned figure at the time you justified it? All right, what was that?

Mr. MADDEN. Our planned figure for public safety at the time we prepared these books——

Mr. FORD. These books last year or this year?

Mr. MADDEN. The books this year.

Mr. FORD. All right.

Mr. MADDEN. About a quarter million dollars, $228,000.

Mr. FORD. This is what you are justifying this year?

Mr. MADDEN. This is the amount we estimated when we prepared these books for expense on public safety in fiscal 1963.

In 1964 we estimate "Public Safety" cost at $721,000, an increase of nearly a half million dollars in public safety.

This work got underway late in the fiscal year.

Mr. FORD. As I understand what you have just said, last year you justified $228,000.

Mr. MADDEN. No, sir. We didn't justify anything.

Mr. FORD. You didn't justify anything. As I understand what you said a moment ago, I think you said that when the books were prepared last year——

Mr. MADDEN. This year.

Mr. FORD. Before fiscal 1963?

Mr. COFFIN. Last year when we prepared the books, public safety officers were in the regions and in field missions under the regions. During the year we made a decision that this function was so important that we would establish a central office, pull the people out from under their sole responsibility to the regions, make those in the field responsible at least for planning professional standards for the central office, beefing up the central office with a number of professional people.

This was established, therefore, during fiscal year 1963 not on the basis of a direct presentation last year. We therefore funded part of a year's cost. The $721,000 is the estimate for 1964 of the full year's costs of this now centralized office.

Mr. FORD. But at the time hearings were held last year on fiscal 1963 budget there was no specific presentation?

Mr. COFFIN. That is right. We had no plans at all.

Mr. FORD. What did you obligate in fiscal 1963 for this program?

Mr. MADDEN. I don't have that figure. We have not refined June 30 figures as yet by organizational units. This is part of a larger allotment.

Mr. FORD. How about an estimate?

Mr. MADDEN. $228,000.

Mr. FORD. We have about $700,000 out of $1.7 million. How about the rest of it?

Mr. MADDEN. Increased pay cost.

Mr. FORD. That was $500,000. I include that in my $700,000. You still have $1 million to go.

Mr. MADDEN. No, the $700,000 plus the $500,000.

Mr. FORD. You have only $228,000. We agree on $228,000. Now what else have you got? You have $500,000 for pay raise. Is that right?

Mr. COFFIN. And $500,000 increase for this office, $1 million.

Mr. MADDEN. I'm sorry, I confused the issue, Mr. Ford is correct, the increase for "Public Safety" of $500,000 pertains to fiscal year 1964.

Mr. FORD. I am talking about 1963. You have about another $1 million someplace.

INCREASE IN STATE DEPARTMENT PROGRAM SUPPORT

Mr. MADDEN. The amount we are paying the Department of State for increase for overseas support is greater than we had previously estimated.

Mr. FORD. What did you justify last year on the 1963 budget for State Department overseas support?

Mr. MADDEN. $5,700,000.

Mr. FORD. This is what you told the committee you needed to do the job?

Mr. MADDEN. Yes, sir.

Mr. FORD. What did you execute?

Mr. MADDEN. $7.360,000.

Mr. FORD. That is $1,600,000; is that correct?

Mr. MADDEN. Yes, sir.

Mr. FORD. That takes you over this amount.

Mr. MADDEN. There would be some decreases in some other items.

Mr. COFFIN. What we will have to get is the wash figure, the pluses and minuses to lead to this.

Mr. FORD. I think it would be very helpful. Let us set it out, what you justified in each of these categories and what you actually executed. Explain the discrepancy between the two sets of figures.

Mr. COFFIN. Right, sir.

(The information requested follows:)

INTERREGIONAL PROGRAM EXPENSES

Comparison of 1963 congressional request with 1963 obligations

[In thousands]

	1963 congressional request (adjusted)	1963 actual obligations (preliminary)	Differences	Explanation of significant differences
AID Washington program staff.	$12,990	$13,382	+$392	Primarily net increases of $228 and $563 for new public safety staff and increased pay costs, respectively, offset by $386 program reduction and lapses.
Program support, U.S. Government agencies.	5,460	5,124	−336	Primarily net increase of $200 for increased pay costs, offset by $536 program reduction and lapses.
Participant services	4,560	3,605	−955	Reduction in program level.
Communications resources	900	680	−220	Do.
Program support, Department of State.	5,700	7,360	+1,660	Approximately $140 for increased pay costs; balance due to increased level of services provided and updating of the ratio of administrative to program funded personnel.
International aid coordination.	250	252	+2	
Book gap	35	520	+485	Under stimulus of Government's Advisory Committee on International Book Program, AID was able to institute four projects in 1963 which had not been expected to develop until 1964.
Nutrition surveys		314	+314	Assumption of program previously under Department of Defense.
Training in cooperatives	140	394	+254	Development of program at higher level than projected in 1963 presentation.
Excess property offices		117	+117	Program had not developed at time of 1963 submission.
General technical services	990	1,053	+63	
Engineering services	275	243	−32	
Yough program		5	+5	
Total	31,300	33,049	+1,749	

COMPARISON OF FISCAL YEAR 1963 INTERREGIONAL PROGRAMS REQUESTS AND OBLIGATIONS TO TOTALS FOR DEVELOPMENT GRANTS

Mr. FORD. You justified on a comparable basis $31,300,000 last year. You executed $33,049,000. What was granted by the Congress in this area?

Mr. MADDEN. There would be no specific earmarking on this. This is part of other funds. The appropriations bill provides an overall amount for development grants.

Mr. FORD. These funds are derived from other pots and brought into a central office for obligation and disbursal?

Mr. MADDEN. Yes, sir.

Mr. COFFIN. Derived from one, development grants.

Mr. FORD. All this money is derived from development grants; all right. What did you justify for development grants last year? What was the President's first request even before the authorization? Give it at the time of the authorization.

Mr. TENNANT. $335 million.

Mr. FORD. What did the Congress finally give?

Mr. TENNANT. $225 million.

Mr. FORD. $110 million reduction in the authorization?

Mr. TENNANT. That is correct, sir.

Mr. FORD. What was the appropriation?

Mr. TENNANT. I am sorry, I moved directly from the authorization request to the amount appropriated.

Mr. FORD. What was the authorization?

Mr. TENNANT. $300 million.

Mr. FORD. And the appropriation was what?

Mr. TENNANT. $225 million.

Mr. FORD. So you had a $110 million reduction in the overall figure for development grants, funds for interregional expenses coming out of development grant. Is that right?

Mr. TENNANT. That is correct.

Mr. FORD. And in the case of interregional expenses you actually obligated $33,049,000 in contrast to the $31,300,000 which you justified?

Mr. TENNANT. That is correct, sir.

Mr. FORD. So in this category you obligated more money than you initially requested despite the fact that in the overall there was a reduction of $110 million in the fund?

Mr. TENNANT. That is right.

Mr. FORD. How do you justify that? Were these things of higher priority?

Mr. COFFIN. These were activities which had been undertaken in prior years. This was an irreducible type of thing. Participants had been selected and were on their way over, or the arrangements had been made. The Public Safety Office in the program staff generally was involved. People may have been on board just a few months of the previous year and had to be funded for a full year. So the cuts had to be distributed in other areas of the program than in this collection of activities we are talking about today.

In other words, to allocate a cut it was much more feasible to say that a new program proposed for country X would not be funded, but that we would fund activities which were ongoing.

Mr. FORD. That may be true to some extent, but in listening to the testimony earlier, Mr. Coffin, in this area of cooperatives, that would not be true?

Mr. COFFIN. That is correct.

Mr. FORD. A relatively small amount, but you initiated these programs.

Mr. COFFIN. That is correct.

Mr. FORD. Despite the fact you had reductions.

Mr. COFFIN. That is right.

Mr. FORD. Were these of higher priority?

Mr. COFFIN. Yes, in a sense, because we had the section in the law, and up until this part year we had been unable to show that we had really made substantial progress in carrying out the change in emphasis.

ADMINISTRATIVE SUPPORT SERVICES OF DEPARTMENT OF STATE

Mr. PASSMAN. The program support Department of State estimate is $7,540,000. Would you bring up to date the table which you submitted last year on page 741, part 3, of the hearings relating to this item?

Mr. COFFIN. Yes, sir.

(The information requested follows:)

Administrative Support Services by Department of State

(Support of Oversea Operation)

Total administrative and program financing

[In thousands of dollars]

	Fiscal year 1963 estimate			Fiscal year 1964 estimate		
	Positions	Man-years	Cost	Positions	Man-years	Cost
Breakdown of requirements:						
A. General Oversea support services:						
1. Departmental staff and related costs for support to oversea support operations	166	158	$1,286.6	166	161	$1,303.0
2. Centralized costs of oversea support operations:						
(a) Communication facilities	1	1	350.8	1	1	353.2
(b) Medical services			250.8			250.8
(c) Vehicle replacements			26.6			26.6
(d) Expenses of Department of State Foreign Service personnel (AID share of personnel engaged in supporting services):						
(1) Post assignment and home leave travel			814.8			814.8
(2) Education, home service, and transfer allowances			68.6			68.6
(3) Medical and recruitment complements			41.4			56.4
	Positions			Positions		
	American	Local		American	Local	
(4) Regional finance center, Paris, France	1	9	60.3	1	9	63.4
Total centralized costs			1,613.3			1,633.8
3. Oversea costs of support operations:						
(a) Latin America	41	91	993.5	41	91	1,006.2
(b) Far East	66	157	1,246.8	66	157	1,262.7
(c) Near East and south Asia	89	343	2,138.3	89	343	2,165.5
(d) Africa and Europe	112	241	2,831.3	112	241	2,867.3
Total oversea support at posts	308	832	7,209.9	308	832	7,301.7
B. Special support services (includes Tehran Hospital, Kabul Hospital, etc.)			364.3			368.6
Total requirements			10,474.1			10,607.1
Source of financing:						
AID administrative funds			2,224.1			2,267.1
AID program funds:						
Dollar financing			7,450.0			7,540.0
Foreign currency trust funds			800.0			800.0
Subtotal, program funds			8,250.0			8,340.0
Total financing			10,474.1			10,607.1

DELAY IN PROVIDING INFORMATION TO THE COMMITTEE

Mr. ROONEY. How long does it take this Agency to get the inserts that we ask for? I notice day after day in going over the typewritten transcript and the questions where we ask for inserts that they invariably are never in the transcript when it comes back from you.

How long does it take to get these things? I have been accustomed to getting them the next day.

Here is an instance: I asked for the breakdown of the $70,000 for three people in an office in London. That should not take more than overnight to furnish.

Mr. COFFIN. The answer is that we are serving another committee in the House which also is asking for inserts and sometimes other committees not dealing with AID specifically have hearings on civil service or hearings on other policies, and the Senate——

Mr. ROONEY. I am of a suspicious nature, Mr. Chairman, if you will excuse a further interruption. It may be that if we were to see the breakdown of this $70,000 we might be amazed.

Mr. MILLER. We try to get them back as quickly as we can. We should be happy to send you copies——

Mr. ROONEY. I have not had one since we started these hearings. I have not asked for too many. Invariably when I get back the transcript I go over it, look for the requested insert, and it is never there.

Mr. MILLER. We shall be happy to send an extra copy to you at your office.

Mr. ROONEY. You need not do that.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

Mr. PASSMAN. We need this information.

Please be a little more cooperative if possible.

Mr. COFFIN. We shall endeavor to do that.

Mr. PASSMAN. You will insert this table?

Mr. COFFIN. Yes, sir.

INTERNATIONAL AID COORDINATION

Mr. PASSMAN. In connection with the international AID coordination estimate you show $390,000. Furnish a breakdown for the record of the cost of this coordination of AID staffing requirement in the OECD in Paris.

Mr. COFFIN. Yes, sir.

Mr. PASSMAN. Also show this cost for capitals of other major countries and at U.N. headquarters in New York.

Mr. COFFIN. I would be very glad to.

(The information requested follows:)

INTERNATIONAL AID COORDINATION

Breakdown of costs of staffing requirements fiscal year 1964 funded under interregional program expenses

USRO-Paris staffing:	
Salaries and related costs	$306,500
All other	83,500
Total	390,000

Positions: United States, 15; locals, 10.

Sum of $390,000 is entirely to finance the costs of the international aid coordination activity with other donors through the OECD and its Development Assistance Committee in Paris. All these people are stationed in Paris.

In addition, AID employees at United States-U.N. headquarters in New York are funded under AID Washington program staffing activity.

Positions at United States-U.N., 3.

Salaries and related costs	$37,915
All other	600
Total	38,515

EXCESS PROPERTY OFFICES

Mr. PASSMAN. You are requesting $445,000 for the excess property offices; is that correct?

Mr. COFFIN. Yes.

RESEARCH AND EVALUATION

Mr. PASSMAN. Last year you indicated the 1963 cost of the research, evaluation, and planning assistance would be $908,000, compared to $432,000 in fiscal year 1962. Is this staff still in existence and what is the 1964 estimate of the cost?

Mr. COFFIN. Do you want that now?

Mr. PASSMAN. I think we had better get something now.

Mr. COFFIN. Research is now under Dr. Baumgartner.

Mr. PASSMAN. Let us find out how much you are going to deobligate out of this and credit to the category for which Dr. Baumgartner will testify.

Are you familiar with this item we are talking about here?

Mr. COFFIN. Yes.

The research and evaluation staff is now under Dr. Baumgartner and the planning assistance is under another staff.

Mr. PASSMAN. Where was it last year?

Mr. COFFIN. All in one unit, research, evaluation, and planning assistance.

Planning assistance is now under Dr. Chenery.

Mr. PASSMAN. Can you give us a comparable 1964 estimate to the 1962 and 1963 amounts?

Mr. COFFIN. Because it has been split, I am not sure I can furnish it at this moment. We will have to supply that.

Mr. PASSMAN. You cannot give us any information on that item?

Mr. MADDEN. We have in our budget for 1964 under Dr. Baumgartner's——

Mr. PASSMAN. For comparable projects and programs as outlined here?

Mr. MADDEN. I can give it to you for 1962.

Mr. PASSMAN. It was $432,000. And I have it for 1963, $908,000. What is it for 1964?

Mr. MADDEN. $792,000 under Dr. Baumgartner, and $172,000 under Dr. Chenery's office. The total of those two would be it.

Mr. COFFIN. $964,000, Mr. Chairman.

Mr. PASSMAN. So it is up to $56,000?

Mr. COFFIN. That is correct.

TECHNICAL ASSISTANCE STUDY GROUP

Mr. PASSMAN. With regard to the technical assistance study group, the temporary unit which was established in 1960 for a period of 14 to 18 months, has that now served its purpose and there is no further request for funds?

Mr. COFFIN. I think so, Mr. Chairman.

Mr. PASSMAN. What disposition did you make of the employees assigned to this operation? Did you absorb them in some other agency?

Mr. COFFIN. Some would be absorbed into other units.

Mr. PASSMAN. Could you tell us the total number of employees you had?

Mr. GORDON. We do not have it precisely.

Mr. PASSMAN. Now it has served its purpose and it is out of existence. How many returned to the private sector and how many did you absorb in other segments of the agency?

Mr. COFFIN. We will supply that.

(The information follows:)

THE TECHNICAL ASSISTANCE STUDY GROUP

The technical assistance study group is in process of dissolution. Two professional and one secretarial employee are completing the final organization and disposition of the materials collected by the group.

At its maximum strength, the regular staff of this group consisted of seven professional and six secretarial employees. This regular staff was temporarily augmented by one college student during the summer of 1960 and by three college students (typists) during the summer of 1961. In addition: (1) the group had one private consultant (WAE); (2) several private individuals were issued invitational orders by the group to attend 1- or 2-day conferences in Washington; and (3) a number of ICA employees were loaned to the group on several occasions for special assignments extending from a few days to several weeks.

All of the regular staff were permanent employees of ICA at the time the group was constituted. The four college students hired for temporary summer employment and the single private consultant were recruited from outside the Government.

Of the seven professional members of this staff, two have left AID (one for private employment, the other to transfer to another Government agency); one has been seconded to an international organization; four continued to be employed by AID, one in the field and three at headquarters. Of the regularly employed secretarial staff, one transferred to another Government agency, five are presently employed by AID.

Mr. PASSMAN. Could we not get a little information on it now?

Mr. GORDON. The people who were brought into that were brought into it from other parts of the agency. They have all returned to other parts of the agency, not necessarily their previous jobs.

Mr. PASSMAN. You employed every one of them from some other part of the agency?

Mr. GORDON. That is my impression, yes.

Mr. COFFIN. Generally that is true. We would want to check to be sure.

Mr. PASSMAN. You merely create a new unit, take them from some other agency and when they have completed their assignment, then they are returned?

Mr. COFFIN. That is correct.

Mr. GORDON. We cannot say whether it did or did not save money. They went to jobs that may have been vacated.

TOTAL AID-FINANCED PERSONNEL

Mr. ANDREWS. Mr. Coffin, each year we have inserted in the record a table showing the total number of people employed in the AID program, on the payroll of AID, State, military, or what not.

Would your office be prepared to bring that table up to date for us?

Mr. COFFIN. Yes.

Mr. ANDREWS. Be sure and insert it in the record at this point.

Mr. COFFIN. Yes.

(The information follows:)

FOREIGN ASSISTANCE

Economic AID programs—numbers of people (including personnel equivalents) in AID-financed programs as of June 30, 1963 (preliminary)

	Numbers of people		
	U.S. nationals	Foreign nationals	Total
AID direct hire	6,818	5,275	12,093
Other personnel contributing to program:			
Other agency employees detailed to AID	566		566
Individuals paid from cooperating country trust funds		4,689	4,689
Subtotal	7,384	9,964	17,348
Indirect costs:			
Employees of AID-financed contractors [1]	1,476	([2])	1,476
Personnel equivalent of reimbursable services provided by U.S. Government agencies: [3]			
State	465	835	1,300
Other agencies	610		610
Total	9,935	10,799	20,734

[1] Does not include contractors financed from Development Loan programs which are "borrower" implemented.
[2] Not available.
[3] AID has contractual arrangements with various U.S. Government agencies under which said agencies perform certain support services for AID activities. Figures shown are approximate numbers (personnel equivalent) of personnel financed from AID reimbursements to other agencies for such services.

Military assistance program—numbers of people (including personnel equivalents) in MAP activities, estimated as of June 30, 1963

	Numbers of people		
	U.S. nationals	Foreign nationals	Total
Direct costs:			
Civilian employees (paid directly or indirectly from MAP funds)	2,971	1,211	4,182
Military personnel (paid from DOD military appropriations)	10,579		10,579
Personnel hired by Department of State for MAP functions		800	800
Indirect costs:			
Personnel hired by State Department through contractual arrangements		4,872	4,872
Personnel equivalent of reimbursable services provided by U.S. Government agencies (State Department)	129	398	527
Total	13,679	7,281	20,960

PURPOSE OF INTERREGIONAL PROGRAMS

Mr. PASSMAN. I want to restate for the record my understanding of this interregional expense, $37,247,000 for fiscal year 1964: Whatever a country gets out of this is a supplement to whatever they get out of the regular country program; is that correct?

Mr. COFFIN. Yes, these are services made available.

Mr. PASSMAN. In addition to the services provided by countries in the request?

How much damage would be done to the program if we did not have the interregional supplement to the country programs?

Mr. COFFIN. It is like the third leg of a stool that would be cut off. These are important services for the work the mission directors are trying to do.

Mr. PASSMAN. This category is growing faster than the request for the regular program for the countries.

Mr. COFFIN. That is true. This is a smaller item. Many of the contracts and services we have discussed are small, but they are applicable to more than one region.

Mr. PASSMAN. I will refer to one item, development grants, expenses authorized by section 212. The estimates are dropping, but the interregional expenses are increasing.

Mr. COFFIN. That is correct because of the work that they do serves more than one country. In a sense, this is overhead needed if any country is to do the job we expect it to do.

Mr. FORD. What bothers me, Mr. Coffin, is, you had a lower dollar level proposed for a bigger country-by-country program. When the reductions were made, you lowered your country-by-country funds, $110 million or thereabouts, but you at the same time increased your overhead. That does not make much sense.

Mr. COFFIN. Because the typical work done in these programs serves a lot of countries. We could restrict the activity of a country with less overall damage than restricting a service, a staff, a program activity that serves a lot of countries. It was a matter of judgment, and I think the judgment was well exercised. This is vital to parts of a lot of country programs.

Mr. FORD. This could lead people to the conclusion that the agencies are more interested in maintaining the sanctity of the Washington office and less concerned about the program in the field.

Mr. COFFIN. No. I think part of this is the concern rather than try to build up in the field a complete staff, to do everything they should do, we will try to use staff in Washington and other participating agencies to do work that can be applied to many countries. It is a substitute for some field staff, not because we want to build up in Washington, but because it is the type of service that can be done centrally and made available throughout our missions overseas.

I agree that should not be carried to an extreme. As you can see by this category, which is a lot of activities, some of them very small, deep cuts in that would mean cutting out entire services.

COMPARISON OF INTERREGIONAL PROGRAM LEVEL TO TOTAL DEVELOPMENT GRANT LEVEL

Mr. FORD. At what point do we reach a level where a cut in the overall fund would mean a reduction in your funds for overhead—apparently the $110 million cut last year did not accomplish that.

Mr. COFFIN. This process of increasing the interregional could not continue if the remainder of our development grants were cut down.

Mr. FORD. What is the amount you are requesting this year comparable to the original request of $335 million last year?

Mr. COFFIN. $257 million.

Mr. FORD. This year you are starting out with a request of $257 million and an overhead request of $37,242,000?

Mr. COFFIN. That is correct.

Mr. FORD. You are starting out even in a worse position this year than you did last year?

Mr. COFFIN. We are starting out lower with an overall request.

Mr. FORD. Lower with an overall request and a $4 million higher overhead request.

Mr. COFFIN. And part of that is because of the dictates of the rest of the program.

For example, in the development lending field, which is in the development lending request, many of the people here, even though they are funded out of development grants, their employment goes up because of the nature and the timing of the loan implementation work in the field. It is not a 1-to-1 relationship. There is one thing I should explain.

My staff states I have not adequately covered the Alliance for Progress yet.

Mr. MILLER. There is one thing not apparent, and that is, the Alliance for Progress grants, which are asked for separately, also contribute to this figure that we are requesting for interregional expenses of $37,242,000 for 1964. The $37,242,000 figure does not all come from the development grant request of $257 million. Part of it is in the Alliance for Progress grants request, $8 to $10 million.

Mr. FORD. It is true to say, I think, that the $37.2 million requested for fiscal year 1964 is comparable to the figure we talked about last year.

Mr. MILLER. That is right. I just wanted to point out it is not a function related solely to the $257 million.

Mr. FORD. What you are saying is not related to the point I am making, because the figure I mentioned of $37.2 million for fiscal year 1964, if I understand it, is comparable to the figure $31.3 million that you justified last year and the figure of $33,049,000 that you actually executed.

The Alliance for Progress element was in both figures; is that not correct?

Mr. MILLER. Yes. It bears on it in two respects, as I understand your point:

One, our request was going up for interregional expenses, even though our total request had come down from $335 to $257 million.

Mr. FORD. I think the record will show, I do not recall the facts, that your Alliance for Progress funds were also reduced from your original requests last year to your actual funds available.

Mr. MILLER. That is the point I was making: The $100 million we requested for Alliance for Progress grants was fully appropriated by the Congress last year, so there was no reduction. The Alliance for Progress has been in effect gearing up over the last few years. The amounts have increased, and the program has really gotten underway.

There is in that respect an element of a larger aspect of the interregional expenses that are borne by the Alliance for Progress.

Mr. NATCHER. How much of your $37,242,000 is for research?

Mr. COFFIN. It is not in this program. It is, however, a development grant funded activity. Dr. Baumgartner and Dr. Weyl will be here later on this afternoon.

FUNDING OF RESEARCH ACTIVITIES

Mr. NATCHER. No part of this $37 million is for research?

Mr. COFFIN. No.

Mr. ANDREWS. On page 3 of your statement, speaking of $16,519,000, you state it includes personnel concerned primarily with program implementation, contract officers, development loan officers, training officers, technicians, and research and evaluation personnel.

Mr. COFFIN. But I think Congressman Natcher was asking what money are we putting into research contracts. The personnel engaged in research are paid from these funds, but the money——

Mr. ANDREWS. These people work on the contracts, do they not?

Mr. COFFIN. Oh, yes. We are talking about two different things, salaries and the program itself.

Mr. ANDREWS. Do you know how much money AID is spending for research?

Mr. COFFIN. Yes. I think it is contemplated it will be $15 million for 1964.

Mr. ANDREWS. Just what research projects do you have programed?

Mr. COFFIN. Well, as I was saying, this is the subject Dr. Baumgartner is prepared to speak to later.

Mr. ANDREWS. How long has AID been interested in any research projects?

Mr. COFFIN. ICA did some research, but when AID came into existence, we had a special presentation and an office for research, and we said we were going out to do research. I think that first year it was $6 or $8 million.

Mr. ANDREWS. Now it is going up to $15 million?

Mr. COFFIN. It went down last year. Remember, the request for the first year was for $20 million. It did not reach that during the first year. In the act there is a specific authority for research.

Mr. ANDREWS. I do not know of any Government agency that is not engaged in research.

Mr. COFFIN. I think you are probably right.

Mr. ANDREWS. If you put all the money in one figure that we spend on research, it would be staggering.

Mr. COFFIN. It would be a very large sum.

Mr. ANDREWS. Could you give me a few of the typical projects which you are researching?

Mr. COFFIN. Yes. Dr. Baumgartner will be prepared to give you a list of all the projects we are funding.

Mr. ANDREWS. I may not be here.

I would like to see someone coordinate the research efforts of this Government.

Mr. ROONEY. That would cost too much money.

Mr. PASSMAN. You do have a coordinating task force, do you not?

Mr. COFFIN. We do.

Dr. Baumgartner has a committee to advise her, which in turn is coordinated with the science adviser.

UNOBLIGATED BALANCES AS OF JUNE 30, 1963

Mr. PASSMAN. Before getting into the Contingency Fund, we would like to insert in the record a list of the different programs with unobligated funds, submitted to us today by the controller. It shows the amount unobligated on June 30, 1963, $515,585,000. Of that amount, there is $117,182,000 in the Contingency Fund.

Are your footnotes sufficient to explain this list, Mr. Controller?

Mr. TENNANT. Yes.

The point I wanted to make, I think the footnotes are self-evident, but when you requested unobligated figures, earlier in the course of the hearings, we had been talking about the unobligated balances on the budgeted programs.

The programs in the presentation books are the figures for budgeted programs and they amount to $368 million unobligated in economic programs.

Mr. PASSMAN. It would not change the $117,182,000 in the Contingency Fund?

Mr. TENNANT. No, sir.

(The list referred to follows:)

Unobligated/unreserved balances as of June 30, 1963 (preliminary)

[In thousands]

	Annual accounts	No-year accounts		Total
		Appropriated funds	Borrowing authority	
ECONOMIC ASSISTANCE				
Budgeted programs:				
Development loans		$92,479		$92,479
Development grants:				
General authorization	$46,620			46,620
Special foreign currency programs	100			100
Surveys of investment opportunities	1,197			1,197
Alliance for Progress:				
Loans		90,815		90,815
Grants	4,245			4,245
Inter-American program for social progress		6,121		6,121
International organizations	431			431
Supporting assistance	7,382			7,382
Contingency Fund [1]	117,182			117,182
Administrative expenses, AID	2,036			2,036
Administrative expenses, State				
Total budgeted programs	179,193	189,415		368,608
Special revolving funds:				
Acquisition of property		3,578		3,578
Investment guarantees [2]			[3]$116,355	116,355
Borrowing authority, ECA [4]			544	544
Total special revolving funds		3,578	116,899	120,477
Total economic assistance	179,193	192,993	116,899	489,085
MILITARY ASSISTANCE [5]				
Grant aid	25,000			25,000
Sales program		1,500		1,500
Total military assistance	25,000	1,500		26,500
Grand total economic and military assistance	204,193	194,493	116,899	515,585

[1] AID has not requested reappropriation of unobligated balance of this account.
[2] Investment guaranty funds are available only for reserves against future guarantees issued and will not be expended unless there is a loss on a guarantee.
[3] Because legislation (sec. 222(e), Foreign Assistance Act of 1961, as amended) requires maintenance of unified reserve, this figure may include a small balance against the $30,000,000 appropriation which cannot be earmarked.
[4] Represents inactive borrowing authority for aid to Europe not available for current operations.
[5] Preliminary June 30, 1963, not available; figures shown represent estimates shown in budget document.

NOTE.—The executive branch's request for reappropriation of unobligated balances would result in reappropriation of a carryover of $62,011,000 on the economic and $25,000,000 on the military side.

Mr. TENNANT. We had not inserted in our prior figures the borrowing authority figures. However, all figures are in the table you now have.

Mr. PASSMAN. I think the people should know the total amount of unobligated funds.

You think this list with the footnotes is completely self-explanatory?

Mr. TENNANT. I believe it is self-explanatory.

Mr. COFFIN. Let me add, I think the figure is misleading unless the committee understands.

Mr. PASSMAN. If there was a self-explanatory document this one is. If you want to debate each item, I am willing to go for it.

Mr. COFFIN. I have a responsibility to the agency also.

Mr. PASSMAN. What responsibility do you have with respect to trying to disprove the accuracy of this statement when the footnotes state precisely what is in the $368,608,000, and what then is in the additional figures?

Mr. COFFIN. I merely want to make a statement as to what it does not mean.

A, it includes about $100 million in contingency funds which lapse. That includes——

Mr. PASSMAN. Every year, since I have been on this subcommittee, you have listed the amount of unobligated funds, and the members of the committee certainly know that all of these funds would lapse if you did not ask for part of them to be reappropriated.

Mr. COFFIN. I accept that.

Mr. PASSMAN. It has also been the custom of the subcommittee in previous years to recommend the reappropriation of all unobligated funds.

Mr. COFFIN. The other point is that you were adding this category of funds reserved for investment guarantees.

Mr. PASSMAN. That is correct, and you do have investment guarantee funds unobligated amounting to $116,355,400, and you state here:

Investment guarantee funds are available only for reserves against future guarantees issued and will not be expended unless there is a loss on the guarantee.

Mr. COFFIN. I wanted the committee to be aware we were in a sense——

Mr. PASSMAN. Is it not true that every year you submit to the committee the total of unobligated funds, just as you have submitted them here?

Do you know of any exceptions made?

Mr. COFFIN. My only point was, we are trying to add apples and oranges. As long as you are perfectly aware of the different parts of the table, that is fine.

Mr. MILLER. Considering the investment guarantee reserves—after the action last year when, you will recall, we requested appropriations for reserves for the investment guarantees, this committee was a leader in pointing out if the full faith and credit of the United States backed those guarantees, it was not necessary that we have a large amount of appropriations.

Therefore, it was possible for us to change our reserve requirements so that, although at the time we were presenting these last year, and during the year until this action was taken, we had a certain reserve requirement which would have used up almost entirely the amount of the reserves available for the investment guarantees.

Mr. PASSMAN. If we had followed your request, last year, this fund would have been about $150 million higher.

Mr. MILLER. It would have been zero, Mr. Chairman.

Mr. PASSMAN. You mean if we had appropriated the money you asked for?

Mr. MILLER. If you had not taken the action you did.

Mr. PASSMAN. You wanted a tremendous amount of money in appropriations for the investment guarantees.

Mr. MILLER. Yes, $180 million.

Mr. PASSMAN. You did not get it. You got $30 million. But had we followed your recommendation, there would have been an additional $150 million in here.

Mr. MILLER. What I am trying to explain——

Mr. PASSMAN. Is that correct?

You asked for $180 million to be appropriated. The Congress appropriated $30 million. Is that correct?

Mr. MILLER. That is correct.

What I am trying to explain is, because of the action to put the full faith and credit of the United States behind it, we could change our reserve requirements. Although at this point in time, before we could change our reserve requirements, we had used up the reserve almost entirely.

Mr. TENNANT. There is something I would like to say about the schedule. As you will recall, in Mr. Bell's testimony, he pointed out the fact that large unobligated balances are not necessarily detrimental to the way we administer our funds.

As you can see here, roughly $200 million of this amount is in no-year accounts which do not lapse at the end of the year. The fact there are amounts left over in these accounts is not an indication we had too much money.

Mr. PASSMAN. The fact that the Congress reduced the President's Contingency Fund last year would not have changed the fact you are going to have $117 million unobligated this year, would it?

Mr. TENNANT. No, sir.

Mr. PASSMAN. Thank you.

Mr. MILLER. There is a further point about the investment guarantees.

Mr. PASSMAN. We are going to have an examination on the investment guarantees.

Mr. MILLER. I think it is just on investment surveys.

As far as the reserves are concerned, we hope, of course, they will never be spent. Those are reserves for losses.

Mr. PASSMAN. Let us join with you in hoping for the same thing.

CONTINGENCY FUND

The next item is the largest Contingency Fund of the several that we have discussed, and it is usually referred to as the President's Contingency Fund.

The 1963 appropriation amounted to $250 million. You had on hand unobligated at June 30, $117,182,000. Unless the Congress, in its wisdom, reappropriates it, that money will lapse, will it not?

Mr. COFFIN. That is right.

NUMBER OF FISCAL YEAR 1963 CONTINGENCY FUND OBLIGATIONS

Mr. PASSMAN. It would appear that out of the Contingency Fund during fiscal year 1963 there were 92 transactions, through June 18 only.

Could you tell us before we hear your brief statement whether or not there have been any additional transactions since June 18, and if so, how many?

Mr. TENNANT. There were 23 more obligations.

You are talking about obligations; are you not?

Mr. PASSMAN. Yes; in addition to those given to us as of June 18.

Mr. TENNANT. I believe there are 23 more which occurred in the last 12 days of that month.

Mr. PASSMAN. That is what we refer to as transactions?

Mr. TENNANT. These are obligations—transactions.

Mr. PASSMAN. That would be 115 transactions out of the Contingency Fund during fiscal year 1963?

Mr. TENNANT. Yes, sir; transactions in this sense—an actual obligation of funds.

Mr. PASSMAN. The same as you do out of all accounts?

Mr. TENNANT. Yes.

Mr. PASSMAN. How much trouble would it be to supply us with a listing of the type of projects that were funded out of the Contingency Fund?

Mr. COFFIN. We can do that.

Mr. PASSMAN. I am speaking about the additional ones.

Mr. TENNANT. There are two types of reports we have furnished you, one a detailed quarterly report, and I believe we provided you with an insert which set forth the uses of the contingency for the whole year.

Mr. FORD. All I would like to know is whether or not there is a statement showing the total Contingency Fund obligations available this afternoon.

Mr. PASSMAN. Yes; through June 18. I put the two together to make the whole year.

You had $250 million for this Contingency Fund in fiscal year 1963. There is $117,182,000 unobligated and will lapse unless the Congress reappropriates it. You are asking for $300 million in fiscal year 1964.

Do you have a statement to make on the Contingency Fund, Mr. Director?

Mr. COFFIN. Yes.

Mr. PASSMAN. We shall be pleased to hear it.

Mr. COFFIN. I would say at the outset we feel that the performance in the Contingency Fund this year was a very good stringent one and we are not at all ashamed to turn back to the Congress the $117 million.

GENERAL STATEMENT ON THE CONTINGENCY FUND

Mr. Chairman and members of the committee, I am here today to testify in support of the President's request for an appropriation of $300 million for the Contingency Fund in the fiscal year 1964.

REDUCTION IN ORIGINAL REQUEST

As you are aware, the budget message in January included an estimate of $400 million for the Contingency Fund. However, one of the results of the subsequent review of the mutual defense and assistance budget was a reduction of $100 million in the Contingency Fund request.

That reduction reflects our belief that the application of more stringent criteria in the use of all foreign economic assistance funds will have its impact on the uses of the Contingency Fund. It also reflects our experience in the programing of the Contingency Fund in recent years.

VARYING NEEDS FOR CONTINGENCY FUNDS EACH YEAR

Contingency Fund obligations were about $149.4 million in 1963, $293.4 million in 1962, $272.6 million in 1961, and in 1960 $123.9 million for economic purposes plus $31.2 million for military assistance. The amounts varied as the needs varied, unpredictability being the typical feature of the needs for which this fund is used. In fiscal year 1962, the unforeseen demands for economic aid were extraordinarily heavy, leading to a decision to defer certain military assistance programs and to transfer $23 million from the military assistance appropriation to economic assistance accounts.

RETURN OF FISCAL YEAR 1963 UNOBLIGATED BALANCE TO TREASURY

For the fiscal year 1963, the Congress appropriated $250 million and an additional $15 million was available as carryover of unobligated funds and recoveries of prior year obligations. However, the unforeseen requirements were relatively few and we stressed rigid adherence to our criteria. As a result, we obligated only $149.4 million and over $115 million remained unobligated.

The unutilized balance in last year's Contingency Fund has been returned to the Treasury. While the President has requested the reappropriation of the unobligated balances of other categories of assistance, he has explicitly not requested the reappropriation of Contingency Fund balances. This method of handling the Contingency Fund will demonstrate clearly, we hope, the concept of the fund as a reserve to meet unforeseen needs. If the total needs do not approach the amount available, the remainder will be returned to the Treasury as a savings.

NEED FOR CONTINGENCY FUND

We do not propose any change in the legislative authority for the Contingency Fund. As in earlier years, we ask that $300 million be available to meet needs which develop during the course of fiscal year 1964 and which were either completely unforeseen at the time that our estimates for the regular categories of aid were made, or for needs which were foreseen as possible requirements, but were not sufficiently precise as to amount and nature to justify inclusion in the country programs outlined in the presentation books. Furthermore, to qualify for Contingency Funds, the need must be clearly related to our national interest, as stated in the present statutory authority for the Contingency Fund—Section 451.

USES OF CONTINGENCY FUNDS DURING FISCAL YEAR 1963

I would like to review briefly the uses of the Contingency Fund in fiscal year 1963. Further information may be found in the quarterly reports on the Contingency Fund which have been transmitted to the committee pursuant to the act. Three have already been transmitted and the fourth will be sent up as soon as final obligations figures have been received and tabulated. I would also be pleased to discuss these uses with you at the conclusion of the statement.

The $149.5 million programed may be grouped in four major categories:

1. To help bolster the defenses of independent countries facing the clear and present danger of Communist open aggression or subversion, $34.6 million. In these cases the Contingency Fund was used for support of a buildup of Thailand's defensive capabilities, of the forces in Laos opposed to Communist domination, and of internal security forces in a number of Latin American states following the October crisis over Cuba. Support for Vietnam's counterinsurgency efforts was also necessary and assistance was provided to Trinidad and Tobago related to our military base rights. In Indonesia it has been used to equip and train the mobile brigade, a special unit of the national police which will assume responsibility for dealing with civil disturbances following the termination of martial law.

2. To assist countries with unstable economies to take remedial measures designed to restore internal and external financial stability, $105.3 million. The loans to Argentina and Brazil fall in this category. In both cases, AID Contingency Funds formed an essential part of a package of assistance from the International Monetary Fund, the Export-Import Bank, the U.S. Treasury, and European countries. Aid was also given to the Dominican Republic to help adjust the country's economy to the sudden change in the sugar production and export pattern resulting from U.S. sugar legislation. Loans were made to Ecuador and Honduras for urgent budgetary needs and to the UAR as an amendment to the stabilization loan of May 1962. A loan of $17 million was made to Indonesia for purchase of U.S. spare parts and raw materials required to restore production while a general economic stabilization program could be worked out with the International Monetary Fund. The loan strengthened the position of Indonesian advocates of economic reform and encouraged the Government of Indonesia to go ahead with the painful readjustments required by a stabilization program. This program was adopted in May, a month which also brought other constructive steps in Indonesia's relations with the free world. The IMF endorsed the stabilization program on July 24 and made available a standby credit. Should an additional AID loan for current import financing be required to supplement IMF and other free world assistance to the program, it would be drawn from the Contingency Fund.

3. To assist countries which have accepted Sino-Soviet aid and have since become disillusioned with such aid to disengage themselves from Communist bloc influence—$4.9 million. Two African countries had earlier become heavily involved in aid arrangements with the Communist bloc but have subsequently become disenchanted with that relationship. In these circumstances, the United States has provided an alternative source of external aid for justifiable purposes, which were not included in the fiscal year 1963 presentation but developed during the course of the fiscal year.

4. To help relieve suffering and provide food and shelter for victims of natural disasters and other emergencies—$4.8 million. During fiscal year 1963, substantial assistance was extended to the people of northwestern Iran in the wake of a devastating earthquake, and lesser amounts were used for relief operations following floods in Morocco and Tunisia and for continuation of medical services by

American relief organizations in Algeria. An unexpected increase in our proportionate contribution to the world food program was also needed to match larger grants than we had expected from other countries.

One feature of last year's Contingency Fund uses is the extent to which we were able to provide the needed help on a loan basis—often on quite "hard" terms. In line with our general policy of not providing grants when loans will meet the need, the $149.5 million total Contingency Fund uses in 1963 included $81.5 million in loans. Interest rates ranged from 2½ to 3½ percent and terms from 10 to 20 years except in the case of the Brazil emergency stabilization loan which was at three-fourths for 40 years.

CONTINUING NEED FOR CONTINGENCY FUND

I am not, obviously, in a position to be able to define with any degree of precision the likely uses of the Contingency Fund this year. I can only note that economic and political instability still characterize important areas of the free world and that governments of countries important to our security are attempting to cope with the demands of their people for improved living standards at the very time when the masters of Russia and Red China are striving to create unrest and revolt.

The President has requested that $300 million—the same amount authorized last year—be made available for the most flexible tool of foreign assistance policy. I urge this committee to endorse this request.

Mr. PASSMAN. Thank you, sir.

POSSIBILITY OF DEOBLIGATING FUNDS OBLIGATED IN FISCAL YEAR 1962 FOR AFGHANISTAN PROJECT

Last year we were told there was a possibility Afghanistan would open its border so as to receive our generous aid. They funded this project years in advance of the completion date in order, they indicated, to take advantage of any improved relations between Pakistan and Afghanistan so they could move all the materials in.

They used $23.7 million out of the Contingency Fund to fund this project years in advance.

I wonder, since less hostile feelings seem to prevail momentarily between Pakistan and Afghanistan, if this project will proceed now on a normal basis and, if so, will you deobligate any of these funds, or will it be carried through as the package was put together last year?

Mr. COFFIN. I cannot speak with authority on that.

If the judgment is that it makes sense to go through with it, we will go through with it.

Mr. PASSMAN. It made sense only then because they might not be able to get the material in. Even if they could not do so, however, they said they could use the material elsewhere in the area.

Now we are told there is a calmer situation in that part of the world and Afghanistan and Pakistan are exchanging ambassadors now.

We wish you would ascertain whether or not you are going to leave the program funded to completion, even though it may require years to complete, or whether you will go back to an orderly manner of funding. Will you get information for us on that matter?

Mr. COFFIN. Yes.

As you will remember, part of the reason was the option date of the contract.

Mr. PASSMAN. The record shows they said if they did not use the material in Afghanistan, it could be used elsewhere in the area. I do not want to get into an argument with you. We want to find out, since there seems to be a letup in the tensions prevailing between the two countries, whether you are going to leave the project funded until it is completed, or whether you are going to deobligate some of the money.

Mr. COFFIN. I do not see the logic, or the connection, between the present good condition of peace between the two countries.

Mr. PASSMAN. Simply because they said we were going to accumulate the materials so as to take advantage of any lull in the tensions to get them across the border. Since it is no longer necessary to stockpile material at the border, and it is no longer necessary to go a very expensive roundabout way to get the materials in, there may be some savings; also, there may not be any need of this type of program. You do have substantial funds deobligated every year, do you not?

Mr. COFFIN. Yes.

Mr. PASSMAN. I merely asked the question.

Mr. COFFIN. I will be glad to provide the information.

Mr. PASSMAN. Thank you.

(The information follows:)

AFGHANISTAN-KĀBUL KANDAHAR ROAD

The construction costs of the project were funded to completion because it was necessary to pick up the last remaining option in the contract before it expired. Since the Agency was committing itself to the private contractor to finance the remaining segments of the road, funds to fully cover this commitment were needed. Funds now obligated are required to complete construction of the road. Completion of the road is scheduled for October 1966.

CONTINGENCY FUND DEOBLIGATIONS IN PRIOR YEARS

Mr. PASSMAN. I believe that every year we ask for a recapitulation of all unobligated funds, do we not?

Mr. TENNANT. Yes.

Mr. PASSMAN. We usually put these data in the record?

Mr. TENNANT. Yes; that is correct.

Mr. PASSMAN. I believe my request is just as regular this year as in previous years, other than I asked you to pick up what is in the footnotes and put it in the body of the tabulation?

Mr. TENNANT. Yes.

Mr. PASSMAN. I believe that in previous years it has been customary for the administration to ask that any unobligated funds be reappropriated. I think it has been argued that milk tastes just as good from a black cow as a white one. Money is what you want. If you have the funds already on hand, intact, they would serve the same purpose as newly appropriated dollars, would they not?

Mr. COFFIN. Yes.

Mr. PASSMAN. Can you tell us the amount of money you deobligated from the Contingency Fund in fiscal years 1961, 1962, and 1963?

Mr. TENNANT. In fiscal year 1963, $13,076,000.

Mr. PASSMAN. From prior year appropriations?

Mr. TENNANT. Prior year accounts.

Mr. PASSMAN. Insert in the record a statement showing the projects from which you deobligated this money.

Mr. TENNANT. Yes.

Mr. PASSMAN. How about the other 2 years?

Mr. TENNANT. I do not have those figures with me.

Mr. PASSMAN. Please put them in the record.

(The information to be supplied follows:)

AGENCY FOR INTERNATIONAL DEVELOPMENT

Contingency Fund recoveries during fiscal year 1963 of prior year obligations (preliminary)—Detail by project

[In thousands of dollars]

		Amount
Africa:		
Algeria: Mobile health units		2.5
Central Africa Republic: Audiovisual mobile units		7.1
Chad: Audiovisual and medical mobile units		17.0
Congo:		
Brazzaville: Audiovisual and medical mobile units		12.4
Léopoldville:		
Agricultural training	10.4	
Forestry training	1.2	
Communication training	.8	
Education training	7.9	
Government administration training	76.6	
Labor administration training	3.5	
Technical support	.4	
		100.8
Gabon: Audiovisual and medical units		9.3
Ivory Coast: Technical support		2.8
Liberia:		
Public safety academy	23.4	
Roberts field modernization	.3	
Public administration	(1.0)	
		22.7
Libya:		
Telecommunications	107.0	
Hospital rehabilitation	6.2	
		113.2
Malagasy:		
Electrical engineering project	.5	
Public works program	75.7	
Tourism study	8.0	
Mobile audiovisual units	4.6	
		88.8
Mali:		
Animal resources and marketing	26.2	
Road building	3.7	
Institute of Hygiene	4.3	
Endemic disease control	21.7	
Training for development needs	17.2	
Low-cost housing	.8	
Education community development	.3	
Audiovisual and mobile medical units	14.8	
Technical support	(14.2)	
		74.8

AGENCY FOR INTERNATIONAL DEVELOPMENT—Continued

Contingency Fund recoveries during fiscal year 1963 of prior year obligations (preliminary)—Detail by product—Continued

[In thousands of dollars]

		Amount
Africa:—Continued		
Mauritania: Medical mobile units		7.0
Niger: Project technical support		8.4
Nigeria:		
Industrial development	9.4	
Agricultural education	1.0	
		10.4
Somali Republic:		
Helio courier aircraft	4.4	
Public safty	1.8	
		6.2
Sierra Leone:		
Rural Training Institute	1.0	
Rural training	1.0	
		2.0
Tanganyika: Teacher training		1.8
Upper Volta: Technical support		2.4
Africa regional: Education and training survey and seminars		10.1
Africa total		499.7
Far East:		
Cambodia: Khmar-American Highway		.2
China:		
Joint Commission on Rural Reconstruction Support	6.0	
Primary system improvement	6.0	
Harbor development	.5	
Air transportation improvement	14.5	
Expansion of railroad facilities	9.0	
Industrial vocational education	4.0	
Mineral development	8.9	
Hospital and health facilities	1.0	
Taipei International Airport	3.0	
Excess equipment	8.0	
Power transmission and distribution	5.0	
Science education	20.8	
Medical and paramedical education	2.0	
		88.7
Korea: Housing construction material—Typhoon rehabilitation		1.2
Indonesia: Mobile brigade equipment		(2.0)
Laos:		
Lao national roads	118.6	
Nam Cadinh/Nam Him Beam Road	200.0	
Teacher training	1.5	
National development	.2	
Voluntary agency rural development areas (VARDA)	29.7	
Operation Brotherhood	9.0	
		359.0
Thailand: Border patrol police		4.3
Vietnam:		
Strengthening public safety	284.6	
Expansion of Government information faciilties	26.1	
Counterinsurgency	118.1	
		428.8
Western Samoa: Bookmobiles		(4.5)
Far East total		875.7

AGENCY FOR INTERNATIONAL DEVELOPMENT—Continued

Contingency Fund recoveries during fiscal year 1963 of prior year obligations (preliminary)—Detail by project—Continued

[In thousands of dollars]

		Amount
Near East and South Asia:		
Afghanistan:		
Air transportation development	81.7	
Motor vehicle transportation	211.3	
		293.0
Ceylon: Assistance to University of Ceylon		38.7
Iran: National police		.4
Pakistan: West Pakistan transport survey		41.7
Yemen: Highway construction train		62.2
Near East and South Asia total		436.0
Latin America:		
Bolivia: Public safety		5.3
Brazil: Housing project		6.6
Ecuador:		
Public safety administration	4.1	
Aid self-help housing	1.2	
		5.3
Guatemala: Public safety		47.9
Haiti:		
Street and bridge construction	1.8	
Dam repair	.4	
Fosse Naboth drainage	1.3	
Cayes-Port au Prince roads	5.7	
Rural education	1,331.3	
Literacy program	98.0	
Cooperative public works program	1.2	
Cooperative agriculture program	44.3	
Cooperative public health	29.3	
Ha Do central office	50.0	
		1,563.3
Honduras: Public safety		3.5
Panama:		
Public safety, National Guard	31.7	
Tambo-Salud road survey	100.0	
Housing development program	157.2	
		288.9
Peru: Aided self-help housing		25.0
Trinidad and Tobago and East Caribbean:		
Access road, St. Lucia	4.5	
Special assistance in support of technical cooperation program	2.1	
		6.6
Venezuela: Hospital construction and equipment		.1
Mexico: Narcotics control		118.0
Latin America total		2,070.5
Grand total		3,881.9

NOTE.—The project deobligations (and upward adjustments which are indicated as negative amounts) generally reflect adjustments resulting from completion of contracts; project implementation order (PIO) adjustments such as cancellations, decreases in number of participants estimated to be processed, completion of project commodity deliveries, etc.

Contingency Fund recoveries during fiscal year 1963 of prior year obligations (preliminary)

[In thousands of dollars]

	Project	Nonproject	Total
Africa/Europe:			
Algeria	2.5		2.5
Cameroon		128.7	128.7
Central African Republic	7.1		7.1
Chad	17.0		17.0
Congo (Brazzaville)	12.4		12.4
Congo (Léopoldville)	100.8		100.8
Gabon	9.3		9.3
Guinea		11.4	11.4
Ivory Coast	2.8	1.5	4.3
Liberia	22.7		22.7
Libya	113.2		113.2
Malagasy	88.8		88.8
Mali	74.8	25.7	100.5
Mauritania	7.0		7.0
Niger	8.4	109.1	117.5
Nigeria	10.4		10.4
Senegal		62.0	62.0
Somali Republic	6.2	18.9	25.1
Sierra Leone	2.0		2.0
Sudan		40.5	40.5
Tanganyika	1.8	55.1	56.9
Togo		297.8	297.8
Upper Volta	2.4	144.7	147.1
Africa Regional	10.1		10.1
Subtotal, Africa	499.7	895.4	1,395.1
Spain		10.6	10.6
Yugoslavia		221.6	221.6
Subtotal, Europe		232.2	232.2
Total, Africa/Europe	499.7	1,127.6	1,627.3
Far East:			
Cambodia	.2	44.0	44.2
China	88.7	2.6	91.3
Indonesia	−2.0		−2.0
Korea	1.2	62.9	64.1
Laos	359.0		359.0
Thailand	4.3		4.3
Vietnam	428.8	1,019.9	1,448.7
Western Samoa	−4.5		−4.5
Total, Far East	875.7	1,129.4	2,005.1
Latin America:			
Bolivia	5.3		5.3
Brazil	6.6		6.6
British Honduras		43.5	43.5
Ecuador	5.3		5.3
Guatemala	47.9		47.9
Haiti	1,563.3		1,563.3
Honduras	3.5	750.0	753.5
Mexico	118.0		118.0
Panama	288.9		288.9
Peru	25.0	4,832.3	4,857.3
Trinidad and Tobago and East Caribbean	6.6		6.6
Venezuela	0.1		0.1
Total, Latin America	2,070.5	5,625.8	7,696.3
Near East/south Asia:			
Ceylon	38.7		38.7
Greece		5.8	5.8
Iran	0.4	0.6	1.0
Jordan		0.3	0.3
Turkey		296.9	296.9
Yemen	62.2		62.2
U.A.R.		1.1	1.1

See footnote at end of table.

Contingency Fund recoveries during fiscal year 1963 of prior year obligations (preliminary)—Continued

[In thousands of dollars]

	Project	Nonproject	Total
Subtotal, Near East	101.3	304.7	406.0
Afghanistan	293.0		293.0
Pakistan	41.7	302.3	344.0
Subtotal, south Asia	334.7	302.3	637.0
Total, Near East/south Asia	436.0	607.0	1,043.0
Nonregional:			
Refugees and migrants		643.8	643.8
Other		60.5	60.5
Subtotal, nonregional		704.3	[1] 704.3
Grand total	3,881.9	9,194.1	13,076.0

[1] Includes 679.8 other agencies as of May 31, 1963, and 24.5 AID June 30, 1963.

NOTE.—The nonproject deobligations generally reflect adjustments resulting from closing of procurement authorizations (PA) after completion of deliveries of commodities.

The project deobligations (and upward adjustments which are indicated as negative adjustments resultin, from completion of contracts; project implementation order (PIO) adjustments such as cancellations, decreases in number of participants estimated to be processed, completion of project commodity deliveries, etc.

Contingency Fund deobligations

[In thousands]

	Fiscal year 1961	Fiscal year 1962
Agency for International Development	$3,730	$7,842
State and other agencies	140	576
Total	3,870	8,418

ORIGIN AND GROWTH OF CONTINGENCY FUND

Mr. PASSMAN. Years ago when this program started off, they asked for flexibility for the President. I think 10 percent out, 20 percent in; that is, transferability from one project to the other, so as to give the President flexibility to meet contingencies that might arise during the year, and it worked out very nicely. That was before the Contingency Fund was created in the form that it is today.

The Contingency Fund came in for a small amount and it was handled sparingly. There had to be an emergency before they would spend the money. But this thing started climbing rapidly.

This thing is like measles, it is contagious.

USE OF CONTINGENCY FUNDS FOR OVERALL FOREIGN POLICY PURPOSES

We notice all through the hearings they will have a little Contingency Fund, one in particular, $20 million.

Is it customary to make a political grant or loan out of the Contingency Fund? Is that practice quite regular?

Mr. COFFIN. It is not customary to make what we would call a political gift.

Mr. PASSMAN. Credit, gift, or grant?

Mr. COFFIN. Oftentimes, the Contingency Fund is used for overall foreign policy purposes. The aid to Vietnam is political in the sense that we think Vietnam's security is very important.

Is that the sense you are using the term "political"?

Mr. PASSMAN. You had a slug that went into Iran. They later bought gold with it.

USE OF CONTINGENCY FUNDS FOR LOAN TO INDONESIA

We had an emergency loan to Egypt.

Last year, for some reason or the other, and I am sure the people in the Executive know why, there was about a $17 million development credit to Indonesia.

It says here, and this is confidential, and we might as well go off the record.

(Off the record.)

Mr. PASSMAN. In your opinion, could this thing not have waited?

Mr. COFFIN. No.

Mr. PASSMAN. Why not?

Mr. COFFIN. I think it was important at the time to take that step in Indonesia.

Mr. PASSMAN. Did the IMF make a standby credit arrangement to Indonesia?

Mr. COFFIN. I believe they have.

Mr. PASSMAN. What date was that?

Mr. COFFIN. Yesterday, July 24.

Our loan was made before that.

Mr. PASSMAN. When did you make the commitment to Indonesia for $17 million?

Mr. COFFIN. That was last fall: December.

Mr. PASSMAN. When did you obligate it to Indonesia?

Mr. COFFIN. March 6, Mr. Chairman. That was the date of the obligation; i.e., when the loan agreement was signed.

Mr. PASSMAN. The IMF endorsed the stabilization program on July 24, and made available a standby credit. When was yours made?

Mr. COFFIN. The obligation, March.

Mr. PASSMAN. That was this year?

Mr. COFFIN. Yes.

Mr. PASSMAN. It appears to me you could have waited.

Mr. COFFIN. This was a matter of political judgment.

Mr. PASSMAN. This is political judgment. I want to read a newspaper article:

RED CHINA'S LIU, SUKARNO KISS, CONDEMN WEST—SUKARNO SAYS CHINA WILL SEE FALL OF WEST

DJAKARTA, INDONESIA, April 19.—President Sukarno today called Communist China and Indonesia "the pillars of the new emerging forces" and predicted the two nations will see the day when "the old established forces" will collapse.

Sukarno spoke at a state banquet given for him by Communist Chinese President Liu Shaochi, of Red China, who ends a 9-day visit to this country tomorrow. In turn, Liu referred to Indonesia and Red China as comrades in arms.

Sukarno refers to nations in Asia and Africa and the Communist bloc as "new emerging forces." He lumps most of the West under the "old established forces" description.

Mr. COFFIN. We have two choices: One is to read this kind of statement and say we have no further hope——

Mr. PASSMAN. Should we not let the atmosphere clear a bit and perhaps find friends to give this money to, rather than to some ruler about whom there is a serious doubt whether he would ever look our way?

Mr. COFFIN. The point is, we feel the loan made when we did and the way we did it, strengthened the movement in Indonesia toward a stabilization program in cooperation with the free world. Obviously, it was a calculated risk, and it seems to have been a good one.

Mr. PASSMAN. Of course, if you had been regulated as the IMF is, you would not have made a commitment at that time. It would have been duly and properly justified to the committees of the Congress.

ILLUSTRATIVE NATURE OF PROGRAM PRESENTED TO CONGRESS

I grant you, Mr. Coffin, that you had the authority to do it. We have been told many times that your presentations are illustrative, that you say "We want *x* number of dollars for these projects in these countries," but the law is actually broad enough that you could vacate every one of those projects and substitute a different list of projects altogether. The fact is, you could even remove them from one country and take them into another country. I think that condition is also true of the development credit phase of the program.

It has been testified frequently that, in effect the Congress might just as well have one brief session some afternoon and urge you people to give the money away sparingly, because so far as actually having any legal way of controlling this spending, we do not have that right. The Congress gave it up.

Have I made a statement of fact so far as its being illustrative?

Mr. COFFIN. Our presentations are illustrative, but the overwhelming part of them do conform with what we say to Congress we will do.

Mr. PASSMAN. I am just asking if I have evaluated the thing properly, that the law is broad enough?

Mr. COFFIN. I am not sure, Mr. Chairman. I have never asked myself about that.

(Off the record.)

Mr. COFFIN. The thing that concerned me was that it was overstated. You do have development lending as a category. You cannot use development loans for supporting assistance. You have development grants as a category. You do have the 10/20 transfer. There are these categories.

Mr. PASSMAN. With reference to the development credits, they say, "Yes, the same thing applies there. We do not know what projects we shall allocate the money to until we get it." So, that makes it just as loose as the other.

We are giving you a blank check, hoping for the best.

Mr. COFFIN. We are talking about the Contingency Fund?

Mr. PASSMAN. I am talking now about the Development Credit Fund that you mentioned. Did I describe it properly?

Mr. COFFIN. Not with the tone that I would use.

Mr. PASSMAN. Let me smile, then, and ask, is it not true that you do not actually create the projects, make the allocation, until you get the money to your credit?

Mr. COFFIN. That is true.

Mr. PASSMAN. The Congress has no way of knowing for what purposes you are going to spend the money. It is a country plan.

Within that plan, it could be anything that the minds of the AID people and the recipients decide they should start.

Mr. COFFIN. Now you are getting to that tone again.

Mr. PASSMAN. I cannot smile all the time.

I want the record to show how loose this program is. The Contingency Fund is just as loose.

OBLIGATIONS DURING FISCAL YEAR 1963

The list of projects can be placed in the record for 1963, can it not, Mr. Controller? This is not classified, is it?

Mr. TENNANT. I have not seen that sheet, sir.

Mr. PASSMAN. It is your sheet.

Mr. COFFIN. It says "Confidential."

Mr. MILLER. I think one or two sections could be excised and then it could be placed in the record.

(The information requested follows:)

AGENCY FOR INTERNATIONAL DEVELOPMENT

Uses of the Contingency Fund as of June 30, 1963 (preliminary)

[In thousands of dollars]

Area and country	Amount [1]	Explanation of use
Africa	6,210	
Algeria	673	Funds were obligated for a care-medico contract which provided curative and preventative medical services to the Algerian people.
Guinea	4,198	Funds were provided for a commodity import program, larger than that anticipated during the fiscal year 1963 congressional presentation, to aid the country's balance of payments. Contingency funds were also used for a contract with Air Alaska for civil aviation services.
Libya	27	Emergency disaster relief in the form of medical supplies, blankets, and tents were provided for the victims of its Barce earthquake.
Mali	655	Funds were used to finance a 6-month POL requirement in line with U.S. strategy of assisting the country ——.
Mauritania	47	Funds were obligated to provide inland transport of Public Law 480 titles II and III foodstuffs from Dakar for famine relief.
Morocco	500	Emergency assistance in the form of tents, blankets, field kitchen, and the transport of these commodities was provided for flood victims.
Tunisia	110	Following the floods in the Gabes region, approximately 14,000 blankets were provided to the injured and homeless victims of the disaster.
Far East	46,846	
Indonesia	19,774	A loan on medium terms to finance imports from the United States of essential spare parts and industrial materials to enable part of its latent industrial capacity to be reactivated was provided as a means to stabilizing the situation. Assistance was also provided to assist in equipping and training the Mobile Brigade (Mobrig), a special unit of the national police. Disaster relief assistance in the form of medical supplies was provided for flood victims.
Laos [2]	3,896	Assistance was provided for increased air services and relief supplies needed as a result of the growing number of refugees due to the recent fighting in the Plaine des Jarres.
Thailand [2]	9,861	Contingency funds were used for the construction of feeder roads, transportation and installation of a radio transmitter lent by the U.S. Department of Defense.
Vietnam	13,315	Contingency funds were provided for a flow of commodities necessary for effective continuation and implementation of the counter-insurgency and commodity import programs.

See footnotes at end of table.

Uses of the Contingency Fund as of June 30, 1963 (preliminary)—Continued

[In thousands of dollars]

Area and country	Amount [1]	Explanation of use
Near East and south Asia.	11,956	
Iran	1,679	Funds were used for relief operations in connection with the disastrous earthquakes of September 1962.
Syria	17	Salk vaccine was provided following an outbreak of polio in the rural areas.
United Arab Republic.	10,000	An amendment to the May stabilization-loan agreement was authorized in view of the matching contributions from European nations, a condition upon which the U.S. Government has promised to provide up to $10 million of additional stabilization assistance.
Pakistan	260	Emergency assistance was provided for medical supplies and air transport of them in the wake of the severe cyclones and tidal waves in East Pakistan.
Latin America	81,711	
Argentina	20,000	A balance-of-payments loan, part of the U.S. stabilization package, was provided following evidence of self-help measures designed to alleviate the serious domestic economic crisis.
Brazil	25,500	A loan was made by AID as part of the emergency assistance package provided by the U.S. Treasury, the Export-Import Bank, and AID to support Brazilian stabilization and development.
Chile	6	Contingency funds were used for public safety equipment in connection with the Cuban crisis.
Colombia	175	Contingency funds were used for public safety equipment in connection with the Cuban crisis.
Dominican Republic.	23,925	Contingency funds were used for the special economic readjustment fund which will assist in economic diversification necessitated by the overdependence on sugar as a source of foreign exchange, tax revenues, and employment. Contingency funds were also used for public safety equipment provided in connection with the Cuban crisis.
Ecuador	7,033	Contingency funds were used for public safety equipment in connection with the Cuban crisis.
Honduras	2,000	Contingency funds were used for an emergency budget support loan.
Trinidad, Tobago and East Caribbean.	3,000	The Contingency Fund was used for a U.S. commodity import program as part of the U.S. base agreement.
Venezuela	72	Contingency funds were used for public safety equipment in connection with the Cuban crisis.
Nonregional	1,270	
Disaster relief, worldwide.	131	This amount was obligated for relief from natural disasters in countries where the United States has an interest. Ambassadors or other principal officers are authorized to give emergency assistance to areas stricken by disasters up to a limit of $10,000 per disaster.
World food program	[1] 1,139	In September 1962, the United States pledged to the experimental world food program a contribution of $40,000,000 in commodities and $10,000,000 in cash and ocean freight over a 3-year period. Cash contributions from other countries have exceeded expectations and this payment from the Contingency Fund was made to meet the pledged 40-percent matching basis.
Grand total [4]	147,993	
Potential additional obligations pending:		
Department of Defense.	1,362	
Total potential obligations.	149,355	

[1] All obligations of the Contingency Fund have been under the supporting assistance authority except $1,139,000 (world food program) which have been obligated under the contributions to international organizations authority.

[2] Includes $37,000 in obligations against $1,074,000 allocated to Department of Defense. Department of Defense field reports are not due until Aug. 8, 1963.

[3] Excludes obligations against $325,000 allocated to Department of Defense. Department of Defense field reports are not due until Aug. 8, 1963.

[4] Excludes refugees and migrants, $1,394,000; administrative expenses, refugees and migrants, $328,000; Cuban refugees, $14,472,000. These funds were allocated by AID (subject to reimbursement by its respective agencies from funds appropriated under the Refugees and Migration Assistance Act of 1962 (Public Law 87-510)) and included in the Contingency Fund report to the Congress for the quarter ending Sept. 30, 1962. AID was reimbursed during the subsequent quarter.

Mr. PASSMAN. Have you observed, Mr. Coffin, how in AID they are working a contingency fund in every region?

Mr. COFFIN. Every region has contingencies.

Mr. PASSMAN. There is a contingency fund unprogramed, to be used as they see fit.

Mr. COFFIN. You are talking about the illustrative development lending?

Mr. PASSMAN. The total amount will not add up to the capital figure, and they have a contingency account built in that they do not know what they will use it for. This thing is spreading.

Mr. COFFIN. You confuse me. You are not talking about the contingency fund?

Mr. PASSMAN. I am talking about a contingency fund, or contingency funds. I am not speaking specifically about this one. We have run into these contingency funds ever since we started the hearings, not just this one.

Mr. COFFIN. In development lending, you cannot predict with accuracy how much you will lend in an area, how much it is wise to lend or for what projects.

Mr. PASSMAN. It is something new when you work these contingencies in. This thing is catching and spreading.

I think the Congress has abdicated too much of its responsibility in making these funds available in such manner. We think the money is going to be spent there, and in subsequent days and months we find the funds are obligated for different purposes.

Mr. COFFIN. Foreign affairs are a complex and shifting field where you cannot predict what is going to happen.

Mr. PASSMAN. And there is more shifting after we have shifted the dollars in, too.

USE OF CONTINGENCY FUNDS FOR BUDGETARY SUPPORT AND ECONOMIC STABILIZATION

Back to the larger contingency fund, last year we had some discussion of the use of the Contingency Fund to provide budgetary support to various countries. Has the 1963 Contingency Fund been used for that purpose?

Mr. COFFIN. As I said in my statement, in one of the categories, that of stabilization measures, $105.3 million is considerably less than the same type of expenditure for fiscal 1962, but we did make loans for stabilization purposes.

Mr. PASSMAN. That practice is about the same as budgetary support.

Mr. COFFIN. It is for economic stability.

Mr. PASSMAN. You make the payment to the Treasury of the Government, do you not? It is earmarked to purchase commodities.

Mr. COFFIN. Which are sold and provide revenues which are useful in various ways for the Government.

Mr. PASSMAN. But the Government substitutes these dollars for dollars which, if they had earned them and paid them into the Treasury, would have paid for the commodities.

Mr. GORDON. This is additive to what they would otherwise be able to pay.

Mr. PASSMAN. We have heard that story before. There is nothing to substantiate that assertion. Had the government to which you made the grant received into its treasury dollars from its own revenues, then it would have paid for the commodities with those dollars, would it not?

Mr. COFFIN. If we gave the money directly——

Mr. PASSMAN. Let us take country X. If they collect revenues from the people, had they received sufficient revenues to pay for the commodities purchased from America, we would not have needed to provide the money; would we?

Mr. COFFIN. There would have been no contingency or no urgency.

Mr. PASSMAN. Because of the fact that they do not have the money, we make a grant to their treasury so they can pay for the commodities. Is that correct?

Mr. COFFIN. We would give them a letter of credit which would be used by them to draw——

Mr. PASSMAN. To pay for commodities that they requisitioned.

Mr. COFFIN. To pay for commodities, to enable them to get commodities which would generate currency which would be useful.

Mr. PASSMAN. Even if you want to take an indirect approach, is that type of aid not budgetary support?

Mr. COFFIN. I would say it is certainly supporting the Government in its financial needs during a critical period.

Mr. PASSMAN. I think that is good enough.

CONTINGENCY FUND OBLIGATIONS DURING JUNE 1963

How much of the Contingency Fund was obligated in the month of June, of the total amount that you obligated during the 12 months?

Mr. TENNANT. During the month of June, $87.9 million.

Mr. PASSMAN. Out of what total?

Mr. TENNANT. Out of $150 million, roughly.

Mr. PASSMAN. That is what percentage of the total that was obligated in June?

Mr. TENNANT. There are a couple of unreported items which may turn up in June.

Mr. PASSMAN. That would raise it?

Mr. TENNANT. That would raise it a million dollars, roughly.

Mr. PASSMAN. Give us what you have there. What percentage of the total amount obligated in the 12 months did you obligate in June?

Mr. TENNANT. I am sorry I gave you the wrong figures, Mr. Chairman. I was reading the wrong figures. It is $51.5 million obligated from the contingency account in June 1963.

Mr. PASSMAN. Give us the percentage of the total amount.

Mr. TENNANT. Which is roughly 30 percent.

Mr. PASSMAN. It is nearly 34 percent; is it not?

Mr. TENNANT. Yes.

Mr. PASSMAN. You really are busy down there in June.

Mr. TENNANT. Many of these transactions were programed before June.

Mr. PASSMAN. But you really do a lot of firming up right at the end of the fiscal year.

Will you give us the comparable figures for fiscal 1962 and 1961?

Mr. TENNANT. I would have to supply that for the record.

Mr. PASSMAN. Please do so.

(The information requested follows:)

June Contingency Fund obligations, fiscal years 1961 and 1962

[In thousands]

	Fiscal year 1961	Fiscal year 1962
June obligations	$50,223	$89,506

Mr. PASSMAN. How about the last day of June? How much did you obligate?

Mr. TENNANT. Subject to the same qualification about these unreported items, the figure I have is $2,932,000.

Mr. PASSMAN. That was on June 30?

Mr. TENNANT. June 30.

Mr. PASSMAN. The time of the day would not really make any difference, because I understand you people worked mighty late down there on that Sunday, June 30.

Mr. FORD. It is very interesting, Mr. Chairman, as I look at this sheet, how much was obligated in the last 3 days of the month of June.

Mr. PASSMAN. That is quite interesting. Let us take Friday, Saturday, and Sunday, the 28th, 29th, and 30th.

Mr. ROONEY. That was a lost weekend.

Mr. FORD. It may have been lost, but it was expensive.

Mr. ANDREWS. That was the last call.

Mr. COFFIN. No; it was not the last call because, in fact, we turned back more than we said we were when we were up on the Hill earlier.

Mr. ANDREWS. I mean all you did not obligate by June 30 went back to Uncle Sam's Treasury.

Mr. PASSMAN. What are those figures?

Mr. TENNANT. Approximately $25 million, sir.

Mr. FORD. How many obligations and how many dollars were involved in the first 7 days of July 1963?

Mr. COFFIN. We can supply that, but I would say toward the end of the fiscal year——

Mr. ROONEY. You would expect it would be at the same rate, would you not, Mr. Ford?

Mr. FORD. No. I was simply asking the question.

Mr. PASSMAN. Do you have that information with you for July, Mr. Tennant?

Mr. TENNANT. No, sir.

Mr. PASSMAN. You can give us July of last year.

Mr. TENNANT. Yes, we have July 1962 here. I thought Mr. Ford requested figures for July 1963.

Mr. PASSMAN. It looks like zero here.

Mr. TENNANT. That is correct, sir.

Mr. RHODES. Do these figures you have given pertain to obligations of all types of funds, or only to no-year funds?

Mr. TENNANT. We are just talking about the Contingency Fund now. It is an annual account.

Mr. FORD. You could come to some very peculiar conclusions based on this kind of record.

Mr. COFFIN. I am sure you could. I would be glad to tell you how it looks to me, from the inside, and what explains this.

Mr. FORD. I would be glad to hear it.

Mr. COFFIN. I know it looks to you as if we were just sitting back and then waiting until the last month to see how much money we could get rid of. Actually, during the year, although we may program contingency funds as we see a need arising, we do not obligate that until we are sure whether or not it will come to pass. We hold back as long as we can. In the months of May and June, we harden up our estimates. We find out what we can put over to another year and what we do not need to do at all.

There comes a time when we have to fish or cut bait, and that it toward the end of the year, and it does result in a rise of work. It is not an attempt to throw away money. We tried to prove it this year by having the best record that we have ever had in terms of money we have sent back.

Mr. PASSMAN. Did you not actually have more transactions this year than in any other year?

Mr. COFFIN. In numbers?

Mr. PASSMAN. Yes.

Mr. COFFIN. I do not know, Mr. Chairman.

Mr. FORD. I think the explanation which Mr. Coffin has made is sound. As I understand it, Mr. Coffin is saying that they held back on these emergencies as long as they possibly could, in the hope that the emergencies would not materialize. If that theory is sound and if you ignore the end of the fiscal year, the theory would be just as good if you continued it on into July; would it not?

Mr. COFFIN. We know we are going to have to meet a need unless we get rid of the need entirely. Taking Vietnam, at that point we would have to fund a program in Vietnam and we made the decision to fund it. You must have some cutoff point in terms of a fiscal year to know what is your irreducible minimum for that year.

It does show in July very little activity. Intrinsically, we could have an internal rule that instead of June being the date, we will say that July is the date or, more realistically, February is the date.

Actually, it is a problem in internal management. Our people get a late start in programing the funds. I am now talking about all programs. They really do not know exactly what money they are going to get until the fall.

Mr. FORD. That is not really the Appropriations Committee's problem. It is the delay in the authorization bill.

Mr. COFFIN. I think all of us have a share in the responsibility. We shall try to get started earlier next year.

Mr. PASSMAN. Incidentally, if it will not upset what you were going to say, I have been chairman of this subcommittee 9 years, and they have always been going to get started earlier, but it obviously is getting later. Here we are now almost to August, and there is no authorization bill in sight yet, Mr. Coffin.

Mr. FORD. May I add this. I applaud the executive department's program of not obligating all the funds in the contingency program. However, there cannot be any denial of the fact that the only reason you obligated so much in June was the fact that the money would have expired on June 30.

Mr. COFFIN. That is undoubtedly a fact. That is a cutoff point beyond which we are unable to say to the Vietnamese that we have money that we could use, because we have already by that time made our presentation for the following year. These are conditions that are current and have to be met currently.

Mr. RHODES. I think Mr. Coffin has explained it very well. This is a point at which you have to "fish or cut bait" as far as the projects are concerned. If you do not "fish," you do not have any money after July 1 to finance these particular projects.

Mr. COFFIN. May I finish my thought. We get our money in the fall. Then our people really get down to seeing what can be done with the money we have which is allocated to the various countries. During the fall they are working on getting their final programs.

Then comes the work of actual obligation. We are trying to work toward an evening out of this great curve that peaks up in the spring. This is an internal management job.

Mr. PASSMAN. What you do is entirely regular and in keeping with the legislation, but it does not keep me from being suspicious of the fact that you—if not you, the field—could possibly recommend obligating funds for projects that you had not firmed up, that later you would have to deobligate. On June 27, you show an allocation to Vietnam, $10 million for some project. Vietnam again, June 28, another project, $454,000. Vietnam still another time, $272,000. Mr. Controller, covering June only, kindly let us know when you first programed each one of the projects, from June 1 through June 30.

Mr. COFFIN. I would like to add any explanation as to why that time was picked, the history leading up to it.

Mr. PASSMAN. You may do so.

(The information requested follows:)

Agency for International Development

Contingency fund obligations in June 1963 compared with dates pertinent programs were approved

[In thousands of dollars]

Country	Date programed	July 1, 1962–May 31, 1963		June 1963 activity		Total	
		Programed	Obligations during period	Programed	Obligations in June	Programed	Obligations
Algeria	Sept. 25, 1962	155				155	
	Dec. 19, 1962	300				300	
	Feb. 25, 1963	298				298	
	June 27, 1963			−75		−75	
Subtotal, Algeria		753	425	−75	248	678	673
Argentina	Mar. 22, 1963	20,000			20,000	20,000	20,000
Disaster relief—worldwide	July 11, 1962	35				35	
	Nov. 1, 1962	115				115	
	June 7, 1963			−10		−10	
Subtotal, disaster relief—worldwide		150	98	−10	33	140	131
Dominican Republic	Oct. 19, 1962	22,925	22,923		2	22,925	22,925
Guinea	Apr. 17, 1963	1,100				1,100	
	May 2, 1963	2,400				2,400	
	May 17, 1963	700				700	
Subtotal, Guinea		4,200	3,674		524	4,200	4,198
Honduras	June 26, 1963			2,000	2,000	2,000	2,000
Iran	Sept. 21, 1962	86				86	
	Nov. 2, 1962	10				10	
	Mar. 31, 1963	369				369	
	Apr. 17, 1963	358				358	
	June 24, 1963			856		856	
Subtotal, Iran		823	446	856	1,233	1,679	1,679
Laos	Apr. 22, 1963	1,149				1,149	
	June 13, 1963			2,824		2,824	
	June 27, 1963			961		961	
Subtotal, Laos		1,149	112	3,785	[1] 3,784	4,934	3,896
Mauritania	July 17, 1962	17				17	
	Oct. 18, 1962	37				37	
	June 27, 1963			50		50	
Subtotal, Mauritania		54	42	50	5	104	47
Pakistan	June 7, 1963			260	260	260	260
Thailand	Nov. 26, 1962	8,856				8,856	
	Mar. 22, 1963	602				602	
	May 20, 1963	100				100	
	June 13, 1963			225		225	
	June 27, 1963			428		428	
Subtotal, Thailand		9,558	3,913	653	[1] 5,948	10,211	9,861
Trinidad	Feb. 8, 1963	2,000				2,000	
	May 24, 1963	1,000				1,000	
Subtotal, Trinidad		3,000			3,000	3,000	3,000
Tunisia	Dec. 6, 1962	100				100	
	Dec. 11, 1962	13				13	
Subtotal, Tunisia		113	113		−3	113	110

See footnotes at end of table.

AGENCY FOR INTERNATIONAL DEVELOPMENT—Continued

Contingency fund obligations in June 1963 compared with dates pertinent programs were approved—Continued

[In thousands of dollars]

Country	Date programed	July 1, 1962–May 31, 1963		June 1963 activity		Total	
		Programed	Obligations during period	Programed	Obligations in June	Programed	Obligations
Vietnam	May 31, 1963	3,345	--------	--------	--------	3,345	--------
	June 11, 1963	--------	--------	10,000	--------	10,000	--------
Subtotal, Vietnam	--------	3,345	--------	10,000	13,315	13,345	13,315
World food program	June 25, 1963	--------	--------	1,139	1,138	1,139	1,138
Total	--------	66,070	31,746	18,658	[1] 51,482	84,728	83,233

[1] In addition, obligations totaling $1,362,000 under funds allocated to Department of Defense, for which no reports have been received, are presumed to have been obligated during June. These funds are included in the amounts programed for Laos and Thailand as follows:

[In thousands of dollars]

Countries for which funds allocated	Allocations to DOD		Obligations as of May 31, 1963, reported by DOD	Potential obligations pending report by DOD
	Date programed	Amount		
Laos	Apr. 22, 1963	1,074	37	1,037
Thailand	May 20, 1963	100	--------	225
	June 13, 1963	225	--------	100
Total	--------	1,399	37	1,362

Mr. PASSMAN. We want to know when you programed each one of the projects that you obligated in June. Could you give us that information?

Mr. TENNANT. Yes, sir, surely. Do you want it now?

Mr. PASSMAN. You may put a copy in the record, but we want it submitted to the committee.

Mr. TENNANT. The June transactions.

Mr. PASSMAN. Ordinarily, how far does the obligation follow the date of programing?

Mr. TENNANT. There is no set pattern, sir. Normally after we program a transaction there are problems in negotiating with individual countries on the details. In some cases it is a fast transaction and in other cases it is slow.

Mr. PASSMAN. It is pretty generally agreed that you could not justify $200,000 or $300,000 on the type of presentations you submit here. This is the loosest thing we have ever had to deal with.

Mr. ROONEY. This Agency is no different from any of the other agencies I have come across in my time insofar as spending money in the month of June. It is just a normal accepted procedure. They work harder to get the project on the way.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

Mr. PASSMAN. Did you make any transfers from the Contingency Fund to any other appropriation during fiscal 1963?

Mr. COFFIN. There was a transfer which we made and unmade to the military. That is, toward the end of the year we thought the military—the military thought—it would have to have the transfer from the Contingency.

Mr. PASSMAN. We are familiar with that situation.

Off the record.

(Discussion held off the record.)

Mr. COFFIN. What was done was prudent on both counts. It was prudent on their part when they found out that as the accounting became clearer in the last few days of June that they had recoupments and money available to say they didn't need it, even though they realized it was awkward, but to tell us there was no longer any need, so we took it back—I think this is an example of good management on both sides.

Mr. PASSMAN. It is a smooth operation when you recoup the same amount of money that you need.

I do not want to embarrass anybody so I will go off the record.

(Discussion held off the record.)

Mr. PASSMAN. Mr. Rhodes?

Mr. RHODES. Mr. Coffin, can you deobligate in a current fiscal year funds obligated in prior fiscal years from the Contingency Fund for a particular program in a particular country and then reobligate those funds during the current fiscal year as a new Contingency Fund obligation but only for the same general purpose as the original obligation?

Mr. COFFIN. The answer is that reobligations must be for the general purposes of the appropriation category under which the original was made. For example, Contingency Funds originally obligated for a supporting assistance purpose may, if deobligated, be reobligated only for a similar purpose, that is, supporting assistance.

Mr. RHODES. In other words, if Contingency Funds are deobligated they revert to the Contingency Fund and they are then available for reobligation?

Mr. COFFIN. Yes, sir.

Mr. RHODES. And since projects are justified to Congress only under other categories of appropriations and under fiscal year 1963 legislation, reobligations are limited to projects so justified, reobligations of prior year Contingency Funds would not be available to supplement the current year's Contingency Fund appropriation.

Mr. COFFIN. That is correct.

Mr. RHODES. However, if the reobligation authority is continued, such reobligations could supplement the other appropriations.

Mr. COFFIN. That is not entirely true because Contingency Fund deobligations in fiscal year 1964, if any, will be part of the recoveries under other categories of appropriation which we estimated in making our fiscal year 1964 appropriation requests for these other appropriations.

Mr. RHODES. That is all.

SURVEYS OF INVESTMENT OPPORTUNITIES

Mr. PASSMAN. Mr. Coffin, may we now receive your statement on the surveys of investment opportunities and investment guarantees?

(The statement referred to follows:)

STATEMENT OF PRIVATE ENTERPRISE PROGRAM, AGENCY FOR INTERNATIONAL DEVELOPMENT, INCLUDING INVESTMENT SURVEYS AND INVESTMENT GUARANTEES

In the last year AID has substantially increased its program to mobilize greater participation of private enterprise in the development effort. We are not asking for an appropriation for this program, with the exception of a reappropriation of the unobligated balance from fiscal year 1963 to fiscal year 1964 for surveys of investment opportunities. Investment surveys cannot be divorced from the entire private enterprise effort; therefore the attached statement sets forth this vital program.

This administration, like its predecessors, is dedicated to the proposition that the foreign assistance effort cannot succeed without a substantial increase in the participation of private business, both from the United States and from the countries whose economic and social development is a major goal. In view of the repeated congressional articulations of the vital role which free enterprise must play, it would be presumptuous of me to dwell at length upon the reasons for this policy. I take it, however, that there are at least three major ones:

1. The United States has a national interest in the maintenance by all friendly countries of a significant measure of private initiative in these growing economies and in the avoidance of state control of all phases of economic and social life;

2. If we are to assist in the industrial and agricultural growth of these countries, we must mobilize the essential technological and management skills which are to be found in industry, agriculture, and labor and not in government; and

3. Since we are committed to the ultimate termination of external governmental assistance, we must encourage private capital, private investment and private enterprise to assume responsibility for the continuation of that development.

I

COMMUNICATION WITH THE BUSINESS WORLD

Our first function, at least in point of time, has been to communicate to businessmen, here and abroad, the basic policy of the U.S. Government regarding private investment in the foreign assistance program. If we are to achieve that synthesis of private and governmental effort which offers the only hope of success in international development, we must communicate to potential investors that our Agency and our Government strongly support private international ventures in developing countries.

The Secretary of State and the Administrator of AID have in recent months enunciated this policy with increasing emphasis. Above all, President Kennedy has demonstrated in his recent message to the Congress on foreign assistance that he regards the problem as one of the highest importance. You will recall that he said, "The primary new initiative in this year's program relates to our increased efforts to encourage the investment of private capital in the underdeveloped countries * * * Economic and social growth cannot be accomplished by governments alone."

To disseminate as widely as possible practical information regarding the concrete statutory mechanisms which the Congress has provided to our Agency to encourage and to facilitate specific private investments, AID prepared early this year a booklet entitled "Aids to Business (Overseas Investment)" which for the first time summarizes each of the programs and describes in nontechnical language when they are appropriate, how they operate, and how they may be applied for and used.

THE STATUTORY TOOLS

We have been aware that many of the mechanisms contained in our statute have needed to be given broader application or brought into sharper administrative focus. In some instances we have had to launch programs for which legal authority existed but which had not yet got off the ground. Since these are the basic tools with which we operate, I should like to refer to each of them separately.

1. *Specific-risk investment guarantees.*—The oldest and best known of all is the so-called specific-risk investment guaranty program, by which we insure U.S. investors against the political risks of expropriation, nonconvertibility of currency, and war damage.

Between calendar years 1961 and 1962, the dollar volume of new guarantees increased sixfold—from $71 million to $440 million. We estimate that in fiscal year 1964 the dollar volume will exceed one-half billion dollars. There are now outstanding approximately $900 million in such guarantees.

We anticipate that this form of guarantee will continue to increase both in amount and geographical coverage. There are still some countries where the guarantees are not available.

The Congress recognized that the geographical coverage of the program needed broadening and in 1961 paved the way for a liberalization of the form of the bilateral agreement with host countries. We have accordingly revised our contract forms and our procedures for dealing with them. We have made an intensive effort to bring additional countries into the program and we are making progress: guarantees are now available in Colombia and Venezuela; six other less-developed countries have become eligible since the beginning of 1963 bringing the total to 55; and we have been able to eliminate the legal and constitutional objections put forward by other governments.

We are now engaged, with the direct support of the President and the Secretary of State, in direct negotiations with the governments of a number of Latin American Republics, urging that the necessary agreements be concluded. We believe that the conclusion of an agreement will assist in attracting significant amounts of U.S. investment into productive enterprises in these countries when the guarantees are legally permissible.

In the past year we have also attempted to simplify the procedures for the issuance of the guarantee contracts with investors. We are working now to standardize contract forms and to make available to the public and to appropriate officials a revised and comprehensive set of ground rules. Increased personnel are being added to deal with the huge backlog of applications.

2. *Extended risk guarantees.*—The Agency has in the past year begun the implementation of the special Latin American housing guarantee provision under which we have been granted the power to insure against virtually all investment risks, so long as there is retained an appropriate private participation in the venture. Congress has in section 224 of the act established general guidelines for this pilot program and has suggested that the Federal Housing Agency guarantee be used as a model.

Five major guarantee projects in four countries have been approved and authorized and others are under intensive review.

3. *Investment surveys.*—The program to induce U.S. companies to seek investment opportunities in less developed countries has been effectively implemented in fiscal year 1963. It is developing into a useful method by which prospective investors—generally medium sized companies—are induced to invest in friendly less developed countries. This program encourages potential U.S. investors to survey specific investment opportunities in less developed friendly countries which they would not otherwise investigate. Under section 231 of the Foreign Assistance Act of 1961, as amended, AID may pay up to 50 percent of the cost of the approved surveys. If the prospective investor then proceeds with the investment, there is no cost to the U.S. Government and the investor retains exclusive rights to the survey. If the prospective investor does not make the investment, the survey becomes the property of the U.S. Government which pays up to 50 percent of the approved cost of making the survey.

To date, this program has met with a lively response from many medium-sized companies which would ordinarily not be willing to explore investment opportunities in these countries. In fiscal year 1963, 24 such investments were granted for varied purposes, including: Exploring the possibility of manufacturing prestressed concrete forms in Argentina; investigating the feasibility of a dairy plant in Colombia; undertaking an investment survey of the need for castings in four Latin American countries; investigating the possibility of a seafood industry in India; exploring the need for food supermarkets in four Latin American countries; investigating the feasibility of furniture manufacturing in Thailand. About 40 applications for investment surveys are now also under intensive review.

The names of many of the companies receiving grants are unfamiliar; such as the Crawford Furniture Manufacturing Co. of Jamestown, N.Y.; the Livingston Coating Corp. of Charlotte, N.C.; the American Concrete Crosstie Corp. of Florida, Tampa, Fla.; among others.

Because the opportunities are largely in countries of higher investment risk, some of the surveys are not expected to result in investment. However, the modest cost of these surveys will be repaid many times their value, in terms of jobs and economic growth, to the countries in which investments are made.

The total amount of money involved in this program is relatively small. The contracts already authorized and obligated involve an aggregate AID exposure of approximately $350,000 while the surveys now in the review process involve an additional contingent liability of less than $500,000 if all were approved. Yet we have found that the willingness of the U.S. Government to agree to share in the cost of making specific investment surveys preliminary to investment commitments constitutes a meaningful inducement to potential investors. It not only cuts in half the risk of loss if the survey does not eventually blossom into a project; it is a concrete demonstration that the U.S. Government is interested in having private U.S. businessmen investigate the possibilities for profitable ventures in the less-developed countries. This statutory program, perhaps more than any other, promises to be helpful in bringing medium-sized American companies into this important phase of international business.

In joint ventures similar to the ones this program seeks to induce, there is virtually no capital outflow. Rather, the U.S. partner usually provides U.S. machinery, equipment, components, or subassemblies and other materials. Dollars which are invested in the developing countries by private U.S. firms inevitably result in substantial additional exports from the United States and a return flow of dollars in the form of dividends, royalties, technical service fees, etc. Such investment is not a dollar drain. One has only to look at our dollar surplus on trade account with such countries as Canada and Western Europe, where U.S. companies have made substantial investments.

4. *Local currency loans.*—As of January 1, 1962, AID took over from the Export-Import Bank the function of making loans under the so-called Cooley amendment to Public Law 480. Under this provision, loans may be made to American companies and their affiliates, or to any firm if their use will expand markets for U.S. agricultural products, in local currency generated by the sale of surplus agricultural commodities to developing countries. A maximum of 25 percent of such local currencies can be allocated for this purpose.

Unfortunately these local currencies are not available in many countries where they would be useful. We have the equivalent of $180 million in such currencies now available for lending but approximately one-third of this sum is in India and if the available funds in Egypt, Pakistan, and Turkey are added to those in India, they represent about 70 percent of all such funds.

The lending of local currencies under the Cooley amendment has continued at an increased pace. Since the stewardship of AID began on January 1, 1962, 68 loans have been negotiated with American firms or their affiliates; the local currencies involved in these loans had an aggregate value of the equivalent of $61 million by close of fiscal year 1963. Definitive guidelines and procedures have been prepared and quarterly announcements of the availability of funds publicized. We are hopeful that the vast majority of the Cooley funds now on deposit will ultimately be loaned for productive private ventures in the respective countries.

5. *Dollar loans.*—The Foreign Assistance Act permits us to lend dollars to private firms whether they be American or controlled by nationals of the host country. Since the formation of AID in November of 1961, dollar loans to 14 private borrowers have aggregated $167 million but this figure does not include loans to or through development banks to which I shall refer later on.

For a number of reasons, the dollar lending functions of AID have been a relatively minor factor in the overall development loan picture. In the first place, the Export-Import Bank makes loans to private borrowers on roughly similar terms and AID may not lend when its sister agency is able to. Both agencies are, moreover, bound by the requirement that dollar loan proceeds be spent for goods and services in the United States. Secondly, the existence of an ever-increasing number of development banks and other intermediate lending institutions tends to meet the needs of many private borrowers. Finally, since the loan requirements of most private borrowers are for comparatively smaller amounts, it is often administratively inefficient for an agency like AID to process them; wherever possible, the applicant is advised initially to explore the possbility of borrowing from the local development bank.

A special task force is now at work within the Agency preparing a new procedural framework by which smaller loans may be handled on an expedited and simplified basis.

6. *Development banks.*—Development banks and similar intermediate credit institutions are an additional and useful tool for the assistance of private investors. Our Agency, along with the Export-Import Bank, the World Bank, and the Inter-American Development Bank, has been instrumental in providing financial assistance to institutions of this kind all over the world. They are of var-

ious types and offer assistance in the fields of industry, agriculture, and housing. They assist in the economic development of less-developed countries by financing and promoting private enterprises, particularly small and medium-sized ventures. They serve as local channels for investment in the private sector by providing capital and, in many cases, various types of management assistance.

In the past 5 years AID and its predecessors have authorized loans of $386 million to such institutions. From its inception through the close of fiscal year 1963, AID had authorized loans totaling $170 million.

Some of these banks have been operating effectively, some less so. Our Agency is now engaged in a comprehensive effort to provide expert technical guidance to those institutions which have been slow in making use of these funds. We have issued comprehensive guidance summarizing our policies and procedures with respect to loans to development banks and subloans made by them. We have, among many other things, made clear our general preference for private ownership of these institutions wherever it is feasible.

7. *Prototype programs.*—We recognized the need to concentrate the efforts of the Agency at the outset in the encouragement of private investment in a number of selected countries. Accordingly, we requested each AID regional bureau to designate one country, friendly to the United States, receptive to foreign private investment, and possessing a potential for economic growth. The countries selected for this pilot program were Colombia, Nigeria, Pakistan, and Thailand. In each country the Embassy and the AID mission were requested to select, in consultation with the host government and the local business community, a small number of industries of a priority nature that would be appropriate for private sector investment.

These industries were subsequently identified and an active program instituted to seek out specific investment opportunities to bring to the attention of potential U.S. investors. Interestingly enough, some of the industries thus selected were common to at least three of the four countries—food processing, lumber, and paper products and various forms of metalworking and machine tools.

Our Private Enterprise Division, in cooperation with the officers of our regional bureaus and with other agencies of the Government, are now engaged in matching these identified investment opportunities with the investment programs of specific U.S. firms. To this end we make full use of the industrial and publication resources of the Department of Commerce, consult with trade associations, banks, and management consulting firms and ultimately make direct contact with individual companies. In dealing with potential investors we use all the statutory devices which I have described. We act as catalysts in the creation of new joint ventures between local and U.S. businessmen. We are also sharpening the tools themselves and thereby developing techniques which we can apply later to additional countries.

I am happy to report that a number of new investments appear likely to result from this concentrated program. In Colombia, a dairy company has completed an investment survey and is proceeding with a joint venture to produce dairy products. A number of U.S. firms are considering partnership ventures in the fields of food processing, metalworking, lumber, and building materials.

In Nigeria, another major dairy company, with our assistance, has committed itself to make a half million dollar investment to build a reconstituted milk plant in Lagos with Nigerian partners; it has applied for an AID political risk investment guarantee. Likewise, a major U.S. automobile manufacturer, after intensive consultations with the AID contractor in Lagos, has submitted a proposal to the Nigerian authorities for an automobile and truck assembly plant to exceed $1.5 million, also to be guaranteed against political risks by AID. A New York bank will invest in a newly established banking corporation.

In Thailand, a joint venture between a U.S. cable and wire manufacturer and a local Thai firm is under active negotiation as a direct result of our Agency's efforts. The U.S. partner has applied for an investment survey to study the economic and technical feasibility of the proposed joint venture. Our mission in Thailand and our Far East Bureau in Washington are cooperating with a potential investor in an aluminum fabricating plant.

In Pakistan, an investment proposal for a tire plant is now going forward. Moreover, investment survey grants have been approved for Pakistan in a number of areas. Included among them are a carbon black plant, a machine tool operation, pulp and paper manufacturing plants, a plastics investment, and a seafood processing venture.

Although we are concentrating on these pilot countries, our activities in the private investment field are by no means restricted to these four. We have sent to each embassy and AID mission, in collaboration with the Commerce Department, instructions to report all likely investment opportunities in order that we may bring them to the attention of potenial U.S. investors.

A number of projects have come forward from several additional countries and are already on the drawing board or in negotiation. In Sudan, a joint venture has been organized to set up a chemical and pharmaceutical firm, making use of our Cooley loan and investment guarantee facilities. In northeast Brazil an opportunity in a bottling plant for fruit juices is being discussed with a number of American food processing companies. Textbook publishing investments are being planned in Mexico, Argentina, and Brazil. In Venezuela a group of medium-sized American firms, under the leadership of the Action Committee for International Development, is exploring a variety of concrete proposals for joint ventures.

THE IMPROVEMENT OF INVESTMENT CLIMATE

I have thus far been discussing the techniques we use to encourage new investment. Underlying all this activity is the basic AID commitment to the improvement of the investment climate in the developing countries. For many years our Agency and its predecessors have developed a variety of long-range programs to help to create a more general receptivity to private investment, local and foreign. These programs are continuing as an integral part of AID country programs.

Among the more significant efforts in this direction are the following:

1. *Assistance in the development of local laws and administrative regulations to encourage private investment.*—We have given this kind of help in Taiwan, Turkey, the Philippines, and Nigeria, among others.

2. *The organization and guidance of investment centers and development corporations.*—The Indian Investment Center has, with our assistance, undertaken a vigorous program to attract American, European, and Japanese firms to invest in Indian joint ventures; it maintains an office in the United States, conducts investment seminars with individual companies in key U.S. industrial cities and generally promotes U.S. business interests in India. The China Development Corporation has been notably effective in encouraging local as well as foreign investment.

3. *Consulting contracts.*—A number of professional firms under contract to AID have been assisting less developed countries in their efforts to promote private industrial development.

4. *Participant training.*—Our Training Division brings to this country large numbers of government and industrial personnel each year. In fiscal year 1963 almost 1,300 persons in the fields of industry and mining were trained in the United States and an additional 338 persons were sent to other industrialized countries.

5. *Vocational training and productivity centers.*—Programs of this kind are underway in many countries in Latin America, in Pakistan, in Korea, and elsewhere.

PROFIT AND RISK AS FACTORS AFFECTING INVESTMENT IN UNDERDEVELOPED COUNTRIES

There have been many recent diagnoses of maladies which beset private investment in the less developed countries. Government officials and public-spirited private citizens have sought to analyze the major deterrents to accelerated growth in the private sector. Essentially, they all agree that there are two fundamental factors—profit and risk. A low rate of return and a high degree of risk will inevitably drive investment capital away. Conversely, the prospect of a good return and the capacity to minimize risk will serve as a magnet to attract large amounts of venture capital.

To reduce the risks, our Agency proposes (1) to continue on a long-range basis all activities aimed at the improvement of investment climate, and (2) at the same time to strengthen and expand our investment guarantee program.

Accordingly, we have requested an increase in AID's present issuing authority for specific risk guaranties from $1,300 million to $2,500 million. The total amount of coverage now outstanding is approximately $900 million. This means that if the program were to continue merely at no more than its current rate, we would exceed the present ceiling by the end of the coming fiscal year. The requested increase will be adequate for several years and will assure a necessary

degree of continuity in the program. There are at present on hand 875 applications seeking guarantee coverage of a face value of more than $3 billion.

The amendments requested by AID in the investment guarantee sections of the law are responsive to the suggestions made by the 87th Congress concerning the reserves standing behind the guarantees. One amendment is, in effect, a confirmation and an explicit congressional statement to the effect that the guarantees are backed by the full faith and credit of the United States.

The most significant change is designed to make the current reserves, amounting to nearly $300 million, available to serve claims which may arise on a first come, first served basis. Any sudden influx of substantial claims would necessitate a request to Congress for further appropriations but, since the guarantees are full obligations of the Government, and the history of claims over the past 15 years indicates that the present reserves are more than adequate to take care of claims likely to arise in any one year, AID is making no request for additional appropriations for fiscal year 1964. In addition to these legislative changes, the Agency will, as I have indicated, press for broader geographical coverage for investment guarantees, will continue its efforts to simplify and standardize guarantee procedures, and will proceed to launch the extended risk program.

In order to provide additional incentive for investment in less developed countries, the President is recommending a new investment tax credit on a trial basis.

The Treasury Department is now drafting a bill which will be sent forward to the Congress when it is completed. There are many technical problems in the drafting process which require careful resolution. We are at this time unable to report in detail upon a bill which is not yet fully written, particularly when the responsibility for drafting it rests with another department.

As the President said in his message to the Congress, the bill will constitute a tax credit for all new investments made in developing countries and it will apply in some measures to reinvestment of earnings in those countries. We are confident that with the increased rate of return made possible by this proposed new tax provision, private investment in these countries will increase substantially. In those marginal cases in which a businessman is faced with a choice of places in which to invest, this tax inducement will be a decisive factor. It will serve finally to demonstrate the importance which the administration attaches to the participation by private business in the foreign assistance effort.

As the President also indicated in his message, our Agency is committed to strengthen and enlarge its activities in the area of private enterprise. In Washington and in the field a larger share of our total resources will be directed to fulfilling that commitment. We shall increase our "efforts to assist in the development of vigorous private economies in the developing countries" and we shall broaden our "facilities for mobilizing and assisting the capital and skills of private business in contributing to economic development."

*Investment surveys approved and obligated, fiscal years 1962 and 1963**

Year and company	Project	Country	Maximum AID participation	Date approved
Fiscal year 1962: Archer-Daniels Midland	Paint resin manufacturing	Pakistan	$1,750	June 30, 1962
Fiscal year 1963:				
Africa-Europe: McGraw-Hill	Book distribution	Nigeria	1,450	June 28, 1963
Far East:				
D.C. Transit	Transportation system	Philippines	40,000	Oct. 13, 1962
Dole Corp	Fruit processing	North Borneo	13,064	Jan. 13, 1963
Parsons & Whittemore, Inc	Kraft papermill	Thailand	37,500	Feb. 14, 1963
Crawford Furniture Manufacturing Corp	Furniture manufacturing	do	2,652	Feb. 28, 1963
Minn Associates	Harbor, docks, and warehouse	Korea	25,000	Do.
Sprague & Henwood International Corp	Diamond core drill bits	China and Korea	1,950	Mar. 22, 1963
Phelps-Dodge International	Wire and cable factory	Thailand	16,000	May 17, 1963
PADCO company	Supermarkets	Philippines	28,200	May 24, 1963
Latin America:				
Bresler Ice Cream	Milk factory	Colombia	3,000	Nov. 9, 1962
Jewel Tea Co	Food distributors	(1)	7,500	Dec. 9, 1962
American Concrete Crosstie Corp	Prestressed concrete manufacturing	Argentina	8,200	Feb. 27, 1963
Frank Warner Corp	Housing manufacturing facilities	Ecuador	9,240	Mar. 14, 1963
Livingstone Coating Corp	Plastic coat factory	Mexico	600	Apr. 15, 1963
Honduras Development Corp	Cement factory	British Honduras	3,240	Apr. 18, 1963
NAPCO-Franklin	Truck and bus factory	Chile	14,877	Apr. 19, 1963
Parsons & Whittemore, Inc	Pulp, paper, and sawmill	Honduras	46,900	Apr. 29, 1963
Avnet-Shaw Corp	Casting foundries	Mexico, Peru, Brazil, Argentina	5,150	Apr. 30, 1963
Jefferson Lake Sulphur	Plastic manufacturing	Turkey	16,500	Sept. 12, 1962
Von Kohorn-Universal Corp	Machine tool manufacturing	India	16,360	Feb. 28, 1962
Van Camp Sea Food Co	Seafood processing	do	17,500	Mar. 11, 1963
Pan Alliance Corp	Starch plant	do	5,750	May 16, 1963
Continental Screw Co	Fastener manufacturing	do	5,250	Do.
Justus Roe & Sons, Inc	Steel tape manufacturing	do	3,580	Do.
International Development Corp	Petrochemicals-carbon black	Pakistan	18,810	June 20, 1963
Total, fiscal year 1963			348,273	

[1] Site to be selected.

*All of the above surveys have a maximum AID share of 50 percent.

Mr. PASSMAN. This is the account, the investment surveys, whereby a firm may ask for an allocation to go abroad to look for an investment opportunity. If the investment is made, and we make a loan, then you subtract the cost of the survey, and if he makes the investigation and does not apply for a loan or open up a business the Government pays for half of these expenses. Is that a correct summary?

Mr. COFFIN. That is correct.

Mr. PASSMAN. The Government pays for only half of these vacations?

Mr. COFFIN. That is right.

Mr. PASSMAN. Thank you.

REQUEST FOR REAPPROPRIATION OF UNOBLIGATED BALANCE

Mr. COFFIN. I don't want to take the time of the committee, but I want to make a brief statement and insert a longer one.

We are not asking for money in the sense of an appropriation. We do ask for a reappropriation of the unobligated balance which is about $1 million.

I think the hearings of the committee, to be complete, should have something about the program. We are very proud of it.

Mr. Davies and his associates——

Mr. PASSMAN. Please insert your statement in the record.

OBLIGATIONS AND DISBURSEMENTS UNDER INVESTMENT SURVEYS PROGRAM

What has been the amount of disbursements under this fund since its inception, Mr. Controller?

Mr. TENNANT. There have been no disbursements from his account through June 30, 1963.

Mr. PASSMAN. How much have you obligated to American firms looking for investments?

Mr. COFFIN. In fiscal 1963 we had 24 surveys with an obligation of $350,023.

Mr. DAVIES. This includes $1,750 obligated in fiscal year 1962. The actual figure is $348,273 for fiscal 1963.

Mr. PASSMAN. I did state correctly that an American business can go abroad looking for a place to invest money, and if they decide against doing so, you reimburse them for half of the expenses?

Mr. COFFIN. We exercise judgment.

Mr. PASSMAN. We know that but we want the facts in the record. That is the way it operates, is it not?

Mr. COFFIN. Yes, sir.

LIMITATION ON SURVEY COSTS

Mr. PASSMAN. How do you arrive at the limitation of expenses placed upon these individuals going abroad?

Mr. COFFIN. You mean the individual personal expenses?

Mr. PASSMAN. Let us say Parsons & Whittemore, Inc., would send some of their personnel to Honduras to check on paper, pulp, and sawmill possibilities. You obligate $46,900. How do you arrive at that sum being the cost of this firm's representatives checking on this matter?

Mr. DAVIES. Sir, we pay a maximum of 50 percent of the cost of the survey. We require a budget of both direct labor costs and other costs such as transportation for the conduct of the survey. We then go over these costs very carefully with the applicant for a survey grant.

We are in the process of considering whether any indirect costs should be paid for. At the present time we are considering a maximum payment of only 25 percent of total labor costs for indirect costs.

All of these figures are audited on the basis of vouchers which are submitted at the conclusion of the survey.

Mr. PASSMAN. You have not disbursed a dime from this account?

Mr. DAVIES. That is correct, sir.

Mr. PASSMAN. Let us take the Parsons & Whittemore, Inc., firm again. You indicate an obligation of $37,500 for them to investigate the possibility of a papermill in Thailand.

Mr. DAVIES. Yes, sir.

Mr. PASSMAN. Would you submit a breakdown of the $37,500 commitment?

Mr. DAVIES. Yes, sir.

Mr. PASSMAN. To the same company you made a commitment of $46,900 for Honduras. Will you also do the same thing there?

Mr. DAVIES. I would be glad to.

Mr. PASSMAN. We want too, a breakdown on this one: Sprague & Henwood International Corp., diamond core drill bits, $1,950. Will you get that information for us?

Mr. DAVIES. Certainly.

Mr. PASSMAN. And also Crawford Furniture Manufacturing Corp., $2,652, to Thailand.

Also you have McGraw-Hill book distributor to Nigeria, $1,450.

If you will give us a breakdown on those items we shall appreciate it.

(The information follows:)

INVESTMENT SURVEY

PARSONS & WHITTEMORE—THAILAND

Parsons & Whittemore is now completing an investment survey to determine the feasibility of establishing a paper mill and box factory near Bangkok, Thailand. Parsons & Whittemore intends to invest 20 percent of the equity in a $6.5 million kraft paper mill which would have an annual capacity of 45,000 tons. The plant when finished would employ between 400 and 500 people, and would produce paper products valued at the equivalent of $10 to $20 million. If Parsons & Whittemore should decide not to invest, AID will pay up to $37,500—one-half of the cost of the survey.

Budget

Total labor costs		$33,875.90
Living expenses in field, food, lodging, laundry, etc	$2,750.00	
International travel	7,895.30	
Local (Thailand) travel: Car, jeep, boat, airplane	1,500.00	
Local (Thailand) expenses: photographer, maps, photostats, photographs, communications, taxis, office supplies, out-of-pockets, etc	2,300.00	
Home office expenses: Printing, reproduction, composition, etc., communications, visas, out-of-pockets, etc	3,500.00	
Total expenses		17,945.30
Overhead		23,093.02
Total investment survey cost		74,914.22
AID portion, 50 percent	$37,457.11	
Parsons & Whittemore portion, 50 percent	37,457.11	
Total cost		74,914.22

PARSONS & WHITTEMORE—HONDURAS

In Honduras, Parsons & Whittemore is making an economic study of the potential for developing and operating an integrated pulp, paper and saw mill enterprise to process and market Honduras' unutilized forest resources. The survey will investigate plant sites, cost of wood and other raw materials, transportation, market studies, and an analysis of financial requirements. It is estimated that the equity portion of the plant would approximate $10 million with Parsons & Whittemore taking an equity position of approximately $2.5 to $3 million. Should Parsons & Whittemore decide not to invest, AID will pay up to $46,944—one-half of the survey cost.

Budget

Total labor cost		$38,893
Overhead		38,504
Travel		6,211
Per diem		3,780
Maps and photos		1,500
Printing		3,000
Communications and miscellaneous		2,000
Total investment survey cost		93,888
AID portion, 50 percent	$46,944	
Parsons & Whittemore portion, 50 percent	46,944	
		93,888
Total cost		93,888

SPRAGUE & HENWOOD—CHINA OR KOREA

Sprague & Henwood International Corp. of Scranton, Pa., manufacturers of diamond core drills and bits has surveyed a proposed manufacturing operation to be located either in China or Korea. Sprague & Henwood would manufacture diamond core drill bits and diamond reaming shells as well as salvage used diamond bits to reuse in manufacturing new bits. The company indicated that if the survey demonstrates that there is a sound opportunity they will proceed with an investment estimated at $145,000. If the survey does not prove feasible, AID will pay up to 50 percent of the cost—$2,950.

Budget

Round trip air ticket		$1,249.36
Per diem		867.15
Personnel cost, engineering and production		450.00
Personnel cost, other		383.56
Total investment survey cost		2,950.07
AID portion, 50 percent	$1,475.04	
Sprague & Henwood portion, 50 percent	1,475.04	
		2,950.07
Total cost		2,950.07

CRAWFORD FURNITURE CO.—THAILAND

Crawford Furniture Manufacturing Corp. undertook a survey including the investigation of the style of furniture used and manufactured in Thailand and surrounding countries, types of wood available and the limitation that might prevail in obtaining satisfactory woodworking craftsmen in Thailand and other related factors. While the company was not able to estimate a range of proposed investment, it was advised by its bankers that funds would be available for any sound project recommended by Crawford, regardless of its size. AID's maximum share of this survey would be $2,652 payable if Crawford decides not to invest and submits a technically acceptable survey.

Budget

Main airline transportation		$1,765
Local travel		1,178
Per diem		1,260
Miscellaneous		500
Communications, stenographic costs, purchase of samples, etc		600
Total investment survey cost		5,303
AID portion, 50 percent	$2,652	
Crawford Furniture portion, 50 percent	2,651	
		5,303

MCGRAW-HILL—NIGERIA

McGraw-Hill is investigating the possibility of establishing a book distributing organization in Nigeria. The survey will include market research on the most efficient and economical scheme for wholesale and retail distribution of educational, technical, scientific, and other publications. It will also study possible locations for the distribution organization. McGraw-Hill indicates it would take up to 90 percent of the equity in the investment which is expected to be in the $75,000 to $100,000 range. Should McGraw-Hill decide not to invest, AID will pay up to one-half of the cost of the survey or $1,450.

Budget

Salary of U.S. based investigation		$1,000
Transportation to and in Nigeria		1,200
Living expenses		500
Communications expenses		200
Total investment survey cost		2,900
AID portion, 50 percent	$1,450	
McGraw-Hill portion, 50 percent	1,450	
		2,900

EFFECT OF INVESTMENT SURVEYS PROGRAM ON U.S. BALANCE OF PAYMENTS

I believe the trend now is to try to get capital home rather than sending it out. Is that not what the President is thinking about?

Mr. COFFIN. That is correct.

Mr. PASSMAN. I wonder if he has canceled this program already or is thinking about it?

Mr. COFFIN. In our internal studies we have realized that the outflow of dollars is very, very small on this.

Mr. PASSMAN. Nevertheless if these people go out on these trips and do find they want to make an investment they are eligible for a loan from our Government, are they not?

Mr. COFFIN. No. They would have to justify that.

Mr. PASSMAN. You pay for the surveys?

Mr. COFFIN. Yes; up to 50 percent of the cost.

Mr. PASSMAN. The man decides he wants to open up this business in Thailand, a furniture manufacturer. Where does he get capital?

Mr. COFFIN. Perhaps from a Thai bank.

Mr. PASSMAN. Is he eligible for a loan from the Development Loan Fund?

Mr. COFFIN. On the same basis as any other applicant.

Mr. PASSMAN. That is understood. Would he be eligible?

Mr. COFFIN. We don't know until we have studied it. It may be feasible technically——

Mr. PASSMAN. I am not talking about whether you would approve the application. He is eligible to file an application?

Mr. COFFIN. Yes.

Mr. PASSMAN. If you think well of it you approve it, as you do any other application?

Mr. COFFIN. That would be so.

Mr. PASSMAN. Would you not assume that some of these people would expect American capital to help establish their businesses?

Mr. COFFIN. No; not necessarily.

Mr. PASSMAN. What is the policy on this matter?

Mr. DAVIES. Our policy is to state specifically that there will be no concern, that there will be AID financing should the applicant decide——

Mr. PASSMAN. Repeat that—"There will be no concern"?

Mr. DAVIES. There is no commitment to him that he will be eligible for AID financing.

Mr. PASSMAN. You do not tell him he will not be eligible, do you?

Mr. DAVIES. No, sir.

We will not make a grant unless there is a clear indication that the individual firm will itself be willing to make an investment abroad.

This to our way of thinking is a substitute to a large extent for foreign aid funds, provided you can get a company to put its own capital into a productive investment in that country.

Mr. PASSMAN. When we started this phase of the program 3 or 4 years ago the purpose then was to encourage capital to go out and build up interests in these nations.

Now the trend is to try to get them to come back home with their capital. Is that a statement of fact, that we are trying to bring capital and dollars back home?

Mr. DAVIES. Sir, in——

Mr. PASSMAN. Is that correct? Is that the President's policy now and our country's policy, to try to get capital home?

Mr. DAVIES. The President's policy specifically excludes the underdeveloped countries in its tax legislation and other programs to get capital back home.

Mr. COFFIN. May I add this? A fellow goes overseas to an underdeveloped country and builds his plant. To the extent that he uses U.S. materials and equipment, the outflow of dollars for that, even for the initial investment, is very small. We find this true in the whole investment guarantee program.

He has created a source of employment of people over there, earning local currency and generating foreign exchange which eventually he brings back.

The impact on the balance of payments is indeed very small initially and not at all ultimately.

Mr. PASSMAN. When we started this plan it was all right, but is it a little contrary to our presesnt policy? Is that right?

Mr. DAVIES. I would not suggest it is contrary, sir.

Mr. PASSMAN. Is it true?

Mr. DAVIES. No.

Mr. PASSMAN. How many underdeveloped countries are there out of the total of 112?

Mr. DAVIES. Approximately 80.

Mr. PASSMAN. Do you know?

Mr. DAVIES. Approximately 80, where we have AID missions or representatives?

Mr. PASSMAN. Do you include all of the new African countries?

Mr. DAVIES. Yes; most of them.

Mr. PASSMAN. You are placing how many countries out of the category of underdeveloped?

Mr. DAVIES. We are putting approximately 19 out, the developed countries.

Mr. PASSMAN. That is why—you add up to 99?

Mr. DAVIES. Some of the 112 are not AID recipients necessarily.

Mr. PASSMAN. It has been indicated, I believe, that for fiscal 1964 you intend to have 95 nations and 4 territories receiving aid.

Did you bring up that list?

Mr. TENNANT. The list is not completed. We will have it for you tomorrow.

Mr. PASSMAN. I have a lot of misgivings about this particular phase of the program.

We know the trend is different from when this thing started.

Off the record.

(Discussion held off the record.)

ANTICIPATED DISBURSEMENTS UNDER INVESTMENT SURVEYS PROGRAM

Mr. PASSMAN. You are asking for a small appropriation to continue, a reappropriation.

Do you anticipate any disbursements out of this account in the foreseeable future?

Mr. DAVIES. So far there has been none, but this is because we only got the program off the ground in July of 1962. Virtually all of the studies are still being undertaken and a decision to invest has not yet been made by these companies.

Mr. PASSMAN. Was there not an application from one of the hotel concerns to go out to Pakistan to see whether or not there should be a hotel built there?

Mr. DAVIES. Investment survey or Cooley loan, sir? There was a Cooley loan made for Pakistan.

Mr. PASSMAN. What was the firm?

Mr. DAVIES. Inter-Continental, part of Pan American.

Mr. PASSMAN. I should think they would know quite a bit about Pakistan with their investments there and their airline.

How much did it cost for the Pan American subsidiary to decide whether or not they wanted a hotel there?

Mr. DAVIES. I am not sure.

Mr. PASSMAN. Would you get that information?

Mr. COFFIN. This was not a survey.

Mr. DAVIES. This was not a survey grant.

Mr. PASSMAN. They were listed earlier. I think you will find it in the hearings.

How many of these people actually have already started moving in this direction and submitted bills for payment?

Mr. DAVIES. I believe one bill may have been submitted, and the Controller can look into it, for 1962. No bills have been submitted and paid for any of the surveys undertaken in 1963 fiscal year.

Mr. PASSMAN. This is for only one survey in 1962?

Mr. DAVIES. A report for a survey approved in fiscal year 1962 has been delivered to AID indicating that the investor does not intend to make an investment.

Mr. PASSMAN. That means you will have to reimburse him?

Mr. DAVIES. Undoubtedly we will reimburse him.

Mr. PASSMAN. That is the only one?

Mr. DAVIES. That is correct, sir.

Mr. PASSMAN. If you have the same kind of experience during the next 2 or 3 years would you think then we should give some consideration to abolishing this plan?

Mr. DAVIES. We believe many of the companies that undertake to look at relatively marginal investment opportunities will not find it feasible to make an investment. Therefore, if the program is successful in getting a few investments as a result of the program, in our view it will pay many times over the cost of having conducted these surveys.

Mr. PASSMAN. Your experience so far has been that one individual decided after going out he did not want to go into business. He submitted a statement to be reimbursed for half of his expenses?

Mr. DAVIES. That is right.

Mr. PASSMAN. If you have the same type of experience with four or five more of them in 3 or 4 years, none of them deciding to go into business, then would you conclude it would be time to stop this phase of the program?

Mr. DAVIES. If that were the case I would suggest yes.

PROCEDURE FOR ENTERING INTO INVESTMENT SURVEY AGREEMENTS

Mr. PASSMAN. Will you tell us just one firm which may have given some encouragement that they intend to go into business?

Mr. DAVIES. We have an indication from one company that it intends to make an investment in Nigeria.

Mr. PASSMAN. The name of the company?

Mr. DAVIES. A manufacturer of chemicals. We induced this company to look at an opportunity for an investment in chemicals in Nigeria.

NOTE.—Since AID is still negotiating with the American firm and Nigerian counterpart firm concerned, the Agency does not feel that their names should be released to the public at this time.

Mr. PASSMAN. You induced them? Are you soliciting people to go out and spend this money?

Mr. DAVIES. If we identify a given investment opportunity in a country where there is a joint venture local partner seeking additional capital, we do use this program to get a company to undertake to make a survey of that investment opportunity.

Mr. PASSMAN. Upon what basis do you get these people into action?

Mr. DAVIES. We obtain from our mission in the field a clear idea of what the investment opportunity may be. We then publish this in the pages of International Commerce, the Commerce Department's weekly, which is available to all firms who read International Commerce.

We will then call on any firms by letter, by telephone call, or in person that we believe would be potential investors and seek their cooperation in putting a team together to go out to that country and take a look at the investment opportunity.

We believe that a number of investments will be made in Pakistan, in Thailand, in Nigeria, in Colombia, as a direct result of this promotional effort which would not otherwise have been made.

Mr. PASSMAN. This particular one in Nigeria is what type of operation?

INVESTMENT SURVEY FOR NIGERIA

Mr. DAVIES. This operation would be in the chemical field.

Mr. PASSMAN. What company?

Mr. DAVIES. A firm out in California. I can get you the name.

Mr. PASSMAN. Do you get reports as to their capital structure and credit rating?

Mr. DAVIES. Yes, sir.

Mr. PASSMAN. Will you submit a copy of that report to the committee?

Mr. DAVIES. Yes, sir.

Mr. PASSMAN. Have you received the firm's application for a loan?

Mr. DAVIES. No, sir.

Mr. PASSMAN. Will you find out whether it is in process? Also, will you find out whether or not this firm's part of the capital is in U.S. dollars? If you are taking dollars out of the country you will agree that the effect will be the same, whether you take them from your own bank account or whether you take them out of the U.S. Treasury.

(The information requested was filed with the committee.)

Mr. DAVIES. Let me say that the particular company I was talking about did not actually obtain a survey grant. We induced it to go out to Nigeria and look at an investment opportunity there.

Mr. PASSMAN. Is this the only case where there is any indication they are ready to go now?

Mr. DAVIES. No, sir. There are others—Bressler Ice Cream Co. in Colombia, for example.

This is a fluid milk dairy which they are looking at, again on a joint venture basis with a Colombian firm, or individual.

Mr. PASSMAN. I think conditions have so changed since this thing started, there is no use to prolong it. I believe the President's message to the Congress indicates we had better start getting these dollars home.

COST OF ADMINISTERING INVESTMENT SURVEY PROGRAM

Tell us the cost of administering this survey program for fiscal year 1963. Are you the director of it?

Mr. DAVIES. No, sir.

We have in each of the four geographic regions at present one, or possibly two, people who are responsible for writing the survey application grants.

Mr. PASSMAN. The AID people have sent out individuals to these areas to receive applications from these people who go out looking for investments; is that the way it is?

Mr. DAVIES. No, sir. We receive the application from an applicant for a survey grant.

Mr. PASSMAN. The applicant is usually in the United States?

Mr. DAVIES. Always in the United States.

Mr. PASSMAN. You do not send personnel in the field?

Mr. DAVIES. Not for this purpose, not to obtain an application.

Mr. PASSMAN. How many do you have assigned to your operation?

Mr. DAVIES. In each——

Mr. PASSMAN. Total personnel.

Mr. DAVIES. Approximately six people are working on investment survey applications as part of their other responsibilities.

Mr. PASSMAN. Could you tell us the total cost of administering this survey program for fiscal year 1963, all phases of it?

Mr. DAVIES. Since this is not a full-time job——

Mr. PASSMAN. You will need to give us some idea of the cost.

Mr. COFFIN. We could give you an estimate.

Mr. PASSMAN. If you will, give us the total cost of salaries and particularly the paid advertising and the amount you have to reimburse the Department of Commerce for carrying these insertions in their publications.

As nearly as you can, give us the cost for 1963.

VALUE OF INVESTMENT SURVEYS PROGRAM

Mr. COFFIN. I would like to close this by saying it is to our interest to have American firms, private enterprise, and skills operating in foreign countries. I would think admittedly we do not know what the experience will prove, but it is very well worth while following through with for the time being.

Mr. PASSMAN. We certainly admit the trend is a little different now than when this plan started, that our balance-of-payments situation is more critical than it was.

Mr. COFFIN. This program, we think, will be a means of bringing in dollars rather than sending them out.

EXPENDITURES UNDER INVESTMENT SURVEY PROGRAM

Mr. ROONEY. Can you tell us at this moment how much has been expended to date on this program?

Mr. COFFIN. Nothing has been disbursed. We have made some obligations, but in terms of money paid out and bills coming in, nothing.

We do not pay out money until an investor who has made a survey that we approve of has come in and said he wants us to pay the 50 percent we owe him.

Mr. ROONEY. No money has been expended to date?

Mr. COFFIN. No. The surveys have been made.

Mr. PASSMAN. You have a group of bills pending for payment now?

Mr. COFFIN. Yes. This is one program——

Mr. PASSMAN. You induced a man to go out. He went out and decided against the project, and submitted his bill for payment?

Mr. COFFIN. Only one.

REQUIREMENT OF PROFESSIONAL REPORT

Mr. PASSMAN. Is it true that in three or four instances here, the expense listed just about covers the cost of an airplane ticket?

Mr. DAVIES. No. It will nearly always cover more than the airplane ticket.

Mr. PASSMAN. You know why I made the statement. What it costs to go out to Nigeria, or Hong Kong, looks like an airplane ticket.

Mr. DAVIES. In many cases it does, and in most cases it does not.

Mr. PASSMAN. If a man buys an airplane ticket and flies out to Bangkok or Hong Kong, and comes back in about a week and submits his bill for payment, I expect that if I were sitting in your place I would have a long look at the claim before I would issue the check.

Mr. DAVIES. We do, and we do require a professionally acceptable report from the applicant who has completed the survey. We would not pay for a mere vacation, but only for a professionally acceptable report which, we have the option then of making available to other companies in order to get them possibly to make an investment in one of these countries.

Mr. PASSMAN. When I indicate "vacation," that is my way of describing it. I do not ask you to second the motion. I am quite familiar with how some of these things work out.

MAXIMUM AID PARTICIPATION IN INVESTMENT SURVEYS OBLIGATED

Mr. FORD. When was this program authorized by law?

Mr. COFFIN. 1961.

Mr. FORD. Calendar 1961?

Mr. COFFIN. Yes. In the presentations for 1962.

Mr. FORD. It was authorized by law in calendar year 1961 and was presented as a program for funding in fiscal year 1962?

Mr. DAVIES. Yes.

Mr. FORD. I have in my hand this document which I presume was prepared by the agency.

Mr. DAVIES. Yes.

Mr. FORD. Which shows investment surveys approved and obligated, fiscal years 1962 and 1963. It shows in fiscal year 1962, the maximum aid participation was $1,750; is that correct?

Mr. DAVIES. Yes.

Mr. FORD. It shows that for fiscal 1963, the maximum AID participation, $348,273.

Mr. DAVIES. Yes.

Mr. FORD. As of June 30, the total obligation is the sum of those two figures?

Mr. DAVIES. Yes.

Mr. FORD. When would you normally expect these funds would be expended?

Mr. DAVIES. Only after the firm has completed the survey, analyzed the results of the survey, and its board of directors has made a decision they will not go ahead and make the investment.

Mr. FORD. That could be some time.

Mr. DAVIES. It is likely to be some time, and therefore, in the grant document we have an investment determination date by which the company commits itself to make a determination either to invest or not to invest.

Mr. FORD. What is the approximate length of that?

Mr. DAVIES. It varies considerably between one company and another. I could figure out an average for you. In many cases it is 6 months or more. In some cases it is over a year, or a year and a half.

ADMINISTRATIVE COSTS OF INVESTMENT SURVEY PROGRAM

Mr. FORD. I think it is important we have for the record, as the chairman has indicated, the total administrative cost of this program. I know it will be difficult where you have one or more people not working full time, but in the preparation of a budget I should think you would have to have some figure that was usable in working out the total budget for AID.

Whatever that figure is, let's put it in the record. I think it is important to show the salary grade, the total cost in every way you can so we can see whether this program is carrying its load or not.

Mr. COFFIN. I would say we are still in the experimental stage, and I would not predict you would find from the results we have you can be sure how many actual investments——

Mr. FORD. I think it is important to put in the record the number of applications and the projects that had not yet reached this stage.

Mr. DAVIES. There are approximately 45 applications in process for investment survey grants.

Mr. COFFIN. We will give you the whole story.

(The information follows:)

ADMINISTRATIVE COST OF INVESTMENT SURVEY PROGRAM

1. The following data are based upon indications from the four regional bureaus processing investment survey applications as to the time people within the bureaus spend processing investment surveys.

FE: 1 GS–12 ¼ of each day, ¼×$9,475	$2,369
LA: 1 FSR–2 ½ of each day, ½×$15,900	7,950
NESA: 1 GS–15 ⅕ of each day, ⅕×$14,565	2,913
1 GS–7 ½ of each day, ½×$5,540	2,770
AFE: 1 GS–15 1/20 of each day, 1/20×$14,565	728
DFPE: 1 GS–15 1/10 of each day, 1/10×$14,565	1,457
1 GS–13 ⅓ of each day, ⅓×$11,150	3,717
Subtotal	21,904
Secretarial support estimated at ¼ of $21,904	5,476
Legal and Controller's support estimated at ⅛ of $21,904	2,738
Total	30,118

2. No funds were expended on advertising the investment survey program although it was mentioned in a brochure entitled "Aids to Business" prepared by the Office of Development Finance and Private Enterprise which describes all of the private enterprise programs administered by AID. In addition, press releases are issued on many of the surveys granted.

3. No payment was made to the Department of Commerce for carrying insertions in that Department's magazine, International Commerce.

Mr. FORD. In theory, I think it is a good program, but I must concede, based on the achievement so far, it is of dubious value.

Mr. COFFIN. I do not think you can judge as yet.

Mr. FORD. Off the record.

(Off the record.)

Mr. FORD. I think you mentioned you had two men assigned to each area.

Mr. DAVIS. Approximately one, and in some cases two.

Mr. PASSMAN. Thank you very much, gentlemen.

THURSDAY, JULY 25, 1963.

AMERICAN SCHOOLS AND HOSPITALS ABROAD

WITNESSES

HON. LEONA BAUMGARTNER, ASSISTANT ADMINISTRATOR, HUMAN RESOURCES AND SOCIAL DEVELOPMENT, AGENCY FOR INTERNATIONAL DEVELOPMENT
DR. HAROLD ENARSON, DIRECTOR, EDUCATION SERVICE, AID
EDWARD F. TENNANT, CONTROLLER, AID
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DAVID MAYER, CHIEF, EVALUATION DIVISION, AID
KATHERINE CLARK, CONGRESSIONAL LIAISON STAFF, AID
DR. F. JOACHIM WEYL, DIRECTOR OF RESEARCH, AID
HERBERT W. DODGE, EDUCATION SERVICE AID

Mr. PASSMAN. We shall now hear from Dr. Baumgartner with relation to American schools and hospitals in the program.

General Statement

Dr. Baumgartner. Mr. Chairman and members of the committee, it is a pleasure to appear before you to discuss the request for a separate appropriation of $20 million to assist American sponsored schools and hospitals abroad.

No nation can develop to its full potential without responsible scientific, political, and economic leaders. Their number and quality bear directly on a country's growth and character. To further the well-rounded training of qualified leadership in developing countries, the United States has provided funds to American sponsored schools and institutions abroad. The Congress authorized such assistance under section 400(c) of the Mutual Security Act of 1954 and section 214 of the Foreign Assistance Act of 1961 which specifically authorizes dollar grants from regular development grant funds to such schools and libraries. It also authorizes local currency allotments for hospitals and medical centers.

JUSTIFICATION FOR SPECIAL AUTHORIZATION AND APPROPRIATION

Therefore, these institutions have had to compete for grant funds with technical assistance development programs in aid recipient countries. Financial support to the 10 institutions now being assisted simply does not fit into the conventional categories of foreign assistance. These are schools and hospitals chartered in the United States—with trustees made up largely of Americans and with American leadership—operating in foreign lands with the permission of the host governments. In the past, grants have been made directly to the schools, and are not channeled through the AID field missions. Such grants are not properly viewed as part of the country programs.

As the President stated in his message of April 1 to the Congress:

> Until now some assistance has been made available to these schools from general economic aid funds, but this is becoming increasingly inappropriate. Separate authorization and appropriations would be used to help these schools carry out long-term programs to establish themselves on a sounder financial footing, becoming gradually independent, if at all possible, of U.S. Government support.

DESCRIPTION OF SCHOOLS AND HOSPITALS FOR WHICH FUNDS ARE REQUESTED

In addition the Congress should have full opportunity to review the special considerations which justify limited financial support to American-sponsored schools and hospitals abroad.

I should like to describe briefly these schools and hospitals, outline the valued contributions they are making to the U.S. interest, point out why U.S. Government financial support is essential to their survival, and, finally, tell the committee the basis on which AID now proposes to proceed in materially strengthening their financial base.

Ten schools and hospitals have been given assistance in recent years. The eight schools in the Middle East are as follows: American University at Beirut, American University at Cairo, Robert College, American Farm School, Pierce College, International College, Athens College, and Anatolia College. One, the Escuela Agricola Panamericana, is in Tegucigalpa, Honduras, Central America. The American Research Hospital for Children is located in Krakow, Poland.

Generalizations about the nine schools can be dangerous. Each institution is unique, distinctive; each was established for a particular purpose to serve a particular student clientele. Moreover, each has evolved in its own fashion, adapting itself to the country, the people, the customs. The American University at Beirut, for example, is a complex, multipurpose institution of higher learning with advanced graduate programs serving students from many lands and fulfilling a unique role as a regional university. I can think of no other university anywhere in the world with this kind of special mission. The American Farm School in Greece, on the other hand, has as its single purpose the training of Greek youth from the villages in modern farm methods—a very narrow self-assignment.

A thumbnail sketch of each school is attached for review by the committee. The committee will note that some schools have received very little direct AID support while others have received relatively substantial amounts. This, too, reflects the fact of variety. Some schools can go it alone with little additional support. Others face extremely serious financial problems requiring substantial U.S. Government support, at least for the near future.

Yet the fact of variety cannot obscure the central features which the nine schools, without exception, share in common.

1. Each of the schools is American to the core, in the best sense of the word, in presenting in foreign lands what is distinctive in American education. The schools were set up by Americans, are led by Americans (both trustees and presidents or directors), depend on American sources of income, and—most important of all—uphold and maintain American standards of education. What does this mean? It means small classes, attention to the individual student, encouragement of initiative. It means that discussion is encouraged, that libraries and laboratories introduce the student to 20th century science and technology, that the spirit of free inquiry is insistently maintained. It means, in short, that the United States has in four countries of the Middle East living laboratories of American educational theory and practice.

No one can put a price tag on the contribution of these schools over the years to the educational systems of the host countries. But it can be said with confidence that important as has been the past contribution of these American "exports" their potential for future service to the developing nations, and thereby to the U.S. national interest, is even greater. The American schools abroad came into existence not through government fiat but through the determined efforts of dedicated Americans who believed that American education—with its emphasis on equality of opportunity, on free inquiry in the pursuit of truth, in freedom from ideological dogma—had something special to contribute to the troubled lands of the Middle East. The vision of these American pioneers has been fulfilled. These schools, colleges, and universities are distinctive, and distinctively American.

2. Each of the schools has had significant impact on the country and/or the region they serve. An impressive number of persons educated in places such as Robert College (Turkey), American University at Beirut (Lebanon), now play key roles in the political, scientific, and cultural life of the Middle East. Many of the ministers and other governmental and community leaders now in pivotal posi-

tions in the Middle East owe their college education to the American colleges. For example, Charles Malik, of Lebanon, former President of the United Nations General Assembly, is a graduate of the American University at Beirut and currently teaches at that institution. Again, no one can place a price tag on the value of a good education. However, it is a fact that graduates of the American schools take pride in their alma mater. Perhaps there is no better index of a school's performance.

3. Each of the schools is accepted by the host government, whether in Greece, Turkey, Lebanon, the United Arab Republic, or Honduras, as an honorable contributor to the immense educational task which these countries face. This alone is a striking achievement, for these schools are in fact and in the eyes of Greeks, Turks, Egyptians, Lebanese, Hondurans, foreign schools. And in an age of rising nationalism, suspicion of foreign intervention comes easy. In the life of any nation, education is a sensitive area. Foreign intervention is not tolerated, nor should it be. The schools have persisted through wars and revolutions only because they have operated with a keen sense of their limitations and of the proprieties. Americans are not operating schools abroad to propagandize the American way of life, or to sell U.S. theories of instruction or learning. The schools have survived because they have done only what they purported to do—to teach medicine, engineering, farming, etc., using the best of current American educational methods and technologies. In sum, acceptance has been earned because the schools in fact contribute to the country's needs and operate without antagonizing.

4. Each of the schools is making an increasing contribution to the development needs of the modernizing economies of the Middle East and Central America. The key to economic growth and social progress is talented manpower. This is the bottleneck in development plans around the world. The critical need is for doctors, engineers, administrators, farm technicians, well-trained businessmen. Put more bluntly, the need is for engineers and agricultural leaders who are not afraid to get their hands dirty; for businessmen familiar with the tools of modern business and trained to innovate; for administrators who know how to get things done rather than why things cannot be done.

The American schools do not graduate large numbers, nor will they ever do so. In last analysis, a nation must supply its own educational needs through its own energies. However, the American contribution is strategically important. Frequently, it is the graduate of American University of Beirut, American University at Cairo, or Robert College, for example, who has the special skills and attitudes so essential to modernization efforts on the farm, in the factory, and in the community.

Also, the research contribution should not be overlooked. Increasingly, the colleges and universities are launching research efforts tailored to contribute directly to economic growth or to public health. For example, the American University at Cairo has initiated several research projects in economic planning. The medical research programs of the school of medicine, American University at Beirut, are designed to contribute to the critical health problems of the Middle East.

The Escuela Agricola Panamerica in Honduras has become a great regional center for training and educating Latin American young men for the vital task of increasing the agricultural productivity of their homeland. How well this job has been done is revealed in the fact that 799 out of 806 graduates since the school began are presently actively engaged in some form of agricultural activity in 15 Latin American countries.

5. Each of the schools, to greater or less degree, faces serious budget problems even to maintain existing program levels. As private institutions, the American schools are dependent on income from endowments, gifts, and grants from U.S. foundations and agencies. For the most part, tuition charges cannot be increased without denial of opportunity to promising students. Alumni support continues to be meager; there simply is no tradition in the Middle East of private giving to schools and universities.

No school or college can stand still. Even if no increase in enrollment is permitted and no new programs are initiated, it is essential to repair the physical plant, to renovate and rebuild, to purchase new scientific equipment, and add books to the library. The schools must compete in the academic labor market of the United States for scarce faculty members. The cost of the faculty, books, equipment, new construction, climbs steadily upward.

The result has been growing deficits and intensifying pressure on the U.S. Government for emergency financial assistance. The American schools abroad have turned to the U.S. Government—for books, buildings, laboratories, salary supplements, and now for direct operating costs—because they feel that they have no place else to turn. Both the schools and the U.S. Government now find themselves in a situation which neither anticipated, desired, or enjoys—a situation of growing dependence upon U.S. Government support.

Clearly, the U.S. Government has an interest in seeing that the American schools survive and function effectively. The schools, libraries, hospitals, and medical centers founded or sponsored by American citizens are recognized for their value as study and demonstration centers for American ideas and practices. They serve as models for improved educational methods, materials, and teaching procedures. But it is equally clear that it is not in the long-term interest of the United States or of the schools for the U.S. Government to underwrite current operating deficits of indefinite amounts for an indefinite future.

AGENCY GROUND RULES ESTABLISHED AIMING TOWARD INSTITUTIONAL SELF-SUFFICIENCY

For this reason, the Agency for International Development has revised the ground rules under which requests for assistance will be reviewed. In recent letters to each of the nine schools, Mr. David Bell, AID Administrator, has pointed out that "a prime consideration in planning U.S. Government assistance to any of these institutions is to help the institution move in the direction of financial self-reliance." In order to do this, the AID proposes to encourage and review with each school long-term plans, to discuss with the officials of each school the role which each institution envisages it can best play in the country and region it serves, the financial implications of such long-term plans,

and, finally, what the U.S. Government might appropriately contribute in the light of the national interest. For example, the American University of Beirut needs to expand its already crowded facilities. The proposed appropriation would encourage the university to plan effectively for orderly growth—and thus to maintain its important and respected position in the Near East.

In short, AID hopes to work with each school toward a mutual understanding concerning the kind and amount of assistance most likely to strengthen the financial basis of the school, develop goals and aim toward self-sufficiency.

Will a cooperative approach to long-term planning work? Much depends on the attitude of the schools themselves. Surely this approach is superior to the present practice of 1-year programs of assistance, each handled as a special, but recurring, emergency allocation which presently must compete for funds with technical assistance grant programs in aid recipient countries. The present practice discourages long-term planning by the schools, since they have no assurance from one fiscal year to the next concerning the dollar amount or the kinds of programs that AID can support or will be able to support.

U.S. SUPPORT IN PRIOR YEARS

In fiscal year 1959 total funds in the amount of $3 million were granted to the American University of Beirut and the American University in Cairo to improve campus facilities in those two schools. A total of $3.3 million was made available in fiscal year 1960 to the American University of Beirut and five other schools currently in the program. The U.S. support increased to $4.5 million in fiscal year 1961—$6.5 million in fiscal year 1962, and for fiscal year 1963 approximately $5 million has been made available for this purpose.

NEW AUTHORIZATION AND APPROPRIATION REQUESTS

The President has recommended an amendment to the Foreign Assistance Act which would authorize the appropriation of funds for American-sponsored schools and hospitals. This amendment, also, would authorize appropriations on a continuing basis for this activity. Thus, the schools would be able to plan their programs over several years instead of annually.

Under the authorization which has been requested, the President has proposed a fiscal year 1964 appropriation of $20 million. Approximately $11.5 million is intended to finance a proposed new teaching hospital for the medical school at the American University at Beirut assuming that final evaluation of the site survey team field investigation and analysis demonstrates that support of this proposal is justified. The appropriation would also provide $2.2 million for the Polish Children Hospital, some current operating expenses while long-range planning is being developed and the balance will be available for items which would be included in the long-range programs which AID contemplates developing with each institution. In addition $1.6 million would be used to assist Project Hope. This assistance will help continue this unique training-demonstration in American methods of medical education and care.

The schools need both the incentive and opportunity to make long-term plans. A campus building program cannot be operated by fits and starts. Educational needs, whether for renovation of buildings or expansion of library and laboratory, must be anticipated by at least 4 or 5 years. Indeed, good practice dictates 10-year plans for new capital outlay. Moreover, it is virtually impossible to fit the cycle of planning, designing, financing, and constructing a new building within a single fiscal year.

CHILDREN'S HOSPITAL, POLAND

The American Research Hospital in Poland, Inc., a private organization, is building a 300-bed children's hospital in Krakow, Poland, with the assistance of funds appropriated by the U.S. Congress. The hospital and research facilities will provide a unique opportunity to demonstrate American hospital construction and planning techniques.

The hospital, now about one-third finished, will have two pediatric clinics and one surgical clinic along with research and teaching facilities. Construction is being carried out by a Polish agency according to plans and specifications originally prepared under the supervision of the Cooperative for American Relief Everywhere (CARE). It is hoped to complete the hospital by June 1964, to coincide with the 600th anniversary of the establishment of the University of Krakow.

The sum of $3.9 million in local currency is requested for fiscal year 1964 to complete financing of local costs of this project. In addition, 2.2 million in dollars for imported equipment needed to complete the hospital is included in the appropriation request for $20 million for American schools and hospitals abroad.

A request for $2 million in local currency was included in the President's budget for the Polish hospital. Completion of a section 611, Foreign Assistance Act, review of revised cost estimates has necessitated a request for an additional $1.9 million in local currency for the hospital. Also, we are planning to finance the major portion of assistance proposed for the American University in Cairo in local currency; $790,000 in local currency is requested for this purpose.

VALUE OF AMERICAN-FOUNDED SCHOOLS AND HOSPITALS ABROAD

In conclusion, the schools and hospitals founded by Americans and operating as living educational laboratories and demonstration centers in foreign lands constitute an invaluable resource to the United States. The president of the American University at Cairo has said, "If the American University in Cairo did not exist, the U.S. Government would be doing all in its power to create it." Perhaps the point is overstated, but it is a fact that AID is seeking in many of the developing countries to set up demonstration centers of one kind or another in order to encourage wholesale modernization of the host country's educational system. It makes good sense ,therefore, to capitalize on an existing resource which is already established and accepted within the host country. By assisting American-sponsored schools and hospitals abroad, the United States is supporting private initiative, capitalizing on existing investments, and utilizing the skills and knowledge of Americans already working in the educational field abroad. The critical need for trained manpower in these modernizing nations will make these American schools a strategic resource in the

years ahead. It is against this background of need and opportunity that the request for American-sponsored schools and hospitals abroad should be viewed.

I shall be happy to answer to the best of my ability any questions which members of the committee may have, and to supply for the record any detailed information you may require. Thank you.

Annex I

AMERICAN-SPONSORED SCHOOLS ABROAD—214 PROGRAMS

SUMMARY DATA SHEET

1. American University of Beirut

(*a*) Name and location of the institution: American University of Beirut, Beirut, Lebanon.

(*b*) Control: This university is controlled by a board of trustees incorporated under the laws of the State of New York.

(*c*) President of the institution: Mr. Norman Burns.

(*d*) Chairman of the board: Mr. John C. Case.

(*e*) Founded: This institution was founded by American missionaries led by Dr. Daniel Bliss on April 24, 1863 (date when the State of New York granted the charter).

(*f*) Program: The curriculum at American University of Beirut include graduate and undergraduate programs in: the arts and sciences, education, business administration, medical sciences which covers the schools of medicine, public health, pharmacy, and nursing; engineering, and agriculture.

(*g*) Enrollment: 2,901.

(*h*) Faculty: 407 (about 25 percent American).

(*i*) U.S. Government support: $14,725,000.[1]

Fiscal year	Amount	Purpose
1959	$2,500,000	400(c) funds under the MSA to provide faculty apartments, telephone system, laboratories, kitchen plumbing, and campus planning.
1960	2,075,000	400(c) funds to provide Fisk Hall, College Hall, museum, amphitheater and other facilities and equipment.
1961	3,700,000	400(c) funds to provide for rehabilitation of Dodge Hall, physics facilities, educational equipment and materials plus $2.5 million for a medical complex.
1962	4,500,000	214(a) funds under the FAA of 1961 to provide staff salaries, science facilities, educational equipment and materials plus another $2.5 million for the medical complex.
1963	1,950,000	214(a) funds that will be provided for staff salaries, faculty apartments, scholarships and educational equipment and materials.

(*j*) Kinds of persons trained: Scientific and engineering leaders, economists and business leaders, diplomats and political leaders, medical doctors, nurses and public health leaders, educators, and agricultural experts.

2. International College of Beirut

(*a*) Name and location of the institution: International College of Beirut, Beirut, Lebanon.

(*b*) Control: This school is controlled by a board of trustees that initially received a charter from the Commonwealth of Massachusetts in 1903. It is associated with the American University of Beirut.

(*c*) President of the institution: Mr. Thomas C. Schuller.

(*d*) Chairman of the board: Dr. Daniel Bliss.

(*e*) Founded: This institution was founded in 1891 as a high school in Smyrna, Turkey. In 1936 because of difficulties in Turkey the college came to Beirut and affiliated itself with American University of Beirut on its campus and in 1958 it became a separate corporate body in Lebanon.

(*f*) Program: The curriculum at the international college begins at the kindergarten age and takes students via three languages to the sophomore year of

[1] Additionally $12,782,819 is the amount provided for a contract through June 30, 1963, for the enrollment and training of AID participants.

university study (general education). It is a preparatory program for American University of Beirut.

(*g*) Enrollment: 1,621.

(*h*) Faculty: 125 (7 Americans).

(*i*) U.S. Government support: $1,114,000.

Fiscal year	Amount	Purpose
1960	$714,000	400(c) funds to partly cover costs involved in construction of a new campus.
1961	400,000	Do.

(*j*) Kinds of persons trained: The International College of Beirut trains students to enter higher education.

3. The American University in Cairo

(*a*) Name and location of the institution: The American University of Cairo, Cairo, Egypt.

(*b*) Control: This university is controlled by a board of trustees incorporated in Washington, D.C.

(*c*) President of the institution: Dr. Raymond F. McLain.

(*d*) Chairman of the board: Prof. J. Edward Dirks.

(*e*) Founded: This institution was founded by Americans residing in Cairo with private support from the United States in 1919.

(*f*) Program: The curriculum at this school is primarily that of a liberal arts college with M.A. programs in anthropology, sociology, English literature, and Arabic studies. There is also a large evening program in adult education with emphasis in the language.

(*g*) Enrollment: 900 (550 adult education noncredit).

(*h*) Faculty: 63 (20 Americans).

(*i*) U.S. Government support: $2,376,279.

Fiscal year	Amount	Purpose
1959	$500,000	400(c) funds to provide a science building.
1960	465,828	Public Law 480 funds to provide faculty salaries, construction of student service center, scholarships, and educational equipment and materials.
1961	30,000	440(c)funds to provide library books and professional materials.
1962	500,000	Public Law 480 funds to renovate and equip library plus faculty salary assistance.
1962	70,000	214(a) funds to provide educational materials and books.
1963	315,000	Public Law 480 funds to provide faculty salaries, scholarships.
1963	495,451	214(a) funds will be provided for faculty salaries, construction of classrooms, educational equipment and materials.

(*j*) Kinds of persons trained: Political and administrative leaders, managerial level leaders, and educators.

4. Robert College (including American College for Girls)

(*a*) Name and location of the institution: Robert College, Istanbul, Turkey.

(*b*) Control: This institution is controlled by a board of trustees incorporated under the laws of the State of New York.

(*c*) President of the institution: Dr. Patrick Murphy Malin.

(*d*) President of the board: Mr. Grinnell Morris.

(*e*) Founded: Robert College was established in 1863; the first American college founded overseas. The American College for Girls was orginally founded in 1891 as the first women's liberal arts college in the Near East. These two schools were legally united in 1959.

(*f*) Program: Robert College offers a 3-year academy, a school of engineering, a school of business administration and economics, and a school of science and language. The engineering school grants the equivalent of the B.S. and M.S. degrees; the latter two schools—the equivalent of the B.A./B.S. The College for Girls has a preparatory school and offers the first 2 years of college in the liberal arts and sciences.

(*g*) Enrollment: 1,540 (638 girls).

(*h*) Faculty: 157 (78 Americans).

(*i*) U.S. Government support: $4,760,574.

Fiscal year	Amount	Purpose
1958	$1,000,000	Public Law 480 funds for the construction of an engineering building.
1960	500,000	400(c) funds for engineering equipment.
1960	696,898	Public Law 480 funds for construction, equipment, and faculty salaries.
1961	270,000	400(c) funds for construction of dormitory and faculty housing.
1962	300,000	214(a) funds for furniture, equipment, and construction materials.
1962	268,676	Public Law 480 funds for faculty salaries and scholarships.
1963	875,000	Public Law 480 funds for faculty salaries, renovations, and scholarships.
1963	850,000	214(a) funds will be granted for faculty salaries and educational equipment, materials, and books.

(*j*) Kinds of persons trained: Political and business leaders, military officers, scientists, engineers, teachers, and educated wives and mothers.

5. Athens College

(*a*) Name and location of the institution: Athens College, Athens, Greece.

(*b*) Control: This college is controlled by a board of trustees incorporated under the laws of the State of New York.

(*c*) President of the institution: Mr. Charles W. Rice.

(*d*) Chairman of the board: Mr. Kyriakos P. Tsolainos.

(*e*) Founded: This school was founded in 1925 by Greeks and Americans together.

(*f*) Program: The curriculum at this school covers a 10-year period including secondary school and what would be compared to junior college in the United States. It is classical in nature with more emphasis being placed on science. It completes general education.

(*g*) Enrollment: 1,200.

(*h*) Faculty: 97 (10 Americans).

(*i*) U.S. Government support: $896,159.

Fiscal year	Amount	Purpose
1958	$185,617	Public Law 480 funds for the construction of a dormitory and scholarships.
1960	163,042	Do.
1960	20,000	400(c) funds for educational and support equipment.
1961	17,000	Do.
1962	220,000	214(a) funds for a library science building.
1963	25,000	Public Law 480 funds for scholarships.
1963	265,500	214(a) funds will be granted for equipping science building; renovation; educational equipment, books and supplies; English language training; and scholarships.

(*j*) Kinds of persons trained: Athens College trains Greek students to enter higher education.

6. Orlinda Childs Pierce College for Women

(*a*) Name and location of the institution: Orlinda Childs Pierce College for Women, Athens, Greece.

(*b*) Control: This college is controlled by a board of trustees incorporated under the laws of the State of Colorado.

(*c*) President of the institution: Dr. Margaret Steward.

(*d*) Chairman of the board: Mrs. Douglas Horton.

(*e*) Founded: This school was established in Smyrna, Turkey, in 1875 but it was forced to close in 1922 and in 1923 it set up operations in Greece.

(*f*) Program: The curriculum at this school follows the 6-year course as established by the Greek Government for the national gymnasia. Additionally 10 more periods in English language are given. The entire upper division (junior college level) is conducted in English. The School of Commercial Studies teaches American business methods and the School of Social Welfare stresses scientific approach to problems in this field.

(*g*) Enrollment: 600.

(*h*) Faculty: 75 (8 Americans).

(*i*) U.S. Government support: $1,236,000.

Fiscal year	Amount	Purpose
1962	$611,000	214(a) funds for construction of a new campus.
1963	25,000	Public Law 480 funds for scholarships.
1963	600,000	214(a) funds for construction of a new campus.

(*j*) Kinds of persons trained: Social welfare workers, secretaries, business leaders, and students to proceed further in higher education.

7. *Anatolia College*

(*a*) Name and location of the institution: Anatolia College, Thessaloniki, Greece.

(*b*) Control: This college is controlled by a board of trustees incorporated under the laws of the State of New York.

(*c*) President of the institution: Dr. Howard W. Johnston.

(*d*) Chairman of the board: Mr. John F. Chapman.

(*e*) Founded: This institution was founded in 1886 in Merzifon, Turkey by a group of American missionaries. It has been located in Thessaloniki since 1923 when it was reestablished by Venizelos, the Greek Prime Minister.

(*f*) Program: The curriculum at Anatolia College provides all the studies in the Greek program for secondary education in addition to a thorough training in English. The full 7-year course at Anatolia College corresponds with the American junior and senior high and junior college programs combined.

(*g*) Enrollment: 690 students (340 boys, 350 girls).

(*h*) Faculty: 62 (14 Americans).

(*i*) U.S. Government support: $702,650.

Fiscal year	Amount	Purpose
1958	$130,000	Public Law 480 funds to provide for the construction of girls' dormitories, the renovation and remodeling of 4 faculty residences, and scholarships.
1960	195,650	Public Law 480 funds to provide for the construction of a science building with necessary equipment and funishings and scholarships.
1960	15,000	400(c) funds to provide educational equipment.
1961	20,000	400(c) funds to provide educational equipment and office equipment and a telephone system.
1962	90,000	214(a) funds to renovate existing boys' dormitories and construct a dormitory to house 46 students.
1963	25,000	Public Law 480 funds to provide faculty salaries.
1963	227,000	214(a) funds to be provided for scholarships and teachers salaries, to equip and furnish boys' dormitories, and to renovate and equip a classroom building.

(*j*) Kinds of persons trained: Anatolia College trains students to enter higher education.

8. *The American Farm School*

(*a*) Name and location of the institution: The American Farm School, Thessaloniki, Greece.

(*b*) Control: This school is controlled by a board of trustees incorporated under the laws of the State of New York.

(*c*) Director of the institution: Mr. Bruce M. Lansdale.

(*d*) President of the board: Mr. Craig R. Smith.

(*e*) Founded: This institution was founded in 1904 by the American missionary, John Henry House.

(*f*) Program: The American Farm School has a comprehensive program for helping the Greek people help themselves in every area of village life. Four-year courses for the students in the school provide agricultural and technical training in the practical departments plus some academic instruction. The school also offers an extensive program of courses for 800 villagers in such fields as farm machinery, irrigation, livestock, and rural electrification. There is also a village development program which trains village leaders. The school maintains a model farm for demonstration and conducts a livestock distribution program.

(*g*) Enrollment: 200.
(*h*) Faculty: 44 (5 Americans).
(*i*) U.S. Government support: $765,802.

Fiscal year	Amount	Purpose
1958	$99,000	Public Law 480 funds to provide scholarship assistance.
1960	229,302	Public Law 480 funds to provide for construction, equipment, and scholarships.
1960	20,000	400(c) funds to provide for farm equipment.
1961	13,000	400(c) funds to provide for a diesel generating unit.
1962	95,500	214(a) funds to provide for renovation, improvement of facilities, and training equipment.
1963	25,000	Public Law 480 funds to provide faculty salaries.
1963	284,000	214(a) funds to be provided for scholarships, training of Greek staff, for the improvement of facilities and extension of a classroom building, laboratories, and to subsidize a community development program.

(*j*) Kinds of persons trained: Competent farmers, agricultural leaders at the village level, and village leaders.

9. Escuela Agricola Panamericana

(*a*) Name and location of the institution: Escuela Agricola Panamericana, Tegucigalpa, Honduras.
(*b*) Control: This school is controlled by a board of trustees incorporated under the laws of the State of Delaware.
(*c*) Director of the institution: Mr. Albert S. Muller.
(*d*) President of the board: Doris Z. Stone.
(*e*) Founded: This institution was founded by the United Fruit Co. in 1941.
(*f*) Program: This school offers a general agricultural program. It offers no courses in literature, geography or history. Four semesters of English are required. The University of Florida accepts the school's graduates with credit for 96 hours. Most of the training involves practical work in the fields.
(*g*) Enrollment: 164.
(*h*) Faculty: 25 (5 Americans).
(*i*) U.S. Government support: $464,000.

Fiscal year	Amount	Purpose
1961	$50,000	400(c) funds to provide faculty housing, furniture, and agricultural equipment.
1962	114,000	214(a) funds to provide books, educational equipment, agricultural equipment, and improve facilities.
1963	300,000	214(a) funds to be provided for scholarships and salaries, to improve teaching facilities, to establish labor housing and for agricultural equipment.

(*j*) Kinds of persons trained: Expert farmers, government leaders in agriculture, managers of estates and plantations.

FISCAL YEAR 1964 REQUEST FOR AMERICAN SCHOOLS AND HOSPITALS ABROAD

Mr. PASSMAN. Thank you very much for your statement, Dr. Baumgartner.

This is a new item in the President's request, $20 million for American schools and hospitals abroad, is it not?

Dr. BAUMGARTNER. It is, sir.

Mr. PASSMAN. The foreign aid bill in prior years has included funds under the various appropriations for schools and libraries, and the Congress has also appropriated local currencies for hospitals and medical centers; however, the proposed legislation would authorize an appropriation of $20 million for American-sponsored schools and hospitals abroad; is that correct?

Dr. BAUMGARTNER. That is correct.

PROPOSED ALLOCATION OF FUNDS FOR 1964

Mr. PASSMAN. How do you propose to allocate the $20 million that you have requested for this purpose in fiscal year 1964?

You may insert the information in the record.

Also, please let us have the comparable information for 1962 and 1963 and spread the $20 million as you propose to allocate it in 1964, particularly getting into one category, research.

(The information follows:)

American sponsored schools and hospitals abroad

	Fiscal year 1962	Fiscal year 1963	Pending fiscal year 1964
American University of Beirut	$4,500,000	$1,950,000	$2,000,000
American University of Beirut (Medical Center)			[1] 11,500,000
American University in Cairo	70,000	495,451	[2] 150,000
Robert College	300,000	850,000	2,000,000
Athens College	220,000	265,500	100,000
Pierce College	611,000	600,000	600,000
Anatolia College	90,000	227,000	200,000
American Farm School	95,500	284,000	75,000
Escuela Agricola Panamericana	114,000	300,000	300,000
Project Hope			1,600,000
Polish Children's Hospital			[3] 2,200,000
Total	6,000,500	4,971,951	20,725,000

[1] This item tentative, pending Agency review of site team evaluation.
[2] Plus $790,000 in U.S.-owned Egyptian pounds.
[3] Plus $3,900,000 U.S.-owned zlotys.

REQUESTED APPROPRIATION TO PURCHASE ZLOTYS FOR CHILDREN'S HOSPITALS

Mr. PASSMAN. Under another section of the bill, the Congress is being requested to appropriate $2 million for the purchase of Polish currency for the children's hospital in Crakow, Poland. This particular estimate also includes, I believe, $2.2 million for imported equipment for this hospital.

Dr. BAUMGARTNER. I think the $2.2 million is to complete some of the building, but largely for equipment in dollars.

In addition, there is $3.9 million in U.S.-owned zlotys, Polish currency, that will be used to complete this building, and it is proposed to do this and get through with the Polish hospital.

Mr. PASSMAN. Are you requesting $2 million in Polish currency for fiscal year 1964?

Dr. BAUMGARTNER. $3.9 million are my figures.

Mr. SCHEINMAN. Recently there has been an examination pursuant to section 611 of the Foreign Assistance Act, and that indicated that $1.9 million additional in zlotys would be necessary for local costs in Poland. Therefore, the President's request will be amended.

Mr. PASSMAN. You have changed your signals since you presented this bill. If it is $3.9 million rather than $2 million, let the record show that fact. It will be in local currency?

Mr. SCHEINMAN. Polish local currency.

Mr. PASSMAN. Will that sum be sufficient to complete the hospital?

Dr. BAUMGARTNER. That money, plus the $2.2 million, will complete the hospital. The reason for hurrying on this is to complete it

by the time of the 600th anniversary of the university there as a gesture——

Mr. PASSMAN. I want to keep the two separated. One is dealing with Polish currency. You will need $3 million. We shall appropriate dollars, but it will be converted into currency we cannot use otherwise?

Dr. BAUMGARTNER. That is right.

Mr. PASSMAN. The only cash, or dollar, outlay will be approximately $2.2 million that will be used to purchase equipment for the hospital. That will be American equipment?

Dr. BAUMGARTNER. That will be American equipment.

PERMANENT IDENTIFICATION OF AMERICAN CONTRIBUTION TO POLISH HOSPITAL

Are you going to insist that this hospital be properly identified as being donated by America?

Dr. BAUMGARTNER. It is called the American Children's Hospital. There are permanent markers on the building.

Mr. PASSMAN. Is it plain enough so the people who read that will know it is an American contribution?

Dr. BAUMGARTNER. I have not been there.

Mr. ROONEY. I have been there. It is plainly identified.

Dr. BAUMGARTNER. I think there is another thing about this children's hospital. I was in Krakow in 1961, and I looked at the medical staff there. This was long before I was here. They have an excellent group of Polish doctors, well-trained. Many of them trained in this country and they will staff that hospital.

Mr. ROONEY. And mostly female?

Dr. BAUMGARTNER. That is true of many doctors in Poland.

Mr. PASSMAN. Do you have an architect's version of how the hospital will look when completed?

Dr. BAUMGARTNER. I will try to get you one.

Mr. PASSMAN. Off the record.

(Off the record.)

Mr. PASSMAN. When will the hospital be completed?

Dr. BAUMGARTNER. Within the year 1964.

Mr. PASSMAN. During calendar year 1964?

Dr. BAUMGARTNER. The budget year 1963—the spring of 1964 it opens.

Mr. PASSMAN. The $2.2 million will be used for American equipment?

Dr. BAUMGARTNER. Correct, sir.

Mr. PASSMAN. Will it not be necessary that certain of the equipment be procured and installed prior to completion of the hospital?

Dr. BAUMGARTNER. I think that is planned, sir.

Mr. ROONEY. Part of the equipment will be the elevators?

Mr. PASSMAN. Would that be out of the $2.2 million?

Dr. BAUMGARTNER. I understand it is, sir.

Mr. PASSMAN. Off the record.

(Off the record.)

AMERICAN UNIVERSITY OF BEIRUT MEDICAL CENTER

Mr. PASSMAN. There is one other hospital I am familiar with in this program and that is at the American University of Beirut.

Dr. BAUMGARTNER. Right.

Mr. PASSMAN. I think the President has expressed an unusual interest in the construction of this hospital. I think it may be that it was on his recommendation they got the original $5 million for the research center.

Dr. BAUMGARTNER. That is right.

Mr. ROONEY. There is an inadequate children's hospital there?

(Off the record.)

Mr. PASSMAN. I had to have medical attention during my last trip to Beirut. I met the dean of the medical school, Dr. Sam Kirkwood. He is a graduate of Harvard. I was very favorably impressed by him. I spent considerable time discussing this matter with him, going over the blueprints and the architect's drawings.

I believe this is a project in which the President has indicated a very special interest?

Dr. BAUMGARTNER. We have a very special interest in it ourselves.

As a physician, I do. There are some problems. $11.5 million is a lot of money.

U.S. ASSISTANCE CONTINGENT UPON AVAILABILITY OF AMERICAN UNIVERSITY OF BEIRUT OPERATING FUNDS

We want to be sure what it will give in return in terms of better health to the people in that area; and second, we want to know what it is going to do to the operating funds of the university as well as the hospital.

Mr. PASSMAN. We certainly share your concern. It is only upon that basis, of course, that we are considering your money request.

The first phase of this medical center has already been approved, I think. I believe they are entering into the construction phase of it now.

Dr. BAUMGARTNER. We have had a team looking at this.

Mr. PASSMAN. I am speaking of the educational building for which you allocated $5 million. That is underway?

Dr. ENARSON. That is right.

Mr. PASSMAN. The hospital is the second part of a total unit?

Dr. BAUMGARTNER. Yes.

Mr. PASSMAN. They are requesting $11.5 million to build a hospital. It is to be a teaching hospital.

Dr. BAUMGARTNER. So we understand.

POSSIBILITY OF AN ENDOWMENT FUND

Mr. PASSMAN. It is my understanding that the criteria established by which these people might get this item approved would be they could create an endowment to be able to pay their operating expenses.

Dr. BAUMGARTNER. That is exactly the question we are addressing ourselves to. We want to know what their plans are for operating expenses, because we all know how much the operating expenses

of a teaching hospital can run into and the drain they can be on the operating costs of the university.

Mr. PASSMAN. I would not recommend appropriating a dollar if they cannot justify it.

Word has reached me that Saudi Arabia has entered into a firm contract to support the medical school for $500,000 yearly.

Dr. BAUMGARTNER. One gift of $500,000 with no definite commitment for similar contributions in future years.

Mr. PASSMAN. I think there possibly has been an amendment to that commitment, that it will be $500,000 per year.

Is it going to be your recommendation, Doctor, that they create an endowment fund?

Dr. BAUMGARTNER. It is certainly going to be our recommendation, and we have asked them to show us where they think the operating costs of this hospital are going to come from. If we are not careful, I think, these institutions—and this is not only with regard to this hospital—have growing operating deficits, and this makes them increasingly dependent on the U.S. Government, and this worries us.

Mr. PASSMAN. Do you have any way of getting together statistics on this matter?

Dr. BAUMGARTNER. That is exactly what we are looking for.

Mr. PASSMAN. Do you have similar operations that are self-supporting in other parts of the world? Have you anything to go by, any guidelines by which you can determine whether or not it would be self-supporting?

Dr. BAUMGARTNER. I think this would depend on the particular circumstances in each teaching hospital and in each medical school.

FAVORABLE LOCATION IN BEIRUT

Mr. PASSMAN. Would Beirut be about as favorable as any place in the Middle East, because of the relatively high per capita income of the Lebanese as compared to other countries in that area?

Dr. BAUMGARTNER. The Lebanese have a higher per capita income. They also have access to other rich countries in the area. This is one of the reasons we are happy that there has been a commitment of some kind from a neighboring country.

Mr. PASSMAN. What other rich countries in that area?

Dr. BAUMGARTNER. The Middle East oil-rich countries. If they can be persuaded to put their money into this hospital, I think this may increase the possibility of the hospital's supporting itself.

OPERATING EXPENSES PROBLEMS OF UNIVERSITIES AND HOSPITALS

Mr. PASSMAN. In numerous instances, I believe, we are providing operating expenses and giving budgetary support to old, established institutions in many parts of the world which heretofore have been able to pay their own expenses.

I am for you on your capital investment request, but I am not going to recommend that you make a habit of subsidizing the budgets and operating expenses of these institutions.

Dr. BAUMGARTNER. This is a real problem these institutions have, because the costs of education go up even as they go up here, and it

becomes increasingly difficult to meet the bills; they ask for books; they ask for libraries; they ask for equipment. After all, this is like giving a woman either a new dress or an increase in her allowance. In one or the other, you are helping her operate.

Mr. PASSMAN. What is your estimate for research and development for fiscal 1964?

Dr. BAUMGARTNER. I do not know if you would like to have me talk a little bit about the points that were raised by some of the members of the committee who are not here now, in terms of why we think research is a good idea.

U.S. ASSISTANCE SINCE INCEPTION OF PROGRAM

Mr. FORD. May I ask a question or two on this other aspect about which you and Dr. Baumgartner were talking?

Mr. PASSMAN. Certainly.

Mr. FORD. This is the first year of this one program, is it not?

Dr. BAUMGARTNER. Which program, sir?

Mr. FORD. Aiding and assisting the hospital in Beirut and the like.

Dr. BAUMGARTNER. This is the first time it has been earmarked as a program. It was our feeling we ought to come to you and tell you what our intentions were. It is the first opportunity you have had to look at these funds. Before this, these activities have been funded out of development grants, and you did not have an opportunity to look to see what our intentions were.

Mr. FORD. Could you put in the record the extent of these programs in past years, in dollars and to specific colleges and universities?

Dr. BAUMGARTNER. We would be happy to. There are nine schools that are being supported.

Dr. ENARSON. Very briefly, fiscal 1963 is the 5th year for this program. The rate of spending currently is roughly $5 million a year, but it threatens to go up very rapidly unless we put some reasonable checks on it, as the chairman has indicated.

Mr. FORD. This is what I was anxious to find out. What was the program cost at its inception, and the trend up to the present, including fiscal 1964? I would also like some idea of what you think the program will generate into as we go down the road. Can you tell us that? What would be your best estimate?

POSSIBILITY OF GROWING OPERATING DEFICITS

Dr. BAUMGARTNER. I think this is one of the things that disturbs us. If you look at what we have spent to date since 1959, which I have in front of me, you see we have varied around $4 to $5 million, but as you look individually, which we have done this year in taking this hard look the chairman has been talking about, we see a possibility of growing operating deficits in these institutions. Whether we can some way or another help them find the matching funds, the endowment funds, the kind of funds that will keep them going, I think is the real question. Otherwise, it would be my own guess that they will come to us for operating deficits, and I do not know whether I consider it a proper expenditure of our money over a period of time.

Mr. FORD. Do they fully realize your attitude about operating deficits?

Dr. BAUMGARTNER. They do, indeed. We are not very popular, I am afraid, in some circles.

Mr. FORD. In other words, the money you are proposing in fiscal 1964 is how much?

Dr. BAUMGARTNER. $20 million. It is roughly what it is this year, with the addition of $11.5 million for the medical center which the chairman has just been talking about, $2.2 million for the Polish Children's Hospital, the American Hospital in Krakow, and $1.6 million for project Hope which we have given to before, but it always has come out of contingency funds or something else of this kind.

Mr. FORD. The total program is $20 million in fiscal 1964?

Dr. BAUMGARTNER. That is right.

Dr. ENARSON. For purposes of comparison, sir, using the basis I gave you a moment ago, of $5 or $6 million each year, the comparable figure for fiscal 1964 would be $5.5 million, holding that at current levels.

Mr. FORD. The $14.4 million is for purposes other than the kind of program you have carried on heretofore?

Dr. BAUMGARTNER. That is right.

Mr. FORD. If you do not get these additional contributions from other sources, the $5 to $6 million you have been spending would go up substantially.

Dr. BAUMGARTNER. Unless these schools are able to find additional money for operating costs.

Mr. FORD. What magnitude are you thinking of if you do not accomplish this objective?

NECESSITY FOR INSTITUTIONAL LONG-TERM PLANNING

Dr. BAUMGARTNER. One of the things we are trying to make these schools do is some long-term planning and cut their costs. We have asked them for long-term plans, which is the first time we have done that. We want to study those very carefully before we give an exact estimate. What I would give you now would be a guess.

AID TO POLISH CHILDREN'S HOSPITAL

Mr. FORD. In the $20 million, are we including the completion funds for the hospital at Krakow?

Dr. BAUMGARTNER. We are.

Mr. FORD. And also some interim financing for operations?

Dr. BAUMGARTNER. We are including money at about the same level that we have given them in the past year.

Dr. ENARSON. Do you mean operating funds for the hospital at Krakow?

Dr. BAUMGARTNER. No, no operating funds for them. We have never done that.

Mr. FORD. As I read your statement, I think you are planning on some for fiscal 1964.

Dr. BAUMGARTNER. We are not planning on any operating funds ever for the hospital in Krakow, not dollars.

Mr. FORD. Zlotys from our foreign currencies?

Dr. BAUMGARTNER. That might be possible. We would hope that they would carry on the operation. They have agreed to staff it with

Polish doctors at their own expense. Knowing hospitals as I do and knowing the way hospitals run into deficits, I always hate to predict what a hospital will do 5 years from now.

Mr. FORD. And also knowing the availability of zlotys in Poland——

Dr. BAUMGARTNER. We have a tremendous quantity of American-owned zlotys in Poland.

Mr. FORD. I would venture to forecast that you will be importuned to utilize them. I am not saying that will succumb, knowing their substantial availability, but I am sure such request will be forthcoming. Again, I say this may not be the worst way to use those. It might be the very best.

U.S. ASSISTANCE SINCE INCEPTION OF PROGRAM

Dr. BAUMGARTNER. I can give you right now the money given since 1959, since we began.

Mr. PASSMAN. Please insert that information in the record.

(The information requested follows:)

Grants to American institutions of higher learning abroad under authority of sec. 214(a) of the Foreign Assistance Act of 1961 and 400(c) of Mutual Security Act of 1954

Name of school	Location	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	1959-63 Total
Near East and south Asia:							
1. American University of Beirut	Beirut, Lebanon	$2,500,000	$2,075,000	$3,700,000	$4,500,000	$1,950,000	$14,725,000
2. International College of Beirut	do		714,000	400,000			1,114,000
3. American Farm School	Salonika, Greece		20,000	13,000	95,500	284,000	412,500
4. Anatolia College	do		15,000	20,000	90,000	227,000	352,000
5. Athens College	Athens, Greece		20,000	17,000	220,000	265,500	522,500
6. Pierce College	do				611,000	600,000	1,211,000
7. Robert College	Istanbul, Turkey		500,000	270,000	300,000	850,000	1,920,000
8. American University in Cairo	Cairo, Egypt (United Arab Republic)	500,000		30,000	70,000	495,451	1,095,451
Latin America:							
9. Escuela Agricola Panamericana	Tegucigalpa, Honduras			50,000	114,000	300,000	464,000
Total for institutions of higher learning		3,000,000	3,344,000	4,500,000	6,000,500	4,971,951	21,816,451
Total for the program		4,275,000	4,000,000	4,500,000	6,000,500	[1] 4,986,000	23,761,500

[1] Includes $14,049 for administrative cost.

Mr. PASSMAN. I certainly support the hospital for Beirut and the hospital for Poland, if they can convince you they can pay their operating expenses. I do not, however, think we should continue subsidizing their budgets.

Dr. BAUMGARTNER. One of our reasons for coming to you for this kind of authorization is that we hope to use the ceiling that you give us as a kind of warning to these schools that they had better get out and find their own money.

Mr. PASSMAN. You will admit we are just a little bit boxed in on this matter. You tie your subsidy to their budgets right in with the capital funds request. If we happen to cut the subsidy to the budget, the money could be taken out of construction, because the funds are not earmarked.

Dr. BAUMGARTNER. I think we are boxed in, too, because these schools do create a good American image abroad. For example, there is a school in Honduras that does about as practical a teaching and training job, that an American dirt farmer would be proud of, as you can see. People come from all over Latin America to go to that school. They are going back and working in agriculture. If I remember correctly, out of some 800 graduates, most of them are back in their countries at work in agriculture. This is the kind of American-sponsored schools abroad that we Americans are proud of.

We are boxed in on these schools in terms of deciding whether we wish to carry this American picture on or whether we do not. But this will be your choice.

(Off the record.)

DEVELOPMENT RESEARCH PROGRAM

Mr. PASSMAN. What is the estimate for research and development for fiscal 1964?

Dr. BAUMGARTNER. The estimate is $15 million.

Mr. PASSMAN. Under what appropriation?

Dr. BAUMGARTNER. This will be a part of the grant fund. We have about $3 million of this that was obligated in 1963, and an additional $5 million in research projects that have been approved under the new system that we have set up within the last 6 months, that are now ready for obligation in fiscal 1964. Of this, there are about $2.9 million to continue work that is being done under projects which were begun in prior years, and about $2.3 million that are ready for obligation.

I might point out that in the little over 6 months since I have taken over this activity—and we will remember this is a new program which is only 17 months old, anyway—we have given considerable attention to an examination of the program and the way it was operating and its goals and objectives. We have learned some lessons out of this internal review. We have also benefited by extensive discussions with other governmental agencies with long records of distinguished achievement in Government-financed research.

We have explored various kinds of activities that have led to success on the part of organizations like the Rockefeller Foundation and other people.

All of this has led up to a reshaping of the research program within the last 6 months. The chief aspects are three. No. 1, we have appointed an objective advisory committee composed of nongovernmental scientists from foundations, industry, and universities. We have sitting with the committee, however, advisers from other governmental agencies, too. Members of that committee are chosen because they know of AID's problems in attempting to transfer and particularly to adapt the scientific techniques that have been found successful in this country, to the developing areas. Some of these people also have been associated with companies that know pretty much about how research adds to the profits of the country. We have done a study of management, and we have tightened up the management.

The last step has been the appointment of an outstanding sicentist, long experienced in a Government program which we thought was extremely important, of analysis as well as research, a program which has contributed most effectively to the efficiency of another Government operation; namely, the Navy. The Office of Naval Research, as I think you probably know, has a most splendid reputation, a long and solid record of achievement. The gentleman is with me—Dr. Weyl. He has had a keen interest in AID's problems over a period of time.

Over a year ago, he was brought in to consult on the research program, so he does not come to the aid field inexperienced, and certainly he is not inexperienced in the field of tight Government research. He has been appointed science adviser to Mr. Bell in guiding the research program itself. He is here, and could discuss with you some of the new areas that make us confident that over and above the approximately $5 million that we need to keep ongoing work——

Mr. PASSMAN. We want you to insert your statement in detail in the record.

(The information requested follows:)

THE AID PROGRAM OF DEVELOPMENT RESEARCH

Statement by Dr. F. J. Weyl

The program in development research, analysis, and evaluation to be funded in fiscal year 1964 will address itself directly to the need for a better understanding of the problems of development, for improvements in the approach to their solution, and for the creation of objective bases of evaluation, as these have been recognized in the operation of the foreign assistance program. Much work has been done in the course of the last 2 to 3 years, both within AID and by carefully selected groups of outside advisers, in order to identify and define these requirements for research and analysis.

As has been stated, the continuation of projects initiated with prior-year funds, as well as the funding of projects which had been scientifically approved but were caught in the pipeline at the end of the last fiscal year, will require some $5 million of fiscal year 1964 funds. We estimate that another $10 million can be prudently obligated for systematic analyses and experimental investigations during the remainder of the current fiscal year. There is on hand a sizable backlog of proposals for such projects, submitted by research organizations who think or have heard that AID may need help along such lines, which would require funding considerably in excess of our fiscal year 1964 request. It is now necessary to select out of the mass of these proposals those that best fit into a program which is responsive to AID's needs, makes use of relevant work done earlier elsewhere, and relies as far as it can on capabilities provided elsewhere within the Government—such as in the Department of Agriculture, the Department of Health, Education, and Welfare, etc.

This is a job of a small research and evaluation staff (whose name and structure may well change in the course of the fiscal year as we further improve the management of our research program along the lines indicated by Dr. Baumgartner). It consists of about 20 professionals, assisted by advisory committees both of staff from other AID offices and of eminent outsiders.

I will list some examples of high priority requirements for increased knowledge, as well as for newly conceived methods of approach, regarding the problems of less-developed societies. The bulk of the research program which AID proposes to fund in fiscal year 1964 will focus on at least one of these. At the same time, we shall keep our eyes open for other opportunities that may be presented by the discovery of new scientific capabilities or by the availability of specially qualified research teams.

1. Systematic analysis and evaluation of programs, using current quantitative techniques, are now being applied over an increasing range of the Federal Government's major commitments. Improvements in the planning and operation of foreign assistance can be expected if such tools of analysis are generated and adapted for use in these activities.

2. Major operational aid commitments are currently being made in west Pakistan toward accelerating rural development, including particularly the solution of waterlogging and salinity problems affecting a large portion of that country's arable land. A program of relevant research projects is taking shape to analyze the interdependence of various factors both physical and economic, to identify possible alternative procedures and to assist in selecting good ones. Some of the areas of science and technology involved are agriculture, hydrological engineering, nutritional patterns, and the economics of fertilizer production and use.

3. Our success in initiating the kind of upswing in agricultural productivity that forms the basis of any accelerated development program has been spotty; we have succeeded in some areas, failed in others, succeeded with some crops, failed with others. It is therefore worthwhile to analyze in some breadth what needs to be investigated, and then engage in these investigations, in order to improve our score. It is recognized that causes of the differences are to be found not just in agricultural technology but in a much wider range of factors. Proposals on hand for projects addressed to the agricultural aspects alone amount to more than $5 million.

4. The problems of transporting people, goods, power, and information form an important aspect of development. Moreover, they appear in forms which allow the sort of quantitative measurement that makes them amenable to modern scientific analysis. At the same time, numerous economic forces and other aspects of national and community development are influenced in a subtle way by alternative solutions of the transport problems. These interdependencies must be better understood, and deeper insight must be gained on the influence proper shaping of a transport and communication system can have on a developing society.

5. By far the most important, the most difficult, and the most delicate problem is that of people; education continues to be the most powerful tool in the development process. Notwithstanding the problems that continue to be with us in our own system of education, we must work energetically on learning how to assist in shaping and improving those of developing societies as well. The extent and variety of these needs constitute a challenge we must meet if the goals of the U.S. development assistance are to be reached. The sooner we discover practical ways to mobilize new concepts and knowledge, new techniques and materials for education in these societies, the sooner they will be ready to accept responsible membership in the free world community. The results of such research may even turn out to be of direct benefits to ourselves.

STATEMENT OF DR. LEONA BAUMGARTNER TO THE FOREIGN OPERATIONS SUBCOMMITTEE OF THE HOUSE APPROPRIATIONS COMMITTEE RESEARCH PROGRAM

It is also a pleasure to discuss with you briefly the Agency's research program. This, as you know, is a new venture launched only 17 months ago and one which has been in operation only a little over a year. This is obviously too short a period within which to expect demonstrable results though we have already improved our operating program as a result of some of these efforts.

It is a little over 6 months since the research activities were transferred to my sphere of activity. Considerable attention has been given to an examination of

the program, the way in which it was operating, and its goals and objectives. Some lessons have been learned from this extensive internal review. We have also benefited by extensive discussions with other governmental agencies with long records of distinguished achievement in Government-financed research, as well as careful exploration of the kinds of activities that have led to success on the part of organizations, like the Rockefeller Foundation, which have long been in the field. Important actions taken so far include:

(1) The appointment of an objective advisory committee composed of leading scientists from Government, foundations and industry. Members of that committee know of AID's problems in attempting to transfer and adapt the techniques that have been found successful in this country to the developing areas. Some of them have been associated with companies whose success involves the careful and continuing analysis of their own operations. There are also Government advisers from other departments who have been particularly successful in analyzing carefully the problems of operation.

(2) Study of management with tightening of important controls.

(3) The appointment of an outstanding scientist long experienced in a Government program of research and analysis which has contributed most effectively to the efficiency of another Government operation; namely, the Navy. The Office of Naval Research as, I am sure, many committee members know, has one of the longest and most solid records of achievement in the Federal Government. Actually, the new appointee who will guide AID's research and analysis efforts has had a keen interest in AID's problems over a period of time and over a year ago was brought to AID to consult on some of these problems. So he does not come to the field inexperienced in the specific problems of AID.

Dr. F. J. Weyl is the individual concerned and has been appointed as science adviser to Mr. David Bell, AID Administrator, and as a science director guiding the research program.

These moves to strengthen the research and evaluation program of the Agency, I am sure, will pay rich dividends. However, this does not mean that the Agency has stood still in the last 6 months. In addition to steps mentioned above, we have been looking at some of the specific problems associated with increasing agricultural productivity, finding new and improved ways to make up for the deficiences in education in these countries, etc.

Since the program began, funds amounting to approximately $11 million were obligated—about $3 million of this total in fiscal year 1963. We estimate that in 1964 we will obligate $2.9 million to continue work being done under projects begun in prior years. New projects now ready for obligation amount to $2.3 million. All have been approved by our outside objective advisers.

Dr. Weyl is here and he will discuss some of the new areas that make us confident that the $15 million which has been requested is a reasonable sum.

Mr. PASSMAN. I think you missed my question. What is the estimate for research and development in fiscal 1964, complete?

Dr. BAUMGARTNER. $15 million.

Mr. PASSMAN. Under what appropriation?

Dr. BAUMGARTNER. Development grants.

Mr. PASSMAN. What was the size of the program for fiscal 1963?

Dr. BAUMGARTNER. The size of the program actually committed in 1963 was some $3 million, with some additional $2.3 million which is now ready and some of it getting out in July, now that we have a continuing resolution to move forward.

Mr. PASSMAN. Will you give it to us covering the comparable figures——

Dr. BAUMGARTNER. 1962 was the first year.

Mr. PASSMAN. Give it to us for 1962, 1963, and then 1964. This appears to be growing rather rapidly, jumping from $2 million to $15 million.

Dr. BAUMGARTNER. We do not want to support research, sir, just because it is research.

Mr. PASSMAN. Research is a broad field.

Please insert in the record the 1962, 1963, and 1964 figures, and then the spread.

(The information requested follows:)

Obligations for research projects by fiscal year

Fiscal year:	Obligations
1962 (actual)	$8,593,000
1963 (preliminary estimate)	[1] 3,183,000
1964 (proposed)	[2] 15,000,000

[1] A detailed breakdown by individual project is provided in a subsequent tabulation. (See insert submitted on p. 1816.)

[2] Includes some $5,000,000 for the continuation of projects initiated with prior-year funds and for the funding of projects which had been scientifically approved but were still in the contract pipeline at the end of fiscal year 1963.

TYPE OF RESEARCH UNDERTAKEN

Mr. FORD. Is this product development or military research? What kind of research is it?

Dr. WEYL. No. This would be research that takes the form of systematic analyses, investigations, studies, using quantitative methods where they are indicated, in order better to understand the problems of development, improve our approaches to their solution, and create increasingly broad bases of objective evaluation of what really has happened. In this sense, it is not hardware oriented. It is not hot war but cold war oriented.

Mr. FORD. Are these research projects where we send American scientists and technicians abroad, or do we employ foreign scientists and technicians, or both?

Dr. WEYL. Both, sir. The majority of the projects would naturally be based in the United States, in U.S. institutions, employing U.S. scientists. Most of them would involve fieldwork for observations and data collection. Many of them, it is hoped, might also involve direct cooperation of scientists of the countries in which the research is conducted and the problem to which the research is addressed.

Dr. BAUMGARTNER. Mr. Chairman, someone says I said we are asking for $20 million. We are asking for $20 million for American schools abroad, and $15 million for research.

(Off the record.)

FISCAL YEAR 1963 RESEARCH PROJECTS

Mr. PASSMAN. Did you decide administratively to limit the research program to $6 million, referring now to page 202, volume II, or did the Congress make that decision?

Dr. BAUMGARTNER. Congress made that decision.

Mr. PASSMAN. Would you furnish for the record the number of projects you funded in fiscal 1963, the purpose of the project, the cost, and with whom you contracted for the project?

Dr. BAUMGARTNER. I would be happy to do so.

(The information requested follows:)

Research projects funded in fiscal year 1963 (preliminary, as of June 30, 1963)

Project title	Contractor or grantee	Project director	Amount obligated
1. Land tenure and reform in Puerto Rico.	U.S. Department of Agriculture Economic Research Service.	Dr. Howard L. Hill, agricultural economist, Economic Research Service.	$22,500
2. Analysis of factors associated with differences and changes in agricultural production in the less developed countries.	do	Dr. Raymond P. Christensen, Chief, Economic Development Branch, Economic Research service.	125,000
3. Development and use of improved varieties of the major cereal crops of Africa.	U.S. Department of Agriculture, Agricultural Research Service.	Dr. George F. Sprague, leader, corn and sorghum investigation, Agricultural Research Service.	146,625
4. Research on the sterility method method of tsetse fly control or eradication.	do	Dr. Edward F. Knipling, Director, Entomology Research Division, Agricultural Research Service.	3,500
5. Improvement of grain legume production in the Near East-south Asia and Far East regions.	do	Dr. Martin G. Weiss, Associate Director, Crops Division, Agricultural Research Service.	2,000
6. Analysis of data on the nutrient status of soils in Latin America and West Africa.	University of North Carolina.	Dr. Walter Fitts, head, Department of Soil Science, North Carolina State (College) of the University of North Carolina.	750,000
7. Appraisal of the administration of technical assistance programs, with special emphasis on technical assistance in agriculture.	Syracuse University	Dr. Irving Swerdlow, director of Maxwell Center for Overseas Operations Research, Syracuse University.	355,475
8. Research in foam plastics for housing.	University of Michigan.	Dr. Stephen Paraskevopoulos, associate professor of architecture, University of Michigan.	90,000
9. Malaria eradication research	Communicable Disease Center, U.S. Public Health Service.	Dr. George Pearse, director, Savannah Laboratory, Communicable Disease Center.	235,000
10. Malaria insecticide research—DDVP field testing.	do	do	100,000
11. Effect of investment in health and education on economic growth.	Harvard University (grant).	Dr. Robert Hamlin, chairman, Department of Public Health Administration, Harvard School of Public Health.	51,000
12. Mathematics curriculum development in Africa (phase I).	Educational Services, Inc.	Mr. Stephen White, executive officer, Educational Services, Inc.	241,117
13. Analysis of socioeconomic impact of power in rural self-help situations.	Peace Corps, Fairbanks-Morse (procurement only).	Mr. George Van den Berghe, USAID, Bogotá, liaison officer for Peace Corps.	17,800
14. Diffusion of information through radio and supporting media (pilot project in Ecuador).	American Institute for Research.	Mr. Paul Spector, American Institute for Research.	39,075
15. Research on factors contributing to maladaptation of U.S. employees overseas (joint AID-State-USIA-Carnegie Foundation study).	Department of State	Mr. Regis Walther, State personnel.	[1] 5,000
16. World trade patterns—Projection and analysis.	Yale University	Prof. Bela Belassa	3,800
17. Effect of foreign aid on the U.S. balance of payments.	Haverford College	Prof. Philip Bell and Dr. Lawrence Lynn	6,555
18. Research Information Service	Department of State	Dr. William J. Nagle, Director, External Research, INR.	25,000
19. Substantive backstopping of U.S. participation in U.N. Conference on Science and Technology (inhouse activity, under the direction of Mr. David Tilson).			[2] 394,000
20. Other projects and undistributed expenses.			[3] 569,553
Total			3,183,000

[1] AID only.
[2] Includes $294,000 for personal services and travel expenses of the U.N. Science Conference Staff.
[3] Includes $536,000 for personal services, travel, and other expenses attributable to research and evaluation activities of the Office of Human Resources and Social Development.

Mr. PASSMAN. Will you tell us the amount of the unliquidated funds to the credit of the research project as of June 30?

Mr. TENNANT. $10.5 million was our estimate. I believe the 1963 program is a little lower than estimated. The unliquidated will probably be less than our estimate.

Mr. PASSMAN. Do you have your 1962 program there? What was it in dollars?

Mr. TENNANT. $8,593,000.

Mr. PASSMAN. And in 1963?

Mr. TENNANT. I believe it is around $6 million.

Dr. BAUMGARTNER. This was the hard look I was talking about. We would not let all of these go through.

FISCAL YEAR 1964 RESEARCH PROGRAM LEVEL

Mr. PASSMAN. Are you going to reduce this $15 million?

Dr. BAUMGARTNER. We will have a hard look, but we have already had a hard look at a part of this.

Mr. PASSMAN. It still went from $3.3 million to $15 million.

Dr. BAUMGARTNER. No. We have an additional $5 million, sir, that are solid things right now. So all we are leaving ourselves is a margin of $10 million for everything else in 1964.

Mr. PASSMAN. But you have still increased the size of the program from $3.3 million to $15 million.

Dr. BAUMGARTNER. I think it depends on how you wish to interpret this. I am saying we actually obligated up to July 1, about $3 million-something. We have an additional $5 million which carries on some of the work begun in 1963, and a few newly approved projects to be funded out of the $15 million we are requesting. We have had a hard look at it. The research committee has looked at it. I have looked at it. Thus, we have an additional $10 million that is not that hard yet.

Mr. PASSMAN. I should have asked the question this way: What was the appropriation for fiscal 1962, comparable to this program? Is there any way to establish it?

Dr. BAUMGARTNER. There was no line item.

Mr. PASSMAN. Is there any way to establish the amount of money you obligated for projects comparable to what you are going to spend in 1964?

Mr. TENNANT. That is the figure I gave you, $8 million.

Mr. PASSMAN. What was the amount for fiscal 1963?

Mr. TENNANT. $3 million-odd.

Mr. PASSMAN. That was the amount you obligated?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. How much did Congress appropriate?

Mr. TENNANT. No line item appropriation as such.

Mr. PASSMAN. You have $10 million unliquidated?

Dr. WEYL. Some $5 million will be needed to continue work being done under projects already begun, and to fund a few new projects in the fiscal year 1963 program that got stuck in the pipeline on June 30. They were ready to go, scientifically approved, with the seal of Good Housekeeping upon them. They will go now.

Mr. PASSMAN. The time ran out on you, and you did not get them obligated. So far as I am concerned, I am impressed with the fact

that you are willing to carry them over rather than obligate them hastily on Sunday, June 30.

Mr. ROONEY. Because you give them 50 percent of the money, there is less chance of this sort of thing happening.

Mr. PASSMAN. The money was there. The money is lapsing. You would rather take a chance on losing the money than to obligate it without having the projects completely firm?

Dr. BAUMGARTNER. That is right, sir.

Mr. PASSMAN. I wish we could get the entire Agency operating on such a basis. Plan the projects and, after you plan them and know they are sound, then get your money.

Mr. TENNANT. I think that is part of the reason we have the large unobligated balance this year.

Mr. PASSMAN. That is fine but, Dr. Baumgartner, I got my point over, did I not?

Dr. BAUMGARTNER. You did, sir. That is exactly the reason the money was not obligated.

Mr. PASSMAN. Mr. Ford?

RESEARCH ADVISORY COMMITTEE

Mr. FORD. I think it would be helpful for the record if we had a list of the people who are on your advisory committee and their background.

Dr. BAUMGARTNER. I would be happy to supply that.

Mr. FORD. In addition, would you indicate for the record the size of your office. I gather you have two separate offices or two separate functions.

Dr. BAUMGARTNER. Right.

Mr. FORD. One on the portion that you testified to originally.

RESEARCH AND EVALUATION STAFF

Dr. BAUMGARTNER. We will be happy to give you the staff associated with American schools abroad and the staff associated with research. We are reorganizing the research division.

Mr. FORD. Just indicate the size of the staff, the kind of staffing pattern you have, and whether it has changed materially upward or downward, so we get some feel of just what the extent of the organization is.

Dr. BAUMGARTNER. Those expenses, incidentally, are not in this request. They were in a previous request.

Mr. FORD. That is all, Mr. Chairman.

(The information requested follows:)

OFFICE OF HUMAN RESOURCES AND SOCIAL DEVELOPMENT STAFFING

The Office of Human Resources and Social Development is the Agency staff office concerned with the administration of AID's research program and with the development of agencywide policy and professional standards for technical assistance in these sectors: agriculture, community development, education, health, housing, industrial development, labor, public administration, and transportation.

Currently, the Office is divided into two major functional areas—the technical services and the research and evaluation staff. As Dr. Baumgartner indicated in previous testimony, the latter is undergoing intensive study with a view

toward more effective program development and the major technical positions are only now being filled. The technical services, too, are under major review.

Human Resources and Social Development [1] *staff, fiscal year 1962–64*

Human Resources and Social Development offices	Fiscal year 1962	Fiscal year 1963	Requested for fiscal year 1964
Assistant administrator's office	[2] 6	[3] 16	[3] 16
Executive office	3	9	[4] 0
Management support staff	0	0	12
Agriculture	3	4	10
Community development	3	3	5
Education	5	5	6
Book gap	0	2	2
English language	0	1	1
American schools abroad	2	2	3
Health	3	5	14
Malaria eradication	6	6	8
Community water supply	5	5	9
Housing	3	2	2
Industrial development	3	2	3
Labor	3	5	4
Public administration	3	2	5
Public safety	3	(5)	(5)
Transportation	4	3	2
Interregional projects	2	2	0
Nuclear energy	1	1	0
Research	18	19	29
Evaluation	10	13	10
Research-administration	6	(6)	(6)
U.N. Science Conference Staff (temporary)	16	16	(7)
Contract staff	5	4	(8)
Technical assistant, advisory staff	4	4	(7)
Planning assistance	9	0	(5)
Total	126	131	141

[1] The Office of Human Resources and Social Development now includes 8 services (technical sectors), a research division, an evaluation division, and a management support staff.
[2] Prior to November 1962 research and evaluation functioned as a separate staff.
[3] Includes 1 officer assigned to UNESCO, 4 positions for consultants used temporarily in different areas for specific tasks.
[4] Transferred to assistant administrator's, Human Resources and Social Development management support staff.
[5] Function transferred to AA/PC.
[6] Included in executive office.
[7] Function ended June 30, 1963.
[8] Transferred to A/MR.

Members of the A.I.D. Advisory Committee for Research

The members of the A.I.D. Advisory Committee for Research are:

Dr. Walsh McDermott, Chairman
Dr. Harrison S. Brown
Dr. Robert W. Cairns
Dr. Robert A. Charpie
Prof. Merle Fainsod
Prof. Allan R. Holmberg
Dr. Max F. Millikan
Dr. Albert H. Moseman
Dr. Arthur T. Mosher
Prof. Kenneth H. Parsons
Dr. Roger Revelle
Mr. Eugene B. Skolnikoff
Dr. Abel Wolman
Dr. Jerrold R. Zacharias

Biodata for each of the above Committee members follows.

Walsh McDermott

Physician, educator; b. New Haven, Oct. 24, 1909; s. Terence and Rosella (Walsh) McD.; B.A., Princeton, 1930; M.D., Columbia, 1934; married Marian Anne MacPhail, November 11, 1942. Intern in medicine N.Y., Hosp., 1934, asst. resident physician, 1935–37; with Cornell U., 1937–, successively instr. medicine, asst. prof., asso. prof., 1937–55, Livingston Farrand prof., chmn. department pub.

health and preventive medicine, 1955–; Member of the National Advisory Health Council, 1955–. Recipient Lasker award, 1955. Mem. Am. Soc. Clin. Investigation, Assn. Am. Physicians, Am. Clin. and Climatol. Soc., Interurban Clin. Clum. Clubs: Century Assn. (N.Y.C.). Editor Am. Rev. Respiratory Diseases, 1948–; coeditor: Cecil-Loeb Textbook of Medicine, 1953–59. Office: 1300 York Av., N.Y.C. 21.

HARRISON S. BROWN

Chemist, educator; b. Sheridan, Wyo., Sept. 26, 1917; s. Harrison H. and Agatha (Scott). B.; B.S., U. Cal., 1938; Ph.D., Johns Hopkins, 1941; LL.D. (hon.), University of Alberta, 1961; married Rudd Owen, Nov. 11, 1949; 1 son, Eric Scott. Instr. chemistry Johns Hopkins, 1941–42; asst. dir. chemistry Clinton Labs., Oak Ridge, Tenn., 1943–46; research asso. plutonium project U. Chgo., 1942–43, asst. prof. Inst. for Nuclear Studies, 1946–48, asso. prof. 1948–51; prof. geochemistry, Cal. Institute Tech., 1951–. Director Hycon Manufacturing Co. (Monrovia, Cal.). Recipient Lasker Found. award. Mem. Nat. Acad. Scis., Am. Chem. Soc. (received award in pure chemistry, 1952). Am. Phys. Soc., Geol. Soc. Am. A.A.A.S. (annual award, 1947), Am. Astron. Soc., Am. Geophys. Union, Phi Beta Kappa, Sigma Xi. Author: Must Destruction Be Our Destiny? 1946; The Challenge of Man's Future, 1954, The Next Hundred Years, 1957, Editor-at-Large Sat. Rev. Home: 5155 Stoneglen Rd., La Canada, Cal. Office: Cal. Inst. Tech., Pasadena, Cal.

ROBERT W. CAIRNS

Research executive; was born at Oberlin, Ohio, December 23, 1909; the son of William D. and Iva (Crofoot) C.; student University of California at Berkeley, 1926–27; A.B., Oberlin Coll., 1930; Ph. D., Johns Hopkins, 1932; m. Katharine Kuhn, Oct. 22, 1932; children—Lindsey Ann, Michael John, Robert Christopher, Stephen William Waldo. Research chemist Firestone Tire & Rubber Co., Akron, O., summers 1930–33; fellow Bartol Research Found., Swarthmore, Pa., 1933–34; research chemist explosives research div. research center Hercules Powder Co. 1934–40, asst. to dir. research, 1940–41, dir. research center, 1941–45; dir. development dept. Radford Ordnance Works, Va., 1942–43, asst. dir. research, 1945–55, dir. research, 1955–60, company director, 1960–; vice chairman of research and development board Department Def., Washington, 1953, spl. asst. to sec. def., 1953–54, dep. asst. sec. def. for research and development, 1953–54; spl. asst. to asst. sec. def. 1955–56, cons. Office Asst. Sec. Def. 1956–, member of defense science board, chairman of panel gen. sci., 1957–61, cons. Nat. Def. Research Com., 1943–46; panel chmn. com. on ordnance Research & Development Bd., 1947–48; mem. sci. adv. bd. Naval Ordnance Test Sta., 1949–53, bd. dirs. Gordon Research Confs., 1958–61, chmn., 1960–61. Dir. Family Service, Inc., Wilmington; Vice pres. Travelers Aid Soc., Wilmington, 1946–54. Mem. Math. & physical scis. com. Nat. Science Found., 1958–60; chmn. res. com., bd. trustees U. Del. Research Found. Mem. Am. Chem. Soc. (chmn. Del. sect. 1944–45, councilor, 1948–49), Am. Phys. Soc., Indsl. Res. Inst. (pres.), Soc. Chem. Industry (chmn. Am. sect. 1961–62). Dirs. Ind. Research, Nat. Sec. Indst. Assn., Am. Inst. Chem. Engring., Am. Ordnance Assn., Phi Beta Kappa, Sigma Xi, Phi Lambda Upsilon. Episcopalian. Home: 108 Alapocas Dr. Office: Hercules Tower, Wilmington, Del.

ROBERT A. CHARPIE

Oak Ridge National Lab, Oak Ridge, Tenn. Theoretical Physics. Cleveland, Ohio, Sept. 9, 1925; m. 1947; c. 2. B.S. Carnegie Inst. Tech. 1948, M.S. 1949, D. Sc. (Physics), 1950. Physicist, Westinghouse Res. Labs, 1947–50; Oak Ridge Nat. Lab, 50–54, Asst. Dir, 1954– . Lectr, Tennessee, 1952–54; sci. secy, Int. Conf. on Peaceful Uses Atomic Energy, Geneva, 1955; first asst. to U.S. mem. seven-nation adv. Cmt. on Int. Conf, 1955; secy, gen. adv. cmt, U.S. Atomic Energy Cmn. Ed-in-chief, Proc. Int. Conf. 1955; gen. ed, Int. Monog. Series on Nuclear Energy; co-ed, "Jour. Nuclear Energy"; ed, Progress Series in Nuclear Energy. Coordinator, U.S. Fusion Res. Exhibit, Int. Conf. on Peaceful Uses Atomic Energy, 1958. Mem, Oak Ridge Bd. Ed; chmn. Oak Ridge Res. Cmt. Award, U.S. Jr. Chamber Commerce, 1955; alumni merit ward, Carnegie Inst. Tech, 1957. U.S.A, 1943–46. Nuclear Soc; fel. Phys. Soc. Theoretical, nuclear and reactor physics.

MERLE FAINSOD

Professor; born at McKees Rocks, Pa., May 2, 1907; s. Louis and Frieda (Marcus) F.; A.B., Washington U., 1928, M.A., 1930; M.A., Harvard U., 1931, Ph.D., 1932; LL.D., Washington University, 1956; married Elizabeth Stix, Apr. 27, 1933; children—Elizabeth Stix, Mary Lewis. Instr. in govt., Harvard U. 1933–38, asst. prof., 1938–44, asso. prof., 1944–46, prof., since 1946, chmn. dept. of government, 1946–49; visiting lecturer, Yale University, 1940; mem. staff President's Com. on Administrative Management, 1936; consultant Temporary Nat. Economics Com., 1940; price exec. Consumers Durable Goods, Office of Price Adminstrn., 1941–42, dir. Retail Trade and Services Div., 1942–43. Commd. captain, Specialists Reserve, Army United States, May 1943; deputy dir., Civil Affiairs Training School, Harvard U., 1944–45. Awarded Sheldon travelling fellowship, Harvard, 1932–33, Trustee East European Fund; dir. Russian Research Center, Mem. Am. Philos. Soc., Am. Council Learned Socs. (bd. of directors). America Polit. Si. Assn. (exec. council, 1948–50), Am. Acad. Arts and Scis. Author: "American People and Their Government" (with A. J. Lien), 1933; "International Socialism and the World War," 1935; "Government and the American Economy" (with A. L. Gordon), 1941, 1948; "How Russia is Ruled," 1953; also author of "Smolensk Under Soviet Rule," 1958. Contributor to Public Administration Review, Am. Econ. Rev., Yale Law Jour., Jour. of Politics, Am. Polit. Sci. Review (asso. editor 1951). Home: 19 Follen St. Office: MIS Littauer Center, Harvard University. Cambridge 38, Mass.

ALLAN R. HOLMBERG

W. Shore Rd., Ithaca, N.Y. Anthropology. Renville, Minn., Oct 15, 1909; m. 1945; c.3. B.A. Minnesota, 1935; Social Sci. Research Council fel, Yale, 1940–41, Sterling fel. 1945–46, Ph.D. (anthrop), 1947. Cultural anthropologist, Inst. Social Anthrop, Smithsonian Inst, 1946–48; from asst. prof. sociol & anthrop, to Prof. Anthrop, Cornell, 1948– . Prof. Universidad Nacional de San Marcos, Lima, Peru, 1946–48; fel. Center for Advanced Study in Behavioral Scis, Stanford, Calif, 1954–55. AAA; S.App. Anthrop; A.Soc.S; A.Ethnol.S; I.Andean Res. Cultural anthropological studies of the Indians of the Amazon Valley and the Andean regions of South America; anthropology as applied to problems of culture change in Latin America.

MAX F. MILLIKAN

Economist; b. Chgo., Dec. 12, 1913; s. Robert Andrews and Greta (Blanchard) M.; student Cal. Inst. Tech., 1931–33; B.S. in Physics, Yale, 1935; Ph. D. in Econs., 1941; Student Cambridge U., 1935–36; m. Jeanne MacBeath Thomson, July 14, 1937; children—Jane Andrews, Nicholas Thomson, Abigail. Instr. econs. Yale, 1938–41, asst. prof., 1941–42, research asso., 1942–49; on leave 1942–46, as sr. bus. specialist OPA, 1942, prin. economist War Shipping Admin., 1942–44, asst. dir. div. ship requirements, 1944–46, chief econ. intelligence br. div. research for Europe, Dept. of State, 1946, asst. exec. sec. President's Com. on Fgn Aid, 1947, cons. Ho. of Reps. Select Com. on Fgn. Aid, 1947; asso. prof. Mass. Inst. Tech., 1949–51, prof. econs., 1952– , dir. Center Internat. Studies, 1952– ; on leave, 1951–52, as asst. dir. CIA, Washington; member President's Task Force Fgn. Aid, 1961. President World Peace Foundation, 1956– , Member Am. Econ. Assn., Econometric Soc., Royal Econ. Soc. Inst. Math. Statistics, Am. Statis. Assn. Council Fgn. Relations, Inc., American Academy of Arts and Sciences. Clubs: Cosmos (Washington); Yale (N.Y.C.). Editor and co-author: "Income Stabilization for a Developing Democracy, 1953." Author: (with W. W. Rostow) "A Proposal—Key to a More Effective Foreign Policy," 1957. Editor and co-author: (with D. L. M. Blackmer) "The Emerging Nations—Their Growth and United States Policy," 1961. Home: 64 Highland St., Cambridge 38, Mass.

ALBERT H. MOSEMAN

Rockefeller Foundation, 111 W. 50th St., New York 20, N. Y. Agronomy. Oakland, Nebr., Jan. 27, 1914; m. 1942; c. 3. B. Sc, Nebraska 1938, M.S. 1940; Ph. D. (plant breeding, genetics), Minnesota, 1944. Agent, bur. plant indust, soils & agr. eng, U.S. Dept. Agr, 1936–42, assoc. agronomist, 1942–44, asst. to chief bur, 1944–51, chief of bur, 1951–53, dir. crops res, agr. res. serv, 1953–56; assoc. dir. Agr. Scis, Rockefeller Found, 1956–59, deputy dir, 1959–60. DIR,

1960– , A.A.; fel. Soc. Agron; assoc. Genetic Asn. Breeding, genetics and improvement of winter wheat; small grains and seed flax; correlated inheritance of height, seed size, seed yields and other characters in flax; research administration.

ARTHUR T. MOSHER

109 N. Sunset Dr, Ithaca, N.Y. Agricultural Economics. Ames, Iowa, Oct. 4, 1910; m. 1936; c. 4. B.S, Illinois, 1932, M.S. 1941; Ford Found. fel, 1941–42; Ph. D. (agr. econ), Chicago, 1946. Asst. agr. engr, Allahabad Agr. Inst, India, 1933–40, head exten. dept, 1946–53, prin, 1948–53; vis. prof. econ. develop. & cultural change, Chicago, 1953–55; Acting Prof. Exten. Ed, Cornell, 1955– , AFEA. Agricultural development; extension education. "Technical Cooperation in Latin American Agriculture."

KENNETH H. PARSONS

Dept. of Agricultural Economics, University of Wisconsin, Madison 6, Wis. Agricultural Economics. Kokomo, Ind, July 20, 1903; m. 1931; c.2. A.B, Butler, 1928; Chicago, 1939–40; Ph.D, Wisconsin, 1940. Asst. prof. Agr. Econ. Wisconsin, 1937–40, assoc. prof, 1940–46, Prof, 1946– , Economist, div. econ. & statist, FAO, 1947; chief plans & programs sect, div. food & agr. office special rep, ECA, Paris, 1949–50; consultant, WSB, 1961; Point IV consultant, India Planning Cmn, 1952. AEA; AFEA (v.pres, 1949). Economic development; land tenure; agricultural policy. "Logical Foundations of Economic Research"; "John R. Commons' Point of View": "Land Tenure" (ed).

ROGER REVELLE

Educator; b. Seattle, Mar. 7, 1909; s. William Roger and Ella Robena (Dougan) R.; A.B. at Pomona Coll., 1929, D.Sc., 1957; student Claremont Coll., 1929–30; Ph.D., U. Cal., 1936; m. Ellen Virginia Clark, June 22, 1931; children—Anne (Mrs. Shumway), Mary (Mrs. Paci), Carolyn, William Roger. Teaching Asst. Pomona Coll., 1929–30; teaching asst. U. Cal., 1930–31, research asst. Scripps Instn. Oceanography, 1931–36, instr., 1936–41, asst. prof. 1941–46, asso. dir. 1948–50, prof. oceanography since 1948, acting dir., 1950–51, dir., 1951– , dir. LaJolla campus, 1958– ; civilian cons. Office Naval Research, 1948; chmn. spl. commn. oceanic research Internat. Council Sci. Unions, 1957– ; mem. for N.A. of UNESCO, internat. adv. com. on marine scis. Adv. bd. Mus. Arts Soc., LaJolla, 1947– ; trustee LaJolla Town Council, 1949– , Dir. First Nat. Bank of San Diego, Scripps Clinic & Res. Found.; dir. Theatre & Arts Found. San Diego County. Served with USN, 1941–47, naval officer Radio & Sound Lab., San Diego, Cal., 1941–42, with Bur. Ships, Navy Dept., 1942–46, staff Joint Task Force No. 1, 1946, Off. Naval Res., 1946–47. Fellow San Diego Soc. Natural History, Geol. Soc. Am.; mem. Am. Assn. Petroleum Geologists, Am. Geophys. Union (v.p. oceanography sect. 1950–53, pres., 1956–59), Nat. Acad. Sci. (commn. oceanography, 1957–), Nat. Sci. Found. (commn. math., phys. & engring. scis.), American Academy of Arts and Sciences, A.A.A.S., American Philosophical Society, National Research Council, Am. Meteorol. Soc., Soc. Limnology and Oceanography, Geol. Soc. Washington, Western Soc. Naturalists, Sigma Xi. Clubs: Cosmos (Washington), Men's Faculty (Berkeley, Cal.). Contbr. articles profl. publs. Home: 7348 Vista del Mar, LaJolla, Cal.

EUGENE B. SKOLNIKOFF

Born August 29, 1928, Philadelphia, Pa.; MIT, 1950 M.S. & B.S. (Elect. Eng'r.); Oxford U. 1952, M.A. & B.A. (Econ., Pol. Phil.). MIT, Research Associate, 1950; Uppsala University, Sweden, Research Associate, 1950; GE Co. engineer (1948–50 for 4 mo. periods); MIT, Industrial Liaison Officer, 1952–55; Institute for Defense Analyses, Washington, staff, 1957–8; White House, Office of Special Assistant to the President for Science and Technology, 1958–1963; MIT, Pol. Sci. Section, 1963—. Rhodes Scholarship, 1950. Mil.-U.S. Army Security Agency, 1955–7. Married to Winfred Weinstein, Sept. 15, 1957, one child. Home address: 77 Francis Ave., Cambridge 38, Mass.

ABEL WOLMAN

Sanitary engr.; b. Baltimore, Md., June 10, 1892; s. Morris and Rose (Wachsman) W.; A.B., Johns Hopkins U., 1913, B.S. in Engring., 1915; Dr. in Engring.,

1937; m. Anne Gordon, June 10, 1919; 1 son, Markley Gordon. Began as asst. engr., U.S. Pub. Health Service, 1914; chief engr. Dept of Health, Md., 1922–39; lecturer and prof. san. engring., Johns Hopkins Sch. of Engring. and Sch. of Hygiene and Pub. Health, also at Harvard, Princeton, U. of Chicago and other univs.; cons. engr. City of Baltimore, Baltimore County, U.S. Pub. Health Service, Tenn. Valley Authority, U.S. Army, Seattle, Jacksonville, Fla.; consultant, member advisory committee on reactor safety, AEC. Chairman permanent committee on sanitary engrs., Pan Am. Sanitary Bur.; chmn. sanitary engring. com. Div. of Med. Sciences, Nat. Research Council; consultant Assn. Am. Railroads, Bethlehem Steel Co., Detroit Metropolitan Area, Miami Conservancy Dist.; adviser Am. Red Cross. Recipient Lasker award, 1960. Member American Society Civil Engrs., Am. Water Works Assn. (pres. 1942), Am. Pub. Health Assn. (pres. 1939), A.A.A.S., Faraday Soc. (Eng.), Royal Inst. Pub. Health (Eng.). Home: 3213 N. Charles St., Baltimore 18. Address: Johns Hopkins U., Balt. 18.

JERROLD R. ZACHARIAS

Physicist; b. Jacksonville, Fla., Jan. 23, 1905; s. Isidore A. and Irma (Kaufman) Z.; A.B., Columbia, 1926, A.M., 1927, Ph. D., 1933; m. Leona Hurwitz, June 23, 1927; children—Susan, Johanna. Asst. prof. Hunter Coll., New York City, Oct. 1931–Nov. 1940; staff mem. Radiation Lab. Mass. Inst. of Tech., 1940–45, prof. physics, 1946—, dir. Lab. for Nuclear Science and Engring., 1946–56; div. head U. Cal., Los Alamos Lab., 1945; dir. Sprague Electric Co.; mem. sci. bd. Itek Corporation. Mem. Pres.'s Sci. Home: 32 Clifton St., Belmont, Mass.

Mr. PASSMAN. We thank you, Dr. Baumgartner.

Dr. BAUMGARTNER. Thank you, sir.

FRIDAY, JULY 26, 1963.

AID ADMINISTRATIVE EXPENSES

WITNESSES

FRANK M. COFFIN, DEPUTY ADMINISTRATOR FOR OPERATIONS, AGENCY FOR INTERNATIONAL DEVELOPMENT
EDWARD F. TENNANT, CONTROLLER, AID
ROY R. MADDEN, CHIEF, ADMINISTRATIVE BUDGET, AID
LEIGH M. MILLER, LEGISLATIVE PROGRAMS COORDINATOR, AID
STANLEY B. SCHEINMAN, LEGISLATIVE PROGRAMS COORDINATION STAFF, AID
BYRON ENGLE, DIRECTOR, OFFICE OF PUBLIC SAFETY, AID
HARRY ACKERMAN, CONGRESSIONAL LIAISON STAFF, AID

Mr. PASSMAN. The committee will come to order.

Mr. Director, kindly proceed with your statement.

GENERAL STATEMENT

Mr. COFFIN. Mr. Chairman and members of the committee, I welcome this opportunity to appear before your committee to present the administrative expense budget for the Agency for International Development. The amount involved, while small in relation to the larger sums appropriated for foreign-assistance programs, is vital to properly managing and protecting the investment of the American taxpayer.

The request for administrative expenses for fiscal year 1964 is $57,-250,000. This is $5,083,000 more than was available in fiscal year 1963 taking into account the fiscal year 1963 appropriation of $49,500,000, the reappropriation of $1,277,000 from prior year unobligated balances and the fiscal year 1963 supplemental authorization of $1,390,000 for the increased Federal pay costs authorized by Congress last fall.

The proposed increase of $5,083,000 over this year's availability consists of:

1. Sum of $1,425,000 for people to carry out the increased programs in Latin America;
2. Sum of $2,040,000 for essential items deferred this year due to inadequate funds, and
3. Sum of $1,618,000 for increased pay costs.

Of these three items only one—the increase of $1,425,000 for Latin America—involves an increase in personnel. No increases in personnel are being proposed elsewhere either in Washington or overseas. The other two increases, accounting for $3,658,000, or more than 70 percent of the total increase proposed, are to maintain the current level of operations with the increased pay costs resulting from Government-wide salary increases.

Contrary to what might seem to be a natural conclusion, fiscal year 1964 administrative requiremnts do not have a direct relationship to the fiscal year 1964 congressional appropriation of program funds. Administrative needs are, in large measure, determined by a workload derived from programs and projects initiated in prior years. For example, the volume of vouchers to be examined and paid is roughly in proportion to AID expenditures arising out of prior year commitments. However, our administrative costs of AID are only 1.7 percent of program appropriations.

STRENGTHENING ADMINISTRATION IN LATIN AMERICA

The increase of $1,425,000 for a higher level of administrative operations in Latin America would permit an increase in oversea American staff of 65 positions and an increase of 130 foreign national employees. In former years, before the Alliance was launched, our Latin American missions were staffed to provide for a different and more limited type of program, which required a smaller staff to achieve its goals. The impact and acceleration of the Alliance for Progress requires us to realine and strengthen our missions to enable them to provide adequate administrative backstopping for more diversified program activities and to safeguard the interests of the U.S. Government.

These staff additions are virtually mandatory in order to strengthen the capability of the missions in Latin America. Approximately 33 percent of the proposed increase in American staffing and 75 percent of the proposed increase in local employees will be employed in oversea auditing and accounting of the expenditure of U.S. funds for capital projects and other economic assistance, such as food-for-peace shipments. The balance will have such responsibilities as analyzing country development plans to determine those goals to which the United States should commit funds; and reviewing proposed capital projects in terms of their economic and financial feasibility.

Within this decade, the Alliance faces an extraordinary rather than a conventional challenge. Maximum attainment of results must be

achieved each single year. The increase we are requesting for intensified AID administrative support of the Alliance is a modest one which is urgently needed and vitally important.

ITEMS DEFERRED DURING FISCAL YEAR 1963

The increase of $2,040,000 is due to the deferral of essential items until fiscal year 1964. It will be recalled that we proposed an administrative budget of $55 million to this committee last year. The amount finally appropriated for this purpose was $49,500,000, and this did not become available until October—3 months after the beginning of the fiscal year. It will also be recalled that in fiscal 1963 for the first time the Foreign Assistance Act legislation prohibited our use of contingency funds or the authority for transfer between appropriations to augment administrative expenses, for emergency situations.

We were thus faced with substantially less funds than required for the task at hand. AID was not able to maintain a monthly rate of expenditures equal to those of the first 3 months of the year. We had to abandon the then current staffing plans, and take the stringent action of putting a 3-month freeze on all employment. Controllable items of expense, such as travel, overtime, use of consultants, and purchase of ordinary office supplies and equipment were rigidly curtailed. A worldwide review of manpower utilization was undertaken to determine which of AID's most pressing needs could be met within available resources. The major shifts in personnel strength resulting from this review required curtailment of some activities so as to permit adequate domestic redirection of oversea operations and minimum steps toward strengthening operations of Latin America.

To further curtail and control expenditures in fiscal year 1963, central training and foreign service staffing complements were abolished. Funds and personnel incident to the various complements were transferred to the appropriate regional bureaus to administer within their respective resources and in competition with the priorities of day-to-day operations. The dissolution of these central complements in this manner had the anticipated effect of minimizing overall expenditures of AID in this area of operations, but with some sacrifice of training and development.

By these actions, AID realined its personnel and resources to meet priority operating needs and averted a major reduction-in-force which could have damaged employee morale and program operations.

In curtailing costs for other than personal services, we were limited in our ability to effect changes in the rate of obligations for fixed costs, such as rents, communications, utilities, and home leave travel for oversea personnel. We were forced, however, to curtail obligations for such items as supplies and materials, equipment, repairs and alterations to buildings, rest and recuperation travel, and training.

All told, for costs in this category we programed in fiscal year 1963 nearly $1,500,000 less than was used for this purpose in fiscal year 1962. As a temporary expedient and a short-term measure, it has produced the needed effect. However, it is not feasible to prolong this situation. We postponed many expenditures which must inevitably be made. For each of our oversea missions, and for our headquarters, I have complete details of those postponed items which can be made a part of the record if the committee so desires.

The increase also includes $500,000 for training which should have been initiated in fiscal year 1963. These funds will be used to provide advanced training for selected employees who have demonstrated high potential for professional growth.

INCREASED PAY COSTS

This is an item of increase over which AID has no control. The Postal Service and Federal Employees Salary Act of 1962 provided for a two-step increase in salaries; the first step was effective in October 1962 and the second in January 1964. Of the $1,618,000 requested for these mandatory increases, $643,000 is to make the first step increase applicable to current employment on a full year basis and $720,000 is to provide the same employees the second step increase for 6 months beginning in January 1964. The balance of this increase, $255,000, provides for 2 extra paid days occurring in fiscal year 1964 compared with fiscal year 1963. We will have 262 paid days in fiscal year 1964 compared to 260 paid days in fiscal year 1963. Although this act also provides for a 20 percent increase in postal rates beginning in January 1963 these additional costs to AID are being absorbed within the funds requested.

MANAGEMENT EFFORTS

On the management side, we have tackled and either advanced or completed many measures in our continuing effort to make the Agency a more effective operating organization. Among these are:

Specific responsibilities have been assigned to the bureaus, offices and staffs, and tight staffing levels have been established for all headquarters units.

Our efforts have continuously been directed toward an overall improvement in manpower utilization. Our management office is currently conducting a study which we hope will provide us with better controls for utilizing existing manpower resources and to increase productivity.

Attention has also been directed toward the difficult problem of making the best use of office space. AID and State are mutually concerned and are cooperating closely toward the end of closer proximity of State and AID offices leading to improved operations and better administration. The demolition of some of the 12 different buildings which presently house State and AID, is forcing a decision on other office moves. We intend to proceed as effectively and economically as we can, faced as we are with a logistical problem that is not easy to solve.

Delegations of authority have been worked out for the principal functions, such as approving loans, contracts and interagency service agreements, and for personnel operations, so that each regional bureau now has adequate authority to perform its responsibilities.

Modification of our management procedures, and our reporting and control systems is substantially underway.

A new program development system outlined in a set of guidance documents known as the Program Guidance Manual, has been developed and put into effect for the fiscal year 1964 program.

In addition, we have engaged in extensive efforts to increase productivity, improve management, and hold down total employment and administrative costs:

We have conducted detailed "functional surveys," notably of (*a*) contract negotiating and implementing (*b*) personnel processing, and (*c*) management reporting. We have aready eliminated many reports and are simplifying many others, thus cutting down the workload such reports generate at both the reporting and receiving ends.

We are increasing the application of automatic data processing in our management control, personnel, fiscal accounting, and other activities.

We are enforcing productivity increases and are stressing at all echelons of supervision the need for better management of the work to be done with the staff at hand.

To this end, Mr. Bell earlier this month sent a personal memorandum to the heads of all our Washington and field offices calling on them to take vigorous and continued action to eliminate nonessential activities and positions and to increase productivity by improved manpower utilization and strengthened supervision. He is making the head of each bureau, office, and field mission responsible for the application of strict tests of esentiality in determining their manpower requirements. He is requiring them to make every effort to meet any new workload requirements by adjusting existing projects, activities, and procedures rather than by adding new employees.

CONSOLIDATED ADMINISTRATION AND DELEGATED POSTS

In an effort to reduce administrative overhead and at the same time maintain a high level of program effectiveness, the Agency in the past year entered into agreements with the Department of State and the U.S. Information Agency to establish consolidated administrative management organizations at six medium-sized posts in Africa. This undertaking is an experiment but it is our firm hope that savings can be realized through such an arrangement while the same or an improved level of support is rendered.

A further effort to reduce administrative overhead has been undertaken in 10 of the small African posts by delegating to the Ambassador the authorities which are usually vested in an AID mission director. While this technique has resulted in a reduction of support personnel, it is only applicable where the Agency's program is extremely limited.

REVIEW AND REVISION OF PROCEDURES

The Agency's management efforts during 1962 were directed primarily at problems of organization, executive staffing, and a sweeping overhaul of programing processes. With these substantially accomplished, we concentrated in 1963 on efforts to improve procedures for the execution of approved programs and projects.

The Agency has until now been operating under somewhat divergent procedural systems, inherited from its predecessors, the DLF and ICA. Accordingly, we undertook a comprehensive internal survey of our activity planning, approval, and implementation methods. Mr. Bell's decision in January of this year to launch this study, known

within AID as the implementation project, was one of his first official acts as Administrator.

The objectives of this agencywide project, now in its final phase, are, first, to accelerate the implementation of approved programs and projects; second, to codify operating policies and instructions; third, to improve relations with cooperating countries, other U.S. agencies, contractors, private investors, banks, and the academic community; fourth, to extend increased authority to the oversea missions, within the limitations of their varying capabilities; and fifth, to reduce reports and documentation to the minimum consistent with prudent management.

The implementation project has focused on the essential areas of Agency activity: capital projects, technical assistance, commodity import programs, local currency programs, reporting and evaluation techniques, and contracting and procurement. Its work product will be in the form of updated and detailed instructions to AID personnel governing all phases of operations.

The scope and objectives of the implementation project are of considerable dimension. We have no illustions that this project will solve all our administrative problems. Its results may not be visible outside the Agency for some time and a great deal will remain to be done.

Yet I am confident that the project represents a major step in the direction of procedural effectiveness and that, as a result, improvement in the performance of the AID program can be expected.

I can assure the committee that these problems will continue to receive the close personal attention of the Administrator and myself.

This concludes my general statement, Mr. Chairman. I shall be pleased to answer any questions the committee may have.

Mr. PASSMAN. Thank you, Mr. Coffin, for your comprehensive statement.

REQUEST FOR ADMINISTRATIVE EXPENSES FOR FISCAL YEAR 1964

Last year you had an actual appropriation for administrative expenses for AID of $49.5 million; is that correct?

Mr. COFFIN. Yes, sir.

Mr. PASSMAN. How much has that amount been reduced in your fiscal 1964 request?

Mr. COFFIN. We are requesting $57,250,000.

Mr. PASSMAN. It is an increase?

Mr. COFFIN. Yes, sir. Last year we got $49.5 million in appropriations.

Mr. PASSMAN. What is the asking price this year above what you received last year?

Mr. COFFIN. Let me finish with what we had to work with.

We had to work with an appropriation of $49.5 million, a reappropriation of $1.277 million, and the supplemental authorization of $1.390 million for the increased Federal pay costs. The total was $52,167,000.

We are asking, in effect, for $5,083,000 more than we had to work with last year.

Mr. PASSMAN. The asking price exceeds by $5-million-plus the total you received last year?

Mr. COFFIN. Yes, sir.

Mr. PASSMAN. Where did you get the additional $2,740,000 you just referred to; out of what appropriation?

Mr. COFFIN. Part of it was a reappropriation of prior year unobligated balances; part of it was the supplemental pay raise authorization.

Mr. PASSMAN. From what appropriation did you get the funds?

Mr. COFFIN. That was from program——

Mr. MADDEN. The reappropriation——

Mr. PASSMAN. But you had to get additional money out of some other appropriation to meet the salary increases. From what appropriation item did you get the money?

Mr. COFFIN. We got this under the authorization. We took it from five categories: $575,000 from development loans, $290,000 from Alliance for Progress loans, $190,000 from development grants, $95,000 from Alliance for Progress grants, $239,850 from supporting assistance, making a total of $1,389,850.

Mr. PASSMAN. Add that to the unappropriated funds.

Mr. COFFIN. $2,667,000.

Mr. PASSMAN. Then we are out of balance a little somewhere because there was $2,740,000; am I correct?

Mr. MADDEN. I think you are including—no, I do not know.

Mr. TENNANT. Where did you get your $2,740,000?

Mr. PASSMAN. Did Mr. Coffin not give it to us a moment ago?

Mr. COFFIN. No.

Mr. PASSMAN. Give us the total amount. You programed $52,240,000 although the Congress appropriated $49.5 million, and there is a difference of $2,740,000; is that correct?

Mr. TENNANT. I think the——

Mr. PASSMAN. We are just trying to make the books balance.

Mr. TENNANT. Our request for the supplemental appropriation for the pay act was for $1,463,000 and the last figures Mr. Coffin gave you was for the amount enacted by the Congress which was slightly less, $1,389,850.

Mr. PASSMAN. You got those sums out of the appropriation we made last year; is that correct?

Mr. TENNANT. Out of other appropriations, yes, but when the book was printed it was the first supplemental bill——

Mr. PASSMAN. You actually did not get any additional appropriation over and above what Congress appropriated last year. You just made revisions in the several appropriations so as to meet the pay act cost and other items; is that correct?

Mr. COFFIN. That is correct.

Mr. TENNANT. I would like to emphasize that to make that transfer from the other appropriations——

Mr. PASSMAN. It required legislation?

Mr. TENNANT. There was a separate act.

Mr. PASSMAN. Will you reconcile your figures so as to make them balance? We have used the correct figure have we not, that the total was $52,240,000?

Mr. TENNANT. That is correct, at the time the books——

Mr. MADDEN. The availability is $73,000 less than that because Congress put a 5-percent cut on every agency that went up for pay costs.

Mr. PASSMAN. Make your adjustments in there, will you, gentlemen?

Mr. MADDEN. $73,000 less, yes.

EMPLOYMENT IN LATIN AMERICA

Mr. PASSMAN. The proposed increase for fiscal year 1964 is made up of three elements of cost, the first of which is to strengthen the administration in Latin America for which you are requesting $1,425,000.

What were the man-years of employment in Latin America during fiscal years 1961, 1962, 1963, and what is proposed for fiscal year 1964? Put that information in the record, if you will, and give the committee a copy of it.

Mr. COFFIN. Concerning the added people—65 U.S. nationals and 130 nationals—most of the foreign nationals are for auditors, accountants, and a third of the U.S. nationals are for this purpose.

Mr. PASSMAN. Give us a list for the years 1961, 1962, 1963, and 1964.

(The information follows:)

Man-years employment in Latin America, fiscal years 1961, 1962, 1963, 1964 (proposed)

	Fiscal year 1961	Fiscal year 1962	Estimated, fiscal year 1963	Proposed, fiscal year 1964
Man-years:				
U.S. nationals	147.0	171.2	203.1	252.5
Locals	269.5	315.6	354.7	448.0

USE OF FOREIGN NATIONAL EMPLOYEES FOR DISBURSING AND AUDITING WORK

Mr. PASSMAN. Are you hiring foreign nationals to audit the foreign aid expenditures?

Mr. COFFIN. Yes, we have foreign nationals as voucher clerks, I believe, and auditors.

Mr. PASSMAN. Is that practice not unusual?

Mr. COFFIN. I do not believe so, Mr. Chairman.

Mr. TENNANT. We have been doing this ever since the Marshall plan began and the principle under which it operates is that normally we hire an American senior auditor and then the country hires some locals to work for him. This is due to language and other problems, so we find this the most effective way at getting at the details of the audit.

Mr. PASSMAN. Are they active in the disbursement of these funds?

Mr. TENNANT. No; these people postaudit after disbursements are made.

Mr. PASSMAN. They have nothing to do with disbursements?

Mr. TENNANT. There is another type of person I would identify separately as voucher examiners who get involved in disbursements. For the most part, I might say 100 percent, but I am not sure, though,

these vouchers are certified by Americans. While the detailed work done by the locals the Americans certify them.

Mr. PASSMAN. Would the foreign nationals, the auditors, check invoices or bills for payment and prepare the vouchers until it moves up to the American auditor to initial them?

Mr. TENNANT. That is correct, sir.

Mr. PASSMAN. Do you not think we ought to have a good close look at that operation, Mr. Director?

Mr. COFFIN. All of these auditors are in the field but, in turn, we have Washington inspectors and auditors go out and check their records. Then we have the Inspector General and our Management Inspection Staff and Mr. Tennant's office, who are making checks.

Mr. TENNANT. That is correct, Mr. Chairman.

After the American initials these payments they are sent to the U.S. disbursing officer under State Department control. He actually makes the payments.

We use essentially the same procedures that are used by State and USIA and other agencies.

Mr. PASSMAN. I wonder if I may just refresh your memory on what this practice could possibly lead up to?

OVERPRICING OF COMMODITIES IN LAOS

For example, suppliers' invoice in overpricing of commodities. This is on page 9 of the Summary of Nonmilitary Assistance Program for Laos.

The Tian Hiap Hen & Co. furnished 20 generators, submitted an invoice for $162,000 and AID paid it; it was established later the real value was $20,000.

Then you had the Dah Chong Hong Trading Corp., for sewing machines, submitted an invoice of $3,500 and AID paid it, but it was established later it had a value of $1,000.

The Charoen Suk Phanit Co., sawmill equipment, submitted an invoice for $42,000. AID paid it and discovered later it had a value of $12,000.

Those three items alone amounted to $207,500 and AID paid that sum, but they had a value of only $33,000.

Two of them we lost and one of them we are trying to collect now from Laos.

PERSONNEL FOR AUDITING AND INSPECTION

Had we had the proper type of auditing and inspection in all probability we would not have had a list such as this one. This is only an extract from pages of this kind of stuff.

Mr. TENNANT. I think, Mr. Chairman, it should be pointed out that these recoveries you talked about are generated by our own audit system.

Mr. PASSMAN. It does not make any difference. It happened. Had you done the auditing before it happened, you would not have had to disclose these discrepancies after it happened.

Mr. TENNANT. I think it is very difficult during an audit to disclose sometimes whether it is a fraudulent invoice or not.

Mr. PASSMAN. As far as I am concerned, I think it is a lot better, since we are the dispensers of this generosity and money, that at least we hire American auditors.

Mr. COFFIN. A good part of our request for personnel for Latin America is for American auditors.

Mr. PASSMAN. You had requests in prior years and you hired foreign nationals. We have been told already that this is the established procedure, to hire foreign auditors. You have turned back money you could not spend.

Mr. COFFIN. A substantial part of the U.S. nationals component of the Latin American program is auditors and controllers.

Mr. PASSMAN. He said that after a fact, sometimes, and others before.

Mr. TENNANT. That is true. I think the payments you referred to, I would like to check, were made through banking channels, Stateside.

Mr. PASSMAN. I merely mentioned it to remind that there was some looseness. You do not dispute that fact, do you?

Mr. COFFIN. I think there is a great deal less than there was in the early days of the Laos program.

PHASING OUT OF USE OF SERVICES IN LATIN AMERICA

Mr. PASSMAN. What type of essential functions proviously performed by the servicio are now performed by the AID staff in Latin America?

Mr. COFFIN. As I understand it, Mr. Chairman, this was a form of organization which consisted partly of foreign nationals in the host country, partly U.S. officials working in the organization with them, doing a function which might be in the field of agriculture or health. In most of these cases now this function has been taken over by the Government and we are not working through such organizations to anywhere near the great extent that we did. There are some still left but for its time, it performed a useful service.

Mr. PASSMAN. You are phasing it out?

Mr. COFFIN. I think that is a fair statement.

TRAVEL COSTS IN LATIN AMERICA

Mr. PASSMAN. Why do you require $97,500 for travel and transportation of persons; post assignment?

Mr. COFFIN. For travel to posts?

Mr. PASSMAN. No; travel and transportation of persons; post assignment.

Mr. COFFIN. Can you answer that?

Mr. MADDEN. This is to get the people there; 65 U.S. nationals.

Mr. PASSMAN. Let us see where we are going to take them and how much that is, per person.

Mr. COFFIN. You were speaking, Mr. Chairman, of the money proposed to transport the new Latin American personnel to their posts?

Mr. PASSMAN. I am just picking this up out of the justification book. Why $97,500 for transportation of persons; post assignment?

You said 65 people, to take them to the place of assignment? Are you talking about Americans?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. How much is that per person?

Mr. MADDEN. Roughly, about $1,500 or $1,400.

Mr. PASSMAN. Is that not pretty high?

Mr. COFFIN. These are people with families, Mr. Chairman.

Mr. PASSMAN. It is costing $1,500 per person?

Mr. COFFIN. Per family.

Mr. PASSMAN. It is going to cost $1,500 per individual to get him from America to his post in Latin America? Then if he has dependents——

Mr. COFFIN. $1,300, Mr. Chairman.

Mr. PASSMAN. They gave me the $1,500 figure. I did not work it out.

How much do you get, Mr. Controller?

Mr. TENNANT. I believe I get $1,500.

Mr. PASSMAN. When you recruit them, do they all move into Washington and then do you take them out, or do you take them from where they are selected to their assignment?

It sounds to me like this is an excessive figure. You can get a ticket to some of these places in Latin America out of Washington for $285, or $320, or $340.

Do you take them tourist class?

Mr. COFFIN. Yes, tourist class, but this is for the technician or employee, plus his wife and children joining him.

Mr. PASSMAN. It seems that you are selecting people with large families. You do not have any rule that you cannot work unless you have a certain number of children, do you?

Mr. COFFIN. No, we do not have that.

Mr. PASSMAN. I think the Peace Corps sent a family of 15 out to the Philippines.

Mr. COFFIN. This is from his home in the United States to his post overseas.

Mr. PASSMAN. We are talking about Latin America, are we not?

Mr. COFFIN. Yes.

Mr. PASSMAN. If you are in New Orleans and you drop a man off down in, let us say, Guatemala you are dealing with maybe $112 for an airplane ticket, are you not? If you are going to drop him off at the most distant South American country, you are only going to get up to about $380, are you not?

Mr. COFFIN. I would not know.

Mr. PASSMAN. Would you give us a breakdown on this item?

Mr. TENNANT. In most cases, Mr. Chairman, these people are brought into Washington for orientation, the principal employee.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Give us a list of how this matter is handled and why the cost is so high.

Tell us about the average size of the family and everything that makes up a part of this $1,500. If you have to project it into 1964, use the information you have on 1963. That is understood, is it not?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. This is a relatively small item but it appears that when we get into something like this that you can pin down, so many times we find it is excessive. I think you, too, would like to know the cost?

Mr. COFFIN. We agree with you 100 percent, Mr. Chairman.

(The requested information follows:)

TRAVEL AND TRANSPORTATION OF PERSONS TO LATIN AMERICA

The travel estimate of $97,500 was computed on the basis of past experience—an average cost of $1,500 per family traveling by air tourist class, a family consisting of two adults, one child over 12 and one under 12. The following illustrative cost table is predicated on travel from Chicago, Ill., with a 42-day stopover in Washington for orientation and then to the cities indicated.

	Single fare rate			Cost for 3.5 travelers	42-day per diem for orientation: 21 days at $16 and 21 days at $12, in Washington, D.C.	Per diem en route to post	Excess baggage (22 pounds per person), 88 pounds	Total cost
	Chicago to Washington	Washington to country	Total					
Rio de Janeiro	$33.95	$344.30	$378.25	$1,323.87	$588	$24	$217	$2,152.87
Buenos Aires	33.95	345.50	379.45	1,328.07	588	24	217	2,157.07
Asunción	33.95	340.50	374.45	1,310.57	588	24	227	2,149.57
Santiago	33.95	324.70	358.65	1,255.27	588	24	228	2,095.27
Panama City	33.95	156.70	190.65	667.27	588	24	84	1,363.27
Guatemala City	33.95	149.70	183.65	642.77	588	24	70	1,324.77
Mexico City	33.95	112.00	145.95	510.82	588	24	61	1,183.82
Santo Domingo	33.95	101.30	135.25	473.37	588	24	59	1,144.37
Lima	33.95	272.70	306.65	1,073.27	588	24	176	1,861.27
Quito	33.95	188.70	222.65	779.27	588	24	124	1,515.27

TRANSPORTATION COSTS IN LATIN AMERICAN REGION

Mr. PASSMAN. What is the basis for the increase of $305,500 for transportation of things?

What kind of things?

Mr. MADDEN. Household furnishings.

Mr. PASSMAN. Does that cost also apply to the same 65 people?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. That is a part of it?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. How much is that item for each of the 65?

Mr. COFFIN. I would say $4,700, but I have been wrong before, Mr. Chairman.

Mr. PASSMAN. What do you get, Mr. Controller?

Mr. TENNANT. The same figure, roughly $4,700.

Mr. PASSMAN. $4,700 and $1,500. When you bring this individual back, you have to incur the same type of expense, do you not?

Mr. COFFIN. Yes, sir.

Mr. PASSMAN. That is $12,400, it is costing for one technician and whatever number of dependents he should take with him, and his household furniture?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. Thank you.

Mr. COFFIN. Mr. Chairman, this compares with what it costs any organization, whether it be a private foundation or a government body, to take a person and his family and effects and transport him overseas.

Mr. PASSMAN. I am talking about AID. To me, this appears to be excessive and I wish you would give us a breakdown on what he takes down for the $4,700 and $4,700 back.

(The information follows:)

Shipping allowance—Latin America

Residential furnishings (Government issue):	
Average cost per shipment:	
Export packing	$661.75
Freight from factory to post, at average cost of $1.60 per cubic foot (Baumritter Corp., 145 East 32d St., New York 16, N.Y., or Kroehler Manufacturing Corp., P.O. Box 167, Harperville, Ill.)	1,538.25
Total	2,200.00
$2,200 by 65 shipments	143,000.00
Shipment of personal effects of a family of 4 to a limited post (where residential furnishings are issued by the Government):	
Average cost per shipment:	
Automobile	500.00
Door to door shipment of household effects, maximum allowance for a family of 4 to a limited post, 2,700 pounds at a cost of $0.50 per pound	1,350.00
Unaccompanied baggage, 200 pounds allowance per traveler for 4 persons; 800 pounds at $0.38 per pound	304.00
Air freight, 100 pounds allowance per traveler for 4 persons, 400 pounds at $0.96 per pound	384.00
Total	2,538.00
$2,500 (rounded) by 65 shipments	162,500.00
Total	305,500.00

Mr. PASSMAN. You are getting close to $10,000 just for the cost of taking his furniture down and bringing it back. Equipment, residential furnishings, $292,500. What is that item?

Mr. FORD. Off the record.

(Discussion off the record.)

Mr. MADDEN. This is furniture that is bought and shipped down there. This will be Government furniture.

Mr. PASSMAN. Will that be in addition to this other cost?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. Let us go over this again. Let us take the $292,500 and divide that by 65. How much is that for the 65?

Mr. MADDEN. I get $4,500.

Mr. PASSMAN. Now we are up to $16,900 on this technician.

This is from the United States to and from some country in Latin America for this one technician and the amount is $3,000 for personal transportation; $9,400 for transportation of his furniture, and then the Government is going to give him $4,500 worth of furniture.

We are up to $16,900, if the figures you have given us are correct.

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. Thank you.

Mr. ANDREWS. Mr. Chairman, may I ask a question?

Mr. PASSMAN. Yes, sir.

Mr. ANDREWS. What is the need of buying residential furnishings for an employee if the Government is going to pay for sending his own furniture down there?

Mr. MADDEN. I wanted to correct one thing.

Mr. PASSMAN. Please do.

Mr. MADDEN. The household furnishings included in transportation of things does not include the same items as is included in residential furniture that we are sending down. The employee is allowed a certain amount of poundage of dishes and things like that to take down. I will furnish for the record the exact poundage that the estimate is based upon, but as far as the residential furnishings are concerned, these are left at the post.

Mr. ANDREWS. I understand that.

Mr. MADDEN. And used by the man who comes in later.

Mr. ANDREWS. Maybe used 15 or 20 years, as long as this program continues?

Mr. MADDEN. Right.

Mr. PASSMAN. The transportation for this individual going out and coming back, for whatever number of dependents he may have, will average $3,000?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. The cost of transportation on his furniture to and from the Latin American country will be $9,400?

Mr. MADDEN. Let us not call it furniture.

Mr. PASSMAN. Let us say his possessions.

Mr. FORD. Personal effects.

Mr. PASSMAN. Then we are only figuring one way on what the Government is going to send down and that is $4,500; that is $16,900 per technician, is it not?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. Does that cover the cost of getting the man down and back or do you have some other incidentals?

Mr. MADDEN. That looks like all.

Mr. PASSMAN. We certainly hope so.

DISTRIBUTION OF ADMINISTRATIVE EXPENSES IN LATIN AMERICA BY OBJECT CLASSIFICATION

Will you submit for the record at this point, following your justifications for some of the proposed increases, included in 1964, of $1,425,000 for strengthening administration in Latin America, a table showing the distribution of obligations by object class for Latin America for fiscal years 1961, 1962, 1963, and 1964?

And will you also furnish a copy of the insert to the committee?

Mr. MADDEN. Yes, sir.

(The requested information follows:)

Distribution of administrative expenses by object classification—Latin America, fiscal years 1961, 1962, 1963, and 1964

[In thousands of dollars]

Object classification	Fiscal year 1961	Fiscal year 1962	Estimated, fiscal year 1963	Budget estimates, fiscalyear 1964
Compensation:				
Salaries:				
U.S. nationals	1,691.0	2,033.0	2,614.0	3,169.4
Locals	647.0	804.5	951.4	1,270.2
Regular pay above 52-week base	7.0			31.1
Post differential	100.0	105.9	129.1	163.4
Cost-of-living allowances	21.0	26.4	52.3	77.7
Overtime and holiday pay	31.0	44.2	36.8	37.0
Total, compensation	2,497.0	3,014.0	3,783.6	4,748.8
Benefits:				
Quarters allowance	240.0	302.3	424.9	614.9
Education allowance	39.0	50.4	71.8	128.2
Contributions to retirement funds	102.0	123.4	169.1	201.4
Other benefits (life insurance; health benefits, etc.)	17.0	20.8	22.9	25.2
Total, benefits	398.0	496.9	688.7	969.7
Travel and transportation of persons:				
Operational		108.8	99.1	134.1
Consultation		81.4	52.9	52.9
Post assignment		151.6	156.5	257.0
Home leave		94.6	96.2	153.3
Rest and recuperation			4.3	14.3
Medical			4.3	4.3
Total, travel and transportation of persons	255.0	436.4	413.3	615.9
Transportation of things	217.0	322.8	331.2	664.7
Rent, communications, and utilities:				
Communications		37.3	47.1	47.1
Rents:				
Office		99.4	137.7	137.7
Residential		119.6	137.9	156.9
Total, rent, communications, and utilities	203.0	256.3	322.7	341.7
Printing and reproduction	6.0	4.2	4.2	4.3
Other services:				
Representation allowances:				
U.S. AID Director	21.1	18.8	26.3	27.3
Other	16.9	19.6	23.2	24.0
Official residence allowance	(1)	12.5	16.6	19.5
Services of other agencies	(1)			
Miscellaneous contractual services	51.0	129.0	76.5	112.0
Medical			33.1	33.1
Total, other services	89.0	179.9	175.7	215.9
Supplies and materials	58.0	68.7	58.7	108.1
Equipment:				
Office furnishing and equipment		100.3	55.1	117.3
Residential furnishings		128.7	143.2	435.7
Vehicles		14.1	9.1	9.1
Other		3.1	1.2	1.2
Total, equipment	173.0	246.2	208.6	563.3
Grants, subsidies, and contributions				
Insurance claims and indemnities		0.3		
Total	3,896.0	5,025.7	5,986.7	8,232.4

[1] Included in miscellaneous contractual services.

Mr. PASSMAN. I yield to Mr. Ford.

Mr. FORD. It is awfully hard to believe these figures are accurate.

Mr. COFFIN. No, Mr. Ford.

Mr. FORD. Are you really justifying these figures?

Mr. COFFIN. This is based upon the experience in the Agency on the cost of sending to posts overseas.

There is, as Mr. Madden said, an allowance for poundage for personal effects.

This is an estimate as to the number of people that will be in the families of the 65 technicians who have not as yet been recruited.

This is not inexpensive. That is what I said to the chairman a little while ago.

Mr. FORD. That is obvious.

Mr. RHODES. Would the gentleman yield?

Mr. FORD. I cannot believe they are serious.

Mr. RHODES. How do you send their personal effects, by air express?

Mr. COFFIN. Roy, do you know?

Mr. MADDEN. I do not know how they send them.

Mr. TENNANT. A small amount, usually 100 pounds, depending on the size of the family, goes by air.

Mr. ANDREWS. That is the most expensive way to get it down there, is it not?

Mr. MADDEN. The small amount going by air is that which is needed for immediate use, and the balance goes by ship.

MILITARY SERVICE PRACTICES ON TRANSPORTATION AND SHIPMENT

Mr. FORD. When you ship your personnel overseas, is there any effort made at all to tie in with the military contracts that they have with commercial airlines? They get a very substantial reduced rate and as a consequence they save a considerable amount of money. It is well below the regular commercial rate. I see no reason why AID could not benefit from those as the military do as a whole.

This is a completely ridiculous figure and if the military were doing this, at this rate the budget for the Defense Department would be 50 percent more.

They ship people; they ship families; they ship automobiles. They ship personal effects. I have never seen, and I do not think Mr. Andrews has ever seen, a figure anywhere near comparable.

Mr. ANDREWS. If I remember, it is around $1,400 per family.

Mr. PASSMAN. That is why we asked for a complete breakdown, Mr. Ford. We want to have another look at this estimate.

However, this is just about what they spend according to figures given us once before, as I think I recall the testimony.

Mr. RHODES. Mr. Chairman, may I ask a question?

Mr. PASSMAN. Yes, indeed.

Mr. COFFIN. I wonder if we could get an answer to Mr. Ford's question. Have we looked into the military arrangements?

Mr. TENNANT. Our arrangements are fairly closely tied to State rather than the military. We have some joint arrangements with State, and so forth.

Mr. FORD. I am talking about personnel going overseas. The military have an arrangement through what they call MITMA, whereby they make a contract with various commercial airlines to send personnel at a rate about 75 percent of the commercial rate, if my recollection is accurate.

They are in the same service but because MITMA makes a contractual relationship on a price established by CAB, they get a substantial savings.

Mr. PASSMAN. We are going to ask our staff assistant to contact the Defense Department and get a similar table as to what it costs to get their personnel from the United States to Latin America. We want to get an average of what it costs for personal effects to Latin America, and then, also, what their figure is for the amount of furniture provided for the personnel that go down; civilian, please.

Then we shall get a separate breakdown on the uniformed personnel.

I yield to Mr. Rhodes.

FISCAL YEAR 1963 TRANSPORTATION OBLIGATIONS

Mr. RHODES. Mr. Coffin, can you tell us what amount was actually obligated under this heading in this last fiscal year?

Mr. COFFIN. For Latin America or for other countries?

Mr. RHODES. A figure comparable to the one from which you have been testifying.

Mr. MADDEN. For transportation of things, worldwide-overseas portion in 1962, it was $1,755,000.

Mr. RHODES. The estimate for 1963 was $1,419,200?

Mr. MADDEN. Yes, sir.

Mr. RHODES. Is this the amount actually obligated or do you have that before you?

Mr. MADDEN. We do not have that yet. The reports are not in.

Mr. RHODES. When you get this information, will you submit it for the record?

Mr. MADDEN. That may be a month.

Mr. RHODES. Do not worry. We will still be holding hearings.

(The requested information follows:)

Fiscal year 1963 obligations, transportation of things

[In thousands of dollars]

Latin America:	
Argentina	11.3
Bolivia	16.5
Brazil	48.1
British Guiana	[1] 3.0
Chile	17.0
Colombia	19.2
Costa Rica	12.8
Dominican Republic	4.0
Ecuador	15.9
El Salvador	9.2
Guatemala:	
U.S. AID	13.4
Regional office, Central America and Panama	13.3
Haiti	5.6
Honduras	3.6
Jamaica	8.1
Mexico	3.5
Nicaragua	23.1
Panama	13.6
Paraguay	22.3
Peru	7.7
Surinam	12.4
Uruguay	4.1
Venezuela	4.5
West Indies and East Caribbean	18.5
Total, Latin America	310.7
Far East:	
Burma	15.2
Cambodia	24.1
China	62.3
Indonesia	38.9
Japan	5.6
Korea	55.9
Laos	51.6
Philippines	29.7
Thailand	23.6
Vietnam	49.7
Total, Far East	356.6
Near East and South Asia:	
Afghanistan	58.7
Ceylon	23.2
Cyprus	4.8
Greece	6.2
India	39.4
Iran	38.1
Israel	5.8
Jordan	25.8
Lebanon	[2] 5.1
Nepal	20.3
Pakistan	34.2
Syria	6.5
Turkey:	
U.S. AID	21.3
CENTO	5.2
United Arab Republic	9.5
Yemen	19.2
Total, Near East and South Asia	323.3

See footnotes at end of table, p. 1841.

Fiscal year 1963 obligations, transportation of things—Continued

[In thousands of dollars]

Europe and Africa:	
Area Controller, Bonn	4.9
Area Controller, Madrid	2.4
U.S. Regional Organization, Paris	2.0
Yugoslavia	.3
Regional field staff	.6
Algeria	16.7
Cameroon	13.5
Central African Republic	1.2
Chad	8.6
Congo Republic	2.1
Dahomey	3.4
Ethiopia	33.4
Gabon	21.6
Ghana	9.4
Guinea	[1] 12.5
Ivory Coast	21.2
Kenya	20.9
Liberia	17.9
Libya	18.3
Malagasy	[1] 9.3
Mali Republic	3.5
Morocco	20.7
Niger	1.1
Nigeria	11.3
Republic of the Congo	15.5
Rhodesia and Nyasaland, Federal Republic of	[1] 19.9
Senegal	3.5
Sierra Leone	12.5
Somali Republic	33.5
Sudan	20.2
Tanganyika	35.5
Togo	[1] 6.2
Tunisia	20.6
Uganda	10.9
Upper Volta	4.9
Total, Europe and Africa	440.0
Total, oversea operations	1,430.6

[1] Includes actual obligations July 1962 through May 1963, plus estimated obligations, June 1963.
[2] Includes obligations on behalf of Area Controller, Beirut, estimated at $500.

ESSENTIAL ITEMS DEFERRED DURING FISCAL YEAR 1963

Mr. PASSMAN. The second portion of your proposed increase in fiscal 1964 is $5,010,000 and there is an estimate of $2,404,000 of items deferred during fiscal 1963.

How much did you obligate for these various items in fiscal 1963?

Mr. MADDEN. Again, we do not have that information at this time.

For 1962 for these items deferred, we spent $5,222,000.

I am looking at page 7 of the submission, if you want to follow it across.

We programed in 1963, $3,777,000, a decrease of aproximately $1.5 million below what we actually spent for these purposes in 1962.

Mr. PASSMAN. If you do not have a firm figure, how could you use that as a comparison between 1962 and 1963?

Mr. MADDEN. When we got our budget submission from the various missions, we were confronted with what appeared to be a stringent funding situation in 1963.

Mr. PASSMAN. What do you mean by that statement?

Mr. MADDEN. In Washington we whacked a lot of these items out of the missions' budgets and did not allot money to them.

Mr. PASSMAN. What do you mean by that statement about the funding situation?

Mr. COFFIN. This is the situation that faced us, Mr. Chairman, last year when the final appropriation was passed: The request had been cut $5.5 million.

Mr. PASSMAN. You are talking about this particular appropriation?

Mr. COFFIN. I am talking about the administrative expenses appropriation.

Mr. PASSMAN. I understand, but this particular part of it?

Mr. COFFIN. Plus the fact that, as you will remember, last year the law was changed to prevent any transfer from the contingency to administrative expenses. Therefore, at this point in the year we adopted a stringent policy of deferring items: not realizing we could not draw on our contingency for any emergencies that might develop later on in the year, realizing we would have to be overcautious insofar as we would find deferrable expenses, and we did defer them.

Mr. PASSMAN. In 1962 you obligated $51,093,500, and in 1963 you obligated $52,240,000. Certainly there was no cut but rather there was a substantial increase. Am I reading the figure correctly?

Mr. MADDEN. Yes, sir; but between 1962 and 1963 we had increased our personnel gearing up to the job we thought we had to do, and then along about October we found out that we were not going to be able to finance for the rest of the year at the obligation rate we had started the year——

Mr. PASSMAN. In effect, were you increasing the staff in anticipation of an increase in the appropriation?

Mr. COFFIN. No: that is not correct, Mr. Chairman.

Mr. PASSMAN. That, I think, is what, in effect, the gentleman said, and I would not want to——

Mr. COFFIN. Gearing up, to do the work that had to be done. Loans that had been made for projects being carried on.

Mr. PASSMAN. Mr. Director, all of this housekeeping is not just servicing loans. There is a lot of plush stuff in here.

When you refer to items deferred during fiscal 1963, does that mean you have incurred expenses in 1963 that will be paid out of the 1964 appropriations?

Mr. MADDEN. No, sir.

Mr. COFFIN. It means that, taking supplies and materials, for example, instead of replenishing stocks, in the missions that were needed, we drew down on those and, to a certain extent, we will have to replenish them.

Mr. PASSMAN. In effect is it not actually deferring to another year items that should be paid for in the current year?

Mr. COFFIN. I think so.

Mr. PASSMAN. I want to thank you again for your frankness. It follows then that you are not living within the appropriation.

Mr. COFFIN. This is a matter of judgment. That is, how long can you use equipment before it wears out?

Mr. PASSMAN. You make adjustments and would not be anticipating what you asked for out here, and building up your expenses, personnel, and otherwise, based upon what you believe you are going to get? Then some adjustments are made and you are not able to live within them?

The Congress fixes these amounts and as far as I am concerned—and I am sure it would be unanimous on this side of the table—when the Congress finally approves an appropriation, you should live within that appropriation?

Mr. COFFIN. That is what we did, Mr. Chairman.

Mr. PASSMAN. You have not done so when you defer expenses incurred in one year to be paid out of a future year's appropriation.

Mr. TENNANT. Mr. Chairman, I think there is a misinterpretation of language here. When we defer expenses we defer the purchase. I think you interpreted Mr. Coffin's remarks to purchase but defer the payment.

Mr. COFFIN. Mr. Chairman, we did not purchase things on the deferred basis. We did not, in a going sense of the word, obligate ourselves to live beyond our means. We merely cut to the bone certain things which ordinarily we would think good management would require us to do.

Mr. PASSMAN. Do your books not show you were unable to maintain the monthly rate of expenditures equal to those of the first 3 months of the year?

Mr. COFFIN. Yes. So we cut them down.

Mr. PASSMAN. Then you come in and say you have deferred. I do not think you could get any other interpretation of deferred, but we will try to understand it our way and get all of the mileage that we can out of it.

Mr. COFFIN. So long as you understand what I mean.

Mr. PASSMAN. We shall accept your defense of what was done and decide later whether it is weak, medium, or superior.

I yield to Mr. Rhodes.

Mr. RHODES. I just want to ask one question.

Mr. Coffin, have there been any transfers of funds out of the account known as "Administrative expenses, AID," during fiscal year 1963?

Mr. COFFIN. Transfers out of administrative funds?

Mr. RHODES. Yes.

Mr. COFFIN. No, sir.

Mr. RHODES. Your statement says that there could be no transfers into?

Mr. COFFIN. That is correct.

Mr. RHODES. So the amount of money you have been dealing with was just the amount of money appropriated, $49.5 million, plus the amount reappropriated?

Mr. COFFIN. Right; but plus the specifically authorized supplemental funds for increased pay costs.

Mr. RHODES. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Since your proposal for fiscal 1964 for these purposes is $5,726,500, should not the increase above fiscal 1963 be an increase of $1,853,000, rather than an increase of $1,540,000 as indicated on page 7 of the justifications?

Mr. MADDEN. I am not sure that I have the question.

Mr. PASSMAN. Since your proposed fiscal 1964 budget estimate for these purposes is $5,726,500, should not the increase above 1963 be $1,853,400, rather than an increase of $1,540,000?

Mr. COFFIN. I can answer that, Mr. Chairman.

One and one-half million dollars is the difference between our estimate for 1963 and actual expense for 1962. We were $1.5 million below 1962.

Taking into account what we have already debated under the term of "deferrals," doing the things we think should be done plus serving on a current basis the people that are on board, the difference between the 1963 estimate and what we are asking is the figure that you state, $1.8 million.

Mr. PASSMAN. We think we have been very liberal in making funds available for administrative purposes.

When we speak of deferrals, what if the Congress this year should make what it believes to be proper adjustments? Do you mean that you are going to keep on cutting down on your supplies and housekeeping items, and going to have bare shelves, or work out some economies, such as maybe reducing personnel?

Mr. COFFIN. What we intend to do is to hold our personnel, for the other three regions, where they are. The only area of increase is in Latin America. It is hard to answer your question because we would have to live within the amount you gave us. We would have to curtail wherever we could, doing the least damage to the program.

PROPOSED INCREASE FOR SUPPLIES AND MATERIALS—FAR EAST REGION

Mr. PASSMAN. I should think that you people would know that you have more money than you need in all of these accounts. This is indicated by the very fact that we did not get down to your taking price last year. This is one field where there is a lot of criticism, administrative expenses. We hope you have a good, hard look at it.

I note on the detailed breakdown of the proposed increase for supplies and material, by area, of equipment, transportation of things, and contractual services, that the Far East region has the second highest request, Africa being first.

I am somewhat at a loss to understand why the Far East should rank so high in the need for increased funds, especially in view of the fact that the number of positions in this area has dropped from 290 in fiscal 1962 to 235 proposed for 1964. Even on a man-year basis, I note the number of U.S. technicians for fiscal 1962 is 266.5 and it dropped to 264 in fiscal 1963, and shows a substantial drop in fiscal 1964, down to 226; is that correct?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. Thank you.

SUPPLIES AND MATERIALS FOR U.S. MISSION IN YUGOSLAVIA

Under the estimate for supplies and materials, I notice an item, on page 8, of $2,600 for Yugoslavia. Would you comment concerning this request?

Mr. COFFIN. As you know, Mr. Chairman, the only program we have there involves Public Law 480. That does require people to administer it and keep account of the moneys generated by these commodities.

Mr. PASSMAN. You have to have these people in Yugoslavia?

Mr. COFFIN. If we want to protect our record of accounting and keeping track of expenditures.

Mr. PASSMAN. Do we have an Embassy there?

Mr. COFFIN. We have an Embassy there.

Mr. PASSMAN. Are they not able to take care of that matter, or does this money go to the Embassy?

Mr. COFFIN. We do not have a separate mission director in Yugoslavia. We have the Ambassador and the AID functions are carried out in the Embassy, I believe.

Mr. PASSMAN. According to their arguments, they say this is a sales agreement by which we ship our commodities and we get local currency. If they requisition so many thousands of bushels of wheat, or other commodities, this goes out at a fixed price and we get local currency. Then why do we have to be there and supervise the distribtuion of something they are supposed to purchase?

Mr. COFFIN. We have only three U.S. nationals working on this.

Mr. PASSMAN. Do you have any need at all?

Mr. COFFIN. Yes, we do.

Mr. PASSMAN. How about U.S. exporters who do business all over the world, who pack the goods, ship them out, take the bills of lading down to the bank and draw on the importer's account? Do they send people out to be sure the goods arrive in good order, and are distributed by the purchaser?

Mr. COFFIN. What these men do not have to do and what we have to do is to keep accounts for the Treasury, for Agriculture, and AID, and submit reports.

Mr. PASSMAN. Why could you not do that when you ship?

These people requisition, say, so many thousands of pounds of dried eggs, and then you ship it out and it is weighed down to the last pound and here is an invoice covering it. When it goes out, you fill their order and then you get local currency, so why do we have to go out there and check on that transaction?

Mr. COFFIN. I believe the General Accounting Office would not allow us to do this on an absentee basis. I believe that a minimum of U.S. personnel is required.

Mr. PASSMAN. Other exporters selling commodities to a country do not send men from their firms out to be sure the goods are received and distributed; do they?

Mr. COFFIN. I am not familiar with that.

Mr. PASSMAN. How about finding out, Mr. Coffin, because maybe we could save a little money.

Have you found anything interesting in that book?

Mr. COFFIN. Yes.

The book I was looking at refers to our obligation under the law to take safeguards with commodities, to see that ordinary U.S. marketings are not interfered with and goods are not transshipped. The Congress is very interested in commodities not being transshipped.

Mr. PASSMAN. I am just as suspicious of Yugoslavia as you are indicating, unintentionally, you are. You mean they requisition the surplus commodities? We ship them and we charge them and accept local currency, and we are going to stay there and follow them right to the mouth of the individual who finally eats them?

Mr. COFFIN. There are end-use checks, Mr. Chairman.

Mr. PASSMAN. We have these commodities for sale; do we not?

Mr. COFFIN. Yes, sir.

Mr. PASSMAN. Once you sell commodities to another country, do we stay with them until they are finally consumed?

Mr. COFFIN. We have an obligation to see that those commodities are used, under the purposes of the agreement, and are not transshipped, and also are used according to the provisions of these agreements.

COSTS OF ADMINISTERING YUGOSLAVIA PROGRAM

Mr. PASSMAN. At least it makes some good jobs for some of these people. Could you give us an estimate of the total amount that we are paying for personnel and relating costs to administer the aid program in Yugoslavia?

Mr. TENNANT. Mr. Chairman, Yugoslavia has title III programs where we are required to add it and check to see that these donations do get into the hands of needy people.

Mr. PASSMAN. Is this not a small part of the total?

Mr. TENNANT. It is a small part except it is a very troublesome program to audit.

Mr. PASSMAN. Give us now a total of the salaries and related expenses.

Mr. MADDEN. In 1963, $84,600. In 1964 we are proposing $59,900.

Mr. PASSMAN. That amount would have to be added to the aid program that we have under another section or another law, would it not, to get the total?

Mr. COFFIN. I don't believe so. This is the administrative cost.

Mr. PASSMAN. Nevertheless it is credited to Yugoslavia, is it not? We are spending it in Yugoslavia to administer an aid program, are we not?

Mr. COFFIN. To administer the food program, yes, sir.

Mr. PASSMAN. That is an aid program, is it not?

Mr. COFFIN. Yes.

Mr. PASSMAN. You get no dollars for it, do you? You get local currency that cannot be spent.

Will you add the $54,000 to the other figure, which is classified, to get the grand total? I want to be fair in trying to put together these figures. Would this be a part of the aid program to Yugoslavia if we wanted to get the grand total?

Mr. COFFIN. It would give the grand total cost.

Mr. PASSMAN. Thank you.

EQUIPMENT FOR WASHINGTON OPERATIONS

Mr. Director, under the item in the amount of $583,900 for equipment, I note a request for $107,000 for domestic operations. Will you explain this item?

Mr. COFFIN. What page is that, Mr. Chairman?

Mr. PASSMAN. It is on page 9.

Mr. MADDEN. We reduced our programing of funds for equipment into Washington as well as overseas.

Mr. PASSMAN. We are glad you reduced it.

Tell us what this is for, the $107,000 for domestic operations.

Mr. MADDEN. Ordinary desks, chairs, and things like that.

Mr. COFFIN. Typewriters?

Mr. MADDEN. Typewriters.

Mr. PASSMAN. Is that for overseas?

Mr. MADDEN. No, sir, this is for Washington.

Mr. PASSMAN. On page 10, under the item for contractual services, I note again a request for $200 for Yugoslavia, or is that $200,000?

Mr. MADDEN. These tables are in thousands of dollars, I haven't found the page yet.

Mr. PASSMAN. It is page 10.

Mr. MADDEN. That is $200.

Mr. PASSMAN. This is about the lowest figure I have ever heard discussed in an aid program. I did not know you could get a machine to work at that low a figure in this program.

REST AND RECUPERATION TRAVEL

I note that you are requesting an increase of $107,900 above your 1963 program of $96,100 for the "Rest and recuperation travel" item. Who is doing this resting?

Mr. COFFIN. This is the cost of travel for leave in the missions indicated where personnel are allowed—this is not home leave, but leave during the year when they can go to certain prescribed places. They cannot travel wherever they want but they can take leave.

Mr. PASSMAN. Leave 1 is home leave. This is leave 2?

Mr. COFFIN. This is an interim leave.

Mr. PASSMAN. Does it affect the cumulative leave they get which is established under regular tenure?

Mr. MADDEN. It is charged against regular leave whenever they qualify for this type of travel.

Mr. FORD. But they get paid for going out, is that right?

Mr. MADDEN. This is a new law that hasn't been in effect too long and it applies to State and all other international agencies. The theory is to prevent a person from cracking up and to keep him at his post for possibly 3 years instead of 2 years; they let him take a trip to one of these rest spots designated. He may then stay at the post a total of 3 years or longer rather than coming home after 2 years.

Mr. PASSMAN. On this recuperation travel item, who pays for the travel?

Mr. MADDEN. The Government pays for the travel.

Mr. PASSMAN. Let us find out whether or not the Government does not also pay the regular salary while the person is on leave.

Mr. MADDEN. It does.

Mr. PASSMAN. And whether or not this is charged against the accruals back here.

Mr. TENNANT. It is charged against the accruals.

Mr. FORD. The justification says:

Under recent legislation, rest and recuperation travel is authorized.

What is the citation for that legislation?

Mr. MADDEN. I don't have it handy.

Mr. RHODES. Was it in last year's authorization?

Mr. COFFIN. Yes; I think so. I think it was in last year's bill.

Mr. PASSMAN. How much did you request and justify for this purpose last year?

Mr. MADDEN. Nothing specifically for this.

Mr. PASSMAN. Would this be a deferral if you did not ask for it last year?

Mr. MADDEN. The program just got underway officially about in March or April, I believe.

Mr. PASSMAN. Did you have a deferral here under this——

Mr. MADDEN. This is probably not properly classified as a deferral. It is included in with these items because it is somewhat comparable but——

Mr. PASSMAN. Could you tell us how much of the 1963 accrued expenses in this category will be paid out of fiscal year 1964 funds?

Mr. MADDEN. No one has taken leave in 1963 which will be paid from 1964 funds. This doesn't happen. This amount here represents the increased amount of rest and recuperation travel estimated for 1964 compared with what can be done this year.

Mr. PASSMAN. You had nothing for this purpose in 1963? There was no recuperation travel during the year?

Mr. MADDEN. There was some in 1963.

Mr. PASSMAN. Did you pay any 1963 amounts for all expenses you incurred in connection with this item?

Mr. COFFIN. Yes.

Mr. MADDEN. Yes.

Mr. PASSMAN. That was $96,100?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. When did the law become effective?

Mr. MADDEN. The law became effective probably around the first of July 1962 but we didn't get to implement it fully until March or April. We were working with the State Department and USIA in order that all agencies might approach this problem uniformly and in getting agreement between all of the agencies. The implementation of this law wasn't officially gotten off the ground until the spring of 1963.

Mr. PASSMAN. What has been your experience with AID personnel in the past having to be given special relief on account of approaching maybe, shall we say, a crackup point?

Mr. MADDEN. I am not familiar with the——

Mr. PASSMAN. Are you familiar with this matter, Mr. Controller?

Mr. TENNANT. I believe our Director of Personnel could obtain information on people who have had emotional problems.

Mr. COFFIN. I have no aggregate figures but I know of cases where we have had to bring people home.

Mr. PASSMAN. Just a few?

Mr. COFFIN. In my own personal knowledge; yes.

Mr. PASSMAN. Would it not save money to bring them home rather than to spend $500,000 in this manner?

Mr. COFFIN. I think this is an ounce of prevention, Mr. Chairman.

Under the conditions under which these people work I think it is a necessary part of any oversea program.

Mr. PASSMAN. You have not had this plan before, have you? And we are going into the 17th year of the aid program.

I yield to Mr. Ford.

Mr. FORD. I would like the citation of this legislation giving the date of its enactment and also the exact provisions that authorize this program. In addition I would like the regulations which have been promulgated under it.

(The information requested follows:)

CITATION OF LEGISLATION ON REST AND RECUPERATION TRAVEL, AND AGENCY REGULATIONS

Citation of law: Rest and recuperation travel is provided for by subsection (9) of section 911 of the Foreign Service Act of 1946, as amended. Subsection (9) was added by section 708(a) of the Foreign Assistance Act of 1961, Public Law 87-195, approved September 4, 1961. It provides as follows:

"SEC. 911. The Secretary may, under such regulations as he shall prescribe, pay—

* * * * * * *

"(9) the travel expenses of officers and employees of the Service who are citizens of the United States, and members of their families, while serving at posts specifically designed by the Secretary for purposes of this paragraph, for rest and recuperation to other locations abroad having different environmental conditions than those at the post at which such officers and employees are serving, provided that such travel expenses shall be limited to the cost for each officer or employee and members of his family of one round trip during any continuous two-year tour unbroken by home leave and two round trips during any continuous three-year tour unbroken by home leave."

Regulations: Regulations currently in effect are quoted below. These consist of Foreign Affairs Manual Circular No. 108, as Amended, and Foreign Affairs Manual Circular No. 114, both issued by the Department of State, with concurrence of the other two agencies, as Joint States-AID-USIA circulars.

FOREIGN AFFAIRS MANUAL CIRCULAR NO. 108, MARCH 1, 1963, AS AMENDED BY FOREIGN AFFAIRS MANUAL CIRCULAR NO. 113, MARCH 14, 1963

JOINT STATE, AID, USIA, CIRCULAR

Subject: Rest and Recuperation Travel

1. PURPOSE

This is a joint State Department, Agency for International Development (AID), and United States Information Agency (USIA), communication which supplements existing procedures for authorizing rest and recuperation travel at Government expenses from a post of assignment to a rest area. The provisions of this circular supersedes and supplements the provisions of 3 FAM 143.1-6.

2. BACKGROUND

a. The duration of an employee's assignment is determined by the interaction of a variety of factors. Important among them is the recognition that through continuity of service at a post it is possible to benefit from acquired knowledge and understanding of the post, country and area.

b. At certain posts, however, the benefits of continuity may be significantly diminished by a progressive loss of personnel efficiency due to altitude, climate, health hazards, isolation, lack of recreational opportunities, etc. At some of these posts, it is impractical, because of high costs of transportation, to expect that an employee and his family will be able to travel to the closest place that offers beneficial changes of climate and environment.

c. In order to alleviate such conditions and make it possible, in some instances, for an employee to remain at the post for longer periods of time, and, in other instances, to assist an employee to maintain his efficiency, the following amendment was obtained to the Foreign Service Act (section 911.9).

"The travel expenses of officers and employees of the Service who are citizens of the United States, and members of their families, while serving at posts specifically designated by the Secretary for purposes of this paragraph, for rest and recuperation to other locations abroad having different environmental conditions than those at the post at which such officers and employees are serving [may be paid], provided that such travel expenses shall be limited to the cost for each officer or employee and members of his family of one round trip during any continuous two-year tour unbroken by home leave and two round trips during any continuous three-year tour unbroken by home leave."

3. GENERAL PROCEDURES

3.1 *Designation of Posts from Which Travel May Be Granted*

a. The Department, AID and USIA, acting jointly, will designate those posts from which employees who are citizens of the United States, and members of their families, are eligible to travel at Government expense for rest and recuperation. A decision to so designate a post will be made if it is found (a) that conditions of life at the post present distinct and significant difficulties for an employee and his family of sufficient severity to justify temporary relief therefrom during a period of assignment, and (b) that the post is located so far distant from a suitable relief area which provide a beneficial change in climate and environment as to make it unreasonable to expect that the employee could finance his family's travel to the relief area. Appendix I to this circular contains a list of posts that have been designated for this purpose. This list will be amended from time to time to reflect changing circumstances.

b. The general criteria governing the selection of posts eligible for rest and recuperation will include such factors as: unfavorable climatic conditions, isolation, inadequate transportation within the country, lack of adequate recreation facilities, unsuitable housing and sanitary conditions, lack of essential services, lack of medical or dental care, prevalence of communicable diseases, and unusual personal hazards.

3.2 *Scheduling Trips.*

a. Posts will be responsible for scheduling rest and recuperation trips. Keeping in mind the basic purpose of this leave, posts should generally not grant such travel to be taken within six (6) months of the beginning or end of the employee's scheduled tour of duty including extensions of tours of duty.

b. The intent of the law is to provide a measure of relief from climatic and environmental conditions existing at posts listed in Appendix I to this circular. To qualify for R. & R. travel, an employee must be assigned to one or more of the posts so listed as designated for a total scheduled tour of such posts of two or three years unbroken by home leave. Authorized transportation costs will be limited to one round trip during any continuous two-year tour of duty and two round trips during any three-year tour of duty unbroken by home leave.

c. If, during the previous nine months, a single employee or a married employee (accompanied by his family) travels from an eligible R. & R. post at Government expense on consultation or temporary duty to a place which affords the necessary physical and psychological change described in paragraph 3.3 below, that travel shall be considered the equivalent of R. & R. travel.

d. In scheduling trips, the authorizing officer should seek to make them at the least possible cost to the Government. For example, whenever possible, posts should utilize those facilities which are available for travel of U.S. Government personnel without charge or at reduced charge to appropriated funds (such as MATS, or contract carriers of State or AID), to provide all or part of the travel to the designated relief areas; take advantage of special excursion rates; schedule travel at times when specially low air fares apply or in conjunction with other official travel of the head of the family such as attendance at conferences, temporary details to other posts, consultation trips, etc., schedule travel by surface transportation if it results in savings of travel costs.

3.3 *Designation of Relief Areas*

a. In each country included on the attached list the principal officer, in conjunction with the responsible representatives of other Government agencies with employees in the area, shall recommend relief area for each post concerned. The name of the agreed-upon relief area shall be communicated to the Department by operations memorandum, subject: "PERSONNEL: Rest and Recuperation." Copies should be send to AID and USIA. The communication should state the cost in dollars of the necessary round-trip ticket for one fare by economy class travel by the recommended means of transportation to the relief area.

b. A suitable relief area is a place possessing a significant change in climate, altitude and environment which will provide the rest and recuperation necessary to a restoration of personal efficiency. In selecting a relief area, economy to the Government will be a major consideration.

c. The Department in collaboration with the participating agencies will designate and inform each eligible post of the relief area to which rest and recuperation travel will be authorized.*

d. If recommendations for relief areas have already been submitted in response to FAMC No. 72, it is not necessary to do so again, unless the principal officer, for valid reasons, wishes to change his original recommendations.

4. TRAVEL

4.1 *Authorization*

The principal or administrative officer at the post, or corresponding officer of the appropriate agency, may authorize or approve the cost of round-trip transportation of an employee or dependent to the established relief area, subject to the limitations of paragraph 4.2. Unaccompanied or excess baggage to and from the relief area will *not* be authorized at Government expense.

4.2 *Employee Contribution*

Every eligible employee whose salary is $8,000 or less per year shall pay the first $50 of the total travel cost for himself and his family with the Government paying the balance. An employee whose salary exceeds $8,000 will similarly pay the first $100 of the total travel cost. The employee and members of his family may travel separately on different trips.

4.3 *Mode of Travel*

Actual travel may be performed from the post to a suitable rest area other than that named in accordance with paragraph 3.1 above, *provided* the criteria in paragraph 3.3 are met, but the cost of such travel may not exceed the transportation expenses that would have been incurred for direct routing via round-trip common carrier economy or tourist travel, whichever is lower, between the authorized points of origin and destination. Implicit in the approval of such travel should be the principal officer's acceptance of the fact that it will meet the objectives of the program. The transportation expenses allowed shall in no case exceed allowable transportation expenses actually incurred.

4.4 *Per Diem Allowable*

No per diem shall be allowed the traveler in connection with authorized rest and recuperation trips.

4.5 *Charge to Leave*

The employee's absence for rest and recuperation and necessary travel time shall be charged to annual leave, leave-without-pay, or sick leave, as appropriate.

4.6 *Use of Government Transportation*

The appropriate authorizing officer of any post should, whenever practicable, issue travel orders for an employee and dependents to depart from the post for the purpose of taking leave when transportation of other United States Government agencies can be utilized on a space-available basis at no expense to the Department of State, AID or USIA or at lesser cost than that of commercial carriers.

4.7 *Eligibility of Resident Staff Employees*

Resident American employees are not eligible for Rest and Recuperation travel except as dependents of employees who are eligible for such travel in their own right. In such cases, the cost of travel will be charged to the agency by which the head of the household is employed.

5. INDIVIDUAL AGENCY PROCEDURES

Each agency is responsible (a) for designating which employee and family will be authorized to take rest and recuperation at Government expense, and (b) for establishing procedures of budgeting and issuing travel orders for the purpose of rest and recuperation travel.

6. EFFECTIVE DATE

Posts will be notified of the effective date when travel may commence under provisions of this circular.

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*FAMC No. 113 dated March 14, 1963, added section 3.3 c and renumbered former section 3.3 c as 3.3 d.

7. REPORTING

At the end of each quarter, each post shall submit a report in duplicate to the participating agencies concerning:

a. Rest and recuperation trips performed during that quarter, including names of travelers, destination, and the cost of each trip. (The report as of March 31, 1963, should cover the three quarters preceding); and

b. Estimated cost of Rest and Recuperation travel for the balance of the fiscal year and the estimated cost of each trip including the names of travelers who will be granted R and R travel orders and the months in which travel is expected to commence.

These reports should be directed to the attention of the following offices:

USIA employees—One copy to IOA/PS.
One copy to IOA/B.
AID employees—One copy to appropriate Regional Bureau.
One copy to C/BUD.
State employees—One copy to appropriate Regional Bureau.
One copy to PER/POD.

Appendix I. List of Posts Where Rest and Recuperation Travel Can be Authorized

AFRICA

Burundi (all posts)
Republic of Chad (all posts)
Republic of the Congo (all posts)
Republic of Congo (all posts)
Republic of Mali (all posts)
Central African Republic (all posts)
Cameroon (all posts)
Dahomey (all posts)
Ethiopia (all posts except Asmara, Eritrea)
Federation of Rhodesia and Nyasaland (all posts except Salisbury)
Gabon (all posts)
Ghana (all posts)
Guinea (all posts)
Ivory Coast (all posts)
Kenya (all posts except Nairobi)
Liberia (all posts)
Libya (Sebha)
Malagasy Republic (all posts)
Mauritania (all posts)
Niger (all posts)
Nigeria (all posts)
Rwanda (all posts)
Senegal (all posts)
Sierra Leone (all posts)
Somali Republic (all posts)
Sudan (all posts)
Tanganyika (all posts)
Togo (all posts)
Uganda (all posts except Kampala)
Upper Volta (all posts)
Zanzibar (Zanzibar)

FAR EAST

Burma (all posts)
Cambodia (all posts)
Indonesia (all posts)
Laos (all posts)
Philippines (Cebu)
Thailand (all posts except Bangkok)
Vietnam (all posts)

LATIN AMERICA

Bolivia (all posts)
Brazil (Belem, Brasilia, Fortaleza, Ceara)
Chile (Antofagasta)
Ecuador (all posts)
Honduras: San Pedro Sula
Paraguay (all posts)
Peru (Cuzco)
Venezuela (Puerto La Cruz)

EUROPE

British Guiana (all posts)
British Honduras (all posts)
Bulgaria (all posts)
French West Indies (Martinique)
Poland (Poznan)
Rumania (all posts)
Surinam (Paramaribo)
Union of Soviet Socialist Republics (all posts)

NEAR EAST AND SOUTH ASIA

Aden (Aden)
Afghanistan (all posts)
India (all posts except New Delhi, Bombay, and Madras)
Iran (all posts except Tehran)
Iraq (all posts)
Kuwait (all posts)
Nepal (all posts)
Pakistan (all posts)
Saudi Arabia (all posts)
Yemen (all posts)

Foreign Affairs Manual Circular

JOINT STATE, AID, USIA, CIRCULAR NO. 114, MARCH 27, 1963

Subject: Rest and Recuperation Travel—Employee Contributions.

1. This circular transmits a Joint State, AID, USIA instruction which supplements Foreign Affairs Manual Circular No. 108, dated March 1, 1963, as amended by FAMC No. 113 dated March 14, 1963, and sets forth procedures for handling employee contributions toward the cost of travel for rest and recuperation purposes.

2. Appropriate changes will be made in the Foreign Affairs Manual to reflect the provisions of this circular.

Subject: Rest and Recuperation Travel—Employee Contributions.

1. PURPOSE

This is a Department of State, Agency for International Development (AID), and United States Information Agency (USIA) communication which sets forth procedures for handling employee contributions toward the cost of travel for rest and recuperation purposes.

2. BACKGROUND

Paragraph 4.2 of Foreign Affairs Manual Circular No. 108, dated March 1, 1963, provides that each employee authorized rest and recuperation travel under the provisions of that circular shall pay the first $50 of the total travel cost for himself and his family if his salary is $8,000 or less, or the first $100 of such cost if his salary exceeds $8,000, with the Government paying the balance. The Department, AID, and USIA desire that these contributions be treated in ways that preclude the necessity of collecting and reporting the amounts thereof as deposit or trust funds. For this reason, and to insure uniformity in the handling of such contributions, this circular prescribes the following procedures.

3. TRAVEL ACCOMMODATIONS PROCURED BY TRANSPORTATION REQUEST

When travel accommodations are procured by transportation request, the applicable employee contribution shall be handed to the carrier together with the transportation request, which shall be prepared to cover only the balance of the cost of the accommodations. Paragraphs a and b below prescribe the additional statements to be included in the transportation request.

a. The reverse of the original and the memorandum copy of the transportation request shall contain a receipt in the amount of the employee's contribution, or the equivalent thereof in the applicable currency, which shall be signed by the carrier on payment to him of that amount.

b. The following shall be shown on the face of the transportation request:

Total cost of transportation: (*amount*)
Less amount paid by traveler: (*amount*)
Balance to be billed: (*amount*)

For this purpose free space in the "Fiscal Data" block may be used.

4. TRAVEL ACCOMMODATIONS PROCURED BY OTHER DOCUMENTS

When travel accommodations are procured by purchase order, letter, or other document, the applicable employee contribution shall be handed to the carrier together with the procurement document covering the balance of the transportation costs. A receipt in the amount of the employee's contribution, or the equivalent thereof in the applicable currency, shall be typed at the bottom of the document or attached thereto, which shall be signed by the carrier on payment to him of that amount. The procurement document shall contain billing instructions equally as explicit as those prescribed for transportation requests in paragraph 3b above.

5. TRAVEL ACCOMMODATIONS PROCURED WITH EMPLOYEE'S PERSONAL FUNDS

When an employee elects to procure travel accommodations with his personal funds, his claim or the voucher for reimbursement shall show the applicable employee contribution as a deductible item.

6. TRAVEL BY PRIVATELY OWNED MOTOR VEHICLE

When travel by privately-owned motor vehicle has been authorized, the employee shall present his claim for mileage in the normal manner, except to show the applicable employee contribution as a deductible item.

7. EFFECTIVE DATE

The procedures prescribed by this circular will become effective with the commencement of rest and recuperation travel under provisions of FAMC No. 108.

Mr. FORD. Let's turn to one of these examples shown at page 11 of the justifications.

AGENCIES GRANTING REST AND RECUPERATION TO EMPLOYEES

Mr. GARY. Does this law apply only to the foreign aid program? To what agencies does it apply?

Mr. MADDEN. State, USIA. Beyond that I don't know.

Mr. PASSMAN. But this is a brand new program as far as AID is concerned?

Mr. MADDEN. Yes.

Mr. GARY. Will you put in the record the agencies to which it applies?

Mr. MADDEN. Yes, sir.

(The information supplied follows:)

U.S. AGENCIES WHICH MAY GRANT REST AND RECUPERATION TRAVEL

Under existing law, the rest and recuperation travel benefit provided for by the Foreign Service Act of 1946, as amended, is applicable to Foreign Service

employees of the Department of State, the Agency for International Development (including employees of other Federal agencies participating in the foreign economic assistance program), the U.S. Information Agency, and the Peace Corps.

Peace Corps volunteers, including volunteer leaders, are not eligible for the rest and recuperation travel benefit provided for by section 911(9) of the Foreign Service Act, as amended; however, the Peace Corps Director has authority under the Peace Corps Act to make this benefit available to Peace Corps employees serving overseas. (See the Peace Corps Act, Public Law 87-293, as amended: sections 5(a), 6, 7(c)(1), 7(c)(2); Executive Order 11041, Aug. 6, 1962; and State Department Delegation of Authority No. 85-11 A, Aug. 6, 1962.)

Mr. PASSMAN. AID people may possibly have a different tenure abroad than State Department and other agencies.

We should also note again that for 16 years of operation of AID this is the first time you have had such a program, in fiscal year 1963? This is the first time we have ever had a request for money and it is the first time you have had a program and in 1963 you obligated $96,100 for this purpose; is that correct?

Mr. MADDEN. I would assume that people who qualify now under this in the past may have come home on medical travel or something like that.

Mr. PASSMAN. So far as you know there has been no program of this kind in the past and there has been no request for funds for this type of program to this committee?

Mr. MADDEN. I can say that we have never prepared a budget request for this type of a program before.

Mr. PASSMAN. And your record shows there were no expenditures made for this type of program prior to 1963; am I correct?

Mr. MADDEN. That is right. We had no way of accumulating that information before.

Mr. PASSMAN. You show a blank in the book, that there were no obligations made for this purpose until the beginning of 1963. Am I correct?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. In 1963 you spent $96,100?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. Yet the law became effective July 1, 1962.

Mr. MADDEN. Approximately, yes.

FISCAL YEAR 1964 REST AND RECUPERATION PROGRAM

Mr. PASSMAN. So you had 1 year's authorization under this law, and you spent $96,100, but for fiscal year 1964 you are asking for $204,000; is that correct?

Mr. MADDEN. It is $200,000-plus, I believe.

Mr. PASSMAN. You are asking for $204,000, which is more than double what you had in fiscal year 1963.

Mr. Ford, did you want to ask a question?

Mr. FORD. Yes. At page 11 of the justification book under the heading "Rest and Recuperation Travel, $107,900." Does that figure refer to the increase, or is this the total?

Mr. MADDEN. The increase.

Mr. FORD. What is the total for the fiscal year that you are justifying for the whole agency in this item, "Rest and recuperation, travel"?

Mr. COFFIN. $204,000.

Mr. FORD. And that is justified at page 11; is that right?

Mr. COFFIN. Yes.

Mr. FORD. Let's turn to one of the specific items shown at page 11. The amount for rest and recuperation is $11,300. How many people are involved in this?

Mr. MADDEN. Which figure do you refer to?

Mr. FORD. $11,300 proposed for rest and recuperation travel for AID personnel stationed in Indonesia.

Mr. MADDEN. In Indonesia it is estimated that there would be 54 travelers. This is not only the U.S. nationals but their families.

Mr. FORD. That is 54 travelers at a cost of $11,300?

Mr. MADDEN. That is the net cost to the Government.

Mr. FORD. Now let's use a little mathematics here and see how that works out.

Mr. MADDEN. That is the increase. I am sorry. The total cost for the 54 is $16,000.

Mr. FORD. Wait a minute. What was that last figure—$16,000?

Mr. MADDEN. $16,000 for 54 travelers.

Mr. FORD. You arrive at that figure of $16,000 by taking the $11,300 which is for the increase——

Mr. MADDEN. And adding it to our 1963 costs for 16 travelers which was $4,700.

Mr. FORD. You are going to pay for the 1963 costs out of the 1964 budget?

Mr. MADDEN. No, sir.

Mr. TENNANT. The total cost for 1964 is $16,000, which is $11,300 over the prior year.

Mr. FORD. So this figures out about $300 per traveler. How often do they get this rest and recuperation pay for transportation?

Mr. MADDEN. I am not too familiar with this law but a person cannot take it, as I understand, until he has been at the post for a period of time—6 months or a year, I don't recall which—and he cannot take this rest and recuperation travel within 6 months of when he is due home leave.

Mr. FORD. Do you mean if a person goes on the post for 6 months then he is eligible for rest and recuperation travel reimbursement?

Mr. MADDEN. I don't recall now whether it is 6 months or a year but after he is there a period of time he becomes eligible for the rest and recuperation travel. From that point, up to a point within, I believe, 6 months of the time when he is due for home leave or reassignment, he is eligible.

Mr. PASSMAN. Is there a limitation placed on them for travel? What if an individual decided he wanted to go 1,600 miles or 1,400 miles?

Mr. COFFIN. There are designated relief areas. For example, if you are in Bolivia the area is Lima.

Mr. MADDEN. In Indonesia, for example, it is Hong Kong.

Mr. FORD. That is not a bad place to go, I hear.

Mr. PASSMAN. It is quite a little jump, too.

Can they take their dependents with them at Government expense for travel?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. The Government pays the travel expense of the dependents?

Mr. MADDEN. Yes, sir. The regulations do require that the employee pay out of his own pocket the first $50 or $100, I forget what it is, but over and above that the Government pays the difference.

Mr. PASSMAN. Is that for food, hotel, travel, and everything?

Mr. MADDEN. It is only the travel.

Mr. PASSMAN. If a man and his wife and nine children are involved he pays the first $50 and the Government pays the rest?

Mr. MADDEN. To my recollection. As I say, I am not fully competent on this.

Mr. PASSMAN. So far as you know that is correct?

Mr. MADDEN. Yes; in principle it is, anyway.

Mr. FORD. I have never been there but I always had the understanding that Indonesia was—isn't Bali in Indonesia?

Mr. TENNANT. Indonesia is practically on the Equator. It is pretty hot and there are health hazards. All year round it is a tropical climate.

Mr. FORD. I can't help think of the cost, Mr. Andrews, we are going to get in the military budget if this same type of a program is instituted for military personnel.

Mr. TENNANT. Page 290 of the Foreign Service Act contains the legislation.

Mr. PASSMAN. Determine for us what monetary limitations are placed upon these people. If a man has a wife and nine children you could not afford to say, "You have too many children, you may take only two." Let us see how broad this is.

Mr. TENNANT. We will provide a complete insert on it.

BREAKDOWN OF COSTS FOR REST AND RECUPERATION PROGRAMS

Mr. FORD. Mr. Chairman, I ask if the record may show the total cost for each country where you have this program in effect as you are justifying it for fiscal year 1964. The number of people involved and the authorized place for travel such as Lima, Bolivia; Hong Kong for Indonesia and the like.

Mr. PASSMAN. Yes, and also, as this program was fully operative in fiscal year 1963 and you spent only $96,100, we want to know why you need more than double that amount for fiscal year 1964—to be exact, $204,000. Give us the breakdown of this $94,000, the number who participated, the number of dependents who participated with the employees and from where to where the trips were made.

Will you prepare that information for us?

Mr. TENNANT. Yes.

Mr. MADDEN. Yes.

Mr. COFFIN. Yes.

Mr. PASSMAN. We may be able to help you stop this plan before it gets out of control.

(The information requested follows:)

Estimate of fiscal year 1963 requirements for rest and recuperation travel

[Dollar amounts in thousands]

U.S. aid	Post differential	Designated relief area	Estimated number of travelers		Estimated obligations
			Employees	Dependents	
Latin America:	*Percent*				
Bolivia	25	Lima	6	18	$4.3
British Guiana	20	Caracas			
Surinam	15	do			
Total, Latin America			6	18	4.3
Far East:					
Burma	20	Hong Kong			
Cambodia	20	do			
Indonesia	25	do	7	9	4.7
Laos	25	do	3	3	1.2
Vietnam	25	do	10	16	3.0
Total, Far East			20	28	8.9
Near East-south Asia:					
Afghanistan	25	Beirut	5	5	3.8
Nepal	25	Hong Kong	8	10	6.6
Pakistan	20	do	20	25	17.9
Yemen	25	Beirut	6	7	5.0
Total, Near East-south Asia			39	47	33.3
Africa-Europe:					
Cameroon	20	Marseille	2	3	3.0
Central African Republic	25	Rome	1		.6
Chad	25	Madrid			
Congo Republic (Brazzaville)	15	Rome	1		.6
Congo Republic (Leopoldville)	25	do	2	4	3.3
Dahomey	25	Marseille	1	1	.9
Ethiopia	20	Nairobi	5	12	2.0
Gabon	25	Marseille	1		.5
Ghana	15	Lisbon	5	15	7.4
Guinea	25	do	2	4	1.8
Ivory Coast	15	do	4	12	7.8
Liberia	25	do	8	16	9.6
Malagasy	10	Nairobi	1	1	.2
Mali	25	Marseille	1	2	.6
Niger	25	Madrid	1	1	.6
Nigeria	15	Lisbon	4	8	4.4
Sierra Leone	25	do	1	3	1.0
Somali Republic	25	Nairobi	1	1	.2
Sudan	20	do	3	5	1.8
Tanganyika	15	do	1		.1
Togo	25	Marseille	2	6	3.2
Upper Volta	25	do			
Total, Africa-Europe			47	94	49.6
Total			112	187	96.1

Mr. COFFIN. Mr. Chairman, of course you are perfectly justified in examining this very closely. As far as the idea is concerned it is good management to give our personnel in some of these difficult areas to work in, an occasional period when they can go for a rest without coming back to the United States, particularly when it means that in some instances we can prevail on people to take a longer tour than 2 years, it is well worth it.

Mr. PASSMAN. But you are talking about some nations where there are good recreational facilities, pleasure spots, and a lot of people will save up for half a lifetime in order to go for a visit where some of these people are employed. I can understand a rest period but why you have to move them from Indonesia to Hong Kong, for example, and why the American taxpayer should pay for the trip I do not know. Give us what information you can as to this travel.

Mr. COFFIN. Again, we will be pleased to supply this information and we think you should have it but it is a very modest amount compared with the administrative budget and the program budget we are working on.

Mr. PASSMAN. Most of these programs are relatively modest when they start, such as Mr. Shriver and his Peace Corps. He came up and said, "Let us try this out. Give us this amount of money and if it doesn't work stop it."

Congress appropriated the money and now the Peace Corps is the fastest growing agency in the Federal Government, and within 2½ years they are in 51 nations. I have never known of any Federal agency or item that did not grow rather rapidly once it got started, and we are going to try to help you watch this one.

Mr. FORD. Does the Peace Corps qualify for this particular benefit?

Mr. MADDEN. If they have Foreign Service employees I imagine it would apply to them.

Mr. RHODES. The Peace Corps volunteers do not qualify for this?

Mr. MADDEN. I don't know.

Mr. TENNANT. I would say no, because I don't think they are in Foreign Service.

Mr. GARY. I don't see why not. They lead about as rigorous a life as any of them over there. It would seem they ought to get this benefit if others in the Foreign Service get it.

Mr. TENNANT. We will be glad to supply an insert on the Peace Corps.

(The information requested may be found on p. 1854.)

Mr. FORD. May I supplement a question I asked a moment ago, Mr. Chairman?

Mr. PASSMAN. Surely.

REST AND RECUPERATION TRAVEL, INDONESIA MISSION PERSONNEL

Mr. FORD. Do I understand in Indonesia you will have 54 people who will participate in this program in fiscal year 1964?

Mr. MADDEN. Yes.

Mr. FORD. How many employees will you have in Indonesia in fiscal year 1964? How many did you have there in fiscal year 1963, what are you programing for fiscal year 1964?

Mr. MADDEN. I read from page 27—27 people in each year.

Mr. COFFIN. Wait just a minute. Your request includes program funds. The rest and recuperation cost we are discussing applies to administrative employees. The people I will give are administrative employees. The two are comparable.

Mr. FORD. You had in fiscal year 1963, 27 people. You had 27 American or U.S.-national employees in Indonesia in fiscal year 1963. You expect to have in fiscal year 1964, 27 employees. You are budgeting for travel for these rest and recuperation items in Indonesia 54 people.

Mr. MADDEN. $16,000 and 54 people.

Mr. FORD. Now let's have the pay scale of the 27 people you have scheduled for Indonesia.

(The information may be found on p. 1861.)

Mr. GARY. So we will know just exactly what we are talking about here, this provision of the law is very short and I think I will read it into the record. It is a part of the Foreign Service Act. It is part B, "Travel and Related Expenses" and under "General provisions," section 911, it says:

The Secretary may under such regulations as he shall prescribe pay—

And then it goes on and sets out five items. This seems to be in subsection 9:

He may pay the travel expenses of officers and employees of the service who are citizens of the United States and members of their families while serving at posts specifically designated by the Secretary for purposes of this paragraph, for rest and recuperation to other locations abroad having different environmental conditions than those at the post at which such officers and employees are serving, provided that such travel expenses shall be limited to the costs for each officer or employee and members of his family of one round trip during any continuous 2-year tour, unbroken by home leave and two round trips during any continuous 3-year tour unbroken by home leave.

That is the provision of the law.

Mr. FORD. Mr. Chairman, may I just follow up on this one point to make the picture clear?

Mr. PASSMAN. Yes.

SALARY AND ALLOWANCES FOR AID EMPLOYEES IN INDONESIA

Mr. FORD. I asked for the pay and fringe benefits for the 27 people who are stationed in Indonesia with AID. I want the figures to show the basic salary, the post differential, the cost-of-living allowances, the overtime and holiday pay, if any, the quarters allowance, the education allowance, the contributions to retirement funds and the other benefits as listed at page 19. What we want is a full, complete and total picture for these 27 employees so we get a specific location with employees involved, their pay and allowances and the like, so we get some feel for what the situation is.

(The information requested follows:)

Compensation and allowances [1] of employees stationed in Indonesia, fiscal year 1964

Position title	Grade	Salary	Hardship post differential	Education allowance	Total
Mission director	R-1	$19,800	$5,000		$24,800
Deputy mission director	R-1	19,100	4,800		23,900
Executive assistant	R-6	9,300	2,300		11,600
Secretary	S-7	5,800	1,400		7,200
Executive officer	R-3	14,000	3,500		17,500
Assistant executive officer	R-4	13,800	3,400	$1,400	18,600
General service officer	R-4	11,900	3,000		14,900
Personnel officer	R-5	9,900	2,500		12,400
Records supervisor	S-4	8,000	2,000		10,000
Assistant records supervisor	S-7	6,800	1,700		8,500
Records clerk	S-9	5,000	1,200		6,200
Controller	R-3	15,800	3,900		19,700
Deputy controller	R-4	12,300	3,100		15,400
Auditor	R-4	11,500	2,900		14,400
Do	R-5	11,500	2,900		14,400
Do	R-5	10,500	2,600		13,100
Do	R-5	9,600	2,400		12,000
Budget and accounting officer	R-5	9,900	2,500		12,400
Do	R-5	9,600	2,400		12,000
Accountant	R-5	10,800	2,700		13,500
Assistant director—program	R-2	16,000	4,000		20,000
Program officer	R-3	14,400	3,600	1,400	19,400
Deputy program officer	R-3	14,000	3,500		17,500
Assistant program officer	R-3	14,000	3,500		17,500
Secretary	S-8	5,200	1,300		6,500
Do	S-8	6,400	1,600		8,000
Do	S-8	5,200	1,300		6,500
Do	S-8	5,500	1,400		6,900
Gross total (28 U.S. permanent positions).		305,600	76,400	2,800	384,800
Lapses		−26,000	−15,000		−41,000
Net total (27 U.S. man-years)		279,600	61,400	2,800	343,800

[1] Employees in Indonesia are housed in Government leased or owned quarters and hence receive no quarters allowance. They are eligible, however, for such personnel benefits as Government contributions to retirement, life insurance, health insurance, and miscellaneous allowances.

Mr. PASSMAN. We have had a foreign aid program for 16 years and we have had personnel assigned to these nations who qualify for this special consideration and we have had for years, have we not?

Mr. MADDEN. We have had employees there; yes, sir.

Mr. PASSMAN. I am talking about employees. You have had them assigned to these posts for years.

The American who goes to Indonesia, for instance, gets the 25-percent hardship bonus from the start, does he not?

Mr. MADDEN. Twenty-five percent; yes.

Mr. PASSMAN. In all of the nations where these people qualify under this special act, they get various bonuses for serving there on account of the location; do they not?

Mr. MADDEN. Yes.

Mr. PASSMAN. It would appear to me that these special considerations would be sufficient compensation to start with without, after 16 years, getting into the act with this plan.

Mr. TENNANT. Mr. Chairman, the allowances we pay our employees are the same allowances provided by the Foreign Service Act of 1946 as amended.

Mr. PASSMAN. You are just as fair as you can be. I would never say two wrongs would make a right, but we are talking about foreign aid now and we can recognize that this plan came in from the State Department after this agency had been in operation for 16 years.

Mr. TENNANT. No, these allowances have been in for——

Mr. PASSMAN. I am not talking about the allowances. I am talking about this other thing.

Mr. TENNANT. The rest and recuperation; yes.

REST AND RECUPERATION TRAVEL, VIETNAM

Mr. FORD. The only point I wanted to make here is that we have gotten the camel's nose under the tent. Take Vietnam. We have 11,000, more or less, military employees stationed there. How many people do you have in Vietnam?

Mr. MADDEN. Thirty-nine administrative employees.

Mr. FORD. How much will you pay for rest and recuperation travel in Vietnam in fiscal year 1964?

Mr. MADDEN. In 1964, total cost to the Government, $8,000.

Mr. FORD. For how many employees?

Mr. MADDEN. Thirty-nine.

Mr. FORD. What is the point or destination for rest and recuperation in Vietnam?

Mr. MADDEN. Hong Kong.

Mr. FORD. What does that figure per person?

Mr. MADDEN. Seventy travelers at a total cost to the Government of $8,000.

Mr. FORD. You have 39 employees there for AID. They get this benefit. You have 11,000 military personnel who do not derive this benefit. Now, how can you justify this discrimination? And if we are going to get into a similar program for the military, the $8,000 you have in Vietnam for AID employees will be peanuts compared with the comparable military cost.

Mr. COFFIN. Mr. Ford, the AID employees overseas are people of varying ages but to the extent they are technical experts or are apt to be in their late thirties or forties—I think the average age is in the forties—they will have families.

Mr. FORD. That is pretty young.

Mr. COFFIN. I think it is very young, Mr. Ford. They have families, however. They are not in a career service as is the military. The question is, really, is this necessary to attract good people to do a job well overseas? We believe that this is necessary to attract people at that stage of life and specialty away from their academic institution or their company and to keep them in a foreign land for a period of several years. It is not analagous to the situation facing the troops.

Mr. FORD. I was going to say you really must concede that the 11,000 military personnel there are having a pretty tough time too.

Mr. COFFIN. Certainly.

Mr. GARY. Was this item of rest and recuperation added to the law for the State Department also for the first time last year or was it something they have had before and it was extended to cover your agency?

Mr. SCHEINMAN. The provision was added for the entire Foreign Service pursuant to the amendment which you quoted.

Mr. GARY. Prior to that amendment none of the Foreign Service had ever gotten it before; is that correct? It was an innovation in the law so far as the entire Foreign Service is concerned?

Mr. SCHEINMAN. That is correct.

Mr. PASSMAN. I thought it was testified this plan was added for AID because the State Department had it.

Mr. FORD. Mr. Chairman, just to make the point that I think is very serious, the discrimination between the Foreign Service and/or AID and the military, let's take the circumstances with the 39 employees you have in Vietnam. Let's get all the information in the record as to their pay, allowances, and so forth and so on. I want a full and complete picture position by position and what the tour of duty is and how long they have been with AID. I don't want you to identify them by name. You can make it merely X, Y, and Z, but I do want something where we can make a valid comparison.

(The information requested follows:)

Personnel and other data for employees stationed in Vietnam, fiscal year 1964[1]

Position title	Grade	Annual salary	Hardship post differential	Education allowance	Total	Home leave eligibility	Entered on duty with AID
Mission director	C-3	$22,700			$22,700	August 1964	September 1950.
Deputy mission director	R-1	19,800	$5,000		24,800	November 1963	June 1949.
Secretary	S-6	7,700	1,900		9,600	January 1964	January 1955.
Executive officer	R-3	14,400	3,600	$700	18,700	February 1965	March 1950.
Assistant executive officer	R-3	14,000	3,500	300	17,800	September 1963	April 1959.
Executive assistant	S-8	5,600	1,400		7,000	October 1964	April 1960.
General service officer	R-3	15,300	3,800	300	19,400	November 1964	June 1960.
General service officer—property	R-5	9,600	2,400		12,000	September 1963	April 1959.
Personnel officer	R-6	9,000	2,300	700	12,000	March 1964	July 1954.
Assistant personnel officer	R-5	10,200	2,600		12,800	June 1964	July 1948.
Personnel clerk (vacant)	S-7	5,800	1,500		7,300		
Records supervisor	R-5	10,500	2,600		13,100	July 1963	January 1950.
Assistant records supervisor	S-7	6,600	1,600		8,200	March 1964	July 1957.
Records clerk	S-7	6,800	1,700		8,500	May 1965	January 1961.
Do	S-7	5,800	1,500		7,300		
Legal adviser	R-3	14,400	3,600	300	18,300	December 1964	November 1961.
Controller	R-3	14,900	3,700	700	19,300	do	March 1958.
Deputy controller	R-3	14,400	3,600	800	18,800	April 1964	January 1957.
Accountant	R-4	13,000	3,300		16,300	October 1964	June 1957.
Budget accounting officer	R-5	9,900	2,500	300	12,700	April 1964	September 1959.
Auditor	R-4	12,300	3,100	800	16,200	February 1965	February 1963.
Do	R-6	8,800	2,200		11,000	September 1963	September 1961.
Do	R-6	9,300	2,300		11,600	do	August 1961.
Do	R-6	9,000	2,300	800	12,100	November 1963	October 1961.
Do	R-5	10,200	2,600		12,800	July 1963	June 1961.
Do	R-6	9,300	2,300		11,600	January 1964	November 1961.
Do	R-6	9,500	2,400		11,900	February 1964	December 1961.
Do	R-4	13,800	3,400		17,200	do	January 1955.
Do	R-5	11,200	2,800	500	14,500	September 1964	July 1962.
Assistant director—program	R-1	19,800	5,000	500	25,300	August 1964	December 1956.
Program officer	R-2	16,000	4,000	800	20,800	April 1965	July 1948.
Assistant program officer	R-3	14,900	3,700		18,600	February 1964	June 1952.
Assistant program officer (vacant)	R-7	6,700	1,700		8,400		
Program analyst	R-7	6,900	1,700		8,600	January 1965	September 1962.
Secretary	S-8	5,200	1,300		6,500	April 1963	August 1957.
Do	S-9	5,000	1,200		6,200	April 1964	March 1962.
Do	S-9	5,000	1,200		6,200	August 1964	July 1962.
Do	S-9	5,000	1,200		6,200	June 1964	May 1962.
Do	S-10	4,500	1,100		5,600	September 1964	September 1962.
Secretary (vacant)	S-9	4,700	1,200		5,900		
Gross total (40 U.S. permanent positions)		417,500	98,800	7,500	523,800		
Lapses		−29,600	−18,300	−700	−48,600		
Net total (39 U.S. man-years)		387,900	80,500	6,800	475,200		

[1] Employees in Vietnam are housed in Government-leased quarters and hence receive no quarters allowance. They are eligible, however, for such personnel benefits as Government contributions to retirement, life insurance, health insurance, and miscellaneous allowances.

Mr. PASSMAN. I want to put this chart relative to the rest and recuperation travel in the record at this point.

(The chart referred to follows:)

Background data relating to rest and recuperation travel

[Dollars in thousands]

U.S. aid	Post differential (percent)	Designated relief area	Fiscal year 1963		Fiscal year 1964				Increase over fiscal year 1963
			Number of travelers	Cost to Government	Number of travelers	Total cost	Direct cost to employees	Cost to Government	
Latin America:									
Bolivia	25	Lima	24	$4.3	56	$10.2	$0.8	$9.4	$5.1
British Guiana	20	Caracas			12	2.1	.2	1.9	1.9
Surinam	15	do			20	3.5	.5	3.0	3.0
Total, Latin America			24	4.3	88	15.8	1.5	14.3	10.0
Far East:									
Burma	20	Hong Kong			17	3.5	.5	3.0	3.0
Cambodia	20	do			53	9.3	1.3	8.0	8.0
Indonesia	25	do	16	4.7	54	17.6	1.6	16.0	11.3
Laos	25	do	6	1.2	57	12.5	1.5	11.0	9.8
Vietnam	25	do	26	3.0	70	10.2	2.2	8.0	5.0
Total, Far East			48	8.9	251	53.1	7.1	46.0	37.1
Near East/south Asia: Afghanistan	25	Beirut	10	3.8	14	5.9	.6	5.3	1.5
Africa/Europe:									
Cameroon	20	Marseille	5	3.0	9	7.8	.2	7.6	4.6
Central African Republic	25	Rome	1	.6	2	1.2	.1	1.1	.5
Chad	25	Madrid			3	1.6	.1	1.5	1.5
Congo Republic (Brazzaville)	15	Rome	1	.6	2	1.4	.2	1.2	.6
Congo Republic (Leopoldville)	25	do	6	3.3	15	9.1	.5	8.6	5.3
Dahomey	25	Marseille	2	.9	3	1.5	.1	1.4	.5
Ethiopia	20	Nairobi	17	2.0	35	6.6	.8	5.8	3.8
Gabon	25	Marseille	1	.5	6	3.8	.2	3.6	3.1
Ghana	15	Lisbon	20	7.4	17	7.6	.6	7.0	−.4
Guinea	25	do	6	1.8	25	10.3	.8	9.5	7.7
Ivory Coast	15	do	16	7.8	20	8.7	.4	8.3	.5
Liberia	25	do	24	9.6	20	9.1	.9	8.2	−1.4
Malagasy	10	Nairobi	2	.2	4	.6	.2	.4	.2
Mali	25	Marseille	3	.6	10	2.7	.4	2.3	1.7
Niger	25	Madrid	2	.6	6	2.6	.2	2.4	1.8
Nigeria	15	Lisbon	12	4.4	34	17.6	1.3	16.3	11.9
Sierra Leone	25	do	4	1.0	13	5.0	.3	4.7	3.7
Somali Republic	25	Nairobi	2	.2	16	2.6	.8	1.8	1.6
Sudan	20	do	8	1.8	20	6.1	.7	5.4	3.6
Tanganyika	15	do	1	.1	15	2.5	.5	2.0	1.9
Togo	25	Marseille	8	3.2	13	6.4	.2	6.2	3.0
Upper Volta	25	do			7	3.8	.2	3.6	3.6
Total, Africa/Europe			141	49.6	295	118.6	9.7	108.9	59.3

Mr. PASSMAN. As you operated a full year for $96,000, would there be any great harm done, since this is a new program, if we placed on a limitation of the same amount for fiscal year 1964?

Mr. MADDEN. I think in answer to your question, sir, it isn't an item that you can control dollarwise. You either have to have the program or not because otherwise then you would be picking and choosing among which employees could get this type of travel.

Mr. PASSMAN. Then maybe we had better strike the entire thing out.

INCREASED PAY COSTS

The third portion of your proposed increase of $5,010,000 is the estimate of $1,290,000 to "annualize" the first step of the Federal Employees Salary Act of 1962 and to provide the second step increase which is effective January 1, 1964; is that correct?

Mr. COFFIN. Yes.

Mr. PASSMAN. The balance of this proposed increase for the fiscal year 1964 is $255,000 to provide for two extra days occurring in fiscal year 1964. Is that also correct?

Mr. COFFIN. Yes.

OVERSEA EMPLOYEES IN INTERREGIONAL PROGRAMS

Mr. PASSMAN. Yesterday, in connection with your testimony on interregional expenses, I believe you stated that the number of U.S. employees overseas had been reduced and I note on page 13 the same statement. However, looking at page 4, I note that in connection with oversea operations that the end-of-year employment on June 30, 1962, was 1,034 U.S. nationals; on June 30, 1963, it was 972; but in fiscal year 1964 it goes back up to 1,037, an increase of 3 over fiscal year 1962. Would you comment?

Mr. COFFIN. I lost you, Mr. Chairman.

Mr. PASSMAN. In the testimony yesterday dealing with the interregional expenses you stated, I think, that the number of U.S. employees overseas had been reduced. Now to abbreviate it, as you go on through you will find it is an increase of three rather than a reduction. Would you reconcile the difference between the two statements?

Mr. COFFIN. The 1964 estimate includes the additional employees proposed for Latin America. We say that we have reduced and we are holding the line in the other regions but this is where we need to have these 65 people.

Mr. PASSMAN. The statement yesterday, as I recall it, would indicate a decrease rather than an increase, and I am only establishing that you do actually have an increase.

Mr. COFFIN. The increase would be in 1964—

Mr. PASSMAN. It is still in the administrative expenses and you are dealing with a worldwide program.

Mr. COFFIN. But I am not sure there is an inconsistency.

Mr. PASSMAN. Yes, if one day you say there is a decrease and when we actually go to the records and start working it over and we find it is an increase, we just want the record to show——

Mr. COFFIN. I thought from hearing you—I may be mistaken—that the statement was that we had decreased but that the increase of three——

Mr. PASSMAN. That, I think, was the testimony yesterday, that you had decreased the number of employees. Now, we do not deal with administrative expenses by saying, "Well, yes, there is a decrease but when you include this region it is an increase." You deal with this item, administrative expenses, on a worldwide basis, do you not?

Mr. TENNANT. I don't recall the colloquy too well yesterday but I think it applied just to regional activity and this is administrative activity, the figures you read today. They are two separate items.

EMPLOYEES OF WASHINGTON STAFF OFFICES

Mr. PASSMAN. How many employees are assigned to the information staff?

Mr. MADDEN. Thirty-one people are provided for in this budget against 32 positions.

Mr. PASSMAN. How many are assigned to the congressional liaison staff?

Mr. MADDEN. Twelve.

Mr. PASSMAN. How many are in the Office of Program Coordination?

Mr. MADDEN. Fifty-one positions. We are budgeting for 48 employees.

Mr. PASSMAN. By what designation is Mr. Miller's office known?

Mr. MADDEN. His office is included in those figures.

Mr. PASSMAN. What is his office?

Mr. COFFIN. Legislative Program Coordination Staff.

Mr. PASSMAN. What is the cost of operating Mr. Miller's office?

Mr. MADDEN. I have only the total cost of the Office of Program Coordination.

Mr. PASSMAN. Could you tell us the cost of the congressional liaison staff, per year?

Mr. MADDEN. For 1964 congressional liaison staff, $176,000.

Mr. PASSMAN. Just what are their duties?

Mr. COFFIN. Mr. Chairman, this 12 includes professional personnel and clerical personnel. Their principal job is to respond to requests from Congress for information on problems that bother them.

I think this is probably one of the smaller liaison offices of the governmental agencies but their job is to serve the Congress with whatever requests come down and oftentimes it will be a question from a Congressman about either an issue—it can be a letter to the Administrator—on Indonesia or Ghana or Guinea or sometimes it concerns a question of a contract for his constituent. Sometimes it is personnel, people in his constituency who have come to him and want to make application to a Federal agency for employment and the request is, can we set up interviews for that person. It is a similar function to that performed by the military liaison.

Mr. PASSMAN. I thought you people handled most of those matters by correspondence.

Mr. COFFIN. Correspondence is a great deal of the activity.

Mr. PASSMAN. Is it about like the State Department liaison that works on foreign aid?

Mr. COFFIN. Well, they work on all matters connected with foreign affairs.

Mr. PASSMAN. Do you have to reimburse them for anything they do insofar as footwork for foreign aid is concerned?

Mr. COFFIN. There is a separate staff.

Mr. PASSMAN. We do reimburse State in many instances for personnel. Is that part of it?

Mr. MADDEN. We reimburse them to a considerable degree for oversea support of our people.

Mr. PASSMAN. But nothing at the Washington level?

Mr. MADDEN. Not for this purpose; no, sir.

Mr. PASSMAN. Please break down these three items:

The employees of the information staff.

The congressional staff.

The program coordination staff.

And all related expenses.

(The information follows:)

Breakdown of administrative expenses for information, congressional liaison and program coordination staffs

	Estimate fiscal year 1963				Estimate fiscal year 1964			
	Positions	Man-years	End of year employment	Cost	Positions	Man-years	End of year employment	Cost
				Thousands				*Thousands*
Information staff:								
Permanent	32	29.2	31	$310.7	32	32.0	31	$363.7
Temporary	--------	1.3	6	5.9	--------	1.3	6	6.1
Consultants	--------	1.6	3	28.5	--------	1.6	3	28.9
Overtime	--------	--------	--------	9.2	--------	--------	--------	6.5
Travel	--------	--------	--------	30.0	--------	--------	--------	30.0
Total	32	32.1	40	384.3	32	34.9	40	435.2
Congressional liaison staff:								
Permanent	13	12.9	12	155.3	13	12.9	12	160.7
Consultants	--------	.2	1	4.3	--------	.2	1	4.4
Overtime	--------	--------	--------	.7	--------	--------	--------	.5
Travel	--------	--------	--------	10.5	--------	--------	--------	10.5
Total	13	13.1	13	170.8	13	13.1	13	176.1
Program coordination staff:								
Permanent	51	47.2	48	528.7	51	50.9	48	557.4
Temporary	--------	1.4	7	6.0	--------	1.4	7	6.2
Consultants	--------	1.7	3	28.3	--------	1.7	3	28.7
Overtime	--------	--------	--------	10.8	--------	--------	--------	7.7
Travel	--------	--------	--------	100.0	--------	--------	--------	100.0
Total	51	50.3	58	673.8	51	54.0	58	700.0
Legislative program coordination staff (included under program coordination staff):								
Permanent	7	6.0	7	64.3	7	6.0	7	70.3
Temporary	--------	.7	3	3.0	--------	.7	3	3.1
Overtime	--------	--------	--------	3.9	--------	--------	--------	4.0
Travel	--------	--------	--------	.2	--------	--------	--------	.2
Total	7	6.7	10	71.4	7	6.7	10	77.6

Last year I believe you testified your maximum payment for consultant services was $75 a day. Has there been any increase in the maximum per diem or is it holding steady?

Mr. COFFIN. No.

Mr. PASSMAN. Your estimate for consultation travel, page 17, is estimated to be $266,000 in fiscal year 1964; is that correct?

Mr. MADDEN. $266,600; yes sir.

Mr. PASSMAN. What is "consultation travel"?

Mr. COFFIN. For example, we have an advisory committee of economists and educators. When they come to Washington for a meeting we would pay their travel to and from Washington.

Mr. PASSMAN. Would this be the same people who may get this per diem payment?

Mr. COFFIN. They would get per diem as a consultant.

Mr. PASSMAN. Would they fall in this same category, though, as a consultant—this is the travel part of it?

Mr. MADDEN. No, sir. This consultation travel is our own employees primarily.

Mr. PASSMAN. Your employees?

Mr. MADDEN. We will call a mission director in to Washington to discuss various problems.

Mr. PASSMAN. Is there any regulation dealing with how close to home leave they could be called in on these consultations? It would be a break for him if he happened to be called in just about the time home leave was ready; would it not?

Mr. COFFIN. We couldn't plan that. If there was a serious problem in a country—

Mr. PASSMAN. If that is the way things worked out, occassionally a person would get such a break; would he not?

Mr. COFFIN. What would be the benefit to him?

Mr. PASSMAN. The Government would pay his expenses.

Mr. COFFIN. I think on home leave the Government pays his expenses.

Mr. PASSMAN. There is no milage there at all?

Mr. MADDEN. We do get this mileage, when they come home on leave we consult with them too, to take advantage of it.

Mr. PASSMAN. It does not work against leave while they are being consulted? I do not want to pinch pennies, I just want to understand it.

Mr. MADDEN. If they are on duty consulting with us at headquarters it is not leave time.

Mr. PASSMAN. What has been your experience with this account in the past 5 years, this consultation travel? Can you give it to us beginning with 1961?

Mr. MADDEN. We can give you the cost.

Mr. PASSMAN. Please do so, for 1960, 1961, 1962, 1963, and estimated for 1964.

(The information requested follows:)

Consultation travel, fiscal years 1960–64

Actual obligations:	
Fiscal year 1960	$231,165
Fiscal year 1961	191,835
Fiscal year 1962	282,400
Estimated obligations:	
Fiscal year 1963	265,200
Fiscal year 1964	266,600

REPRESENTATION ALLOWANCE

Mr. PASSMAN. How much money do you have budgeted for fiscal year 1964 for the representation allowance, total?

Mr. MADDEN. $184,900.

Mr. PASSMAN. How does that figure compare with 1960, 1961, 1962, and 1963?

Mr. MADDEN. 1961, $154,406——

Mr. PASSMAN. Put the others in the record, please.

(The information requested follows:)

Representation allowance, fiscal years 1960–64

[In dollars]

	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964
Latin America:					
Argentina	1,142	1,091	1,100	1,800	1,800
Bolivia	1,717	1,581	1,600	2,500	2,500
Brazil	4,497	4,386	3,700	4,500	4,500
British Guiana	474	481	500	500	500
British Honduras	116	198		200	
Chile	3,167	3,280	3,000	3,000	3,000
Colombia	3,262	3,609	3,600	3,500	3,500
Costa Rica	1,600	1,555	1,000	1,700	1,700
Cuba	1,295				
Dominican Republic	93		1,400	2,000	2,000
Ecuador	1,883	1,719	3,400	3,000	3,000
El Salvador	1,867	1,291	2,000	2,000	2,000
Guatemala (U.S. AID)	1,611	939	1,000	1,200	1,200
Haiti	1,512	1,489	400	1,000	(1)
Honduras	1,987	1,986	1,600	2,000	2,000
Jamaica	593	1,000	1,300	1,300	1,300
Mexico	1,666	1,897	1,900	2,000	2,000
Nicaragua	1,786	1,372	1,700	1,800	1,800
Panama	2,191	3,350	3,000	3,500	3,500
Paraguay	2,851	2,406	2,400	2,700	2,700
Peru	1,893	813	2,000	2,000	2,000
Surinam	1,301	1,256	100	1,200	(1)
Trinidad	477	1,418	700	2,000	2,000
Uruguay	500	500	300	1,500	1,500
Venezuela	60	313	700	1,600	1,600
Guatemala (ROCAP)				1,000	2,500
Total	39,541	37,930	38,400	49,500	48,600
Far East:					
Burma	1,671	2,992	1,100	3,000	3,000
Cambodia	2,932	3,321	3,400	3,600	3,600
China	4,496	4,497	4,500	4,500	4,500
Indonesia	2,439	5,000	4,600	5,000	5,000
Japan	4,966	4,308	1,700	700	
Korea	3,072	1,779	3,200	3,500	3,500
Laos	3,000	961	1,100	2,200	2,200
Philippines	4,555	3,321	3,600	4,000	4,000
Thailand	4,953	4,993	4,700	5,000	5,000
Vietnam	2,832	3,674	2,500	4,500	4,500
Total	34,916	34,846	30,400	36,000	35,300

See footnotes at end of table.

Representation allowance, fiscal years 1960–64—Continued

[In dollars]

	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964
Near East and south Asia:					
Afghanistan	3,133	3,500	3,100	3,500	3,500
Ceylon	1,928	2,493	2,300	2,000	(1)
Cyprus			400	2,300	2,300
Greece	2,436	3,000	2,500	1,800	1,800
India	6,697	4,868	4,500	4,500	5,500
Iran	5,665	4,951	4,900	6,000	6,000
Iraq	1,000	500	500	500	
Israel	3,292	1,331	1,300	1,000	1,000
Jordan	2,486	2,571	2,300	4,000	4,000
Lebanon	3,839	2,962	2,400	1,000	
Nepal	3,132	2,089	3,100	4,500	3,500
Pakistan	5,849	5,397	4,800	6,500	6,500
Turkey (U.S.AID)	5,685	4,997	5,500	5,000	5,000
Turkey (CENTO)		1,500	1,500	2,300	2,300
Egypt (United Arab Republic)	2,200	2,099	2,000	3,000	3,000
Yemen	2,000	492	200	2,000	2,000
Syria				500	500
Total	49,342	42,750	41,300	50,400	46,900
Africa-Europe:					
Algeria				600	900
Cameroon			1,800	1,900	1,400
Central African Republic				800	900
Chad				900	900
Congo (Brazzaville)			100	900	900
Congo (Léopoldville)	600	990	2,000	1,500	1,800
Dahomey			400	400	900
Ethiopia	1,666	2,000	1,300	1,800	1,500
Gabon				700	900
Ghana	2,400	1,491	3,300	3,000	2,800
Guinea			1,000	1,700	1,400
Ivory Coast		545	700	1,500	1,300
Kenya	472	1,240	1,200	1,800	1,800
Liberia	1,882	2,699	1,800	2,700	2,500
Libya	3,626	4,165	700	1,800	1,800
Malagasy		240	1,200	1,300	900
Mali		997	1,400	1,700	1,500
Morocco	2,500	2,500	2,500	1,700	2,000
Niger				900	900
Nigeria	1,485	1,640	3,900	3,900	3,800
Rhodesia and Nyasaland	353	1,002	1,200	1,700	1,700
Rwanda-Burundi					
Senegal		456	1,600	800	900
Sierra Leone		1,000	1,200	1,500	1,500
Somali Republic	1,700	1,698	1,800	1,700	1,700
Sudan	2,500	3,000	2,700	3,000	3,000
Tanganyika			800	1,800	2,000
Togo		400	400	900	900
Tunisia	2,129	2,800	3,000	2,700	2,400
Uganda				1,200	1,400
Upper Volta			100	900	900
Austria	500				
Germany	900				
Iceland	152	186			
Italy	325				
Spain	5,370	5,500			
Yugoslavia	1,948	2,231	1,100	1,200	1000
Regional field staff	3,000	2,100	2,000		
Total, Africa-Europe	33,508	38,880	39,200	48,900	48,200
Nonregional	(2)	(2)	5,500	9,000	2,700
Grand total	157,307	154,406	154,800	193,800	[1] 181,700

[1] [1] The original budget estimates for fiscal year 1964 included the following amounts for representation allowance: Haiti, $1,500; Surinam, $1,200; Ceylon, $500.
[2] Included in mission amounts; distribution not available.

Mr. PASSMAN. What is it this year?

Mr. MADDEN. Our estimate this year is $193,800.

Mr. PASSMAN. Why is there such an increase in a matter of 3 years?

Mr. COFFIN. Part of the reason is that some of the posts in Latin America have been more important under the Alliance and partly because of an increase in the number of the African posts.

Mr. PASSMAN. But your number of personnel has remained about the same?

Mr. COFFIN. The question would be related to the senior personnel, the mission director and the deputy mission director who would be the chief users of the representation funds. It isn't a direct ratio of total people but of the post——

Mr. PASSMAN. That situation has been true all along, has it not?

Mr. COFFIN. I believe so.

Mr. PASSMAN. Then why do you have about a $70,000 increase from 1960 to 1964?

Mr. COFFIN. Either added missions or added responsibilities.

Mr. PASSMAN. I thought you had fewer missions.

Mr. COFFIN. We have combined our submissions with the State Department, and we have delegated some missions but we still have more missions than we had before all of the 30 African countries became independent.

Mr. PASSMAN. The year you gave us was 1960.

Mr. MADDEN. I gave you 1961.

Mr. PASSMAN. How many missions do you have there?

Mr. MADDEN. I don't know.

Mr. PASSMAN. Please furnish that information—the number of missions and the representation allowance, 1960 through 1964 inclusive.

(The information may be found on p. 1871.)

INTERNATIONAL AID COORDINATION

Mr. PASSMAN. If I recall correctly, during your testimony yesterday you indicated that you were requesting $390,000 under the regional expense program for international aid coordination. Is that correct?

Mr. COFFIN. Yes, sir.

Mr. PASSMAN. Would you comment briefly and tell us for what purpose you require the $59,400 as shown on page 41 of your justifications? This is in addition to the $390,000?

Mr. MADDEN. Yes, sir. This item is for our former General Counsel, Mr. Rubin, who is now our Minister to this Development Assistance Committee, and his secretary.

Mr. COFFIN. This is our top AID official in Paris, working with the other European countries and Canada and Japan, working to improve their terms of aid, working to increase the amount of aid that those countries are giving, working to coordinate our aid efforts, for example, so we do not take a project that a German unit might be taking.

Mr. PASSMAN. You have Mr. Rubin over there trying to talk them into cutting their interest rate, maybe increasing their terms from 7 to 10 years or from 10 to 15 years. Another man is over there trying to borrow money from the same nations so we can continue this program and reduce our international balance-of-payments deficit. Do they have the same rank?

Mr. COFFIN. Mr. Rubin serves under Ambassador Leddy, our Ambassador to OECD. Ambassador Leddy is in charge of the monetary

dealings as well as trade dealings and, of course, he is in a position of a superior over Rubin, even though Rubin is the specific AID man.

Mr. PASSMAN. He served well in AID and got a deserved promotion; is that right?

Mr. COFFIN. He is doing a good job.

Mr. PASSMAN. I understand he is doing a good job because he has the equivalent rank of Minister; does he not?

Mr. COFFIN. Mr. Rubin used to be an Assistant Secretary of State. This rank is consistent with his ability and his background.

Mr. PASSMAN. I think that, rather than appropriating more money for this activity, we had better do a little bit of coordinating. If I am not mistaken, the State Department administrative item also contains money for the OECD. Do you happen to know the amount contained in that appropriation for this purpose, Mr. Director?

Mr. COFFIN. No.

Mr. PASSMAN. This thing is so mixed up I do not believe it can ever be untangled. You have these little pockets stuck around. You find money here for this purpose. When you get into State, you have some money; regional, you have money. It is so scattered that it would take 12 months to ever conduct an examination, item by item. We just hit the surface a little, spatter it and go on. Get the total cost of this outfit, will you—State, AID, and from any other source that it may be getting its appropriation—and give us one total.

Mr. COFFIN. All right.

(The information to be supplied follows:)

Total estimated fiscal year 1964 U.S. administrative cost of OECD

Department of State	$1,068,600
Agency for International Development:	
Administrative expenses	59,400
Interregional program expenses	390,000
Total	1,518,000

Mr. PASSMAN. I believe you estimate $2,700 for representation allowance under the nonregional item; is that correct?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. We agreed yesterday that the nonregional fund is a supplement to the country programs; each country where you have a program may get some out of the nonregional money?

Mr. COFFIN. Yes.

Mr. PASSMAN. Is that also true in the representation allowance?

Mr. MADDEN. $2,700 of that is for——

Mr. PASSMAN. Representation allowance, you say.

Mr. MADDEN. That goes with the international aid coordination.

Mr. COFFIN. This is the Rubin staff.

Mr. MADDEN. This $2,700 would be in the figure that you have already picked up for Rubin of $59,400.

Mr. PASSMAN. But it is not in this other representation allowance we talked about earlier, is it, administrative expense representation?

Mr. MADDEN. It is part of the $184,000. In 1964 we estimate $184,900 for representation, as against $193,000 in fiscal year 1963.

Mr. PASSMAN. On the other items, regional, you break it down from your country programs. When it comes into representation al-

lowance, this $2,700 for Mr. Rubin, is that included in the $190,000 or is it a separate item?

Mr. MADDEN. It is included in the $190,000, but the $190,000 is spread throughout this book country by country.

Mr. PASSMAN. Why does Mr. Rubin need this $2,700, for trying to get these people to modify their aid terms?

Mr. COFFIN. In Paris particularly if he is going to deal with ambassadors and ministers and cabinet people from other countries and they invite him for lunch. Also he has to give a number of receptions, lunches, dinners for them. This is part of the diplomatic life, particularly in a leading European capital such as Paris. It is part of the job.

Mr. PASSMAN. The Lido is expensive, too?

Mr. COFFIN. Yes.

Mr. PASSMAN. That is part of the trade.

ADMINISTRATIVE EXPENSES FOR DOMESTIC AND SUPPORTING OPERATIONS

For fiscal year 1964 you estimate $27,395,100 for what you might call the cost of administrative expense for operating the AID headquarters.

Mr. COFFIN. The figure was what, Mr. Chairman?

Mr. PASSMAN. $27,395,100.

Mr. MADDEN. That is our estimate for the Washington expenses.

Mr. PASSMAN. What percentage of the total does that represent? About half of it is Washington, about half other parts?

Mr. MADDEN. A little less than half.

Mr. PASSMAN. What percentage would that be of the total AID request of $4.5 billion?

Mr. COFFIN. We figure our total administrative expense is about 1.7 percent of the total AID program. This would mean that the Washington office would be about 0.85 percent.

Mr. PASSMAN. But of the $4.5 billion request, this is 1.7 percent, or would it be double that to get the worldwide amount?

Mr. COFFIN. I have not actually divided; 1.7 percent is what was in my statement. I applied that against the economic program.

Mr. PASSMAN. I am trying to reconcile that percentage because I think the Peace Corps spent about 34 percent for administrative purposes. This looks like a good record.

Mr. COFFIN. I think it is a good overall record.

SERVICES OF OTHER AGENCIES

Mr. PASSMAN. Give us a breakdown for the record, if you will, of the $3,674,500 for services of other agencies.

(The information follows:)

Breakdown of services of other agencies

[In thousands]

Purpose	Agency	Amount
Administrative services (such as communications, health, fiscal, transportation, and custodial) in support of oversea activities.	State, Department of	$2,267.1
Participating agencies' administrative costs in support of their program activities.	Agriculture, Department of	120.0
	Commerce, Department of	80.7
	Federal Aviation Agency	66.6
	Federal Communications Commission.	11.3
	Health, Education, and Welfare, Department of.	203.0
	Housing and Home Finance Agency	18.0
	Interior, Department of the	103.4
	Labor, Department of	49.0
		652.0
Space rental, moving services, space alterations, miscellaneous repairs, motor pool, etc.	General Services Administration	352.9
Security investigations	Civil Service Commission	245.5
In house training of AID employees at Foreign Service Institute.	State, Department of	157.0
Total		3,674.5

ENTERTAINMENT EXPENSES—AID/WASHINGTON

Mr. PASSMAN. Under the "General operating expenses" estimate of $3,220,500, on page 52, I note an estimate of $23,300 for entertainment. What is the difference in entertainment and representation allowance?

Mr. COFFIN. Representation is overseas, entertainment is representation in Washington for foreign visitors.

Mr. PASSMAN. Under entertainment, it might be the same brands but carried under different headings in the justification?

Mr. COFFIN. This is the money used by the Administrator here in Washington.

Mr. PASSMAN. If it is overseas, it is representation allowance; if it is in Washington, it is entertainment; is that correct?

Mr. COFFIN. I believe so.

Mr. PASSMAN. What will be representation and entertainment? Is there any way to put it all together? It is the same thing; is it not?

Mr. MADDEN. Yes.

Mr. PASSMAN. What Washington AID official received this money in fiscal 1963?

Mr. COFFIN. We can supply that.

Mr. PASSMAN. We do not want to know the names. Is it just the very top level?

Mr. COFFIN. Yes. It is the Administrator if he has a dinner for a foreign minister; it is for me if I am entertaining visiting aid officials or for the head of the regional bureau.

Mr. PASSMAN. Do you mean that some of our AID officials come back to Washington and you entertain them?

Mr. COFFIN. Not ours; a foreign visitor.

Mr. PASSMAN. I did not know you had aid people in other parts of the world. They do business on a coldblooded, old line, regular loan basis.

Mr. COFFIN. I can make my speech on what other countries are doing in aid.

Mr. PASSMAN. I have heard and read some of your speeches.

ADMINISTRATIVE SUPPORT SERVICE BY STATE DEPARTMENT

On page 52, you propose to reimburse the Department of State for $2,267,100 for administrative support services; is that correct?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. Are they getting that money in addition to the next item on which we are going to examine, administrative expenses, State?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. Again you have to put the two figures together to know what the State Department is actually getting, do you not?

Mr. COFFIN. These are services they perform for us.

Mr. PASSMAN. I know that is true, but under aid you have another administrative expense for the State Department for services they render for you, do you not?

BATTLE ACT EXPENSES

Mr. MADDEN. Not for AID; for the Foreign Assistance Act.

Mr. PASSMAN. It is still AID, is it not?

Mr. COFFIN. Battle Act.

Mr. PASSMAN. Is it still part of AID?

Mr. COFFIN. The Battle Act is not.

Mr. TENNANT. It is to the Department of State.

Mr. PASSMAN. You are asking this committee to appropriate for AID out of AID's request for funds about—what is the amount for State?

Mr. MADDEN. $2,267,000 for support of our oversea missions.

Mr. PASSMAN. You are going to in just a litle while justify another item for State in their administrative account. How much is that?

Mr. TENNANT. $3,025,000.

Mr. PASSMAN. That comes out of the AID appropriation, does it not?

Mr. TENNANT. Yes, that comes out of section 637(b) of the Act, which is appropriated to the Department of State, as I recall it, but it is the mutual security.

Mr. PASSMAN. Where do you get the $3,025,000? Is it out of the $4.5 billion of the President's request?

Mr. TENNANT. Yes.

Mr. PASSMAN. So it is part of AID?

Mr. COFFIN. Part of the bill you consider.

Mr. PASSMAN. Part of the bill we consider, and whatever we appropriate for AID, this $3,025,000 comes out of the total?

Mr. COFFIN. Yes.

Mr. PASSMAN. Let us pick up the other amount for State, which is $2,267,100. That is another item for which you reimburse State directly out of your administrative expense; is that correct?

Mr. COFFIN. Yes.

KABUL HOSPITAL

Mr. PASSMAN. Where is Kabul Hospital?

Mr. COFFIN. Afghanistan.

Mr. PASSMAN. Is there an item of $36,400 for the Kabul Hospital?

Mr. MADDEN. Yes.

Mr. PASSMAN. This is coming out of the administrative expense part?

Mr. MADDEN. Yes, sir.

Mr. PASSMAN. On page 24 of your justifications you give us a total for hospitals. This is $150,000. That is for the hospital out of the technical assistance support. What is this for? It is a little confusing when we had it under the technical support project for Afghanistan, $150,000, and we run into it again.

Mr. TENNANT. Essentially, sir, this is total cost, it should be considered together. We have prorated part of the cost to the administrative account and part to the program account.

Mr. PASSMAN. These people justified $150,000.

Mr. TENNANT. The total would be $186,400. Since the hospital is partially used by program people and partially by administrative, we have prorated the cost in accordance with normal concepts.

Mr. PASSMAN. They get this sum plus this $150,000?

Mr. TENNANT. That is correct, the two together.

Mr. PASSMAN. This is just like shooting a shotgun out in the field, a load of birdshot, and then trying to find all the shot.

Mr. RHODES. Is this the hospital used by American personnel?

Mr. TENNANT. That is correct. My understanding is this hospital is State, ourselves, and any other U.S. people.

Mr. RHODES. Not for Afghans?

Mr. TENNANT. Not for Afghans.

Mr. PASSMAN. You have two items, and we were given a figure as the total, but to get the total you have to add this amount to it.

Mr. RHODES. Is the other item under the country?

Mr. PASSMAN. Yes, under the country, hospital, just pinned down completely.

Mr. COFFIN. I would like to know myself. Does this serve Afghans?

Mr. TENNANT. No, sir. It is for U.S. Government employees. That is under technical support.

Mr. PASSMAN. What we are trying to do, as we go along, is find out how much we have for a project. You have $150,000 under technical support. Then again under this you have the additional $36,400 also going to the hospital. To get the grand total you have to put the two together. We shall say one of the subtotals, because for the grand total, we put these two and get a different figure from the one justified here.

Mr. RHODES. I suggest you clean the record up on this.

Mr. COFFIN. We will be glad to.

Mr. PASSMAN. This is not unusual.

Mr. RHODES. I am just naive. I am a little shocked.

PARTICIPATING AGENCIES SUPPORT

Mr. PASSMAN. On page 53, you propose to contract with participating agencies in fiscal year 1964 in the amount as indicated by the books, $652,000. Are there any organizational units within these aid departments or agencies wholly financed by this AID agency item?

Mr. MADDEN. This is the administrative cost of these agencies for training the participants.

Mr. PASSMAN. What agencies particularly?

Mr. MADDEN. They are listed on page 53.

Mr. PASSMAN. Please insert page 53 in the record.

(Page 53 follows:)

PARTICIPATING AGENCY SUPPORT TO AID

In its program of furnishing assistance to cooperating countries and their nationals, AID capitalizes on the technical competencies of other U.S. Government agencies. Pursuant to covering interagency agreements, technical personnel of such participating agencies provide domestic support to AID through (1) development of specific training programs and the actual training of foreign nationals, and (2) technical backstopping of overseas technicians and projects. Administrative funds are required in funding such arrangements to compensate the participating agencies for the management costs of the program services provided and for the costs of supporting the technical personnel so engaged. Also, where the special contacts of a particular agency are utilized for recruitment of AID overseas technicians the services of the participating agency's personnel performing such recruitment for our account are administratively funded, as are any other such special services that may be requested.

The 1964 level of participating agency training activity will be the same as in 1963. The increase of $29,000 is to cover increased pay costs.

Administrative support services by participating agencies

[In thousands of dollars]

Agency	Fiscal year 1962	Estimated, fiscal year 1963	Fiscal year 1963 funds adjusted to fiscal year 1964 program objectives	Budget estimates, fiscal year 1964	Increased pay costs
Agriculture, Department of	98.0	120.0	116.1	120.0	3.9
Commerce, Department of	65.0	75.0	77.7	80.7	3.0
Federal Aviation Agency	64.0	57.6	64.3	66.6	2.3
Federal Communications Commission	10.0	10.3	10.3	11.3	1.0
Health, Education, and Welfare, Department of	170.0	198.5	196.6	203.0	6.4
Housing and Home Finance Agency	15.0	16.0	16.9	18.0	1.1
Interior, Department of the	83.0	98.6	99.6	103.4	3.8
Labor, Department of	45.0	47.0	47.5	49.0	1.5
Total	550.0	623.0	629.0	652.0	23.0

Mr. PASSMAN. One department reimburses another department, this department reimburses some other department. I wonder if someday we could not work out a system that certain concessions be made? The cost of that paperwork must be tremendous, is it not, Mr. Controller?

Mr. TENNANT. We have a large program, and our cost of administering it is high.

Mr. PASSMAN. I wonder what it actually costs in the Government. Has there ever been an estimate of what it costs for all these interdepartmental transactions? It could go into the tens of millions of dollars, could it not?

Mr. TENNANT. I really have no idea of the size, sir.

Mr. PASSMAN. I wonder if someday some person should not give some thought to trying to pin down what it actually costs for these intergovernmental exchanges of vouchers. It is bound to be tremendous.

Mr. TENNANT. I think to the extent we could not get other agencies to perform this service for us, we would have to contract it out.

Mr. PASSMAN. Let them perform the services, but it all comes out of the same till. Rather than have four or five exchanges of vouchers—you give the State Department something, they give some other agency something for doing it. I understand sometimes as many as seven vouchers are drawn to cover one item. It would appear to me that there might be something better than all this bookkeeping.

Mr. Natcher?

EMPLOYMENT OF LOCAL NATIONALS

Mr. NATCHER. What system do you use in employing your locals? Assuming that the salary is the amount set forth on page 17 of $3,591,200 is that same salary paid to the locals in all countries for performing the same task?

Mr. COFFIN. It is my understanding that the basic arrangement, salary schedules are set by the State Department, the embassy in the country. So that if we are hiring clerks or USIA or the embassy, we would follow the same schedule.

Beyond that, I would have to call on Mr. Madden, but these would differ from country to country.

Mr. NATCHER. There would be a difference from country to country?

Mr. COFFIN. Yes.

Mr. NATCHER. Even for the same task?

Mr. COFFIN. Yes.

Mr. NATCHER. What is the highest salary you pay locals?

Mr. TENNANT. I can give you an average salary.

Mr. NATCHER. What is the average?

Mr. TENNANT. The average salary is approximately $1,500. However, that is deceiving in the sense that a local employee in Caracas would get substantially more than a local employee in Kabul for the same service because of the different standard of living in those two countries; but it is, as Mr. Coffin pointed out, it is a wage scale worked out by the embassy in terms of the local conditions of that country.

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. PASSMAN. Mr. Rhodes?

ITEMS DEFERRED IN FISCAL YEAR 1963

Mr. RHODES. On page 21 I notice you have a column under "Proposed increases in fiscal year 1964" for items deferred during fiscal year 1963 for each country.

Mr. COFFIN. Yes.

Mr. RHODES. I want to ask you this again. Are these items for which some liability has been incurred?

Mr. COFFIN. No.

Mr. RHODES. These are actually projected expenses that you would have made in 1963 but had not the money for?

Mr. COFFIN. This is the result, as I understand it, of requests for supplies or equipment or other items that we discussed earlier that were received and that we did not honor. We did not allow them to make these expenditures.

Mr. RHODES. I just have never seen a column headed quite like this in any previous justifications. Was it done this way in order to illustrate a point? In other words, the point that you did not have enough money last year and, therefore, you have these items hanging fire. In other words, your justification would be just as complete, really, without it except that——

Mr. COFFIN. I think it is fair to say we wanted to prove the point to you, Mr. Rhodes, that we did follow a very austere program on some items; that we wanted to call your attention to it. Is that fair, Mr. Tennant?

Mr. TENNANT. I think that is fair.

Mr. RHODES. You feel we got into the bone a little bit last year; do you?

Mr. COFFIN. We had to be austere. We hope that you will not feel that this is something that we can continue on the same basis. We think there is a need that has to be met.

Mr. RHODES. You were able to operate, though. I notice that in some instances home leave was deferred.

Mr. COFFIN. Yes.

Mr. RHODES. And this other category of rest and recuperation apparently was somewhat inhibited. I correct myself right there. The category had never been in operation before, but it was initiated this last fiscal year. Would it be fair to say it was not carried on at the level you would have liked to have carried it on?

Mr. COFFIN. That is correct.

Mr. RHODES. To what extent have your supplies been drawn down because of failure to have funds to replenish them? Is there any way that you can answer this question in a meaningful way?

Mr. MADDEN. All we can tell you is we just cut these items out of the mission budgets when they sent in their requests. We got some flak but we held the line.

Mr. RHODES. Do you take a worldwide inventory of physical assets?

Mr. MADDEN. No, sir.

Mr. RHODES. So when you mention that supplies are down, this is an estimate on somebody's part of the situation as it now is compared to what it was a year ago. You cannot illustrate it with figures?

Mr. MADDEN. That is correct.

Mr. RHODES. I think that is all, Mr. Chairman.

Mr. PASSMAN. Mr. Ford?

COMPARISON OF ADMINISTRATIVE EXPENSES FOR OVERSEAS OPERATIONS

Mr. FORD. I think it might be quite helpful if we would put in the record the chart material which is on pages 19 and 20, leaving out the third column. I see no purpose in having the third column.

Mr. COFFIN. The third column is a confusing title, but it is an attempt to get the items that are comparable.

Mr. FORD. To people on this committee it is confusing. To somebody opening the volume without some background information it would be even more confusing.

Mr. TENNANT. We would have no trouble eliminating that column.

Mr. FORD. Off the record.

(Discussion off the record.)

Mr. FORD. Let us make that pages 17 through 20.

(The material referred to follows:)

Distribution of obligations by object classification

[In thousands of dollars]

Object classification	Fiscal year 1962	Estimated fiscal year 1963	Budget estimates fiscal year 1964
Compensation:			
Salaries, U.S. nationals	25,696.7	27,206.6	28,779.4
Salaries, locals	3,017.5	3,330.7	3,591.2
Temporary employment	145.9	154.7	159.9
Intermittent employment	512.5	523.1	530.6
Regular pay above 52-week base	----------	----------	232.5
Post differential	1,074.6	1,196.4	1,202.9
Cost-of-living allowances	232.4	339.1	365.6
Overtime and holiday pay	618.1	742.3	621.5
Other	----------	0.6	0.6
Total, compensation	31,297.7	33,493.5	35,484.2
Benefits:			
Quarters allowance	768.7	945.8	1,094.2
Education allowance	214.9	281.6	335.7
Contributions to retirement funds	1,575.5	1,769.7	1,884.5
Other benefits (life insurance; health benefits, etc.)	307.7	308.9	307.7
Total, benefits	2,866.8	3,306.0	3,622.1
Travel and transportation of persons:			
Operational	1,469.6	1,728.4	1,770.5
Consultati n	282.4	265.2	266.6
Post assignment	1,167.8	852.3	841.1
Home leave	755.1	824.7	956.7
Rest and recuperation	----------	96.1	204.0
Medical	----------	70.1	70.1
Total, travel and transportation of persons	3,674.9	3,836.8	4,109.0
Transportation of things	1,770.9	1,428.2	1,795.1
Rent, communications, and utilities:			
Communications	871.1	832.3	838.7
Rents, office	874.0	912.1	880.7
Rents, residential	1,657.4	1,532.1	1,574.2
Total, rent, communications, and utilities	3,402.5	3,276.5	3,293.6
Printing and reproduction	605.1	655.0	657.5
Other services:			
Representation allowances, U.S. AID Director	75.1	100.9	94.0
Representation allowances, other	79.7	92.9	90.9
Official residence allowance	52.4	65.0	66.7
Ser ices of other agencies	3,846.7	3,603.9	3,698.4
Miscellaneous contractual services	974.4	856.2	1,314.9
Medical	----------	136.2	136.2
Total, other services	5,028.3	4,855.1	5,401.1
Supplies and materials	957.2	682.1	1,143.9
Equipment:			
Office furnishing and equipment	776.7	350.7	739.5
Residential furnishings	552.8	271.6	878.7
Vehicles	81.4	47.6	47.6
Other	59.0	25.0	68.0
Total, equipment	1,469.9	694.9	1,733.8
Grants, subsidies, and contributions	.8	.4	.4
Insurance claims and indemnities	14.3	6.5	4.3
Unvouchered	5.1	5.0	5.0
Total	51,093.5	52,240.0	57,250.0

Funding summary

[In thousands of dollars]

	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964
Appropriation	47,500.0	49,500.0	57,250.0
Supplemental appropriation for pay costs		1,463.0	
Unobligated balances brought forward:			
From next preceding year's appropriations	523.1	510.8	
From prior year's appropriations	581.2	766.2	
Transferred from other appropriations	3,000.0		
Total available	51,604.3	52,240.0	57,250.0
Obligations incurred	51,093.5	52,240.0	57,250.0
Unobligated balances carried forward:			
Under current year funds	510.8		
Recovery of prior year obligations	766.2		

Oversea operations—Distribution of obligations by object classification

[In thousands of dollars]

Object classification	Fiscal year 1962	Estimated fiscal year 1963	Budget estimates fiscal year 1964
Compensation:			
Salaries, U.S. nationals	10,230.9	11,374.6	11,467.0
Salaries, locals	3,017.5	3,330.7	3,591.2
Regular pay above 52-week base			116.5
Post differential	1,074.6	1,196.4	1,202.9
Cost-of-living allowances	232.4	339.1	365.6
Overtime and holiday pay	211.5	227.6	218.0
Other		.6	.6
Total, compensation	14,766.9	16,469.0	16,961.8
Benefits:			
Quarters allowance	768.7	945.8	1,094.2
Education allowance	214.9	281.6	335.7
Contributions to retirement funds	631.3	739.9	751.0
Other benefits (life insurance; health benefits, etc.)	142.9	138.8	134.7
Total, benefits	1,757.8	2,106.1	2,315.6
Travel and transportation of persons:			
Operational	489.7	585.5	603.9
Consultation	282.4	265.2	266.6
Post assignment	1,167.8	852.3	841.1
Home leave	755.1	824.7	956.7
Rest and recuperation		96.1	204.0
Medical		70.1	70.1
Total, travel and transportation of persons	2,695.0	2,693.9	2,942.4
Transportation of things	1,755.3	1,419.2	1,791.6
Rent, communications and utilities:			
Communications	183.2	204.7	197.9
Rents, office	506.1	590.2	558.8
Rents, residential	1,657.4	1,532.1	1,574.2
Total, rent, communications, and utilities	2,346.7	2,327.0	2,330.9
Printing and reproduction	14.8	17.3	19.5
Other services:			
Representation allowances, U.S. AID Director	75.1	100.9	94.0
Representation allowances, other	79.7	92.9	90.9
Official residence allowance	52.4	65.0	66.7
Services of other agencies	22.7	23.9	23.9
Miscellaneous contractual services	668.2	497.1	848.8
Medical		91.1	91.1
Total, other services	898.1	870.9	1,215.4
Supplies and materials	662.3	396.9	860.2
Equipment:			
Office furnishing and equipment	329.9	141.9	425.2
Residential furnishings	552.8	271.6	878.7
Vehicles	81.4	47.6	47.6
Other	51.5	18.3	61.3
Total, equipment	1,015.6	479.4	1,412.8
Grants, subsidies, and contributions	0.8	0.4	0.4
Insurance claims and indemnities	14.1	6.5	4.3
Total	25,927.4	26,786.6	29,854.9

RESIDENTIAL FURNISHINGS FOR STAFF HOUSING OVERSEAS

Mr. FORD. Turning to page 20, on the title of "Equipment, residential furnishings," fiscal 1962, $552,000; estimated for fiscal 1963, $271,000; budget estimate for fiscal 1964, $878,000—what residences do you furnish that in fiscal 1964 will cost almost a million dollars?

Mr. MADDEN. What this illustrates is the deferments we have been talking about; of postponing these purchases in 1963. As you will see, the estimated obligations in fiscal year 1963 because of the deferment of these equipment purchases, dropped nearly $300,000 below the actual obligations for this purpose in 1962.

Mr. FORD. How many residences do you furnish?

Mr. MADDEN. I think we are practically on a worldwide basis now providing residential furnishings for our employees. Latin America was the last to get fully in line with our worldwide policy of providing residential furnishings.

Mr. FORD. Does this avoid shipment of an individual's personal furniture to a country?

Mr. MADDEN. Yes, sir; there and back.

Mr. TENNANT. Our general services people have calculated this out and figured it is cheaper to do it this way than to have people carting their furniture all over.

Mr. FORD. Who makes an evaluation whether you have to replace or buy new furniture? Who makes that determination?

Mr. MADDEN. Our General Services Division has set scales as to when something can be qualified for replacement. For an automobile, for example, the governmentwide policy is 6 years. I do not know what it is for the particular items of furniture.

Mr. FORD. That is all, Mr. Chairman.

Mr. PASSMAN. Thank you.

INTERNAL SECURITY PROGRAM

I ran into another item here on page 171. You have the internal security, a nice sounding title. This is a police academy located down in Panama; is that right?

Mr. COFFIN. I thought we were going to talk about the Inter-American Police Academy.

Mr. PASSMAN. We are going to get on that matter. We ran into this item. We overlook a lot of them.

Mr. COFFIN. Mr. Chairman, this is Mr. Engle, Chief of our Office of Public Service.

POLICE ACADEMIES

Mr. PASSMAN. Mr. Engle, this item No. 171, internal security, is called a police academy at the Panama Canal; is that right?

Mr. COFFIN. Right.

Mr. PASSMAN. When did it come into being?

Mr. COFFIN. It came into being last summer, I believe.

Mr. PASSMAN. What did you justify for this last year?

Mr. ENGLE. May I answer?

Mr. PASSMAN. Yes.

Mr. ENGLE. This is not in the Panama Canal.

Mr. PASSMAN. Where is it?

Mr. ENGLE. This academy is not in existence. This is an academy which——

Mr. PASSMAN. Would you have another look to see whether it is not at the Panama Canal, that you are not training these people? You are head of the department.

Mr. ENGLE. No, sir; this is not in the Panama Canal. This is an academy which is planned to be established in Washington, D.C., for training of foreign police.

Mr. COFFIN. I think the chairman will get to this item later, but he wants to talk about Panama.

Mr. PASSMAN. I am going to talk about this item of a million dollars you have for internal security for fiscal 1964.

Mr. ENGLE. Correct.

Mr. PASSMAN. How much did you have for this item in fiscal 1963?

Mr. ENGLE. None, sir.

Mr. PASSMAN. This is a new agency within an agency set up for what purpose?

Mr. ENGLE. This is a new academy to be set up. It is not in existence. It is for the training of foreign police.

Mr. PASSMAN. Foreign police under AID?

Mr. ENGLE. Correct.

Mr. PASSMAN. Where did that idea originate?

Mr. COFFIN. At this point may I request we go off of even this record?

Mr. PASSMAN. You have it in the record here. Is the matter confidential?

Mr. COFFIN. I think Mr. Engle's presentation to you can be much better if it can be off the record.

Mr. PASSMAN. You are not going to be able to keep this thing under the chip always. At one time did you give some consideration to opening this up in the Panama Canal Zone?

Mr. ENGLE. Not this one, sir.

Mr. PASSMAN. You have another one?

Mr. ENGLE. There is an academy in the Panama Canal.

Mr. PASSMAN. Financed by AID funds?

Mr. ENGLE. Yes, sir.

Mr. PASSMAN. How long has that one been in existence?

Mr. ENGLE. Since July 1963.

Mr. PASSMAN. How much money did you request for the academy last year?

Mr. ENGLE. That is new as of July 1.

Mr. PASSMAN. You did not request any money for it. Where did you get the funds, out of what appropriation, to start this program?

Mr. ENGLE. Are we speaking now of the——

Mr. PASSMAN. Of this academy you opened up recently in the Canal Zone. You said you opened it July 1, 1963.

Mr. ENGLE. That is correct.

Mr. PASSMAN. It is only about 3 weeks old.

Mr. ENGLE. I am in error. I meant calendar 1962. I was talking about fiscal year 1963.

Mr. PASSMAN. It is a new program in AID. You have an academy in the Panama Canal you started operating at the beginning of this fiscal year 1963, is that correct?

Mr. ENGLE. The opening of the academy was in July a year ago—July 1962.

Mr. PASSMAN. Calendar year 1962, fiscal year 1963?

Mr. ENGLE. Yes.

Mr. PASSMAN. How much money did you request for the academy in the Panama Canal for fiscal 1963?

Mr. ENGLE. I was not in AID at the time.

Mr. TENNANT. I do not believe we had an item in there.

Mr. PASSMAN. That is right. I just want it verified. Out of what appropriation did you get money to start the Academy No. 1 at the Panama Canal?

Mr. ENGLE. Again I have to refer to Mr. Tennant because I was not present.

Mr. COFFIN. Development grants.

Mr. TENNANT. I believe it was development grants.

Mr. PASSMAN. How much did you take out of development grants for the Academy for fiscal 1963?

Mr. ENGLE. I can give you the approximate figure.

About $475,000.

Mr. PASSMAN. Do you have any money in the fiscal 1964 budget for this item?

Mr. ENGLE. I do not know whether this is broken out specifically for the Panama Academy.

Mr. PASSMAN. If it is hidden, what appropriation is it hidden in? There may be reasons for it. I am not questioning the advisability of it. Maybe there is some reason that we should not indicate.

What do you propose for the total expense in fiscal 1964 for this entirely new operation under police academies? I am talking about the Canal Zone and Washington.

Mr. ENGLE. The Academy in the Canal Zone and Washington will cost approximately a million dollars. There is nothing confidential about the existence of public safety programs or the academies.

Mr. GARY. Mr. Chairman, who are they going to train at these academies?

Mr. COFFIN. Let me state something that is undoubtedly confusing you at the moment. We requested for the new Academy a million dollars.

Mr. PASSMAN. For fiscal 1964.

Mr. COFFIN. For fiscal 1964.

Mr. PASSMAN. But you did not request any money for fiscal 1963 when you started this new operation?

Mr. COFFIN. That is correct. I want to say our original estimate for this new Academy has been scaled down from $1 million to $500,000 principally because we have found better and cheaper space accommodations. So that Mr. Engle is correct when he says that the total of the two would be roughly a million dollars.

Mr. PASSMAN. Where did this thing give birth?

Mr. ENGLE. May we go off the record, please?

Mr. PASSMAN. Yes.

(Discussion off the record.)

Mr. PASSMAN. Will you give us the total cost of this internal security program, all phases of it, for fiscal 1960 through 1964?

Mr. ENGLE. I cannot give you the figures on 1960.

Mr. PASSMAN. What year can you pick up?

Mr. ENGLE. I can give you the estimated figures for 1964.

Mr. PASSMAN. You cannot give it to us before that?

Mr. ENGLE. I can also give you what our estimated expenses were for 1963.

Mr. PASSMAN. You could not give it to us for 1962?

We are trying to see how fast it is growing.

Mr. ENGLE. No, sir; I cannot because I am not aware of those figures. I can give you the estimated for 1964. We have programs in 30 countries, police assistance activities.

Mr. PASSMAN. Can you name a few of those countries? Are some in the Far East?

Mr. ENGLE. Yes, sir; Vietnam, Cambodia, Thailand.

Mr. PASSMAN. Would it not be better to send our people out there to teach these techniques rather than spending this money bringing them here?

Mr. ENGLE. We only bring a small number here.

Mr. PASSMAN. A million dollars is not very small. I have watched these programs start.

Mr. GARY. Will you train any American military police in this Academy that operate in foreign countries?

Mr. ENGLE. No, sir.

Mr. PASSMAN. This is strictly to take policemen from Paris or Rome or Bangkok and to bring them in and teach them our techniques of policing; is it not?

Mr. ENGLE. They would not be from any place in Europe.

Mr. PASSMAN. I mentioned cities, but that is the purpose, to bring policemen from foreign countries and cities and train them in our police work here; then they return to their countries and do police work as they always have; is that it?

Mr. ENGLE. Not as they always have, we hope.

Mr. PASSMAN. You know what I mean, return to the same beat, the same gun, the same locale.

Mr. ENGLE. They would return to their same country, yes.

Mr. PASSMAN. In effect, it is a form of what we call technical assistance?

Mr. ENGLE. Correct.

Mr. PASSMAN. You bring certain participants over to operate in the Department of Agriculture, learn to put down tube wells. You bring these people over, teach them to be policemen; is that correct?

Mr. ENGLE. To improve their police techniques.

Mr. PASSMAN. In what respect is this activity confidential?

Mr. ENGLE. This is not confidential, Mr. Chairman.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. On project 20, which we have been discussing, please furnish to the committee the cost for fiscal 1960, 1961, 1962, 1963, and then your estimated cost for 1964, all segments of it, whether it be item 1 and item 2 and item 3 that you have handled in the past, and give us that total. Will you do that?

Mr. ENGLE. Yes.

(The information to be supplied follows:)

Public safety program

Fiscal year:	*Obligations*
1960	$13,119,000
1961	10,612,000
1962	13,283,000
1963	25,110,000
1964 (estimated)	23,560,000

Mr. FORD. Mr. Chairman. Off the record.

(Discussion off the record.)

Mr. PASSMAN. We have just been discussing Project 20, and how many of these outfits are buried in this foreign aid program this committee recommends money for we do not know anything about.

Mr. COFFIN. This kind of technical assistance was always revealed in one of the technical services of ICA.

Mr. PASSMAN. As a technical aid program?

Mr. COFFIN. Yes, sir.

Mr. PASSMAN. When you get it as a separate office, it becomes classified?

Mr. ENGLE. It is not classified in any way, sir.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Thank you, sir.

DEPARTMENT OF STATE ADMINISTRATIVE EXPENSES

FRIDAY, JULY 26, 1963.

WITNESSES

VERNE B. LEWIS, DEPUTY ASSISTANT SECRETARY OF STATE FOR BUDGET AND FINANCE
ROBERT WRIGHT, DIRECTOR, MUTUAL DEFENSE, CONTROL STAFF, STATE
RONALD SPIERS, DEPUTY DIRECTOR, ATLANTIC POLITICAL AND MILITARY AFFAIRS, STATE
DEANE R. HINTON, DIRECTOR, ATLANTIC POLITICAL ECONOMIC AFFAIRS, STATE
FRANK M. BRYAN, BUDGET ANALYST
STANLEY SCHAUB, BUDGET ANALYST
EDWARD F. TENNANT, CONTROLLER, AID
LEIGH M. MILLER, LEGISLATIVE PROGRAMS COORDINATOR, AID
STANLEY B. SCHEINMAN, LEGISLATIVE PROGRAMS COORDINATION STAFF, AID

Mr. PASSMAN. We shall be pleased to hear your statement, Mr. Secretary.

GENERAL STATEMENT

Mr. LEWIS. Mr. Chairman and members of the committee, I am grateful for the opportunity to appear before this committee to explain the Department of State's request for funds under section 637(b) of the Foreign Assistance Act of 1961, as amended.

FISCAL YEAR 1964 REQUEST

Our request for $3,025,000 is for two major activities of the Department of State related to the foreign assistance program. These are the U.S. mission to the North Atlantic Treaty Organization and the Organization for Economic Cooperation and Development (USRO), for which we are requesting $2,182,000; and the mutual Defense Assistance Control Act (MDAC), for which we are requesting $843,000.

This request for $3,025,000 is an increase of $325,000 over the $2,700,000 appropriated for fiscal year 1963 under section 637(b) of the Foreign Assistance Act, and $236,200 over the $2,788,800 available, because of supplemental pay act funds and carryovers from prior years.

U.S. MISSION TO NATO AND OECD

The fiscal year 1964 request for the U.S. mission to NATO and OECD (USRO) is for $2,182,000, an increase of $250,100 over the $1,931,900 available for fiscal year 1963. USRO provides U.S. representation to the NATO Council and subsidiary committees and to the OECD Council and subsidiary committees. The United States attaches great importance to NATO and OECD. By coordinating our political, military, and economic policies with our Atlantic partners we are enhancing our security and welfare.

Since its establishment in 1949 the primary objectives of NATO have been to plan and provide for the defense of the North Atlantic Treaty area. To date this objective has been accomplished by the cooperative efforts of the 15 member countries. However, constant efforts and negotiations are required to improve the systems for integrated defense, including the equitable distribution of the defense burden.

In 1963 most of the efforts of our mission to NATO were devoted to the strengthening of NATO defenses, the achievement of a better balance between nuclear and conventional weapons, and the increased readiness of forces in connection with the Berlin crisis. The staff engaged in intensive consultation on political problems with our allies in NATO and participated in the review of military programs in member countries.

The Organization for Economic Cooperation and Development (OECD) which was organized officially on September 30, 1961, grew out of U.S. initiative first made public in a communique issued at the conclusion of the Western summit meeting in December 1959. The U.S. Government had become convinced that more had to be done to develop cooperation and coordination of the industrialized nations of Western Europe in meeting the economic challenges of the postwar era and therefore took the leadership in establishing the OECD. The United States became a member of the OECD on September 30, 1961, by virtue of the advice and consent to the OECD Convention by the Senate on March 16, 1961.

The United States has sought to strengthen the Atlantic partnership by vigorously using the OECD to coordinate economic policies and programs to obtain rapid economic growth, expanded trade, improved cooperation in dealing with international payments problems, and increased assistance to the developing countries.

The staff of our USRO mission provides support to our representatives to NATO and the OECD. It interprets and analyzes developments and submits recommendations for U.S. action to Washington, maintains liaison with various American Embassies in connection with obtaining assistance in persuading other countries to accept a U.S. position on current NATO or OECD problems, and represents the United States at meetings when there is no representation from Washington.

The intensified pace and widened scope of OECD activities require that we augment USRO's staff. This involves an increase of seven positions and $250,100 for fiscal year 1964. The increases not related to the seven positions are for within-grade promotions, overseas wage and price increases, allowances and travel, and increased participation in NATO conferences. The increased positions and funds will be needed if USRO is successfully to maintain this country's position and obtain our objectives during the coming year.

In this regard it should be noted that the basic formative work for policy decisions which are later taken by governments in the North Atlantic Council must of necessity be done in various working-level sessions of national representatives qualified in the field under discussion. Decisions which are taken in these meetings, although subject to final review in the Council, have a distinct influence on the final action which will be taken in NATO. Too often in the past the United States has, for lack of the funds necessary to send qualified delegates to working level meetings, found itself faced with proposals, supported by a majority of the Council, which it has been forced to reject at that level, with resulting strains in the Alliance which could otherwise have been avoided. In order to protect U.S. positions on questions which not only have considerable political impact but which could result in expenditures of NATO funds, it is essential that we be adequately represented in these working sessions, as well as the final decision making body.

Our participation in the work of NATO, is to insure that our policies are carried out and that our national interests are furthered by actions taken by NATO. Our participation, politically or financially, is in the interest of the security of the United States.

OPERATIONS OF THE MUTUAL DEFENSE ASSISTANCE CONTROL ACT

The second activity, the operations of the Mutual Defense Assistance Control Act (MDAC), will require $843,000 next fiscal year, or $13,900 less than the $856,900 available this year. The Control Act program based on Public Law 213 of the 82d Congress, is directly related to the overall defense efforts of the United States. The act makes mandatory the termination of U.S. aid to any country which knowingly ships arms, ammunition, or certain atomic energy items to the Sino-Soviet bloc and also provides for use of the President's discretion in continuing or terminating aid if a shipment involves certain listed strategic commodities. The Department plays a very important function in attaining these objectives by determining items to be included on the lists for control purposes, negotiating satisfactory controls with aid recipient countries, making reports to the Congress on shipments of listed items by such countries, and making recommenda-

tions to the President concerning termination of assistance because of shipment of listed commodities. The Department coordinates all U.S. activities concerning security trade rules exercised by other countries, and keeps countries receiving foreign aid informed of revisions in the list of strategic materals which should not be shipped to the Sino-Soviet bloc.

I and other members of the Departmen of State here today are prepared to explain our request in further detail and answer any questions the committee may have.

Mr. PASSMAN. Thank you very much, Mr. Lewis.

FISCAL YEAR 1964 REQUEST

The fiscal year 1963 appropriation for this purpose was $2.7 million. What is the net reduction below that amount for fiscal 1964?

Mr. LEWIS. There is an increase of $325,000.

Mr. PASSMAN. This appropriation is divided into three functions, of which the first is the U.S. mission to NATO and the European regional organizations, for which fiscal 1964 estimates are $2,182,000.

Incidentally, this is an increase over fiscal year 1963 of $250,100; is that correct?

Mr. LEWIS. That is right.

Mr. PASSMAN. What are the major increases under this function and what is the cost of each increase?

Mr. LEWIS. The major increase in this function, Mr. Chairman is for seven positions; two in Washington and five in Paris.

This will be at a cost of $87,000.

Mr. PASSMAN. Why do you have to increase your personnel?

Mr. LEWIS. These increases, Mr. Chairman, are primarily in connection with the OECD.

FUNCTIONS OF OECD

Mr. PASSMAN. Describe the OECD functions, if you please.

Mr. LEWIS. I would like to have Mr. Hinton do that.

Mr. HINTON. The OECD has three main purposes. First, it is an organization in which the industrialized countries, the wealthy countries, concert and coordinate and try to do better in the aid field, promoting economic development.

It is an organization, secondly, which is dedicated to promoting economic growth in the industrialized countries of the world, by harmonizing our economic policies.

Third, the OECD seeks to expand multilateral trade on a nondiscriminatory basis.

Mr. PASSMAN. How old is this agency, or this office?

Mr. HINTON. The OECD, sir, was constituted in its present form with U.S. membership in 1961. The organization itself goes back to the Marshall plan days and it was originally an organization of Europeans in which we were observers.

Mr. PASSMAN. I believe Mr. Rubin is in this program, is he not?

Mr. HINTON. Mr. Rubin, sir—if this is Sy Rubin—is the American Minister on the delegation to the OECD who handles AID matters.

Mr. PASSMAN. That is right, AID matters. His job is to get the nations in his area to ease their loan terms to the countries where we have the consortia; is that correct?

Mr. HINTON. His general job, sir, is to work for increases in the amount of aid from member countries of the OECD, to improve terms of this aid, coordinate programs of aid in the consortia that you have mentioned and in other informal ways.

Mr. PASSMAN. He consults with his counterparts, we shall say, in Germany, the United Kingdom, France, and discusses with them the aid consortia of which they are a part.

Let us take India, for instance, where you have a consortium. We make a contribution and the other nations make loans. One of his purposes of assignment there is to get them maybe to lengthen their terms and reduce their interest; is that correct?

Mr. HINTON. Yes, sir. I think that is a fair statement of one of his purposes.

Mr. PASSMAN. We have already established in the hearings that without exception all of the other nations—since we mentioned India—are making hard loans as they have always made, with a high rate of interest, and with the exception of the United Kingdom, if they give a grace period, then India must pay interest on the money during the grace period, whereas ours is on a 40-year basis, 10-year grace period, no interest, and three-quarters of 1 percent service charge.

We were told that we also have a man in Europe working out a program whereby we could borrow money from seven or eight of those countries which have dollars in excess of their needs.

I wonder if that is likewise handled out of this account or is it handled out of some other account?

Mr. HINTON. Mr. Chairman, could I make a point of explanation?

Mr. PASSMAN. I want my question answered first. We do know that we are now borrowing money from foreign nations with which to lessen the impact on our international balance-of-payments deficits, and the man is over there at this time, and I want to know whether or not it works out of this appropriation or whether it is some other appropriation?

Mr. HINTON. No, sir. It is not out of this appropriation.

Mr. PASSMAN. Thank you.

U.S. MISSION TO REGIONAL ORGANIZATION

I note, on page 4, that the U.S. mission to regional organizations is a five-agency team with staffing from the Department of State, Defense, Treasury, AID, and USIA; is that correct?

Mr. LEWIS. That is right.

This appropriation covers only the State portion of that delegation.

Mr. PASSMAN. How much does each one of these five agencies contribute to this organization?

Mr. LEWIS. I do not have the figures, sir, on the other agencies.

Mr. PASSMAN. Put the information in the record, please.

Mr. LEWIS. All right.

(The information follows:)

OTHER AGENCY CONTRIBUTIONS TO USRO

Contributions to U.S. mission to regional organizations by Department of State, Defense, Treasury, AID, and USIA for fiscal year 1963.

State	$1,931,900
Treasury	56,000
USIA	107,000
Defense (includes direct administrative costs of $503,000)	922,000
AID	396,000
Total	3,412,900

WASHINGTON BACKSTOPPING FOR USOECD MISSION

Mr. PASSMAN. Why does the OECD require a Foreign Service officer and secretary to bolster OECD backstopping in Washington, D.C.

Mr. LEWIS. Do you want to take that one?

Mr. HINTON. Mr. Chairman, my office in the Department provides staff support for the OECD mission in the trade field.

We have presently an expansion of this program in Paris where we are under pressure to develop positions, positions jointly consulted on, in preparation for the United Nations Trade and Development Conference.

This is a major economic conference to be held next year.

The Western Powers are trying to deal with the issues and trying to talk them out among themselves. This is virtually the entire range of economic trade, development issues, and to deal with the flow of communications and for the consultative purpose we need another position in my office in Washington on trade matters, sir.

Mr. PASSMAN. I wonder if Mr. Rooney's subcommittee, which handles State Department appropriations, recommended appropriation of any funds for this organization of Mr. Herter?

Mr. HINTON. Mr. Herter's organization?

Mr. PASSMAN. Yes.

Mr. LEWIS. That is carried in a separate appropriation, Mr. Chairman, in the White House budget.

Mr. PASSMAN. Let us show in the record at this point what the abbreviation OECD means.

Mr. HINTON. It is the Organization for Economic Cooperation and Development, Mr. Chairman.

REQUEST FOR INCREASED REPRESENTATION ALLOWANCE

Mr. PASSMAN. I note you are requesting an increase of $6,000 above the fiscal year 1963 estimate for representation allowance.

Mr. LEWIS. That is right.

Mr. PASSMAN. Why the increase?

Mr. LEWIS. Part of it is for wage and price increases.

Mr. PASSMAN. I am talking purely about the increase in the representation allowance.

Mr. LEWIS. Representation includes the service of food abroad, for example.

It is price and wage increase for the cost of putting on functions overseas.

Mr. PASSMAN. It is still a representation allowance?

Mr. LEWIS. Yes, sir.

Mr. PASSMAN. If the bourbon had been costing $6 a bottle and on account of the increase in wages, it goes to $6.25, that means you pay 25 cents more per bottle and that is where the wage increase comes in?

Mr. LEWIS. That would be part of it but a minor part of it. This item covers also the wages of servants who serve the food.

Mr. PASSMAN. If a filet mignon costs $7 in Paris, then if this waiter got an increase of $12 a week, that steak has to go up to $7.35, and that is part of the increase?

Mr. LEWIS. That is right.

Mr. PASSMAN. I think you have to go pretty far afield to follow you on your reasoning but since you agreed there, thank you very much.

Mr. LEWIS. There are other elements in this increase of representation.

Mr. PASSMAN. Let us say tips. If they had an organization saying that anything under 50 cents, you had to give it back to them, and they agreed to move the tip from 40 cents up to 50 cents, and if this be true, as I have noted, then that extra dime tip would also come in the increase; is that right?

Mr. LEWIS. That is right.

In addition to wage and price increases, I would like to point out that the increase for representation includes an element for new officers, $1,250.

Mr. PASSMAN. What is that?

Mr. LEWIS. Part of the $6,000, includes representation funds for the new officers we are requesting.

Mr. PASSMAN. We are still talking about the same component parts of representation; is that right?

Mr. LEWIS. That is right.

REQUEST FOR INCREASED TRAVEL ALLOWANCES

Mr. PASSMAN. Why do you need an increase of $48,725 in travel allowance?

Mr. LEWIS. That consists of several parts; $2,870 is for the travel of the new officers overseas we are asking for.

Mr. PASSMAN. New officers?

Mr. LEWIS. Yes, sir—three new officers overseas. This is for normal administrative travel for them and $8,775 is for what we call international travel. That is the cost of transferring people from here to overseas, home leave, and that sort of thing.

A major part of the increase, $12,000, is for NATO conference participation. This year one of the ministerial meetings will be in Ankara, whereas last year it was in Ottawa. The cost of travel is therefore increased by $12,000.

Mr. PASSMAN. I wondered if we could have just thought at the time we accepted that invitation about the extra cost and kept it a little closer home. But that is water under the bridge, is it not?

Mr. LEWIS. That is already committed.

MUTUAL DEFENSE ASSISTANCE CONTROL ACT EXPENSES

Mr. PASSMAN. The second portion of your estimate is the Mutual Defense Assistance Control Act, referred to as the Battle Act?

Mr. LEWIS. Yes, sir.

Mr. PASSMAN. For which the fiscal year 1964 estimate is $843,000? This is a decrease of $13,900 below the fiscal 1963 program. Congratulations.

We usually do not see decreases and we are afraid to ask the reason, afraid to run into a typographical error.

Mr. LEWIS. This is no typographical error. I think you can take some credit for that, Mr. Chairman. You cut the appropriation last year, or the Congress did, and as a result we reduced the number of positions engaged in this program from 65 to 56. The way the numbers work out here, there is a further saving in fiscal year 1964 as a result.

Mr. PASSMAN. I note that one of the functions of the Department of State is as administrator of the Battle Act, and to recommend determinations by the President with respect to termination of assistance to aid recipient countries.

Has the State Deparment ever exercised this responsibility before?

Mr. LEWIS. I would like to have Mr. Wright, Director of the Mutual Defense Control Section, answer that.

Mr. PASSMAN. Has the State Department ever exercised this responsibility before?

Mr. WRIGHT. Yes, sir.

There have been some 22 Presidential determinations that have continued aid to aid-recipient countries; since this committee considered the appropriation last year, there have been two Presidential determinations. One was toward the end of last year and one in April of this year.

Mr. RHODES. Would you yield at that point?

Mr. PASSMAN. Yes.

RELATION OF SECTION 107 OF FOREIGN ASSISTANCE APPROPRIATIONS ACT OF 1963 TO BATTLE ACT

Mr. RHODES. Had you not better get ready for another one after Circular 12 of the Department of Commerce listed the ships of the free world that have gone into Cuba since the passage of the Mutual Assistance Act of 1963, in which act sections 107(a) and 107(b) specifically prohibit further foreign aid to nations which ship certain types of goods into Cuba?

Mr. WRIGHT. Well, sir, these vessels and voyages to which you refer have not carried Battle Act commodities, to the best of our knowledge.

Mr. RHODES. This is different, then, from the section 107(a) and (b) type commodity?

Mr. WRIGHT. The Battle Act deals with strategic commodities. Section 107 does include in it a prohibition on the continuation of aid to countries that carry strategic commodities to Cuba.

We are satisfied that there have not been any such shipments.

Section 107(b) also does deal with non-Battle Act commodities.

In that regard, the State Department has made considerable efforts to persuade other countries to get their ships out of the Cuba trade, and there has been a very considerable reduction in the number of vessels that have engaged in this trade. It is true that there are vessels still in the trade.

Mr. RHODES. I have asked for a full report on certain vessels which are listed in this Department of Commerce circular as having gone into Cuba. I presume Mr. Scheinman or Mr. Miller will get the information for us at some time in the not too distant future?

Mr. SCHEINMAN. Yes, Mr. Rhodes.

The specific details reviewing each one of the voyages listed on the report 12 have been prepared for the committee and you. As you will recall, it has been testified before this committee that no determination by the President has been required under those sections because it has been found that the sections have not come into effect.

Mr. RHODES. I thought we passed the law.

Did we pass it with a delayed punch, or something?

Sections 107 (a) and (b) have not come into effect?

Mr. SCHEINMAN. The prohibitions contained therein require the happening of certain factual situations which, according to counsel of the Department of State and AID, have not occurred.

Mr. RHODES. I presume you are going to give me a further memorandum on that?

Mr. SCHEINMAN. Certainly.

Mr. RHODES. The court remains unconvinced.

Mr. PASSMAN. I want to get a definition of an expression I heard, "We boxed you in." Let us see if this applies to this committee.

Mr. RHODES. There is no doubt about that. The only trouble is we have been boxed in partly by ourselves and partly by some of our colleagues who sit in this building but down the hall a way.

Mr. PASSMAN. I know what you are talking about.

Gentlemen, we thank you for this brief meeting with us.

Mr. LEWIS. Thank you very much, Mr. Chairman.

Mr. PASSMAN. Best wishes to you.

MONDAY, JULY 29, 1963.

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

WITNESSES

HON. HARLAN CLEVELAND, ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL AFFAIRS
WALTER G. FARR, DIRECTOR, OFFICE OF AFGHANISTAN-PAKISTAN AFFAIRS, AGENCY FOR INTERNATIONAL DEVELOPMENT
DR. JAMES WATT, CHIEF, DIVISION OF INTERNATIONAL HEALTH, HEW
ALGIE WELLS, DIRECTOR, DIVISION OF INTERNATIONAL AFFAIRS, ATOMIC ENERGY COMMISSION
MRS. VIRGINIA WESTFALL, DIRECTOR, OFFICE OF INTERNATIONAL ADMINISTRATION, STATE
CARTER HILLS, OFFICE OF INTERNATIONAL ADMINISTRATION, STATE
TALCOTT SEELYE, OFFICER IN CHARGE, ARABIAN PENINSULA AFFAIRS, STATE
ROGER STEWART, DEPUTY DIRECTOR, AGRICULTURAL RESOURCES DIVISION, AID
STANLEY B. SCHEINMAN, LEGISLATIVE PROGRAMS COORDINATION STAFF, AID
EDWARD F. TENNANT, CONTROLLER, AID

Mr. PASSMAN. The committee will come to order.

Secretary Cleveland, we shall be pleased to hear from you, but first there is a matter which I believe should be discussed off the record.

(Discussion off the record.)

Mr. PASSMAN. Now, Mr. Cleveland, we shall hear your statement.

GENERAL STATEMENT

Mr. CLEVELAND. Mr. Chairman, I am appearing today in support of the request for the fiscal year 1964 appropriation of $136,050,000 for U.S. voluntary contributions to eight international organizations and programs. They are described in volume II of the classified presentation, beginning on page 157.

As you know, the AID Administrator looks to the Bureau of International Organization Affairs to administer this portion of the foreign assistance program. Our Bureau of the State Department is also responsible for 2 other categories of contributions—the so-called regular or assessed contributions to 32 international organizations which are carried in the State Department appropriation, and the contributions toward the peacekeeping functions of the United Nations, which have typically consisted of both an assessed and a voluntary portion—except this past year when, as you know, they have been met by the purchase of U.N. bonds. The estimates presently before you do not include any funds for assessed contributions or for peacekeeping operations. In the case of peacekeeping, our assessed share of the declining costs of U.N. forces in the Middle East and the Congo will be handled as a supplemental appropriation request.

The United States has made many voluntary contributions to many international organizations; but in every instance it has been a unilateral, ad hoc decision to contribute voluntarily so-and-so many dollars for a specific purpose at a specific time. These decisions do commit our Government to support those programs. In each case, of course, the decision has been authorized and the funds appropriated by acts of Congress after careful review by congressional committees. No other nation and no international organization can make our decisions for us in these matters.

FOUR CATEGORIES OF VOLUNTARY CONTRIBUTIONS

These voluntary contributions fall into four major categories. There are, first, voluntary payments which have helped to finance extraordinary expenses of major peacekeeping operations under U.N. auspices.

The second category includes voluntary contributions to help finance the U.N. expanded program of technical assistance, the U.N. Special Fund, and the U.N. Children's Fund. These are the central and major agencies of the United Nations for channeling resources from the industrially developed members to the newly developing members—resources in the form of technical know-how and grants in support of resource surveys and technical training institutes in countries struggling to modernize their societies.

These development assistance funds are financed entirely by voluntary contributions. For the past several years, under a ceiling authorization set by the Congress, we have pledged voluntary contributions of 40 percent of total contributions to the technical assistance and special fund programs, taken together. This is still, in our judgement, an appropriate level of contributions; it is a fair proportion of the total; it places our actual contributions on a matching basis; it exerts pressure on others who are able to contribute; and it is an appropriate action for us to take, as leader of the development efforts of the free world and a sponsor of the U.N. decade of development.

This matching principle in the case of the United Nations Children's Fund has enabled us to bring our share of total contributions down from 72 percent in 1946 to 40 percent proposed for 1964. It has, at the same time, generated an increasing level of contributions from other nations participating in this organization's well-administered program in the fields of health services, disease control, and nutritional education for children and mothers in less developed countries.

There are, third, voluntary contributions to programs of the specialized agencies, and other multilateral organizations temporarily financed outside of their regular budgets. At the time I assumed responsibility for this particular chapter, in February 1961, such contributions covered the NATO science program, malaria eradication, community water supply, and medical research in the World Health Organization and the technical assistance operations of the International Atomic Energy Agency. The United States had helped initiate a number of these programs. We have taken the position that when specialized programs financed by voluntary contributions prove to be of continuing value to the membership as a whole, they should be moved over into the regular budgets of the organizations concerned

and financed by assessments. This has already been done in the case of the WHO malaria eradication program and the NATO science program. It is being done in connection with the WHO pure water supply program. We are negotiating in the IAEA to accomplish the same shift of that Agency's technical assistance program, now financed on a voluntary basis. And the medical research item in the program before you is intended to be the last one in this field.

There is, fourth, the special case of the U.N. Relief and Works Agency for Palestine Refugees. As this committee knows from testimony in previous years, we are unhappy about the fact that other governments' contributions have been at a low level and that therefore our contribution has been around 70 percent of the total cost of maintaining that subsistence level program of relief for the refugees. We have constantly pressed for a meaningful rectification of the relief rolls; and some progress has been made in this direction. We have taken action to reduce the dollar outflow to this program through the utilization of U.S.-owned local currencies and Public Law 480 foodstuffs. As you also know, we have decided with considerable reluctance, year in and year out, that it is in the national security interests of the United States to go as far as we do in helping the U.N. to keep the lid on that particular cauldron of double-trouble in the Middle East. Our vital interests in this sensitive area of the Near East could be seriously jeopardized by a precipitate reduction of our contribution to the Palestine refugee program.

VOLUNTARY CONTRIBUTIONS REQUEST, FISCAL YEAR 1964

This year's request of $136,050,000 is about $12 million less than the amount appropriated in this chapter for fiscal year 1963 and also a reduction by three of the number of programs for which funds are sought. These changes represent the net effect of several trends: (1) One result of the evolving situation in the Congo is the shift from multilateral to bilateral channels of the major U.S. support of the economic stability of and development of the Congo. In the foreign aid budget, this produces a shift of most U.S. assistance to the Congo from the contributions appropriation to bilateral supporting assistance and development grants. (2) As I have already noted, the costs of U.N. peacekeeping operations are not included. (3) Several programs, including the science activities of NATO and the malaria eradication program of WHO, have been absorbed in the regular assessed budgets of the respective organizations and therefore no longer require voluntary contributions. (4) In this year's budget, contributions to regional organizations operating in the field of economic and technical assistance are included in the estimates for development grants. Last year estimates for the Asian Productivity Organization and the Commission for Technical Cooperation in Africa were included in the request for voluntary contributions on which I testified.

I would like now to review briefly the programs for which we are requesting fiscal year 1964 funds.

TECHNICAL ASSISTANCE AND SPECIAL FUND

Our request for the U.N. expanded program of technical assistance and the Special Fund totals $55 million. Several years ago the United States actively supported the establishment of a target of $150 million for these two programs. The first provides experts, fellowships, and demonstration supplies and equipment to countries at their request. The Special Fund helps to promote—through surveys and feasibility studies, and through manpower training and technical education—the fuller exploitation of national resources. The level of contributions to these programs has increased from $20 million in 1951 to about $112 million in 1962. In the case of the Special Fund, 288 projects have been approved at a cost to the Fund of somewhat over $253 million, while an additional $400 million has been provided by the recipient governments.

In the fall of 1962, as in other recent years, the United States pledged a contribution of 40 percent of total contributions to the two programs for the calendar year 1963, up to a maximum of $60 million.

In preparing our fiscal year 1963 budget request, we had previously estimated that contributions from other governments to the calendar year 1963 program would draw down a contribution of $50 million from the United States. However, pledges from other governments have already been recorded at a higher level than we anticipated, and additional pledges may be made before the cutoff date—December 30, 1963. The $50 million available from fiscal year 1963 funds are therefore insufficient to meet our pledge.

We propose therefore to use a small portion of the $55 million requested for fiscal year 1964 to complete the funding of our 1963 pledge, in the manner suggested by this committee during my testimony on this item last year. The remainder of the $55 million would be used to finance our pledge to the 1964 programs of the two agencies; as in previous years we propose a pledge of 40 percent of total contributions, up to $60 million. In the event that the $55 million does not meet the shortfall in our calendar year 1963 program and our pledge for calendar year 1964, we will seek additional funds next year, rather than using money from the AID contingency fund, which was the previous practice.

U.N. ECONOMIC AID FOR THE CONGO

The picture in the Congo has changed sharply since last year's presentation. The success of the U.N. peacekeeping force in reestablishing a measure of relative political stability has enabled the United Nations and the Government of the Congo to turn realistically to the serious problem of economic stability. To avoid the risk of rivalry inherent in bilateral programs, the United States is seeking to form a "Congo Club" of friendly governments who would share this task by contributing bilateral assistance under arrangements for coordination that have been worked out with the U.N. and the Congo Government.

Mr. Hutchinson of AID has already testified on the fiscal year 1964 requests for U.S. bilateral economic aid to the Congo under these arrangements. In addition to this bilateral aid, we support the continua-

tion of a residual U.N. technical assistance program, under which at present about 1,200 school teachers, doctors and other medical personnel, communication experts, air traffic controllers, and other technicians are providing vital services in the Congo. We are requesting $5 million to be contributed by the United States for this purpose. We would administer these funds so that they would not exceed 50 percent of the total contributed by all countries through the U.N. for economic purposes in the Congo.

PALESTINE REFUGEES

Our contribution for the United Nations Relief and Works Agency for Palestine Refugees remains at the same level as last year—$17.2 million in cash and about $7.5 million in surplus agricultural commodities, within a maximum of 70 percent of total contributions. Initiatives are underway which should lead to the achievement of a greater degree of refugee self-support by using a greater proportion of UNRWA's resources for vocational training and to a reduction in relief costs through rectification of the rolls of relief recipients.

U.N. CHILDREN'S FUND (UNICEF)

The U.N. Children's Fund carries out a well administered program in the fields of health services, disease control, and nutritional education for children and mothers in the less developed countries. Due to the widespread support of this activity by member nations around the world, we now consider it appropriate that the U.S. share be reduced to 40 percent in 1964.

WORLD FOOD PROGRAM

You may recall that in September of last year Secretary Freeman pledged U.S. support of the world food program initiated through the Food and Agriculture Organization. The initial program is of 3 years duration and our request is the second installment against our cash pledge of $6 million for the 3-year period. The first installment of $1,638,000 was paid from fiscal year 1963 foreign assistance funds. Our major contribution to the world food program is, of course, surplus agricultural commodities available under Public Law 480, of which $40 million have been pledged.

ATOMIC ENERGY

Our proposed cash contribution of $750,000 to the operational program of the International Atomic Energy Agency, which provides fellowships, experts, and equipment in the field of nuclear energy to the less developed countries is offered on a 50 percent matching basis. Our estimate also includes $500,000 to finance the provision of American experts, of training in American nuclear energy installations and some equipment in order to acquaint the scientists of developing countries with U.S. leadership in the field of peaceful uses of the atom. I have already mentioned that we are working to bring about the incorporation of the Agency's operational program within the regular budget.

MEDICAL RESEARCH

The 1964 request includes $500,000 for special programs of the World Health Organization. We are pleased to report that our initial voluntary contributions in support of the malaria eradication program have now enabled the Organization to move this program into the regular budget. We are urging the same action with respect to the community water supply program. Our contribution for 1964 is intended to complete our voluntary support for the medical research program and is designed to establish a research unit in WHO on human reproduction.

INDUS WATER PROJECT

Our request for contributions to the Indus waters fund is $43,100,000. This is a 10-year program conceived as a solution to one of the major sources of friction between India and Pakistan. The funds are administered by the International Bank for Reconstruction and Development. Our request for 1964 is somewhat above our 1963 contribution and is occasioned by the accelerated pace of the construction of works called for under the original settlement plan. Mr. Farr is here to discuss this program in greater detail.

ANNUAL REVIEW

All in all, these international agencies manage a very mixed bag of projects, in all of which the United States has a lively interest. Our motives in helping to support them range from humanitarian motives—in the case of the Children's Fund—through development objectives—in the case of the U.N. Special Fund and technical assistance programs—to a desire to maintain a precarious peace in the Middle East. Many of these programs will continue; some will change; and others no doubt will be proposed as time goes on.

The point which I should like to stress as forcefully as I can is that the sensible thing is to continue reviewing these special programs every year, program by program, in the light of conditions prevailing at the time, so we can decide each year just how much the United States wishes to contribute in its own interests as it then sees them. This is hard work, tedious and time-consuming work for us—and is hard work, tedious and time-consuming work for this committee and the Senate Appropriations Committee as well as the authorizing committees. But I know of no better way for the United States of America to exercise its sovereign decision each year, to avoid getting locked into long-term decisions about rapidly changing international programs, and to keep our national interest in each program under constant review. We are at your service for such a review in this committee, today, for the fiscal year 1964 program of voluntary contributions.

MANAGEMENT IMPROVEMENT

In closing, I would like to mention briefly the various steps we have taken during the past year to improve the management of our participation in international organizations.

A year ago a Special Study Group was established, financed from the President's Management Improvement Fund and staffed by senior people from the Bureau of the Budget, AID, the Civil Service Commission, and the Department of State. At the same time, an Advisory Committee on International Organizations, composed of 10 distinguished citizens with a variety of backgrounds but all with an interest in public administration, was appointed to advise the Department of State on various aspects of U.S. participation in international organizations. After reviewing the studies made by the Special Study Group, the Advisory Committee has published two reports—one on the problems of staffing of international organizations and the second on the technical cooperation programs of the United Nations. A third report on financial management is in process of preparation.

As a result of the Advisory Committee's report on staffing, we are taking steps to strengthen the existing small recruitment service which has been working to help place Americans with international organizations. We have long recognized the inadequacy of efforts which have been made in the past and we are hopeful that the increasing emphasis on this aspect of the work of the Department will produce a greater number of qualified Americans for service with international organizations.

We have also taken steps to press in the technical assistance field for a merger between the expanded program of technical assistance and the Special Fund. We believe such an amalgamation will produce a more efficient operation which will be more responsive to the needs of the less developed countries. We have urged the strengthening of the role of the U.N. resident representative as the U.N. officer responsible for directing and coordinating all U.N. economic activities in a country, as well as for assuring that the U.N. activities are geared to country development plans.

In order to produce closer coordination between the U.S. bilateral aid programs and U.N. technical assistance programs, a senior AID official has been assigned to the U.S. mission in New York.

We have also undertaken a concerted effort to develop U.S. views on program and budget levels of international organizations earlier in their budget cycles, so that our views may be more adequately reflected in the programs adopted for implementation.

In the past several months escrow accounts have been established with the Treasury for our contributions to the U.N. Special Fund and UNICEF so that funds will not be released from the Treasury until cash is actually needed by the agencies.

Finally, we hope to get agreement at the General Conference of the International Atomic Energy Agency this fall on a charter amendment which would merge the operational program with the assessed budget in the same fashion as NATO and WHO programs, previously supported by voluntary contributions, have been folded into the regular activities and budgets of those organizations.

Mr. PASSMAN. Thank you very much, Mr. Cleveland.

Mr. Farr, may we hear your statement?

General Statement on Indus Waters Project

Mr. Farr. Mr. Chairman and members of the committee, the Indus waters project, conceived as a solution to one of the major causes of friction between India and Pakistan, involves a free world commitment of almost $1 billion, stretching over a period of 10 years, to finance diversion to India of waters now used in Pakistan and replacement of these waters by an elaborate system of dams, reservoirs, and link canals in Pakistan. The funds are administered by the International Bank for Reconstruction and Development (World Bank) as contemplated under section 303 of the Foreign Assistance Act. Commitments to the Indus Basin Development Fund (the Indus Fund) includes foreign exchange grants by Australia, Canada, New Zealand, Germany, and the United Kingdom as well as the United States, a U.S. local currency grant, a large payment by India in both local currency and foreign exchange and loans by the United States and the World Bank.

The World Bank calls for foreign exchange grant contributions from the United States and other contributing governments in October and April of each year on the basis of its estimate of the total payments which it will have to make during the succeeding 6-month period to contractors constructing the Indus works. The shares of the United States and other contributing governments are fixed in the Indus Fund Agreement. The World Bank thus determines the amount of the U.S. contribution in any given period by calculating our fixed share of whatever expenditures must in fact be made.

The request for an appropriation for contributions to international organizations includes $43.1 million to cover the U.S. share of grant contributions to the Indus fund during fiscal year 1964. This amount was arrived at last winter on the basis of then available estimates of the calls the World Bank would make in October 1963 and April 1964. Since then the World Bank has revised its estimates and advised that it plans to call for dollar grant contributions of $48.9 million from the United States during fiscal year 1964 to meet expected disbursements under construction contracts alread awarded. While this estimate is also approximate, it is quite possible that there will be an additional fiscal year 1964 requirement of $5.8 million beyond the $43.1 now requested. This additional amount would represent a potential claim on the contingency fund. By contrast, our early estimate last year proved too large, because of late phasing of letting of contracts, and the World Bank called for only $24.6 million of the $30 million requested for our fiscal year 1963 Indus contribution.

Last year we advised this committee that the amount of the total contribution the United States might ultimately be called upon to make to the Indus fund was in doubt. This is still the case. The development program originally contemplated for works in Pakistan would cost almost double the $895 million commitment of the World Bank and the contributing governments, including the United States. Negotiations are still underway with the Government of Pakistan toward agreement upon the final scope of the system of irrigation and power facilities in the Indus Basin which would be financed out of the fund. Until agreement is reached we cannot determine the total cost of works to be financed or the U.S. share thereof. Right now the United States is committed only to the original amount in the Indus

fund agreement of $482 million. We reconfirm our undertaking to advise this committee promptly of any new commitment.

Construction is progressing extremely well. Some $500 million of contracts have been let to construct the key Mangla Dam on the Jhelum River and important link canals designed to continued irrigation water to Pakistan farms. All of the contractors are on schedule. The Mangla Dam contractor, Guy F. Atkinson Associates, of the United States, is actually ahead of schedule and hopes to finish fully a year before its contract deadline.

The operation of the fund appears to be having a net favorable effect on the U.S. balance of payments. The largest single contract has been let to a U.S. firm. This contract represents about 75 percent of the value of all contracts let to date. In contrast the U.S. commitment to the fund represents 54 percent of the total committed in all currencies and only 39 percent of total foreign exchange commitments. Furthermore, about 85 percent of the foreign exchange actually disbursed so far by the fund has been paid to U.S. contractors, while the United States has so far been called upon to contribute only about 53 percent of the total foreign exchange called for by the fund to date.

Mr. PASSMAN. Mr. Farr, we want to thank you, too, for your statement.

COMPARISON OF 1963 AND 1964 BUDGETS

Mr. PASSMAN. I believe that last year the contributions to international organizations and programs amounted to $148,900,000; is that correct?

Mr. CLEVELAND. That is correct.

Mr. PASSMAN. How much less are you requesting for fiscal year 1964?

Mr. CLEVELAND. For fiscal year 1964 our request is $136,050,000.

Mr. PASSMAN. It would appear, however, that on a comparable basis your request is $23 million above the 1963 appropriation, is it not, as the economic assistance program for the Congo will be financed in fiscal year 1964 under the supporting assistance program?

Mr. CLEVELAND. Mr. Chairman, as I indicated in my statement the downward change represents a combination of four different changes.

Mr. PASSMAN. But you are getting out of supporting assistance funds to do the same thing that you did out of the direct contribution to international organizations in fiscal year 1963?

Mr. CLEVELAND. In the Congo; yes.

TOTAL OF CONTRIBUTION TO INTERNATIONAL ORGANIZATIONS FROM ALL SOURCES

Mr. PASSMAN. The total for fiscal year 1963 amounted to $148,900,000. The total for fiscal year 1964 is how much?

Mr. CLEVELAND. $136,050,000.

Mr. PASSMAN. Plus the amount out of supporting assistance.

Mr. CLEVELAND. If you count——

Mr. PASSMAN. We will have to count it because last year you financed the Congo out of your regular appropriation to the U.N., did you not?

Mr. CLEVELAND. Yes; that is right.

Mr. PASSMAN. Let us put the two together.

Mr. CLEVELAND. The total amount for the Congo——

Mr. PASSMAN. No; the total amount of contribution to international organizations and programs from all sources.

Mr. CLEVELAND. $136 million, because the Congo——

Mr. PASSMAN. I am trying to show at this point in the record the total amount of money that you will have in fiscal year 1964 to do the same thing you spent the $148,900,000 for in fiscal year 1963. You are going to have to add the other programs, are you not, to this?

Mr. CLEVELAND. Yes, sir.

Mr. PASSMAN. Could we do it at this point so as to ascertain whether you have an increase or a decrease? Do you have that information?

Mr. CLEVELAND. Yes, sir. So far as the Congo is concerned——

Mr. PASSMAN. I do not care whether it goes to Congo or "Randolphville." We want to get the total. Then we will get into the Congo.

Mr. CLEVELAND. You would have to add for the Congo $——— under supporting assistance.

Mr. PASSMAN. Previously did you get money for that purpose out of the U.N., our contribution to organizations and programs?

Mr. CLEVELAND. Our comparable amount was in chapter 3.

Mr. PASSMAN. Let us get the total.

Mr. CLEVELAND. That would make $———.

Mr. PASSMAN. Let us get the other programs, too. This thing is being scattered.

Mr. CLEVELAND. The other items that are comparable would be——

Mr. PASSMAN. Asian productivity organization, do you not have something like that in the bill? How much is that item?

Mr. CLEVELAND. That is in the request for Far East development grants for fiscal year 1964.

Mr. PASSMAN. We still have to get this total together. Could we ask the Controller for the information?

Mr. TENNANT. $200,000.

Mr. PASSMAN. Let us get the others.

Mr. CLEVELAND. What about the African regional?

Mr. TENNANT. $1,525,000 for the African regional organizations.

Mr. PASSMAN. Are there any others?

Mr. TENNANT. I believe that is everything.

Mr. PASSMAN. They have been scattered. Now let us get the total. Let us see what the increase is. On a comparable basis to the $148,900,000 that you had last year you are asking for fiscal year 1964, ———, or an increase of ———; is that correct?

Mrs. WESTFALL. Some ———, I believe, Mr. Chairman.

Mr. CLEVELAND. That is correct on a comparable basis for these programs.

ACTIVITIES RECEIVING FUNDS FROM OTHER U.S. AGENCIES

Mr. PASSMAN. Will any of the AID organizations or programs listed on page 157 of the justifications receive any appropriation from other U.S. Government appropriations?

Mr. CLEVELAND. There are two agencies that receive some assistance from other parts of the U.S. Government. One is the International Atomic Energy Agency.

Mr. PASSMAN. Would you know the amount?

Mr. CLEVELAND. I do not know.

Mr. PASSMAN. Put the information in the record, if you will.

Mr. CLEVELAND. Yes. The other is the World Health Organization which gets some research grants from NIH.

Mr. PASSMAN. Is that a new activity?

Mr. CLEVELAND. No. This has been going on right along. In effect, the WHO competes at the NIH, along with everybody else in the world, for the research money.

Mr. PASSMAN. Specifically, would you furnish to the committee a copy of the amount in research?

Mr. CLEVELAND. Right, Mr. Chairman.

(The information requested follows:)

RESEARCH ACTIVITIES OF THE INTERNATIONAL ATOMIC ENERGY AGENCY FINANCED BY OTHER U.S. APPROPRIATIONS

In fiscal year 1963 the U.S. Atomic Energy Commission made available to the International Atomic Energy Agency $50,000 worth of special nuclear material for use in research projects, pursuant to authority contained in section 54 of the Atomic Energy Act of 1954, as amended. In addition, under a joint research program with the International Atomic Energy Agency, the AEC placed 13 contracts through the Agency, in the amount of $174,202, for research in areas of direct interest to the Commission. It is anticipated that a similar research program will be carried out in 1964 from fiscal year 1964 appropriations.

RESEARCH ACTIVITIES OF THE WORLD HEALTH ORGANIZATION FINANCED BY OTHER U.S. APPROPRIATIONS

In fiscal year 1963, $614,000 was made available to the World Health Organization in research grants funded under appropriation for the National Institutes of Health for projects of interest to our domestic program. It is estimated that a similar amount will be made available from NIH appropriations for fiscal year 1964 for ongoing costs of current projects.

The fiscal year 1963 NIH program provided research grants to WHO for the following projects:

Bilharziasis research	$88,000
Virus diseases, immunological surveys, and vaccine studies	188,000
Hypovitaminosis A-Xerophalmia and Keratomalacia	65,000
Insecticide resistance and vector control	273,000

Total U.S. assistance to WHO's medical research programs in 1963 were funded as follows:

State Department regular budget	$480,000
AID, voluntary	500,000
National Institutes of Health	614,000
Total, United States	1,594,000

REDUCTIONS IN PERCENTAGE OF U.S. CONTRIBUTIONS

Mr. PASSMAN. What steps are you taking, if any, to reduce the percentage of our contribution to those programs in which the amount of our dollar contribution is determined by our pledges to contribute a certain percentage to the programs?

Mr. CLEVELAND. We have pushed quite hard in connection with several of these programs to reduce the U.S. percentage of the total. In the case of the U.N. technical assistance program and the Special Fund, the technical assistance program started out at something like 60 percent of the total and being paid by the United States. It is now down to 40 percent and it is pegged at 40 percent under our pledge.

The Special Fund was started at 40 percent. In the case of the Congo, during the emergency we were providing more than 80 percent of the total of U.N. Congo Fund.

PLEDGES TO U.N. TECHNICAL ASSISTANCE AND SPECIAL FUND

Mr. PASSMAN. I note on page 6 of your statement that in connection with the U.N. program of technical assistance and the Special Fund that during calendar year 1963 pledges from other governments have already been recorded at a higher level than we anticipated and additional pledges may be made before the cutoff date of December 31, 1963. Consequently you state, our appropriation for fiscal year 1963, also of $50 million appears at this time to be insufficient.

It would appear to me that this might be one place where we could reduce our percentage contributions and not have serious impact on the program.

Mr. CLEVELAND. Mr. Chairman, I think the main reason that the pledges and contributions are going up in that case is precisely the incentive effect of this matching pledge of ours.

Mr. PASSMAN. If they are going up it appears we would be on the reducing side, on account of the very serious financial condition we find ourselves in today. Our international balance-of-payments situation is very critical and it is obviously going to get worse before it gets better. The same thing applies to our gold reserves. There is also the fact that our public debt, one nation, exceeds by $24 billion the combined public debts of all the other nations of the world. I wonder why we would not now start renegotiating these agreements to maybe get ours down to a reasonable basis?

Mr. CLEVELAND. In this case, in the case of the U.N. technical assistance activity, we think that 40 percent of the total that is put up mostly by the developed countries as assistance to the underdeveloped countries is a reasonable level.

Mr. PASSMAN. We would have thought so until these countries grew so wealthy. Have you had a chance to look at the balance-of-payments situation of some of the European countries, the number of free dollars they have, the amount of gold that they have on hand and their favorable trade balances? How many countries are contributing to this program?

Mr. CLEVELAND. Altogether about 100 countries contribute to this program.

Mr. PASSMAN. Could you furnish for the record a list of contributing countries, taking Uncle Sam at the top, 40 percent, then break down the contributions by the other nations?

Mr. CLEVELAND. Yes, sir.

Mr. PASSMAN. Break it down into dollars. Forget about those who make contributions that are never used, like the ruble. They are in with their contribution. I do not think you are using them yet; are you?

Mr. CLEVELAND. Some of them are.

Mr. PASSMAN. They are designated by Russia as to where they will be used. Give the information to us in dollars and the percentage of the total.

The information supplied follows:

United Nations expanded technical assistance program—Government pledges and projects authorized 1963

[In U.S. dollar equivalent]

Country	1963 pledges as of May 31, 1963		1963 projects authorized
	Amount	Percent	
Aden			33,000
Afghanistan	$16,500	0.031	898,800
Albania	2,000	.004	70,000
Algeria			408,000
Argentina	180,723	.338	423,400
Australia	750,000	1.401	
Austria	200,000	.374	
Barbados			34,800
Basutoland			98,500
Bechuanaland			67,800
Belgium	625,000	1.168	
Bolivia	10,000	.019	674,500
Brazil	144,444	.270	644,500
British Guiana			158,500
British Honduras			95,800
Brunei			18,000
Bulgaria	10,256	.019	
Burma	40,000	.075	973,500
Burundi			291,000
Byelorussian S.S.R.	100,000	.187	
Cambodia	5,714	.011	502,200
Cameroun			645,800
Canada	2,150,000	4.018	
Central African Republic			291,500
Ceylon	25,000	.047	550,500
Chad [1]			246,100
Chile	142,993	.267	818,200
China	21,000	.039	174,700
Colombia	110,000	.206	578,400
Comoro Islands			45,700
Congo (Brazzaville)	1,016	.002	246,200
Congo (Leopoldville)	35,000	.066	500,000
Costa Rica	10,053	.019	128,200
Cuba	25,000	.047	249,100
Cyprus	8,400	.016	146,000
Czechoslovakia	104,166	.195	
Dahomey	20,325	.038	346,200
Denmark	1,882,149	3.517	
Dominican Republic	50,000	.094	121,200
Ecuador	20,000	.037	542,000
El Salvador	7,700	.014	143,700
Ethiopia	20,000	.037	661,900
Federation of Malaya	25,000	.047	411,700
Fiji			36,000
Finland	130,000	.243	
France	1,852,555	3.462	
French Antilles			10,200
Gabon	8,130	.015	246,850
Gambia			95,500
Germany	2,650,000	4.952	
Ghana	99,224	.186	644,800
Greece	35,000	.065	234,000
Guatemala	12,000	.022	244,100
Guinea	5,081	.009	398,900
Haiti	10,000	.019	275,500
Holy See	1,000	.002	
Honduras	3,000	.006	197,600
Hong Kong			15,200
Hungary	53,259	.100	
Iceland	4,000	.007	
India	850,000	1.588	2,226,400
Indonesia	60,000	.112	1,273,200
Iran	125,000	.234	1,179,000
Iraq	72,000	.135	773,800
Ireland	15,000	.028	
Israel	64,000	.120	318,800
Italy	900,000	1.682	
Ivory Coast	15,244	.028	397,400
Jamaica			123,000
Japan	570,000	1.065	81,100
Jordan	24,000	.045	465,400
Kenya			449,900
Korea	8,000	.015	111,400
Kuwait	125,000	.234	100,000
Laos	20,000	.037	449,500
Lebanon	32,000	.060	324,600
Liberia	35,000	.065	253,000
Libya	50,000	.093	561,400

See footnote at end of table, p. 1911.

United Nations expanded technical assistance program—Government pledges and projects authorized 1963—Continued

[In U.S. dollar equivalent]

Country	1963 pledges as of May 31, 1963		1963 projects authorized
	Amount	Percent	
Luxembourg	4,000	.007	
Madagascar	6,098	.011	523,200
Mali	6,098	.011	349,600
Malta			126,500
Mauritania	20,000	.037	183,300
Mauritius			126,300
Mexico	121,000	.226	700,000
Monaco	1,013	.002	
Morocco	50,000	.093	503,100
Nepal	4,000	.007	411,400
Netherlands	1,790,254	3.345	
Netherlands Antilles			28,000
New Zealand	278,500	.520	
Nicaragua	4,000	.007	199,500
Niger			409,400
Nigeria	80,509	.150	1,177,600
North Borneo			45,000
Norway	980,000	1.831	
Pakistan	250,000	.467	1,018,000
Panama	4,000	.007	227,400
Paraguay			360,000
Peru	40,000	.075	520,400
Philippines	34,021	.064	442,900
Poland	100,000	.187	113,900
Rhodesia and Nyasaland			298,800
Rumania	33,333	.062	
Ruanda			309,300
Sarawak			67,500
Saudi Arabia	100,000	.187	252,500
Senegal	16,000	.030	380,300
Sierra Leone	10,000	.019	334,100
Singapore			185,900
Solomon Islands			35,200
Somalia			782,100
South Africa	10,000	.019	
Spain	75,000	.140	40,900
Sudan	90,000	.168	545,000
Surinam			58,900
Swaziland			75,300
Sweden	2,010,439	3.757	
Switzerland	813,953	1.521	
Syria	13,090	.024	613,500
Tanganyika	980	.002	677,400
Thailand	48,000	.090	644,600
Togo	2,500	.005	502,200
Tonga			14,600
Trinidad-Tobago			196,800
Tunisia	25,167	.047	414,000
Turkey	273,333	.511	760,800
Uganda			420,100
Ukrainian SSR	250,000	.467	
U.S.S.R.	2,000,000	3.737	
United Arab Republic	114,995	.215	849,500
United Kingdom	3,750,000	7.007	
Upper Volta			364,800
Uruguay	100,000	.187	249,500
Venezuela	350,000	.654	319,700
Vietnam	25,714	.048	446,200
Western Samoa			90,500
West Irian			29,000
Yemen			168,600
Yugoslavia	152,000	.284	487,350
Zanzibar			70,200
Regional projects:			
African regional			1,588,100
Asia and Far East regional			1,641,500
Europe regional			61,100
Latin American regional			1,770,000
Middle East regional			718,000
Interregional			1,968,300
Total, other governments	28,608,929		
Local costs	[2] 3,500,000	6.540	
Subtotal	32,108,929		
United States	[2] 21,405,953	40.000	
Grand total	53,514,882	100.000	49,623,600

[1] Chad has pledged a total of $60,000 to the Special Fund and expanded technical assistance program, the distribution of which will be announced later.

[2] Estimated.

United Nations Special Fund—Government pledges and projects authorized for 1959–63

Country	1959–63 pledges as of June 30, 1963		Projects authorized, 1959–63
	Amount	Percent	
Afghanistan	$87,500	0.035	$3,754,700
Albania	8,000	.003	
Algeria	40,000	.016	1,244,500
Argentina	449,399	.179	6,912,900
Austria	870,000	.346	
Belgium	1,750,000	.696	
Bolivia	30,000	.012	2,780,300
Brazil	704,935	.280	5,737,400
British Guiana			1,762,400
Bulgaria	64,630	.026	
Burma	95,000	.038	4,193,800
Byelorussian Soviet Socialist Republic	250,000	.100	
Cambodia	22,000	.009	1,761,800
Cameroun	4,000	.002	1,174,800
Canada	11,050,000	4.394	
Central African Republic	5,000	.002	
Ceylon	50,000	.020	1,526,700
Chad [1]	(2)		
Chile	543,503	.216	8,731,000
China	101,000	.040	3,570,200
Colombia	153,893	.061	7,322,300
Congo (Brazzaville)	1,016	.001	1,816,900
Congo (Léopoldville)	70,000	.028	1,416,700
Costa Rica	60,000	.024	204,000
Cuba	55,000	.022	1,157,600
Cyprus	18,900	.008	2,868,000
Czechoslovakia	347,220	.138	
Dahomey	20,325	.008	
Denmark	3,705,386	1.474	
Dominican Republic	30,000	.012	
Ecuador	170,000	.067	5,159,900
El Salvador	7,000	.003	348,300
Ethiopia	145,187	.058	1,362,800
Federation of Malaya	40,000	.016	1,421,500
Finland	560,000	.223	
France	5,360,359	2.131	
Gabon	20,271	.008	2,092,000
Germany	16,060,702	6.386	
Ghana	168,000	.067	4,267,800
Greece	150,000	.060	2,128,300
Guatemala	24,000	.010	1,400,700
Guinea	30,162	.012	1,273,100
Haiti	143,000	.057	1,004,600
Holy See	5,000	.002	
Honduras	7,000	.003	422,300
Hungary	191,727	.076	
Iceland	16,011	.006	214,900
India	8,205,000	3.263	20,041,500
Indonesia	112,650	.045	2,734,300
Iran	600,000	.238	9,207,400
Iraq	178,006	.071	3,779,800
Ireland	80,000	.032	
Israel	265,156	.105	2,643,200
Italy	5,250,000	2.087	
Ivory Coast	19,244	.008	1,034,800
Japan	5,998,470	2.385	702,500
Jordan	63,000	.025	1,924,200
Kenya			3,234,800
Korea	83,000	.033	4,785,000
Kuwait	250,000	.099	
Laos	113,000	.045	583,900
Lebanon	172,102	.068	6,065,300
Liberia	80,000	.032	1,006,900
Libya	142,500	.057	1,639,600
Luxembourg	24,500	.010	
Madagascar	16,225	.007	2,436,000
Mali	6,098	.002	2,032,900
Malta			601,200
Mauritania	10,000	.004	
Mexico	302,000	.120	4,789,000
Monaco	6,584	.003	
Morocco	230,000	.091	6,220,300
Nepal	13,000	.005	974,400
Netherlands	13,845,236	5.505	
New Zealand	560,000	.223	
Nicaragua	11,571	.005	1,590,400
Niger	8,130	.003	
Nigeria	441,054	.175	11,091,800

See footnote at end of table, p. 1913.

United Nations Special Fund—Government pledges and projects authorized for 1959–63—Continued

Country	1959–63 pledges as of June 30, 1963		Projects authorized, 1959–63
	Amount	Percent	
North Borneo			769,900
Norway	5,525,045	2.197	
Pakistan	994,993	.396	11,484,000
Panama	5,000	.002	418,600
Paraguay			936,000
Peru	290,000	.115	6,582,700
Philippines	298,021	.118	3,886,900
Poland	625,000	.248	1,837,500
Portugal	40,000	.016	
Rhodesia and Nyasaland			2,332,600
Romania	83,335	.033	
Saudi Arabia	225,000	.089	2,077,700
Senegal	72,000	.029	3,964,100
Sierra Leone	20,000	.008	
Singapore			578,100
Somalia			1,523,100
South Africa	20,000	.008	
Spain	200,000	.080	
Sudan	196,000	.078	6,809,500
Surinam			770,000
Sweden	16,567,755	6.588	
Switzerland	3,485,417	1.386	
Syria	7,854	.003	4,986,700
Tanganyika	980	.001	
Thailand	832,000	.331	6,631,000
Togo	2,500	.001	1,973,500
Tunisia	135,335	.054	4,988,800
Turkey	1,507,444	.599	4,566,100
Uganda			1,473,000
Ukrainian Soviet Socialist Republic	625,000	.248	
Union of Soviet Socialist Republics	5,000,000	1.988	
United Arab Republic	1,275,558	.507	9,430,100
United Kingdom	22,250,000	8.847	
Upper Volta	15,162	.006	2,091,000
Uruguay	110,000	.044	1,975,000
Venezuela	380,000	.151	5,577,300
Vietnam	83,430	.033	268,500
West Indies			904,000
Yugoslavia	957,000	.380	2,627,500
Regional projects:			
Africa			633,500
American Republics			11,525,900
Europe			
Asia and Far East			6,419,400
Middle East			
South Pacific			586,700
Inter regional			3,866,000
Subtotal	142,602,481		
Local costs	[2] 8,286,311	3.295	
Subtotal	150,888,792		
United States	100,592,527	40.000	
Grand total	251,481,319	100.000	282,646,100

[1] Chad has pledged a total of $60,000 to the Special Fund and to the expanded technical assistance program, the distribution of which will be announced later.
[2] Estimated for 1963.

RESTRICTION ON USE OF FUNDS

Mr. CLEVELAND. Yes, sir. In these programs, Mr. Chairman, every country can, and a good many do, place some limitation on the use of the funds.

Mr. PASSMAN. Do we do so?

Mr. CLEVELAND. Do you mean how much of it can be convertible, and so forth?

Mr. PASSMAN. Do we place a limitation?

Mr. CLEVELAND. Sometimes where it has to do with supplies, as in the Congo import program, yes; but on technical services, no.

Mr. PASSMAN. I refer to as it would apply to countries.

Mr. CLEVELAND. I was talking about a different kind of limitation, a limitation on the convertibility of the currency that is put up.

Mr. PASSMAN. How about Russia? Do they designate the nation and also the technicians in order for you to be able to get the rubles?

Mr. CLEVELAND. They do not designate the recipient nations; no. The international organization itself does.

Mr. PASSMAN. In what nations are you spending rubles?

Mr. CLEVELAND. However, they do in fact limit the use of their contribution to the payment of Soviet technicians, the purchase of Soviet supplies, and so forth.

Mr. PASSMAN. Would you know the number of countries in which the rubles are being spent out of this fund?

Mr. CLEVELAND. We will have to supply the list.

Mr. PASSMAN. Please do so.

(The information follows:)

EXPANDED TECHNICAL ASSISTANCE PROGRAM AND SPECIAL FUND USE OF RUBLES

During 1962, Byelorussia, the Ukraine, and the U.S.S.R. contributed rubles equivalent to $1,175,000 to the special fund and $2,350,000 to the expanded technical assistance program. Both of these programs use these rubles by employing Soviet experts (see below). In addition, the expanded technical assistance program awarded 73 fellowships for study in the Ukraine and 327 fellowships for study in the U.S.S.R. The special fund procured project equipment in the U.S.S.R. at a value equivalent to $280,900 during 1962.

Experts on the rolls as of June 1, 1963, were assigned to projects in the following countries or regions:

	Expanded technical assistance program	Special Fund		Expanded technical assistance program	Special Fund
Afghanistan	13	9	Nigeria	2	
Asia regional	1		Sudan	1	
Burma	2	1	Syria	1	
Cuba	2		United Arab Republic	2	2
Ghana	1		Yemen	1	
Guinea	1		Yugoslavia	4	9
India	29	2			
Indonesia	4		Total	83	23
Interregional	18				
Kenya	1				

CUBAN PARTICIPATION IN U.N. TECHNICAL AID AND SPECIAL FUND

Cuba is still eligible to participate in this U.N. Technical Aid fund?

Mr. CLEVELAND. Yes. They are eligible to participate in theory. As you know, the Communist countries as a group put a good deal more into these programs than the Communist underdeveloped areas take out.

Mr. PASSMAN. That is another argument, and I question whether you could win it if we had time to get into it.

We are putting up 40 percent of the total in this special fund. The Cubans can participate in this fund?

Mr. CLEVELAND. They can participate in the fund taken as a whole.

Mr. PASSMAN. It goes in this pot, does it not, Mr. Cleveland, when we make our contribution? It is taken over by some arm of the U.N. Then they have charge of the funds and who should get it from that point on, do they not?

Mr. CLEVELAND. The machinery that has charge of the fund includes an intergovernmental committee on which we are represented.

Mr. PASSMAN. I know we are represented. After it goes into the U.N. that committee determines what nations are to get the money, does it not?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. If there is a hundred million dollars in this fund, that means we contribute $40 million, does it not?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. If you give to Cuba—this is hypothetical—$10 million, it simply means $4 million would be American dollars, or the equivalent?

Mr. CLEVELAND. It would depend——

Mr. PASSMAN. It makes no difference where it comes from. If we put up 40 percent of the total whatever goes to any nation, 40 percent of it would be the U.S. contribution.

Mr. CLEVELAND. There are two points, Mr. Chairman.

Mr. PASSMAN. If we put up 40 percent of the total fund, and after it leaves us and gets into the U.N. the committee determines what applications will be approved. Then if you make a contribution, say, of $10 million to Cuba, technically $4 million of that would be the U.S. contribution, would it not?

Mr. CLEVELAND. Technically it would not be unless——

Mr. PASSMAN. Straight to the point, it would be, would it not?

Mr. CLEVELAND. Not unless a part of the services supplied by the U.N. agency to Cuba were paid for from the U.S. contribution.

Mr. PASSMAN. Do we designate the nations to receive our money and for what projects and in what amount?

Mr. CLEVELAND. No, sir.

Mr. PASSMAN. Does the money go into one pot, then you make distributions out of that fund?

Mr. CLEVELAND. It goes into one pot as things now stand but in the case of the Special Fund project that was discussed so much, the planned use of resources there did not in fact include any of the U.S. contribution.

Mr. PASSMAN. We contribute 40 percent of the total of this Special Fund. After it is turned over to the U.N. they receive applications from all over the world and they decide what applications will be approved, do they not? Do they make that determination?

Mr. CLEVELAND. Yes, when you say they——

Mr. PASSMAN. Do we have the right to say on this particular project, "No part of any U.S. funds will be available."

Mr. CLEVELAND. No, we have the right to oppose the project as a whole.

Mr. PASSMAN. The entire project?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. But when the contribution gets into this account, whatever distribution is made, each grant, 40 percent of it represents American dollars, does it not, or the equivalent?

Mr. CLEVELAND. No, sir; not quite. It depends on where the resources come from.

Mr. PASSMAN. Forty percent of the total comes from the United States.

Mr. CLEVELAND. But not of each project. Some projects are financed entirely by sending them experts from the United States.

Mr. PASSMAN. Let us try to put the shoe on the other foot. Can you assure the committee that no part of this 40-percent contribution we are making is going to reach Cuba directly or indirectly?

Mr. CLEVELAND. No, sir; because that depends——

Mr. PASSMAN. You answered my question the hard way.

Mr. CLEVELAND. What I mean is that the 40 percent contribution does not buy us 100 percent control over the U.N.

Mr. PASSMAN. I am not talking about control. I am talking about the end results, Mr. Cleveland.

Mr. CLEVELAND. In order to answer your question, yes, I would have to say that 40 percent contribution buys us 100 percent control over the organization.

Mr. PASSMAN. It does or does not?

Mr. CLEVELAND. It does not.

Mr. PASSMAN. Here is a fund that is created. We put in 40 percent, some other nation puts in one-half of 1 percent, some other nation 3 percent. When you get through you wind up with a certain amount of money.

Mr. CLEVELAND. Yes.

Mr. PASSMAN. Forty percent of the total represents a U.S. contribution.

Mr. CLEVELAND. That is right.

Mr. PASSMAN. When you start distributing this money, whatever allocation you make to a project in any country, would you not have to say 40 percent of this represents an American contribution?

Mr. CLEVELAND. Not of each project because it does not work that way.

Mr. PASSMAN. Do you know of some projects where we are putting up all of the money?

Mr. CLEVELAND. Yes, sir.

Mr. PASSMAN. What projects, for instance?

Mr. CLEVELAND. There are some projects that involve one or two experts who are in fact recruited in the United States and those projects under the expanded technical assistance program——

U.N. TECHNICAL ASSISTANCE TO CUBA

Mr. PASSMAN. Of the last grant made to Cuba do you know the amount the U.N. approved?

Mr. CLEVELAND. If we are talking about the special fund project——

Mr. PASSMAN. Yes; the technical aid project for which you made an allocation to Cuba last year, the total amount.

Mr. CLEVELAND. The special fund project has not gotten off the ground yet. No money has been allocated.

Mr. PASSMAN. Has it been approved?

Mr. CLEVELAND. Yes; it was approved by the Managing Director.

Mr. PASSMAN. How much has been approved?

Mrs. WESTFALL. For the expanded technical assistance program and the total was the $405,780 for the 2 years 1963–64.

Mr. PASSMAN. What part of this to which you refer is U.S. funds?

Mrs. WESTFALL. For the Special Fund project we have been discussing, the total cost of the project is $1,150,000.

Mr. PASSMAN. What part of that $1 million would be U.S. funds?

Mr. CLEVELAND. None of it.

Mr. PASSMAN. How do you arrive at that statement?

Mr. CLEVELAND. Because the plan is to import experts and equipment for the agricultural station from places other than the United States.

Mr. PASSMAN. Where are they paid from? What fund?

Mr. CLEVELAND. From contributions from other governments.

Mr. PASSMAN. Are they paid out of this total U.N. fund?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. To which we contribute 40 percent?

For the past 5 years give us a spread of every project, what part of each project would be United States, what part another nation, what part was a hundred percent United States, what part 80 percent, what part 20 percent; if you force me into that we will ask for it. You have this special fund in the U.N., to which we contribute 40 percent.

Mr. CLEVELAND. Of the foreign exchange; yes, sir.

TOTAL U.N. SPECIAL FUND IN FISCAL YEAR 1963

Mr. PASSMAN. We contribute 40 percent of the aggregate to the total fund. What was the amount for calendar year 1963? Does the Comptroller have the information?

Mr. TENNANT. No, sir.

Mr. PASSMAN. I hope you will help us on this, Mr. Cleveland. What was the total amount of this special fund? We would like to have that figure for 1963.

Mr. CLEVELAND. The special fund taken by itself——

Mr. PASSMAN. That is what we want.

Mr. CLEVELAND (continuing). For 1963, the total amount is $74,500,000.

Mr. PASSMAN. Of the $74,500,000, what percentage of that sum did the United States put up?

Mr. CLEVELAND. Forty percent. There is an additional element in each project.

Mr. PASSMAN. Let us deal with the total.

Mr. CLEVELAND. My point is that the way they count it, it is not the total because there is an additional element of the local costs put in.

Mr. PASSMAN. If we do something for the local people they are supposed to put in something.

Mr. CLEVELAND. I agree with you.

U.S. CONTRIBUTION TO U.N. SPECIAL FUND

Mr. PASSMAN. Let us talk about the contribution. We put up 40 percent of this total?

Mr. CLEVELAND. Yes, sir.

Mr. PASSMAN. Say that an application comes in to the U.N. committee for a million dollars to Cuba. If you approve this application, whether you pay Cuba with rupees, rubles, yen, kip, or U.S. dollars, when you have finally met that payroll of a million dollars out of the $74,500,000, you have reduced the $74,500,000 to $73,500,000, have you not?

Mr. CLEVELAND. Yes, sir.

Mr. PASSMAN. Would you agree that when you make this allocation you are reducing the grand total, of which we contribute 40 percent, by the amount of the allocation, whether it is fodder, hay, rupees, or rubles that you give them?

Mr. CLEVELAND. I would like to agree with you with a preamble, if I may.

Mr. PASSMAN. Thank you for agreeing with me.

Mr. CLEVELAND. Excuse me, Mr. Chairman. There is a problem here.

Mr. PASSMAN. I know there is a problem.

RESTRICTION ON U.S. CONTRIBUTIONS TO U.N. FUNDS

Mr. CLEVELAND. The House Foreign Affairs Committee has passed an amendment to the foreign aid bill proposing to limit the U.S. contribution by country. That is to say, to provide that none of the U.S. dollars we provide to this program can be made available to Cuba. We are studying whether it is constitutionally possible in the U.N. system for that kind of limitation to apply or whether that amendment has the effect, if you will, of deratifying the U.N. Charter and making it impossible for us to contribute to the U.N. at all.

Mr. PASSMAN. It is not difficult for me to understand what the purpose is.

Mr. CLEVELAND. It depends, I think. Various people would vote for it for various purposes, but I do not know just how we will come out on that point. I therefore do not want to be in the position of saying to you here that there is no legally feasible procedure whereby it is impossible to make that kind of an end use restriction on U.S. foreign aid funds.

As things now stand, I would say (a) this is a pot and is administered as such, in spite of the fact that not every project consists of exactly the same proportion of everybody's fund as every other project, and (b) in my judgment it is in the U.S. interest to maintain a U.N. that can have a pot of funds and not encourage the Soviets to come in with a limitation that none of their funds can be used for Nationalist China, et cetera, which would gradually break up the unified system that has been built there.

Mr. PASSMAN. The pot system that we talked about?

Mr. CLEVELAND. Yes. I would prefer the U.N. to operate as a pot, but I am faced with the situation in which another committee of this House has for the moment proposed a different view.

Mr. RHODES. If the chairman will yield, I would like to know what the other committee has proposed.

Mr. CLEVELAND. The other committee, as I understand it, has proposed that no funds in the new authorization for the foreign aid bill be available for any project that helps the current regime in Cuba for any project. This, in turn, was a substitute for another proposal, which was defeated, that no funds from this bill could be used to assist any international organization that had any Cuba aid project, which would have amounted to abolishing the whole system as far as U.S. participation is concerned.

Mr. RHODES. Doesn't the first one amount to abolishing the whole system?

Mr. CLEVELAND. We are now studying whether it is possible—whether in our view it is possible for the Secretary General of the U.N. to accept money with that string tied to it. Whether we think he ought to be able to accept it is the next question.

If we decide he should, the third question would be to decide whether he and the other countries involved would be willing to accept such a political string to our contribution. There is no doubt it begins to fragment the idea of having an international organization and it encourages the Soviets to do what they try to do anyway through the U.N., which is to use the U.N. as a cover for bilateral aid. We are trying to prevent them from doing that.

Mr. RHODES. Actually, Mr. Secretary, the U.N. has very little use for rubles anyway, outside of the Soviet bloc. Isn't that correct?

Mr. CLEVELAND. Well, they have considerable difficulty in using the contribution of the Soviet Union, yes. There are so many countries that do not want Russian experts.

Mr. RHODES. Actually, there could be very little effective retaliation on the part of the Soviets, even if they were to set up the same type restrictions as the other committee of the House contemplates. Isn't that correct?

Mr. CLEVELAND. But if you have all of the Communist countries and then all of the other countries who have particular pet hates among the countries of the world putting on similar strings and following our example, the system inside of 2 or 3 years would be unable to operate. In my judgment it would be very bad business for this whole kind of enterprise and I think we get a lot more out of it than we put in because we get a lot of contributions from other countries, which we are not as successful in getting when we use our own technicians under bilateral programs.

Mr. RHODES. It seems to me we could accomplish the same thing by having our contribution go toward foreign exchange for certain nations or toward paying for certain types of skills to be used in those nations without necessarily being wedded to the idea of a common hotchpot to be administered by the U.N.

Mr. CLEVELAND. Well, first of all the common pot contains more Communist contributions than the Communists get in the way of project help so that the free world is making a net profit on the transaction politically. In the second place, it is possible for us to administer all of our aid programs entirely bilaterally. If we did that we would reduce the amount that other countries contribute to the foreign aid business by the proportion between 40 and 60 percent that they put into the U.N.

Mr. RHODES. Mr. Cleveland, is it not true, though, that practically all of the aid which comes from contributions to the Special Fund by the Communist nations is used in the Communist nations?

Mr. CLEVELAND. No, sir.

Mr. RHODES. Can you give us any figures or any sort of a table which would show what aid given by Soviet bloc nations is actually applied or spent outside of the Soviet bloc?

Mr. CLEVELAND. Yes, sir.

Again, it is a contribution to a pot. You have to take the whole list of what the pot is being used for but in fact a good deal more money is contributed by Communist countries to the U.N. Special Fund and to the expanded technical assistance program and to the Children's Fund than these organizations invest in the underdeveloped members of the Communist club, mostly Cuba and Albania.

Mr. RHODES. It seems to me this could be done. The contribution to the Special Fund by Communist countries is made, in currencies of the Soviet bloc. Those currencies can be used to buy goods or services only in certain parts of the world, so wouldn't it be possible to trace through the application of these currencies the countries in which that aid actually takes effect?

Mr. CLEVELAND. To the extent it is a distinguishable currency it would be, yes.

Mr. RHODES. This is what I am asking for.

Mr. CLEVELAND. Even in the case of the Russians they have been pushed into making a small amount of their contribution convertible.

Mr. RHODES. May I ask one other question?

Mr. PASSMAN. Certainly.

Mr. CLEVELAND. I think that it would be useful to provide for the record a statement, if you will, of the political balance of payments between the Soviet bloc and the free world on each of these programs because it is rather striking that the free world gets more out of the Communists than it puts into the Communists, taken all in all.

(Information supplied follows:)

U.N. expanded program of technical assistance—Contributions and pledges and assistance provided or authorized for the calendar years 1960 through 1963

	Pledges		Projects	
	Amount	Percent	Amount	Percent
Communist bloc countries and Cuba	$19,100,000	4.7	$1,500,000	0.4
Yugoslavia	1,300,000	.3	8,600,000	2.3
Free world countries	385,500,000	95.0	368,100,000	97.3
Total	[1] 405,900,000	100.0	[2] 378,200,000	100.0

	Pledges	Projects
Communist bloc countries and Cuba:		
Albania	$14,000	$138,000
Bulgaria	108,748	
Byelorussia	650,000	
Cuba	625,000	847,787
Czechoslovakia	764,162	
Hungary	343,085	9,000
Mongolia		
Poland	900,000	457,900
Rumania	150,002	
Ukraine	1,500,000	
U.S.S.R.	14,000,000	
Total	19,054,997	1,452,687

[1] Includes pledges for 1963 announced as of May 31, 1963.
[2] Covers expenditures and obligations for project costs for 1950–62 and amounts authorized for 1963.

United Nations Special Fund—Contributions and pledges and assistance provided or authorized from January 1960 to June 1963

	Pledges		Projects	
	Amount	Percent	Amount	Percent
Communist bloc countries and Cuba	$7,200,000	3.0	$3,000,000	1.1
Yugoslavia	1,000,000	.4	2,600,000	.9
Free world countries	234,900,000	96.6	277,000,000	98.0
Total	[1] 243,100,000	100.0	[2] 282,600,000	100.0

	Pledges	Projects
Communist bloc countries and Cuba:		
Albania	$8,000	
Bulgaria	64,630	
Byelorussia	250,000	
Czechoslovakia	347,220	
Hungary	191,727	
Mongolia		
Poland	625,000	$1,837,500
Rumania	83,335	
Ukraine	625,000	
U.S.S.R.	5,000,000	
Cuba	55,000	1,157,600
Total	7,249,912	2,995,100

[1] Includes pledges for 1963 announced as of June 30, 1963.
[2] Includes projects authorized up through June 1963.

Mr. RHODES. It seems to me that you will find if you make a study such as the one I have suggested that this fund, instead of being a fund which you visualized as being everything thrown together and parceled out by an international organization actually compartmentalizes itself by the very nature of the type of currencies which are represented. This is a suspicion on my part but it is something I certainly would like to see studied.

Mr. CLEVELAND. It certainly should be possible for the accountants when they line up all the figures to say what contribution they used for buying each expert and each piece of equipment.

RESTRICTIONS ON CONTRIBUTIONS OF OTHER NATIONS

Mr. RHODES. Can you tell me how many other nations have strings on their aid given through the U.N. Special Fund?

Mr. CLEVELAND. Many nations have strings in the sense of currency convertibility strings. For example, China pays only 25 percent of her pledge in convertible U.S. dollars; that is, currency that is convertible, Denmark, 15 percent, et cetera. The kind of strings that we are talkabout here, that is, strings as to who can be aided by the money, no country now has that kind of a string attached.

Mr. PASSMAN. Ours, of course, is convertible. There are no strings attached to our 40 percent contribution?

Mr. CLEVELAND. Yes; that is correct.

Mr. PASSMAN. Why would you not endeavor to get this account so that all nations would have the same type of agreement? We put up 40 percent. There are 76 nations. Some of them put up as little as one-half of 1 percent, do they not?

Mr. CLEVELAND. Yes, sir.

Mr. PASSMAN. If we are willing to contribute 40 percent of the total of $74,500,000, thinking of fiscal year 1963, entirely on a convertible basis what would be the difficulty in getting the nation which is putting up only one-half of 1 percent to enter into the same type of agreement? If you make exceptions for a lot of the others, why could the exception not be made for the United States also, that we, too, would start earmarking our funds and have other restrictions? Why would a country which is putting up one-half of 1 percent of the total pot against our 40 percent have a lot of concessions made to them?

AMOUNTS OF OTHER COUNTRIES' CONTRIBUTIONS TO U.N. SPECIAL FUND

Mr. CLEVELAND. Some of those countries, of course, are putting up amounts which in their terms are as large as our amount.

Mr. PASSMAN. What do you mean by that statement?

Mr. CLEVELAND. Well——

Mr. PASSMAN. What is France's total?

Mr. CLEVELAND. Compared with——

Mr. PASSMAN. Some of the countries are in better shape than we are financially if you take into account the obligations against the gold reserve, and so forth. Other than the United States, what country is the next largest contributor?

Mr. CLEVELAND. The United Kingdom.

Mr. PASSMAN. How much does the United Kingdom contribute?

Mr. CLEVELAND. On the technical assistance——

Mr. PASSMAN. I am referring to the total of $74,500,000, of which we put up 40 percent. What percentage of the total did the United Kingdom put up?

Mr. CLEVELAND. They put up $6¼ million.

Let me get the percentage calculation.

Mr. PASSMAN. You are going to put it in the record?

Mr. CLEVELAND. Yes. We will put it in the record.

Mr. FORD. Mr. Chairman.

Mr. PASSMAN. I yield.

Mr. FORD. Could we go off the record a minute and talk about a matter that concerns you and I think the committee?

Mr. PASSMAN. Yes.

(Discussion off the record.)

POLICY ON MATCHING FUNDS CONTRIBUTED BY OTHER COUNTRIES

Mr. PASSMAN. In connection with the technical assistance program, last year you testified that you had established a cutoff date 2 years following the close of a given U.N. fiscal year for making matching payments to the contributions to other governments. Is this still the policy?

Mr. CLEVELAND. Yes, sir.

USE OF FISCAL YEAR 1964 FUNDS TO COMPLETE FISCAL YEAR 1963 PLEDGE

Mr. PASSMAN. I note, on page 6 of your statement, that you propose therefore to use a small portion of the $55 million requested for fiscal year 1964 to complete the funding of our 1963 pledge in a manner suggested by this committee during the testimony on this item last year. I am a little vague as to when the committee suggested that you fund your 1963 pledge in this manner. Would you refresh our memories on that matter?

Mr. CLEVELAND. Yes, Mr. Chairman. You will recall last year we used Contingency Fund money and other transfers into the contributions to international organizations——

Mr. PASSMAN. And we registered our disapproval of that action, did we not?

Mr. CLEVELAND. Yes, sir.

One of the points made at that time during the testimony, I believe by you, Mr. Chairman, was that if funds did not actually need to be spent immediately before the end of the then current fiscal year why not come back up here for that small overage and include it in next year's program rather than——

Mr. PASSMAN. Would you recite to us the part in the hearings where I made any such suggestion?

Mr. CLEVELAND. You were objecting to the use of——

Mr. PASSMAN. I am still objecting to the use of the Contingency Fund for this purpose, but I want to know when I suggested that you come up here for a deficiency appropriation.

Mr. CLEVELAND. Not a deficiency, a part of the regular program for the following fiscal year.

Mr. PASSMAN. That is the equivalent of a deficiency appropriation. I want to correct the record immediately if you gained such an impression from any of my comment. That would be, in effect, suggesting a deficiency appropriation. If you finish one fiscal year with

an overdraft then you are going to take it out of some subsequent year's appropriation and it is in effect suggesting a deficiency appropriation.

Mr. CLEVELAND. The thought was to be able to——

Mr. PASSMAN. Did I say something of that nature directly or did you read such an interpretation into my remarks?

Mr. CLEVELAND. My recollection is that this reflects what you said last year.

Mr. PASSMAN. Let us find the colloquy because if you gained that impression then I want to correct it immediately, because I do not advocate in foreign aid that you carry over an overdraft and come back and get a deficiency appropriation.

On what page is the discussion?

Mr. CLEVELAND. 1053–1054.

Mr. PASSMAN. That is in reality what you are doing now. You have an overdraft and you are not asking for a supplemental appropriation but you are asking for an increase so as to take care of the deficiency.

Mr. FORD. What is the amount of the overdraft?

Mr. PASSMAN. That we do not know. I am going to get into the matter now, however.

Where am I quoted?

Mr. CLEVELAND. It is in the middle of page 1054 after we talked about obligating the funds. You asked whether it shouldn't carry over in the following fiscal year.

Mr. PASSMAN. I am talking about the obligation of the fiscal year 1963 funds, am I not?

Let me read:

They make a pledge and they have 2 years in which to put up the money.

Mr. CLEVELAND. That is right.

Mr. PASSMAN. Why do you people have to take out of the Contingency Fund and build our contributions to 40 percent right off the bat?

Mr. CLEVELAND. Well, we have not passed over the funds that are involved, most of them.

Mr. PASSMAN. You obligated funds, did you not?

Mr. CLEVELAND. We obligated the funds.

Mr. PASSMAN. They are out of our reach now; is that correct?

Mr. CLEVELAND. That is correct.

Mr. PASSMAN. Could this not carry over to fiscal year 1963?

Mr. CLEVELAND. We obligated the funds.

Mr. PASSMAN. They are out of our reach now; is that correct?

Mr. CLEVELAND. That is correct.

Mr. PASSMAN. Could this not carry over to fiscal year 1963?

I was talking about the funds. I think the colloquy between us would certainly establish that fact.

Mr. CLEVELAND. It was my understanding——

Mr. PASSMAN. I was referring to the obligation of funds—that it would come nearer being a surplus rather than a deficit, according to my understanding of the exchange there; that right off the bat you have to go slug it into them, then when it gets in the pot you cannot get it out. So let the record show that was my intent, because if you start running an overdraft or a deficit there is no limit.

Are we involved in this matter to the extent that you must either ask for a supplemental appropriation or increase your 1964 money request to offset the debts that you have from calendar year and fiscal year 1963——

Mr. CLEVELAND. You don't need a supplemental appropriation.

Mr. PASSMAN. You have an overdraft. Normally you would come to Congress for a supplemental appropriation. I am not suggesting that you do so, but how much are you overextended on these commitments as of this time?

Mr. CLEVELAND. Mr. Chairman, if I may just explain this: For 1962 we made a pledge.

Mr. PASSMAN. Calendar 1962?

Mr. CLEVELAND. Calendar.

Mr. PASSMAN. Out of fiscal year 1962 funds?

Mr. CLEVELAND. Out of fiscal year 1962 funds. Our pledge was to contribute 40 percent of whatever amount is collected by the U.N. for technical assistance and the Special Fund up to a total of $150 million or $60 million as our share. But we predicted in this same committee last year that they would not collect that much—although that is the General Assembly target for the Special Fund—and that they would only collect $125 million. We predicted therefore that our share would turn out on that contingent pledge to be $50 million.

Now, the previous year we had been conservative in that estimate and had to add a little bit to the predicted figure in order to meet the terms of our pledge.

In the committee hearings, I understood it to be your view that if this happened again that rather than funding it immediately out of the contingency fund for the current year, the requirement ought to be carried over and justified to this committee as part of the program for the next fiscal year.

On page 1057, when we were discussing that payment, I said, "We have obligated it in order to show that our pledge is real and we have the money."

You responded: "You could have delayed this action until fiscal year 1963 and stated 'we think we shall need money on account of thus and so'."

It was in this exchange here——

Mr. PASSMAN. Earlier you used another exchange.

Mr. CLEVELAND. The point on page 1054 had to do with——

Mr. PASSMAN. I was trying to slow down the process of obligating all the money, and putting it into a pot in advance. That was my intent.

Mr. CLEVELAND. This is what we are trying to accomplish here.

Mr. PASSMAN. You put it all in the pot and even went back and got some out of the contingency fund.

Mr. CLEVELAND. The previous year. But that is what we didn't do this year and that is what I am pointing out in my statement.

Mr. PASSMAN. I understand that you have a right to your interpretation of the intent of our exchange, but you have to read the beginning of it to understand the meaning, that it had to do with obligations.

On page 1057 it says:

> I am interested in specifics. Could you have postponed until fiscal year 1963 your request for this $5 million, then include it and say, "Here is why we need an increase?"

This year I can follow your justifications there, but specifically it is $1 million.

Mr. CLEVELAND. Specifically it is a little over $1 million. Our present estimate is $1,190,000 but there may be additional pledges before the end of the year which would make the figure a little higher.

Mr. PASSMAN. Are you taking into account some of the nations which may be putting up one-half of 1 percent or 1 percent who may get 5 percent out of the pot, and they are increasing their pledge? If you are houseman, you do not mind rolling $5 if you can slip $15 out of the pot.

As long as Uncle Sam is putting in 40 percent, are there not some who are willing to put in a little bit if they are going to get a lot more out?

Mr. CLEVELAND. As in the case of the World Bank, you try to collect something from everybody to give everybody the idea of being a contributor to as well as a beneficiary of the business.

Mr. PASSMAN. Are we one of the recipients of this fund?

Mr. CLEVELAND. No, sir.

Mr. PASSMAN. Do you see what I mean now?

Mr. CLEVELAND. Yes.

POSSIBILITY OF FURTHER REDUCTION IN U.S. CONTRIBUTIONS

Mr. PASSMAN. You are a good businessman, Mr. Cleveland. We would like to see you supporting some policy to get our contribution down to 15 or 20 percent. We are no longer able to play Santa Claus to the world.

Are you giving any thought to reducing the percentage of our contribution?

Mr. CLEVELAND. In the case of this program it is our view that by the reduction of these percentages to 40 percent, we have gone about as far as we should go at the present time.

Mr. PASSMAN. I have been talking about 40 percent all along. You have not advocated any decrease below that percentage, have you?

Mr. CLEVELAND. For this class of program——

Mr. PASSMAN. That is what I am talking about. This program specifically. Have you advocated reducing our contribution?

Mr. CLEVELAND. Not below 40 percent.

Mr. PASSMAN. Do you think there is any merit——

Mr. CLEVELAND. We took the percent from 60 to 40 percent.

Mr. PASSMAN. At one time we gave 100 percent. Do you not think the time has come for us to get our financial house in better order than it is? This is a lot of money. If someone can put up 50 cents and get back $6 this thing might grow to the point that this contribution would double. There is some indication that is true today and that is why we want you, Mr. Cleveland, to furnish the committee a list of each one that is contributing, the percentage of the total, and to break it down on a dollar basis so we can actually see what is happening.

What would be wrong with this country—one of the 100-odd contributors—getting its total down a little bit? Has there been any thought given to this matter at all or is it just 40 percent and no lower?

Mr. CLEVELAND. Sir, there was a great deal of thought given to it——

Mr. PASSMAN. How far has this thinking advanced?

Mr. CLEVELAND. And the conclusion I am stating is in fact the result of the thinking that our people have given to getting the percentages of our contributions down to reasonable percentages. Our conclusion is that a range of 30 to 32 percent is all right on a regular budget where everybody is putting up housekeeping expenses——

Mr. PASSMAN. You mean everybody is promising it.

Mr. CLEVELAND. I stand corrected. Everybody is promising. And some of them not even promising it very enthusiastically.

But on a technical assistance activity, that 40 percent of the foreign exchange component is not only a reasonable percentage but a better deal, to the extent that we can do it through international organizations, which have their own limitations, rather than doing it on a 100-percent bilateral basis.

Mr. FORD. Would the chairman yield?

Mr. PASSMAN. I shall be happy to yield.

Mr. FORD. Turning to page 2 of your prepared text, Mr. Cleveland, let me read two sentences. The first is as follows:

> For the past several years under a ceiling authorization set by the Congress we have pledged voluntary contributions of 40 precent of the total contributions to the technical assistance and special fund programs taken together. This is still, in our judgment, an appropriate level of contribution. It is a fair proportion of the total.

And then the sentence goes on.

However, when you turn to page 9 of your prepared text let me read this statement:

> But I know of no better way for the United States of America to exercise its sovereign decisions each year, to advocate getting locked into long-term decisions about rapidly changing international programs than to keep our national interests in each program under constant review.

It seems to me those two statements taken together are conflicting.

Mr. CLEVELAND. I don't see why they conflict.

Mr. FORD. You said in the one case that we have decided that 40 percent is a fair proportion of the total.

Mr. CLEVELAND. We keep this under constant review and it was our feeling last year and it is still our feeling this year that this particular decision is still right. We look at it every year, we change a number of other aspects. I have in my statement a whole series of management improvements we have made over the last year. We are working very hard on the management of these funds. I am a professional manager and we are all working very hard on the management of these operations. It is our judgment this year as a matter of policy that 40 percent of a technical assistance program in the United Nations is a reasonable proportion for the United States.

Mr. FORD. Is this what you are advocating in perpetuity?

Mr. CLEVELAND. No, sir.

Mr. FORD. Or is this your statement for this year and this year only?

Mr. CLEVELAND. This is my statement for fiscal year 1964 and I don't have a view about 1965 until we work on it for another year. These are voluntary contributions. They are not an assessment and I think we should take a coldblooded look at them every year.

Mr. FORD. This 40 percent then as you state here is not a long-term decision, it is not locking us into this percentage?

Mr. CLEVELAND. That is correct. Each year there is a pledging meeting. Each year we have to decide all over again what the U.S. position is going to be in that pledging conference within whatever limitations have been placed by the Congress.

Mr. FORD. I just want to be sure that your statement about this being a fair percentage is not one that the executive branch will advocate in the future necessarily.

Mr. CLEVELAND. I think, for example, if the Germans were to become members of the United Nations, or if there were an earthquake on a whole continent, the situation might change. Depending on what happens we have to take a fresh look at this percentage each time.

Mr. FORD. But I can read into your statement that you as representatives of our Government in these negotiations in subsequent years will not look upon 40 percent as sancrosanct, you will seek to get it at a lower level, is that what I can honestly interpret from what you said?

Mr. CLEVELAND. I don't know about the lower level. I know for 1964 I think the 40-percent level is the one we ought to pledge for.

Mr. FORD. This seems to be in conflict with what I thought you said a minute ago.

Mr. CLEVELAND. There is a target which was set by the General Assembly several years ago of $150 million. Once we get to that, which may be during the next year or two——

Mr. MONTOYA. Will the gentleman yield?

CONTRIBUTIONS OF NEW NATIONS TO U.N. SPECIAL FUND

Mr. Cleveland, have you taken into consideration the fact that we have had quite a few nations going into the United Nations and that they in turn are adding themselves as contributors into this Fund? Are you taking that into consideration?

Mr. CLEVELAND. But the new nations are precisely the ones who on a net basis are, of course, recipients.

Mr. MONTOYA. Yes, but they are assessed as contributors are they not?

Mr. CLEVELAND. This is not an assessed fund.

Mr. MONTOYA. I don't mean that. They are voluntary contributors into this Special Fund, are they not?

Mr. CLEVELAND. They supply a few experts where they happen to have a good source of experts but most of the African countries aren't able to put up a significant contribution.

Mr. MONTOYA. But quite a few of the new nations have contributed into this Special Fund, have they not?

Mr. CLEVELAND. Yes, but not to the extent that they take out.

DECREASING PERCENTAGES BUT INCREASING DOLLAR CONTRIBUTIONS

Mr. MONTOYA. Here is a point that I want to make, that while the percentage of our contribution has decreased from 60 to 40 percent the dollar contribution has increased in the last few years; is that correct?

Mr. CLEVELAND. Yes, because it has been our policy or the policy of most of the developed countries, including the European countries, to try to build up in the United Nations a facility for sharing the burden of technical assistance among ourselves.

Mr. MONTOYA. So actually as far as the American taxpayers are concerned they are getting a net return of 10-percent reduction, whereas they are expending more in dollars for that reduction.

Mr. CLEVELAND. But they are getting even more, they are getting proportionately more contributions from the other advanced countries into these underdeveloped areas where otherwise we would probably have to pick up the whole check on a bilateral basis.

Mr. PASSMAN. In fiscal year 1963 our contribution was 40 percent of $74.5 million and it would appear at this time that there is a deficit of $1,190,000.

PLANNED SIZE OF U.N. FUNDS

Did I understand you to say that we planned maybe to get up to maybe $150 million next year?

Mr. CLEVELAND. Well, the pledge——

Mr. PASSMAN. Did you say it may get up to $150 million?

Mr. CLEVELAND. Our hope would be other countries would put up enough to make 60 percent of $150 million.

Mr. PASSMAN. If you go from $74.5 to $150 million, our 40 percent would double the amount of dollars?

Mr. CLEVELAND. No, sir, the $150 million target applies to the Special Fund and the expanded technical assistance program taken together.

Mr. PASSMAN. Let us keep it on the part we have been talking about, the technical aid part, the $74.5 million.

Mr. CLEVELAND. The $74.5 million is for the Special Fund.

Mr. PASSMAN. What total sum do you envision that fund going to next year?

Mrs. WESTFALL. Mr. Chairman, if I may speak to that point, the U.N. Special Fund and technical assistance programs have developed gradually over a period of time, until now the total contributions to the two run about $125 million. We are working toward a target of $150 million.

Mr. PASSMAN. Break the funds in two. What is the comparable figure to the $74.5 million figure in fiscal year 1965?

Mrs. WESTFALL. In terms of the breakdown of $150 million, the goal is roughly $50 million for the expanded technical assistance program and $100 million for the Special Fund.

Mr. PASSMAN. $50 million for our part?

Mrs. WESTFALL. No, $50 million in toto for the expanded program.

Mr. CLEVELAND. The Special Fund would go up from the present level and the expanded technical assistance program would decline from the present level.

Mr. PASSMAN. But you are always increasing your dollar requests.

Mr. CLEVELAND. The purpose of U.S. policy on this particular subject is to try to build this facility because we think that we can get a lot more contributions from other countries in the field of technical assistance to the underdeveloped areas this way than any other method we know of.

Mr. PASSMAN. We have agreed that if a country can put 50 cents in the pot and get out $6, it is to their advantage to put up the 50 cents. Next year if that country can put in $1 and get back $12, that is more to their advantage.

You know, Mr. Cleveland, for fiscal year 1964 we are in 99 nations with the foreign aid program; that is, 95 countries and 4 territories and possessions?

Did you give us those figures, Mr. Controller?

Mr. TENNANT. That is correct, sir.

Mr. PASSMAN. The time is coming when we will have to get back down to earth.

REIMBURSEMENT TO DOD FOR CONGO OPERATIONS

Last year you testified, at page 1082 of the hearings, that it was possible that the Department of Defense would be reimbursed for its expenses in the Congo operation from the collection of some of the arrearages and from some of the bond proceeds. How much has been reimbursed since your testimony last year?

Mr. CLEVELAND. A total of $23.6 million has been reimbursed to the Department of Defense. I will have to get you the figure from my testimony last year, which is not the way we broke it down.

Mr. PASSMAN. Let us get the total that has been reimbursed to the Department of Defense——

Mr. CLEVELAND. All right, the Department of——

Mr. PASSMAN. Out of the bond proceeds.

Mr. CLEVELAND. The bond proceeds just became part of the general funds of the U.N.

Mr. PASSMAN. Give us the total otherwise, then.

Mr. CLEVELAND. Since they started selling bonds the Department of Defense has been reimbursed $17,740,000 by the U.N.

U.N. BOND PURCHASES AND PLEDGES

Mr. PASSMAN. Have they sold any bonds to anybody other than the United States?

Mr. CLEVELAND. Yes, sir.

Mr. PASSMAN. Put a list of the bond sales in the record, if you will.

Mr. CLEVELAND. We will be glad to.

(The information requested follows:)

U.N. bond purchases and pledges by other nations, July 1, 1963

	Amount	Nations
Actual purchases:		
Afghanistan	$25,000	
Australia	4,000,000	
Austria	900,000	
Burma	100,000	
Cameroon	9,569	
Canada	6,240,000	
Ceylon	25,000	
China	500,000	
Denmark	2,500,000	
Federation of Malaya	340,000	
Finland	1,480,000	
Germany	10,000,000	
Greece	10,000	
Honduras	10,000	
Iceland	80,000	
India	2,000,000	
Indonesia	200,000	
Iran	[1] 250,000	
Ireland	300,000	
Israel	200,000	
Italy	8,960,000	
Ivory Coast	60,000	
Japan	5,000,000	
Jordan	25,000	
Korea	400,000	
Kuwait	1,000,000	
Lebanon	8,271	
Luxembourg	100,000	
Mauritania	4,082	
Morocco	280,000	
Netherlands	2,020,000	
New Zealand	1,000,000	
Nigeria	1,000,000	
Norway	1,800,000	
Pakistan	500,000	
Sierra Leone	28,000	
Sudan	50,000	
Sweden	5,800,000	
Switzerland	1,900,000	
Thailand	160,000	
Togo	10,000	
Tunisia	485,000	
United Kingdom	12,000,000	
Venezuela	300,000	
Vietnam	10,000	
Yugoslavia	200,000	
Subtotal	72,269,922	46
United States	72,069,922	1
Subtotal	144,339,844	47
Publicly announced pledges:		
Brazil	100,000	
Cambodia	5,000	
Cyprus	26,175	
Ecuador	12,000	
Ethiopia	200,000	
Ghana	100,000	
Iran	250,000	
Iraq	100,000	
Liberia	200,000	
Panama	25,000	
Philippines	750,000	
Saudi Arabia	50,000	
Tanganyika	2,800	
Turkey	100,000	
United Arab Republic	250,000	
Subtotal	2,170,975	14
United States:		
To match actual purchases by others not yet matched	200,000	
To match pledges by others not yet purchased	2,170,975	
Total publicly announced pledges	4,541,950	
Total of announced purchases and pledges	148,881,794	61

See footnotes at end of table.

U.N. bond purchases and pledges by other nations, July 1, 1963—Continued

	Amount	Nations
In favor, but amounts not announced		10
Under consideration		19
Do not plan to subscribe at present		19
New members		7
Total nations		116
Less purchases by non-U.N. members		5
Total present U.N. membership		111

[1] Iran purchased $250,000 of its $500,000 pledge on Apr. 7, 1963, and is, therefore, listed under both "actual purchases" and "publicly announced pledges." It is included in the number of nations under "actual purchases."

NOTE.—Summary information on U.S. purchases and pledges:

U.S. purchases to date:	
Bond No. 33, Nov. 2, 1962	$44,103,000
Bond No. 43, Dec. 18, 1962	15,569,840
Bond No. 53, Mar. 7, 1963	5,543,000
Bond No. 64, June 25, 1963	6,854,082
Total	72,069,922
Available to match actual purchases by others not yet matched	200,000
Available to match pledged by others who have not yet purchased	2,170,975
Balance of $100,000,000 authorized for new pledges, the matching use of which depends upon pledges-purchases by others	25,559,103
Total, U.S. authorization	100,000,000

INCREASE IN U.S. CONTRIBUTIONS TO INTERNATIONAL PROGRAMS

Mr. PASSMAN. What was the U.S. contribution in percentage and dollar amount for fiscal year 1963 to each one of the programs formerly financed by this appropriation that have been shifted over to the regular budget of the organizations concerned? I believe you told us earlier that on a comparable basis for fiscal year 1964 you are asking for $177,750,000, compared to $148.9 million for fiscal year 1963, or an increase of $28,850,000. Is that correct?

Mrs. WESTFALL. Yes.

(The information supplied follows:)

U.S. share of total contributions decreases as programs are transferred to regular (assessed) budgets

[Dollars or dollar equivalents]

I. WHO SPECIAL PROGRAMS

	1961	1962	1963 (estimate)	1964 (estimate)
Total WHO special programs	6,139,000	5,440,000	7,862,000	7,613,000
U.S. share	4,992,000	2,630,000	4,035,000	2,727,000
U.S. percent	81.32	48.35	51.32	35.82
Malaria eradication	4,464,000	3,590,000	5,562,000	5,363,000
U.S. assessed	----------	634,000	1,268,000	1,679,000
U.S. voluntary	4,000,000	1,000,000	[1] 1,500,000	----------
U.S. percent	89.61	45.52	49.77	31.29
Medical research	1,500,000	1,750,000	2,000,000	2,250,000
U.S. assessed	317,000	396,000	467,000	548,000
U.S. voluntary	500,000	500,000	500,000	500,000
U.S. percent	54.46	51.20	48.35	46.58
Community water supply	175,000	[1] 100,000	[1] 300,000	----------
U.S. voluntary	175,000	100,000	300,000	----------
U.S. percent	100.00	100.00	100.00	----------

II. NATO SCIENCE PROGRAM

	1960	1961	1962	1963 (estimate)	1964 (estimate)
Total NATO science program	$2,900,000	$3,100,000	$3,800,000	$4,011,345	$4,100,000
U.S. assessed	----------	----------	----------	----------	992,000
U.S. voluntary	1,192,000	1,332,000	1,386,000	1,250,000	----------
U.S. percent	41.10	42.90	36.40	31.16	24.20

[1] Funded from fiscal year 1962 appropriation.

Mr. FORD. Is there explanation of this in the record?

Mr. PASSMAN. We have asked for a spread on it. Where we have been expecting these things to go down, you are continually going up. Now you are spreading it out, out of other appropriations and occasionally we just have to pull it back in and use a comparable figure, because you are getting the money out of other appropriations. It is an increase—a decrease if you look at it as just coming out of one category, but if you put it all together and get the comparable figure it is still going up.

Mr. CLEVELAND. We are now trying to put in this appropriation only contributions to U.N. and worldwide programs and put the contributions to regional organizations programs with the regional programs.

Mr. PASSMAN. That is all right. We did state that fact for the record, did we not?

Mr. CLEVELAND. Yes.

REDUCTION IN PERCENTAGE BUT INCREASE IN AMOUNT OF U.S. CONTRIBUTION TO UNTA

Mr. PASSMAN. What year did we reduce our contribution to the special fund to 40 percent?

Mr. CLEVELAND. In the case of the special fund we set it up that way to begin with in 1959.

Mr. PASSMAN. I am talking about the one where you made the appointment earlier—I believe it is the technical aid part. What year did you reduce it to 40 percent?

Mr. CLEVELAND. That was 1959 or 1960. In the case of the Children's Fund——

Mr. PASSMAN. What year did you reduce this technical aid fund to 40 percent of the total contribution?

Mrs. WESTFALL. 1959, sir.

Mr. PASSMAN. And what was the dollar amount we were contributing in that year?

Mrs. WESTFALL. The dollar amount for the expanded program in 1959 was $11.7 million——

Mr. PASSMAN. $11.7 million as compared with what amount for fiscal year 1963?

Mrs. WESTFALL. For fiscal year 1963 it is $21 million roughly, sir. The $11.7 million was for our contribution to the expanded technical assistance program.

Mr. PASSMAN. Now, the comparable figure in fiscal year 1963 for the same fund?

Mrs. WESTFALL. The comparable figure for fiscal year 1963 for the same fund is roughly $21.4 million.

Mr. PASSMAN. It has just about doubled and doubled in 4 years?

Mrs. WESTFALL. Yes.

Mr. PASSMAN. Now give it to us by year, if you will, from the inception.

Mrs. WESTFALL. That goes back to 1950 when the program began.

Mr. PASSMAN. Include the total percentage and work it down to the 40 percent and bring it up to date through fiscal year 1963.

Mrs. WESTFALL. Would you like that for the record, sir?

Mr. PASSMAN. Yes.

(The information requested follows:)

Government pledges and local costs as of May 31, 1963

[In thousands of dollars [1]]

EXPANDED TECHNICAL ASSISTANCE PROGRAM

	Total	Other governments			United States	
		Pledges	Pledges outstanding [2]	Local costs	Amount	Percent
1950–51	20,000	8,000	----------	----------	12,000	60
1952	18,800	7,400	----------	----------	11,400	60
1953	22,300	9,500	----------	----------	12,800	57
1954	25,000	11,100	----------	----------	13,900	56
1955	27,600	12,600	----------	----------	15,000	54
1956	28,800	14,400	----------	----------	14,400	50
1957	30,800	15,500	12	----------	15,300	50
1958	31,300	17,300	12	----------	14,000	45
1959	29,300	17,600	12	----------	11,700	40
1960	36,200	19,400	78	2,400	14,500	40
1961	45,500	23,700	1,872	3,400	18,000	40
1962	49,100	25,800	1,330	3,700	19,600	40
1963 (estimate)	53,500	28,600	----------	3,500	21,400	40
Total	418,200	210,900	----------	13,000	194,000	----------
SPECIAL FUND						
1959	25,800	15,500	10	----------	10,300	40
1960	39,500	22,700	101	1,000	15,800	40
1961	48,800	27,500	2,161	1,800	19,500	40
1962	62,800	35,200	1,666	2,500	25,100	40
1963 (estimate)	74,500	41,700	----------	3,000	29,800	40
Total	251,400	142,600	----------	8,300	100,500	----------

[1] Detail may not add to totals due to rounding.
[2] As of May 31, 1963, for expanded technical assistance program and June 30, 1963, for Special Fund.

Mr. FORD. Will this show the dollar amount each year and the percentage?

Mr. PASSMAN. The dollar amounts, because since we have reduced it to 40 percent our contribution has just about doubled; has it not?

Mrs. WESTFALL. We started out at 60 percent, sir.

Mr. PASSMAN. I am talking about the first year that you reduced it to 40 percent, which was 1959. It was $11 million. In 1963 fiscal year it is $21 million-plus.

Mrs. WESTFALL. Yes, sir.

Mr. PASSMAN. Almost double. So you had better not reduce it if that is the way it is going to work in the future.

Mr. CLEVELAND. This represents success in getting other countries to do even more.

Mr. PASSMAN. Success all depends on who is evaluating it. I want to come back and say it is like a crap game. If you shoot a dime and pull in $3 it is a good investment. The nation that puts in 50 cents and gets back $6, you would expect them to put in $1 and take out $12.

Mr. CLEVELAND. The people who have been putting up more and more are the Europeans and just precisely the countries we think are getting rich enough to share this thing with us.

Mr. PASSMAN. Let the committee make up its mind about this thing when you put those percentages in the record.

CONTRIBUTIONS TO U.N. SPECIAL FUND

Now, rather than to ask a lot of questions, we want the same type of information on the Special Fund. The dollars, our percentage, the percentage contributed by each member and the percentage of the total.

(NOTE.—The information requested may be found on p. 1935.)

STATUS OF CUBA CONTRIBUTIONS

Mr. PASSMAN. Does Cuba make a contribution presently?

Mr. CLEVELAND. I think a very small one; yes.

Mr. PASSMAN. Are they up-to-date with their pledge?

Mr. CLEVELAND. Not in fiscal year 1963. In fiscal year 1962 they are.

Mr. PASSMAN. You do not have to pay money in order to get money unless you are suspended. If a country indicates it wants to put in 1 percent and does not put in anything and files an application it would be a little bit inconsistent with good business practice to approve the request for funds.

Mr. CLEVELAND. That isn't one of the criteria for approval of projects.

U.N. RELIEF AND WORKS AGENCY FOR PALESTINE REFUGEES

Mr. PASSMAN. I notice your statement, on page 4, that our vital interest in this sensitive area of the Near East could be seriously jeopardized by reduction of our contribution to the Palestine refugee program. It would appear to me that you are possibly inviting the Congress to make a modest reduction in the appropriation for Palestine refugees. Is that correct?

Mr. CLEVELAND. That is not correct, Mr. Chairman.

Mr. PASSMAN. If there is anything I am in sympathy with it is this program, but if a person goes out there and checks on these people, the way they have to exist, it is quite distressing.

Mr. RHODES. May I ask a question?

Mr. PASSMAN. Yes.

Mr. RHODES. What is the comparison between the number of Palestine refugees now and the number a year ago? Can you give us the total for each of the last 5 years?

Mr. CLEVELAND. It goes up about 30,000 a year with the excess of births over deaths, actually. It is just under 1.2 million now who would have refugee status, of whom 880,000 are drawing rations.

(The information requested follows:)

5-year table on numbers of Palestine refugees

	Full ration recipients	Total registered refugees
June 1958	836,781	1,019,201
June 1959	843,739	1,053,348
June 1960	849,634	1,087,628
June 1961	854,268	1,151,024
December 1962	865,754	1,189,573

Mr. RHODES. Who bears the cost of this program? Do we bear the whole cost?

Mr. CLEVELAND. We bear about 70 percent of the cost. The British and the Canadians put in most of the rest. There is a large number of contributors. Most of them are very small. Then the host countries pay some kinds of expenses for the refugees that are in their countries.

PROBLEMS OF RESETTLEMENT

Mr. RHODES. Is there any indication that this problem will ever be solved?

Mr. CLEVELAND. I wish I could tell you there were. We tried very hard last year through the United Nations to get some kind of a deal between the Israelis, the Arabs, and the U.N. to start on the process of resettling some Arabs here and there around the Middle East but the Arabs continue to insist that all of the refugees have the right of repatriation into what is now Israel. The Israelis continue to insist that all the refugees must be sent out to be resettled in the Arab countries and that none have a right of repatriation. It has been impossible so far to get a meeting of minds on this which in turn, of course is only part of that still unliquidated war between the Arabs and the Israelis.

Mr. RHODES. Has anybody thought of trying to get the parties to agree to resettling the number equaling the increase each year, rather than aggravate the problem? Would it be possible to get that sort of agreement?

Mr. CLEVELAND. A few move out because they get educated in the camps and decide they don't want to live there for the rest of their lives. Conditions are very much as the chairman described.

The Arab leadership in all of the countries continues to take the position that they all have a right to go back to Israel and this, in effect, is used as a part of the political game out there. So there is no encouragement at all from any of the Arab countries to take them in and resettle them as things now stand.

Mr. RHODES. Just how much worse off are the people in those camps as far as their living conditions are concerned than are the poorer people in the cities of the Middle East?

Mr. CLEVELAND. In the case of the Gaza strip I think they really are worse off, in physical terms and also because there isn't any opportunity for the children.

When you get over into Lebanon and Syria the camps aren't as bad and the conditions are more even, so there is actually some flow out.

Mr. CONTE. The camp in Jericho, the people who live in that camp are as well off as the ordinary citizens in Jericho and Jordan.

Mr. CLEVELAND. In Jordan the standard of living of the surrounding population is so poor there isn't much to choose.

Mr. CONTE. I don't think we will ever get them out. They have fine water and schools, plus our rations. Has anyone given any thought to trying to urge the Israelis to settle this by way of monetary payments?

Mr. CLEVELAND. It was a part of the arrangement proposed last year that the U.N. collect the money, including some from the Israelis, and do precisely that but arrange for a least a few of them to go back to Israel at the same time. It broke down over the right of repatriation.

Mr. CONTE. There was no question about getting the money up?

Mr. CLEVELAND. Our feeling has always been it would be an expensive proposition but you could collect the money to do this job if you could get a political formula. The latter is the trouble.

Mr. CONTE. In the long run we would save money, wouldn't we?

Mr. CLEVELAND. We certainly would. We have put up $300 million for Palestine refugees since the end of the war.

SURPLUS FOOD CONTRIBUTIONS

Mr. CONTE. A couple years ago I pursued a line of questioning on giving surplus food as part of our contribution and I notice you are doing that. Why don't we do more of that? Is most of our aid to the refugees in rations?

Mr. CLEVELAND. We are providing the bulk of the wheat and all the edible oils that are used in the ration programs. As far as the rest of the program is concerned, it does not consist of materials that are currently regarded as surplus here.

Mr. CONTE. What would you use that $17 million for?

Mr. SEELYE. Rice is not in surplus. We were providing rice up until about 2 years ago but it is no longer in surplus. Of the $17.2 million which is contributed in cash in addition to the $7.5 million in Public Law 480 commodities, $4 million is in local currencies, leaving $13.2 million as our dollar contribution. This goes into vocational training, education and the administration of the program of relief services.

EDUCATION AND VOCATIONAL TRAINING

Mr. CONTE. That seems a fairly high figure. I would like to have you supply for the record just what we supply in the way of education and vocational education. If you are going to stop this outflow of gold, if there is anything material, or manpower or food that you could supply here in the United States and send it over you should do that.

(The information supplied follows:)

U.S. SUPPORT TO EDUCATION AND VOCATIONAL EDUCATION PROGRAMS, UNRWA

Approximately one-third of UNRWA's expenditures are for education and vocational training. Accordingly, it is correct to assume that approximately one-third of the annual U.S. Government contribution to UNRWA, or about $8 million, is spent on educational and vocational training.

In order to assure that part of our contribution would be used specifically for UNRWA's 3-year, expanded vocational training program, the United States earmarked part of its contribution in 1961, 1962, and 1963 specifically for this purpose. Over the 3-year span this part of the U.S. contribution amounted to $3.9 million.

Mr. SEELYE. We are constantly endeavoring to follow that policy. We supply all the edible oils, and make contributions in local currencies whenever we can purchase them from the U.S. Treasury. We own no local currency of Lebanon or Jordan, so we cannot make any dollar savings.

We are now trying to work on UNRWA to reduce the component of expenditures that go into relief in order that less money will be spent on the dole and more money on educational and vocational training which is a positive element and actually contributes to the settle-

ment of the refugees. We are hoping that this fall's session of the General Assembly will allow us to place emphasis upon this positive aspect: namely, vocational training and education and the gradual reduction of the relief component.

Mr. CONTE. Did you say we have no local currency in Jordan?

Mr. SEELYE. No local currency that can be used, no U.S.-owned funds generated by Public Law 480 sales.

Mr. CONTE. There is nothing generated there?

Mr. SEELYE. That is correct. Nothing that we can use for this purpose.

REFUGEE CONDITIONS IN JORDAN

Mr. PASSMAN. The first impression usually is the lasting one. I have always been in sympathy with the individuals involved, these refugees.

I visited Jordan. I went out to the Gaza strip, a few miles out of Jerusalem. The people are actually living in little pens. Possibly in an area not more than 20 percent the size of this room there are a few stones and some kind of dilapidated tarpaulin. You would see a baby in one room, a man dying of tuberculosis lying right down on the ground, and I think the total expenditure per refugee per year was in the neighborhood of $29. They would show you the American flour, beans, rice, sugar they would get per month. It is a bare existence. Maybe you do have a better situation in some of the other countries but in Jordan it was just about the most deplorable thing I have experienced in my life. I have not checked on the situation recently, but am I correct about the $29 as being the total amount for food?

Mr. SEELYE. Well, it is over $30 now.

Mr. PASSMAN. Perhaps a pregnant woman will get a little extra ration, but that is it. Either you exist on it or you die. There is no employment. I do not think I have exaggerated the conditions, have I?

Mr. CLEVELAND. You certainly have not.

Mr. PASSMAN. That is one refugee camp I think of when I think of the $29, now $30 worth of food those people get and there is no employment available for them other than a few of them in the country of Jordan.

VOCATIONAL TRAINING IN REFUGEE PROGRAM

Mr. PASSMAN. I note from your statement on page 7 that:

> Initiatives are underway which should lead to the achievement of a greater degree of refugee self-support by using a greater proportion of UNRWA's resources for vocational training and to a reduction in relief costs through rectification of the rolls of relief recipients.

It would seem to me this is the same type of statement we have been receiving for the past several years, but does not seem to be much accomplishment, if any, in solving this very critical problem.

Would you comment on that situation?

Mr. CLEVELAND. There has been a good deal of accomplishment in getting more children into school, and more vocational education. But it is not nearly enough in our judgment. We think we ought to move

more in that direction by cutting down on the relief without increasing the total amount that we have to put up.

Mr. PASSMAN. I hope you do not cut down on the $30 per year for food, because that is about all they get in certain sections to live on.

Mr. CLEVELAND. That is correct.

Our hope is to slice off some of the refugees who really can go out and make their own living and buy their own food.

Mr. PASSMAN. I certainly endorse that plan. I am speaking of certain regions where there is no employment.

Mr. CLEVELAND. Where there is no employment, we have to continue the relief.

Mr. PASSMAN. And you do have certain sections where there is no employment?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. I note in your statement on page 160 of the justifications that this may involve some slight increase in the dollar component of our program.

Could you give us about the amount of the increase per capita?

Mr. CLEVELAND. The point is we would spend more on education and less on relief——

Mr. PASSMAN. The aggregate will be up how much?

Mr. CLEVELAND. The aggregate will be the same.

Mr. PASSMAN. You are switching from commodities to education?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. That is only in certain sections?

Mr. CLEVELAND. That is right. It would not be a relatively large amount.

Mr. PASSMAN. You could not do much switching where a person is getting $30 a year for food?

Mr. CLEVELAND. That is correct.

PROGRESS IN SOLUTION OF REFUGEE PROBLEM

Mr. ANDREWS. Mr. Cleveland, you state the basic problem remains unsolved. Do you see any hope for solution of the problem? It has been with us now for over 15 years.

Mr. CLEVELAND. It has, indeed. We are still working at trying to cut this Palestine refugee question out from the general rivalry in the Middle East. We have not been successful in doing that. Neither side wants to abandon its position on that subject except as part of a general peace.

Mr. ANDREWS. I believe you also stated that the refugee population is increasing.

Mr. CLEVELAND. The refugee population; yes, sir.

Mr. ANDREWS. How about the young people who graduate from school or vocational classes? Are they leaving the camps and going to work or are they staying in the camps?

Mr. CLEVELAND. Some are leaving, but not nearly enough because there isn't nearly enough of a vocational training program in and around the camps. It is precisely our hope, as a small and indirect attack on this problem, to see whether we can increase the education, at the expense of the relief within the total figure.

Mr. ANDREWS. Then this will proceed from the old generation to the new generation of these people?

Mr. CLEVELAND. It is being transferred; yes. Some of the young people, of course, have never known anything else and they live in this illusory hope that they are going to go back to that place across the line and they are going to be happy some day because they are going to get back into Palestine and get rid of all the Jews. The fact that this isn't going to happen in the real world doesn't penetrate.

Mr. GARY. Those camps have been pretty well closed up in Germany, have they not, or do you still have a lot of refugees in Germany?

Mr. CLEVELAND. I am not familiar with the precise status, but it is just about cleaned up. The camp refugee problem in Europe is just about over now. We still have a considerable escapee problem, of course, of people coming over from the Iron Curtain countries.

Mr. GARY. You had a very bad refugee problem there right after the war. I happened to be over there and inspected some of those camps. There were a great many Jewish refugees in the camps in Germany at that time.

Mr. CLEVELAND. The setting up of the State of Israel helped solve that problem because they did then have some place to go.

Mr. GARY. For the U.N. technical assistance program and Special Fund your estimate is $55 million, an increase of $5 million above fiscal year 1963; an increase of $10 million above the 1962 appropriation. Is that correct?

Mr. CLEVELAND. That is correct.

U.N. ECONOMIC ASSISTANCE TO THE CONGO

Mr. PASSMAN. The second program is the U.N. economic assistance to the Congo, for which the fiscal year 1964 estimate is $5 million. How much will the Congo receive from the United States on a bilateral aid basis?

Mr. CLEVELAND. $——— supporting assistance and an estimate of $——— more under Public Law 480.

Mr. PASSMAN. A total of $———.

Mr. CLEVELAND. A total of $———.

MILITARY PROGRAM IN THE CONGO

Mr. PASSMAN. How about the military aid?

Mr. CLEVELAND. There is no substantial military aid program. There is discussion of a retraining program to which some small amounts of technical assistance and equipment might be provided——

Mr. PASSMAN. But it would be a military aid program if this is put into effect?

Mr. CLEVELAND. It will be a small one, but the main responsibility will be that of the Belgians.

Mr. PASSMAN. That is to be determined after they create the program.

Mr. CLEVELAND. That is correct.

AMOUNT OF U.N. TECHNICAL ASSISTANCE PROGRAM

Mr. FORD. You asked, for example, in the case of the expanded technical assistance program, the Special Fund, what the amount was for fiscal year 1963, which is $50 million. Was this the amount that was justified last year? I think it might be helpful to not only get the amount you executed but also the amount you justified when the hearings were held.

Mr. CLEVELAND. That was in fact the amount we justified, as an estimate of what would be possible to collect from other countries. As we were explaining a while ago, probably that figure will work out to about $51 million or so. If there is an overage of that kind, we would use the fiscal year 1964 funds for that purpose.

Mr. CONTE. Will the chairman yield?

Mr. PASSMAN. Yes; I yield.

BILATERAL PROGRAM FOR THE CONGO

Mr. CONTE. Mr. Cleveland, why are they changing their policy in the Congo? A few years ago they came before this committee and said they were against a bilateral foreign aid program in the Congo because it would bring the cold war into the Congo and that it would be much better to funnel this aid through the United Nations, and now you are taking a completely reverse stand.

Mr. CLEVELAND. Well, this is the measure of the relative success of the U.N. effort in the Congo over the 3 years.

Mr. CONTE. If it is successful, why stop it?

Mr. CLEVELAND. We are getting things sufficiently clamped down so that it is possible for the Congo to operate a little more like a normal country and not to have to depend upon a big emergency effort.

In effect, all the countries, and the specialized agencies, too, had put on a tremendous emergency program. They put in more than a thousand technicians—doctors, teachers, airport controllers, communications controllers, and everything else. It was charged to a special Congo fund which was financed by vountary contributions, theoretically from all the member countries but actually mostly from us.

Our feeling is that it is now important to have the Congo learn to govern itself and to handle its own aid relationships with other countries in a manner more or less comparable with other countries. Our feeling is with the Belgians, the Germans, the British, and others in the picture that this ought to be possible instead of our putting up 70 or 80 percent of the whole amount that is put in, which is what we have been doing on the economic side up to now, that it ought to be possible for us to limit ourselves to putting in about half of what goes in, as the Clay Committee recommended, and have the Belgians and the Germans and the others come in also on a bilateral basis.

TOTAL U.S. CONTRIBUTIONS TO THE CONGO

Mr. CONTE. What was our contribution last year in the United Nations?

Mr. CLEVELAND. Including food for peace, the economic aid to the Congo for fiscal year 1962 totaled $64.8 million, mostly through the U.N. plus a few bilateral projects. In 1963, we put in about $80.6

million. Those represented very high percentages of the inputs from all countries.

Mr. CONTE. What are you asking for this year? What is your projection this year?

Mr. CLEVLAND. The projection this year would be about $———.

Mr. CONTE. $———.

Mr. CLEVELAND. Altogether, including $5 million through the U.N. and $——— bilateral.

Mr. PASSMAN. $——— and $5 million?

Mr. CONTE. So actually you are only reducing it $———.

Mr. CLEVELAND. There is no reduction in the need. Their problem of stabilization is one of the most serious ones anywhere in the world. But there is no reason why it has to be such a big task for the U.N. machinery, now that the security threat and the threat of external intervention, which brought the U.N. into the Congo to begin with, has tailed off a good deal.

PERCENTAGE OF U.S. CONTRIBUTION TO THE CONGO

Mr. PASSMAN. In connection with the $5 million to the Congo, this $5 million represents not to exceed 50 percent of the total contributed by all countries through the U.N. for a residue of the U.N. technical assistance program in the Congo; is that correct?

Mr. CLEVELAND. That is correct.

Mr. PASSMAN. Why do we move up to 50 percent?

Mr. CLEVELAND. On the economic assistance side, we have been over 80 percent. In total U.N. contributions, economic and military, we have been about 67 percent. So we are moving down.

Mr. PASSMAN. Why did you not bring it down to, say, 25 percent, since we are 1 or 112 nations and our money is running out, our gold is running out, our credit is running out, and our public debt is going up?

Why do we have to play Santa Claus and say, "We will put in as much as all the others"? What is the justification for it?

Mr. CLEVELAND. In this case, our judgment is the amount other countries will realistically be able to put into this will be perhaps $——— altogether.

Mr. PASSMAN. We are putting in 50 percent of the total. Do you people ever try to negotiate these things downward? You get these new agreements started, and Uncle Sam is in for half of it, and the other 111 nations of the world put up the other half. They should maintain some kind of an interest in this proposition out there.

Mr. CLEVELAND. We are expecting to get it down to 50 percent——

Mr. PASSMAN. Why do you not go down to, say, 25 percent?

Mr. CLEVELAND. Then you wouldn't be in business on this Congo operation.

Mr. PASSMAN. Is this not the same old deal: put in 50 cents and get out $6?

There are 112 nations, but good old Santa Claus has to get in for half of it and you defend this on the basis, "Well, before this time we put up a higher percentage."

If you have negotiated it on this new basis, I do not see why you cannot work it down to a lower figure.

I yield to the gentleman.

Mr. GARY. What is the political situation in the Congo now?

Mr. CLEVELAND. Politically, Cyril Adoula, the Prime Minister, is still in charge. It is a rather precarious situation, as he, himself, described it the other day. None of the top politicians in the Congo really has a national party yet. So it is still a loose federation of local tribal interests put together in sort of a modern political form.

On top of that, you have a Government that is spending 5 francs for every franc it takes in and is in a very difficult situation financially. It has an army that still is not retrained and still is not up to the job of maintaining internal security. So it is no plum to run that country.

Our feeling is that the big possibility of external intervention, which was certainly there in 1960, has tapered off somewhat now. And if the Congo can begin to learn to govern itself with our help and the help of the other leading countries, particularly the Europeans, we can get out of the woods in this—particularly, if the Congolese invite the Belgians back in on a reasonable basis. Then it would be possible for them to pick up some of the check and we would not have to pick it all up. This is the operation we are now engaged in.

Mr. GARY. What is the situation in Katanga?

Mr. CLEVELAND. Well, they have split the province in two. Tshombe has been in Paris. They have split his former domain into two different provinces now. Much of the basis of his political power has evaporated. There is still a number of diehards who have weapons hidden away. It is still rather precarious, but the mines are operating, and the European population there is reconciled to being a part of the Congo. Indeed, the big mining combine came up the other day with a remarkable suggestion. They wanted the U.N. to stay in Katanga longer than the U.N. wants to stay.

Mr. GARY. Did I not see in the paper Tshombe is going back to——

Mr. CLEVELAND. He is going to the Riviera at the moment.

Mr. GARY. I thought he was leaving Paris and going back to the Congo. He said he was going to help the main government.

Mr. CLEVELAND. He stopped off either in the Riviera, or Majorca, or some place. It is sort of a detour. He will wind up back in Katanga, and then the question will be—what political power does he have left. His political power was copper revenues, and he does not have those any more.

Mr. GARY. What about the Ellender report?

Mr. CLEVELAND. His report from his trip around——

Mr. GARY. Yes.

Mr. CLEVELAND. What about it?

Mr. GARY. Insofar as the Congo is concerned?

Mr. CLEVELAND. I think I would have to provide you with a careful analysis of it.

Mr. GARY. I believe he said no country in Africa is capable of governing itself, did he not?

Mr. CLEVELAND. Well, that, I think we have to disagree with.

Mr. PASSMAN. I do not think he said it exactly that way.

Mr. GARY. I am asking.

Mr. PASSMAN. He did not make the statement just that way, that there was no country in Africa capable of governing itself.

Mr. GARY. That is the way he was quoted in the paper, I thought. I am just asking for information.

Mr. PASSMAN. I think he is one of the most able Members of the U.S. Senate. He is outspoken, and on account of being outspoken, he sometimes does not please a lot of the people in the State Department. I would bet my money on the side of Senator Ellender being correct in his report—I am not talking about this particular statement, but about the facts in his report.

Will you look up the exact statement Senator Ellender made? He said he had been quoted differently than the statement he actually made.

Do you recall that comment?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. Please look it up.

Mr. MONTOYA. Is that on the record?

Mr. PASSMAN. Yes.

TOTAL PROPOSED U.N. PROGRAM FOR THE CONGO

Mr. CONTE. This $——— that you speak of, that is the U.S. contribution to the Congo?

Mr. CLEVELAND. The $——— I speak of is the total from all different kinds of U.S. resources of which the U.N. part this year would only be $5 million. We are cutting the U.N. back in effect to simply being a large technical operation rather than the channel for import aid.

Mr. CONTE. The $——— then takes in our bilateral aid program in the Congo?

Mr. CLEVELAND. Including surplus commodities, yes; including Public Law 480.

Mr. CONTE. So when you speak of cutting our aid to the Congo 50 percent, that takes in the U.N. and bilateral aid?

Mr. CLEVELAND. Our estimate is they are going to need about $——— all in all.

Mr. CONTE. The Congo?

Mr. CLEVELAND. The Congo.

Our hope is other countries will put in, as they have not been putting in up to now, $——— of resources.

Mr. CONTE. I want to make sure I am clear on this.

Is $——— needed to prime the pump in the Congo?

Mr. CLEVELAND. Yes.

Mr. CONTE. It will come from all sources, U.N. sources, bilateral programs, and multilateral programs, right?

Mr. CLEVELAND. Yes; and our hope would be the U.N. part of that would be around $10 million, of which we would put up $5 million, which would go entirely for services—teachers, doctors, and so forth.

Mr. CONTE. How does that compare with last year?

Mr. CLEVELAND. Last year everything that went into the Congo in the way of economic aid barring $3.1 million bilateral technical assistance went in through the U.N.

Mr. CONTE. I am talking about dollars and cents.

What did the United States contribute last year?

Mr. CLEVELAND. The United States contributed, for fiscal year 1963, $80.5 million.

Mr. CONTE. From all sources?

Mr. CLEVELAND. All through the U.N., except the $3.1 million for technical assistance.

Mr. CONTE. This year we are contributing $——— from all sources?

Mr. CLEVELAND. All U.S. sources.

Mr. FORD. Are you talking about military now?

Mr. CLEVELAND. Economic.

As far as the military is concerned, there is a tremendous drop.

Mr. PASSMAN. You have three segments, $———, $———, and $5 million, to make the $———. It is transferring out from the U.N. program to a bilateral program.

Mr. CLEVELAND. Speaking of the economic program, that is correct.

Mr. PASSMAN. Since our total contribution to the Congo will be $——— for economic aid, it appears we will again be the largest contributor to the program, despite the fact that on page 159 of the justifications it is indicated that a much larger share of the total assistance to the Congo should come from other member governments.

Would you comment on that matter?

Mr. CLEVELAND. The other countries have not been putting up anything like that amount in the past.

Mr. PASSMAN. We made the contribution through the U.N. We transferred it out of many different accounts to the U.N., and from the U.N. to the Congo.

Will you give us a spread on the money that we put up last year and what the other nations put up? Can you tear it apart to that extent?

Mr. CLEVELAND. Yes. We made a study of that when I went over to the Congo.

(The information supplied follows:)

Economic assistance to the Republic of the Congo, estimated, 1963

[In thousands of dollars]

	Total	United States	Other
Aid provided through the U.N.:			
U.N. Fund for the Congo	7,400	4,400	3,000
Import assistance	42,000	35,000	[1] 7,000
U.S. Food for Peace	33,691	33,691	
Title I		(30,000)	
Title II		(3,691)	
Subtotal	83,091	73,091	10,000
Bilateral aid:			
Technical assistance	35,100	3,100	32,000
United States		(3,100)	
Belgium			(20,000)
European Economic Community			(6,500)
West Germany			(4,000)
Others			(1,500)
U.S. Food for Peace (title III)	4,000	4,000	
Subtotal	39,100	7,100	32,000
Grand total	122,191	80,191	[2] 42,000

[1] West Germany, $5,000,000; United Kingdom, $2,000,000.

[2] In addition, Belgium is providing about $28,000,000 for servicing the foreign debt of the Congo.

UNITED NATIONS CHILDREN'S FUND

Mr. PASSMAN. The next program is the United Nations Children's Fund, known as UNICEF.

U.S. CONTRIBUTION FROM INCEPTION OF PROGRAM

The 1964 estimate is $12 million. What has been the dollar amount of the U.S. contribution and the percentage for each year since the inception of the program?

Will you put that information in the record?

Mr. CLEVELAND. Yes.

(The information supplied, follows:)

UNICEF—U.S. contributions

[Dollars in thousands]

Calendar year	Contribution	Percent	Calendar year	Contribution	Percent
1947	$15,000	71.55	1957	$10,000	55.00
1948	27,123	71.55	1958	11,000	52.50
1949	18,151	71.55	1959	11,000	50.00
1950	14,626	71.55	1960	12,000	48.00
1951	5,850	71.55	1961 (estimate)	12,000	46.00
1952	6,667	71.28	1962 (estimate)	12,000	44.00
1953	9,814	68.79	1963 (estimate)	12,000	42.00
1954	8,300	60.99	1964 (estimate)	12,000	40.00
1955	9,000	57.58			
1956	9,700	55.41	Total	216,231	

AMOUNT OF FISCAL YEAR 1964 CONTRIBUTION

Mr. PASSMAN. I think that every year since I have been on the committee, without exception, we have given this program every dime they asked for. But you are asking for an increase this year, are you not?

Mr. CLEVELAND. No, sir.

Mr. PASSMAN. Is it the same amount?

Mr. CLEVELAND. $12 million, and we are projecting an increase from other countries.

Mr. PASSMAN. If you get increases from other countries, ours will still remain $12 million?

Mr. CLEVELAND. That is right.

Mr. PASSMAN. It is a question of getting the others to doing more?

Mr. GARY. And it will decrease our percentage?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. You are still going to ask for $12 million?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. We seem to be making decreases in percentages and winding up with an increase in dollars. Even though we are getting an increase from other nations, we are still going to be called upon to put up $12 million?

Mr. CLEVELAND. Yes; no increase in the U.S. dollar contributions is involved.

EFFORTS TO OBTAIN INCREASED CONTRIBUTIONS

Mr. FORD. Why do we maintain the same dollar amount in this program despite the fact that the other contributors are adding more dollars, whereas in some of the other programs the reverse is true.

Mr. CLEVELAND. I have been doing this for 3 years now—and we are again trying to use our contributions as an incentive to others to contribute. We have said, "Look, we would like to see this program larger, as almost every country would like to see it larger. It is a very popular program in most countries. Even the contributing countries. But we do not want to increase our amount. We will approve an increase in the total program if you, the director, will go out and collect more money." He is a very good money collector.

Mr. FORD. Why do you not use the same rationale on the other programs?

Mr. CLEVELAND. I think when we get on programs where we are above the 40-percent level, that is the rationale we will be using.

Mr. FORD. You start at 40 percent. That is the basis for your rationale?

Mr. CLEVELAND. When we get to the point where we have reached the target on the special fund and ETAP then we need to consider, I think, whether to keep our money figure the same and try to decrease our percentage, or just what strategy will produce the most money from other countries, which is the main purpose of the effort.

Mr. FORD. The exercise does not work out the same way. By your own statement, this is a very popular program. You have a very able solicitor, so to speak. Perhaps you ought to put him in another job and you could do better in some of these other areas where we are not doing so well.

Mr. CLEVELAND. It would be good if we had a number of directors like Maurice Pate.

Mr. FORD. Perhaps he could teach some of the other fellows to do it as well as he.

Mr. GARY. Off the record.

(Off the record.)

Mr. PASSMAN. Do you know of any program as such—you have shifts and adjustments—that we have ever cut back on? Once we get these things moving we have a lot of changes in the statistics and strategies, but dollarwise it is usually moving upward all the time, is it not?

Mr. CLEVELAND. Yes, sir; where we are still trying to build the program—as with U.N. technical assistance—and get other countries to contribute proportionately more.

Mr. PASSMAN. All this is meritorious. But if you should confiscate all the wealth in America, you still would not have sufficient funds to do all the things labeled "desirable."

UN—FAO WORLD FOOD PROGRAM

The next program under this appropriation is the world food program, for which the 1964 estimate is $2 million; is that correct?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. How does that amount compare with last year?

Mr. CLEVELAND. Could I make a comment?

Mr. PASSMAN. Surely.

Mr. CLEVELAND. I should like to mention in the case of UNRRA, which is probably the biggest international relief program there has ever been, which was tapered off and finished prior to the Marshall plan.

Mr. PASSMAN. The Marshall plan was substituted for it.

Mr. CLEVELAND. Well——

Mr. PASSMAN. It is a matter of statistics.

Mr. CLEVELAND. And the International Refugee Organization, which was handling the European refugee problem that Judge Gary referred to earlier, no longer exists, and at one time that spent a quarter of a billion dollars.

Mr. PASSMAN. You certainly must be familiar with the Public Law 480 program that came into being. You might find that program bigger than all of those others put together. You might change the name of the activity, and you might give them peas rather than sugar, but the program is still there under a different name.

You did not give us the answer on the Food and Agriculture Organization. Is the $2 million an increase or decrease?

Mr. CLEVELAND. This is a part of the 3-year program we mentioned last year.

Mr. PASSMAN. The $2 million estimate——

Mr. CLEVELAND. It is an increase of about $400,000 from the amount we obligated this year.

FISCAL YEAR 1963 PROGRAM

Mr. PASSMAN. What amount did you ask for last year for this program?

Mr. CLEVELAND. You will recall at the time we were up before this committee last year, this program was still in the process of formation. We therefore did not put a specific amount in, but we said——

Mr. PASSMAN. In the neighborhood of what amount? Did you have an estimate?

Mr. CLEVELAND. We spoke not before this committee, but the Senate committee later on after the program had been negotiated with the other countries.

Of the $6 million cash contribution, in addition to the surplus commodities over a 3-year period——

Mr. PASSMAN. How much did you fund for this program last year?

Mr. CLEVELAND. We funded $1.6 million.

Mr. PASSMAN. So you are actually asking for $400,000 more for fiscal year 1964 than the loose-end allocation you made in fiscal year 1963?

Mr. CLEVELAND. Yes, sir.

Mr. PASSMAN. I think you said you did not justify a figure, and I would not accuse you of obligating less than you needed; even under that program, you are up $400,000.

Mr. CLEVELAND. We estimated less than what we thought we needed on the Indus water projects.

SIZE AND EXTENT OF PROGRAM PLANNED

Mr. PASSMAN. We want to find out if the program this year will be $400,000 more than last year. It is a 3-year program. Are you going to phase it out in 3 years?

Mr. CLEVELAND. This is an experimental program; if it works, we may want to have a sizable, in effect, international Public Law 480 program.

Mr. ANDREWS. It looks as if you are planning a $100 million project under this program. Is that over a period of 3 years, or $100 million a year?

Mr. CLEVELAND. That is $100 million over a period of 3 years. Mostly that represents the value of surplus commodities rather than cash.

Mr. ANDREWS. Our share will still be 40 percent?

Mr. CLEVELAND. Not more than 40 percent of the cash component.

Mr. ANDREWS. Plus $4 million in transportation?

Mr. CLEVELAND. Yes, plus $6 million in cash. It is the cash we are talking about funding in this program.

Mr. ANDREWS. This program has grown from $500,000 last year to $2 million this year?

Mr. CLEVELAND. We obligated in fiscal year 1963 a total of $1.6 million.

Mr. ANDREWS. The book shows $500,000.

Mr. CLEVELAND. Only $500,000 was obligated at the time the presentation volume was prepared. That amount was subsequently increased to a total of $1.6 million.

Mr. ANDREWS. You plan to spend $2 million in fiscal year 1964?

Mr. CLEVELAND. Yes.

Mr. ANDREWS. And over the next 3 years, you plan to spend $50 million——

Mr. CLEVELAND. A total of $6 million in cash only over the 3 years.

Mr. ANDREWS. And $40 million in surplus commodities?

Mr. CLEVELAND. And $40 million in surplus agricultural commodities, and about $4 million in shipping services.

Mr. ANDREWS. Is the $6 million on a matching basis toward the cost of administration; is that in cash?

Mr. CLEVELAND. Yes. This $2 million we are talking about here is the middle slice of the $6 million.

Mr. ANDREWS. It looks to me as if, with food and all, you plan to spend about $50 million in the next 3 years.

Mr. CLEVELAND. If everyone else does their share too.

Mr. PASSMAN. Does everyone else put up food?

Mr. CLEVELAND. Yes, and some countries, shipping services and cash as well.

LIST OF PLEDGES

Mr. FORD. What countries are planning to put up food and what kind of food, and how much?

Mr. CLEVELAND. We have a detailed list of the pledges here so far.

Mr. FORD. You have a list of them?

Mr. CLEVELAND. Yes.

Mr. FORD. Is it a long, extensive list?

Mr. CLEVELAND. Well, the summary list is only a couple of pages.

Mr. PASSMAN. Put it in the record, please.

Mr. CLEVELAND. Yes.

(The information supplied follows:)

1952

World Food Program

Pledges received to May 20, 1963

[In U.S. dollars [1]]

Contributing country	Commodities	Services	Cash	Total
Australia	1,000,000		500,000	[2] 1,500,000
Austria	442,029		57,971	500,000
Belgium	660,000		240,000	900,000
Cambodia			1,000	1,000
Cameroon			4,000	4,000
Canada	3,320,000		1,680,000	5,000,000
Ceylon	10,000			[3] 10,000
Chile	100,000			[3] 100,000
China (Taiwan)	2,080*			2,080*
Cuba	[3] 320,000*			[3] 320,000*
Cyprus			100	100
Denmark	1,333,333		666,667	2,000,000
Ethiopia			2,000	2,000
Finland	625,000			[3] 625,000
France	2,250,000		750,000	3,000,000
Germany, Federal Republic of	[4] 7,587,500		412,500	[2] 8,000,000
Ghana			5,000	5,000
Greece	126,950*			126,950*
India	[5] 333,333		[6] 166,667	500,000
Indonesia	100,000		[6] 33,333*	133,333
Iran		[7] 30,000	[6] 100,000	[3] 130,000
Iraq	40,000		20,000	60,000
Ireland	600,000		240,000	[3] 840,000
Israel	30,000	5,000	15,000	50,000
Italy	500,000		1,000,000	[3] 1,500,000
Japan		[8] 1,000,000		[3] 1,000,000
Jordan			2,000	2,000
Lebanon			5,000	5,000
Liberia			3,000	3,000
Malagasy	8,163*			8,163*
Morocco	25,000			25,000
Netherlands	684,700	222,000	453,300	1,360,000
New Zealand	425,000		75,000	[3] 500,000
Norway	1,119,977*		559,989*	[3] 1,679,966
Pakistan		[7] 530,000*		530,000*
Philippines		28,736*	[6] 57,471*	86,207*
Rhodesia and Nyasaland			2,800*	2,800*
Rumania			[6] 41,667	41,667*
Sierra Leone			1,400*	1,400*
Somalia			5,000	5,000
South Africa	102,500*			102,500*
Sweden	1,000,000		1,000,000	[3] 2,000,000
Switzerland			1,000,000	[3] 1,000,000
Thailand			70,000	70,000
Turkey	18,470*			18,470*
United Arab Republic	666,667		333,333	1,000,000
United Kingdom	2,500,000		[5] 2,500,000	5,000,000
United States	40,000,000	[8] 4,000,000	6,000,000	[9] 50,000,000
Vietnam			1,000	1,000
Yugoslavia			[7] 100,000	[6] 100,000
Total	65,930,702	5,815,736	18,105,198	89,851,636

[1] All figures are pledges made in U.S. dollars, except those followed by an asterisk; these latter are contributions which were quoted in national currencies and converted to dollars, as in the case of Belgium, Indonesia, Malagasy, Norway, Pakistan, Philippines, Rhodesia and Nyasaland, Sierra Leone and Rumania, or where the estimated value of commodity offerings was calculated, as in the case of China, Cuba, Greece, South Africa, and Turkey.

[2] Subject to parliamentary approval; in the case of Sweden, two-thirds of contribution still subject to parliamentary approval; in the case of Germany and Norway, for second and third years.

[3] Available in 1964.

[4] To be delivered on a cost, insurance, and freight basis, with the German exporters free to use shipping pledges on the most advantageous terms irrespective of the flag of the vessels concerned.

[5] Includes services.

[6] Nonconvertible currencies.

[7] Utility to be determined by negotiation.

[8] For shipping services.

[9] U.S. contribution sub ect to a number of reservations, including necessity for Executive Director and the United States to concur in each separate project or commodity purchase in which U.S. contribution is to be employed, and including limitation that U.S. contribution in cash will not exceed 40 percent of the total cash contribution and is subject to legislative action.

Mr. PASSMAN. This is a new organization, is it not?

Mr. CLEVELAND. This is an experiment to see whether the Public Law 480 idea, the food-for-peace idea, can be internationalized in a situation where a number of countries are beginning to have some surpluses which ought to be put to use for these purposes.

Mr. PASSMAN. The first thing you know, other people will be making these decisions and not us. You are getting into a new worldwide program.

AUTHORITY FOR U.S. PARTICIPATION IN FAO

Under what specific authority of the law is the United States participating in this program?

Mr. CLEVELAND. The Public Law 480 authority——

Mr. PASSMAN. I am talking about the money part of it.

Mr. CLEVELAND. The money part would be a part of the aid program.

Mr. PASSMAN. State for the record at this time the specific authority you have for the c-a-s-h part of this program.

Mr. CLEVELAND. This would be part of our authority under——

Mr. PASSMAN. Give us the exact law by which you are using this cash. You did not justify it to the committee last year. Now we are well on the way.

Mr. CLEVELAND. It would be the AID authorizing legislation.

Mr. PASSMAN. Give us the specific section, if you will.

Mr. CLEVELAND. Section 301(a).

Mr. PASSMAN. Read it, please.

Mr. CLEVELAND (reading):

Section 301. General authority.

(a) When he determines it to be in the national interest, the President is authorized to make voluntary contributions on a grant basis to international organizations and to programs administered by such organizations on such terms and conditions as he may determine, in order to further the purposes of this part.

Mr. PASSMAN. Did you ask the Foreign Affairs Committee for legislation last year to undertake this program?

Mr. CLEVELAND. For legislation to do——

Mr. PASSMAN. To set up this new organization that is going to lead you into a $50 million contribution.

Mr. CLEVELAND. We mentioned it in the discussion. Most of the authority is Public Law 480, not aid legislation.

Mr. PASSMAN. Here you started out on an organization. We are not going to fuss about some surplus food, but when you start talking in term of $50 million, that is a lot of money.

Now you are requesting $2 million for fiscal year 1964. You say you are going to experiment with this for 3 years. We want you to be as specific as you can as to where this thing originated.

Mr. FORD. Mr. Cleveland handed me a moment ago a summary sheet of the world food program which shows the contributing country, the commodities, the services, the cash, and the total. The sheet which was supplied has several footnotes.

Footnote 2 says:

Subject to parliamentary approval. In the case of Sweden, two-thirds of the contribution still subject to parliamentary approval. In the case of Germany and Norway, for second and third years.

Footnote No. 9 says, and this refers to the United States:

The U.S. contribution is subject to a number of reservations, including necessity for the Executive Director and the United States to concur in each separate project, or commodity purchase, in which U.S. contributions are to be employed, and including limitation that U.S. contributions in cash will not exceed 40 percent of the total cash contribution.

I think the several footnotes bear on the question raised by the chairman, apparently this program is subject to parliamentary approval in Switzerland, Sweden, Norway, New Zealand, Japan, Italy, Ireland, Iran, German Federal Republic, Finland, Chile, Ceylon, and Australia, but it is not subject to parliamentary approval in the United States.

Mr. CLEVELAND. It is.

As far as authorizing legislation is concerned, the President does have authorizing authority to participate in each part of this, the commodity part through Public Law 480 and the cash part through AID. It is subject to "parliamentary approval" through the appropriation process.

Mr. PASSMAN. Let us go back to last year, on page 48, of the House Agricultural Committee's hearing on the Food and Agriculture Act of 1962.

I believe Secretary Freeman appeared before the committee and made this specific request, and I quote:

A new title V to promote multilateral programs for food aid by authorizing the President to negotiate and carry out agreements with international organizations and other intergovernmental groupings involving grants of agriculture commodities.

The committee turned it down, and you started the program anyway.

Go over to the hearings on the Food and Agricultural Act of 1962, page 382, and I quote from a statement:

The other point is in title V, and what you are proposing here, as you tell us in your statement, is that we have already engaged in a conversation, and we are now in the process of committing ourselves to this proposition, at least in memorandums, without the authority resting in law to fulfill that commitment unless this amendment is offered; is that right?

And then further on the next page:

Mr. MCINTYRE. Yes, but we are actually negotiating?

Mr. IOANES. Hoping that the Congress will authorize.

Mr. MCINTYRE. What we are doing is to explore, we are engaged in exploration and in the development of a draft program and making known explicitly that any arrangement that is developed as an ad hoc arrangement which would not become effective until congressional authorization.

Where is the authorization other than going back to some original act for it?

Mr. CLEVELAND. The Department of Agriculture evidently thought at that time they needed new authority. The matter had not been adequately studied. And the Senate committee in fact suggested this ought to be done under existing authority——

Mr. PASSMAN. When Congress turned it down they found a law to do it anyway. Is it not that simple?

Mr. CLEVELAND. They did not need to go up for a new law because they did not need one.

Mr. PASSMAN. You did not do that?

Mr. CLEVELAND. I did not ask for the authorization.

Mr. PASSMAN. I am speaking of the people downtown. They ask for something. They do not get it and they will find a law to do it anyway.

With reference to foreign aid, the witnesses will look straight at you and say, in effect, "This is illustrative. We have the right to vacate every one of these programs and substitute something in their place.

"We want the money for these nations, but we have the right to take the money and spend it wherever we want to. We want this money for flood control projects in the Congo, but if we want to build a brick building in Argentina with the money, the program is just that broad."

And then you get into the development credits, called loans. You say, "We do not dare discuss a project or tell what we are going to do until we get the money. When we get the money, then we will make up our mind what we will spend it for."

You ask for it. You do not get it. You go ahead and do it anyway.

Mr. CLEVELAND. As you know, Mr. Chairman, we announced last year in this committee and the Senate committee that this world food program was under discussion.

At the time of the hearing with the Senate committee, we were able to describe the dimensions of it. Now we are able to come back and testify specifically on it.

Mr. PASSMAN. Did you people not tell us when this thing firmed up you were going to come back to this committee and see about the money?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. Will you tell us whether you came back?

Mr. CLEVELAND. We did not until this hearing, sir.

Mr. PASSMAN. Certainly, you did not. That would be a small obstruction in the way you people are doing what you want to do.

It just burns me up to think the agency will say, "We need specific legislation. We are asking for legislation; we want an authorization to do this," but when you did not get the authority, you did it anyway.

You told this committee when you finally got this thing firmed up you were going to come back up and discuss the money needs with us. You did, after you obligated $1,630,000 and the thing was well underway.

Are you going to get FOA and FAO mixed up?

Mr. CLEVELAND. There was a predecessor of AID, known as FOA, Foreign Operations Administration.

Mr. PASSMAN. This is going to be known as FAO, the abreviated term; is that correct?

Mr. CLEVELAND. FAO is the Food and Agriculture Organization of the U.N. The world food program is a joint FAO–U.N. sponsored undertaking.

Mr. PASSMAN. We are going to continue knowing it by that name?

Mr. CLEVELAND. Yes.

CONTINGENCY FUND FINANCING OF THE FAO

Mr. ANDREWS. How was this program financed, if you did not get the money from the committee?

Mr. CLEVELAND. It was financed to the extent of the first $500,000 by reallocation of funds within the "contributions to international organizations appropriation," and to the extent of the other $1.1 million by the only transfer we made this last year from the contingency fund to this program.

Mr. ANDREWS. Then the chairman is eminently correct when he said it does not make any difference whether you get money specifically for a program, you can take it from one of the other spigots, as you did in this case?

Mr. CLEVELAND. In a first-year program, if you have the authorizing legislation, and the President already has the authority to act, which he did in this case, that is right. It is possible for the President to go ahead and act for 1 year on the basis of the contingency fund, or other authorized source.

But before the second year rolls round, we are back up here discussing the details of the second-year program.

Mr. ANDREWS. And if you do not get it, you can reach over into the contingency fund?

Mr. CLEVELAND. There are some strings on that fund as far as this chapter is concerned. There is a limitation on how much can be transferred into this chapter.

AUTHORITY FOR THE WORLD FOOD PROGRAM

Mr. PASSMAN. You needed a specific authorization. You asked for it and you did not get it. I am talking about the agency.

Mr. CLEVELAND. Not me.

Mr. PASSMAN. I am talking about the agency downtown. Whoever is charged with the responsibility of getting the authority thought they needed a specific authorization. They asked for it.

Mr. CLEVELAND. The Department of Agriculture——

Mr. PASSMAN. They asked for an authorization, did they not?

Mr. CLEVELAND. Yes.

Mr. PASSMAN. And the Congress did not give it to them?

Mr. CLEVELAND. Well——

Mr. PASSMAN. Please. You did not get a specific authorization from the Congress, did you?

Mr. CLEVELAND. I believe the request was withdrawn; yes.

Mr. PASSMAN. You did not get a specific authorization?

Mr. CLEVELAND. I am not clear——

Mr. PASSMAN. The authorization you asked for, specific authority to do this was not forthcoming?

Mr. CLEVELAND. I am not clear whether they turned it down or it was withdrawn.

Mr. PASSMAN. You did not get an authorization to do it. You will agree that is correct?

Mr. CLEVELAND. The Department of Agriculture did not.

Mr. PASSMAN. Subsequently, they decided they did not need an authorization, that the law was broad enough to do what they wanted to do without a specific authorization; am I correct?

Mr. CLEVELAND. Yes.

NO REQUEST SUBMITTED TO COMMITTEE FOR FUNDS PRIOR TO OBLIGATING FUNDS

Mr. PASSMAN. You told the committee you would come back and let us know when this got firmed up, and you did not come back, when you wanted the money.

I have to protect the integrity of the committee.

You did say you would come back, and you did not?

Mr. CLEVELAND. That is right.

We did justify——

Mr. PASSMAN. You are not in a class by yourself.

Mr. CLEVELAND. We did justify this in the Senate.

Mr. PASSMAN. We are not doing business in the Senate. This is a subcommittee on appropriations of the House of Representatives.

EXPENDITURES

Mr. PASSMAN. How far extended are you on this program?

How much have you liquidated out of the obligation?

Mr. CLEVELAND. $500,000.

Mr. PASSMAN. For what purpose or purposes?

Mr. CLEVELAND. A transfer to the world food program.

Mr. PASSMAN. Have there been any disbursements made out of the $500,000?

Mr. CLEVELAND. By them?

Mr. PASSMAN. Yes.

Mr. CLEVELAND. I will have to find out.

Mr. PASSMAN. Please find out.

(The information follows:)

EXPENDITURES OF WORLD FOOD PROGRAM

Through June 30, 1963, cash contributions received by the world food program totaled $4,148,406. Of this sum, the United States had paid in $500,000 or 12 percent. As of the same date, expenditures by the world food program from its cash contribution account amounted to $590,893.

As of June 30, 1963, the Department of State had obligated $1,138,096 in addition to the $500,000 previously obligated and contributed, making total fiscal year 1963 obligations $1,638,096. The latter figure represents the United States matching, at 40 percent, of total actual cash contributions of $2,457,145 from other countries reported by the world food program as of May 27, 1963.

The initial U.S. payment of $500,000 was designed to provide the program with resources to get underway. The United States will make further cash contributions as the administrators of the program demonstrate cash needs.

You ask for an authorization, you do not get it. Then you find a way to do it anyway. Then you tell the committee after you get it firmed up you will come back and ask for the money. You did not come back.

Mr. CLEVELAND. On the consultation point, Mr. Chairman——

Mr. FORD. I am not one that normally defends Mr. Freeman, but I note on February 7, 1962, the Secretary of Agriculture Freeman appeared before the House Committee on Agriculture on behalf of the Food and Agricultural Act of 1962, which I understand was H.R. 1010.

This proposed legislation which was the subject of testimony by Secretary Freeman included Title V: General Provisions, which, according to him on page 48 of the printed testimony, was for the purpose:

> We have likewise expanded our use of food in the foreign aid program under Public Law 480. Last year the Congress passed amendments extending and improving that act.
>
> In order that our food-for-peace program can be made more effective, the bill provides a new title V to promote multilateral programs for food aid by authorizing the President to negotiate and carry out agreements with international organizations and other intergovernmental groupings involving grants of agricultural commodities.

I would gather——

Mr. PASSMAN. The Congress did not pass it.

Mr. FORD. I would gather Secretary Freeman was authorized by the President and/or the Bureau of the Budget to appear on behalf of a legislative recommendation of the executive branch of the Government.

Mr. PASSMAN. That is exactly what I read into the record.

When he did not get specific authorization, the project was started anyway.

Mr. FORD. That is certainly the only conclusion you can come to.

Mr. PASSMAN. It is specific.

It was our understanding, and I think, Mr. Cleveland, that the record will show that you stated, after this was firmed up you would come back and discuss money with us.

You are back before the committee, but only after you have obligated $1,638,000 to the program and it is well underway before we have had a look at it.

Mr. FORD. Could Mr. Cleveland tell us whether or not agreements have been signed with these various countries that are listed on that sheet?

Has there been an international agreement made without this authorizing legislation which the executive branch requested specifically on February 7, 1962?

Mr. CLEVELAND. The President already had the authority asked for on that occasion.

Mr. FORD. What was the purpose of asking for the legislation then?

Mr. CLEVELAND. Search me.

Mr. FORD. Someone does not know how to run a railroad.

Mr. CLEVELAND. Occasionally something falls between the slats, even in the executive branch of the United States.

Mr. FORD. $100 million fell between the slats in this case. The executive branch obviously did not know what was being done by its various top officials, the right hand did not know what the left hand was doing.

Mr. CLEVELAND. It was already a paved street here. We already had the authority to do this program.

Mr. FORD. I wish the word had gotten to the Secretary of Agriculture. He apparently did not think so.

Mr. PASSMAN. I am going to refer you to page 1005, part 3, of our hearings, fiscal year 1963.

Mr. CLEVELAND. On the point about consultation——

Mr. PASSMAN. Are you going to let me read this into the record? Please, if you will:

World food program. Need for administrative improvements.

Mr. CLEVELAND. We will be back up here consulting with you when the plans for this program are a little further along because there may be a need for some aid funds for this program for the fiscal year 1963 period.

Mr. CLEVELAND. On the consultation point, Mr. Chairman, your point is well taken.

Mr. PASSMAN. Thank you.

Mr. CLEVELAND. The advice I got, which I think I should not have followed, was that it would be enough to rehearse this in the next regular hearing.

Mr. PASSMAN. You are not in a category by yourself, so do not feel embarrassed.

INTERNATIONAL ATOMIC ENERGY AGENCY

The next program is the International Atomic Energy Agency, for which the fiscal year estimate is $1,250,000. Is this $1,250,000 a voluntary contribution in addition to our assessed contributions?

Mr. CLEVELAND. Yes, sir.

WORLD HEALTH ORGANIZATION

Mr. PASSMAN. The next program is the World Health Organization special program, for which the fiscal year 1964 estimate is $500,000.

In addition to this voluntary contribution, what is our assessed contribution to this organization, and from what appropriation is it approved?

Mr. CLEVELAND. The assessed contribution, $9,611,000, is funded from the State Department appropriation under the "Contributions to the International Organization's" part of that appropriation.

MEDICAL RESEARCH IN HUMAN REPRODUCTION

Mr. PASSMAN. This $500,000 estimate seems to be for the purpose of establishing a unit for medical research in human reproduction; is that correct?

Mr. CLEVELAND. That is correct.

Mr. PASSMAN. This is just the first year. Is this not contrary to the previous position of the administration that you will not give cash aid?

Mr. CLEVELAND. No.

Mr. PASSMAN. I thought the President made a statement on this matter.

Mr. CLEVELAND. Dr. Watt is here from the Public Health Service.

Mr. PASSMAN. I thought the administration, maybe the President, had issued a statement we would not make a contribution to this thing.

Mr. CLEVELAND. The United States has not been extending aid earmarked for population control.

Mr. PASSMAN. If it is human reproduction; is that not the same thing?

Mr. CLEVELAND. Aid for medical research in a field where there are apparently very few facts.

Mr. PASSMAN. We are going in the back door rather than the front door; is that a fair statement?

Mr. CLEVELAND. I think it is in a different room.

Mr. PASSMAN. It may be in another room in the house, but the visit is there for the same purpose.

Mr. GARY. If we could solve that problem, we could do away with the foreign aid program.

Mr. PASSMAN. I just want to know if this is doing the same thing that the President said we would not do, other than you have changed the name of it a little, and it is a multilateral thing to which we are making a contribution?

Dr. WATT. I am not aware of any contradiction in policy.

Mr. PASSMAN. Did the President issue a statement that we would not make any contribution through our aid program with respect to research in population control?

Mr. CLEVELAND. No.

Mr. HILLS. I understand a special exception was made in this case.

Mr. PASSMAN. He did issue a statement and now they are making an exception in this case; is that correct?

Mr. HILLS. That is my understanding from the Budget Bureau.

Mr. PASSMAN. He made an exception in this case.

Thank you.

Mr. FORD. I am a little confused as to what the statement was, what the exception was. Let's get the statement on the record, and let's get the exception.

Mr. PASSMAN. I think we are talking about birth control.

Mr. FORD. I am a little in the dark what you were talking about.

What was the President's statement, and what exception agreed to by the Bureau of the Budget?

Mr. PASSMAN. Tell us what the President said, and why he agreed to make the exception.

Mr. HILLS. My knowledge does not extend quite that far.

However, I do recall being advised by the Bureau of the Budget that there was a policy in connection with the balance-of-payments problem to restrict any new starts in the field of international research, but apparently the White House felt this project was sufficiently important in terms of its implications for population growth, et cetera, to make an exception to that policy.

Mr. PASSMAN. Are you familiar with the President's original public statement?

Mr. HILLS. No, sir; I am not.

Mr. CLEVELAND. There is no general policy, Mr. Chairman, opposing assistance to research through international organizations in the population field. Indeed, we announced last fall in the General Assembly that that was a possibility.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Is this a new program?

Mr. CLEVELAND. The medical research program of WHO has been going on some time.

Mr. PASSMAN. I am talking about this phase of it, medical research in human reproduction.

Mr. CLEVELAND. This would be a new effort.

Mr. PASSMAN. And it is contrary to the original policy, but they agreed to make the exception in this instance?

Mr. CLEVELAND. No——

Mr. PASSMAN. Is that not what the doctor says?

Mr. CLEVELAND. The point he was making about an exception is outside the population field. There was a general rule against starting a lot more international research in a lot of different fields.

In this field, in this subject field of medicine, it was decided this was sufficiently important to be worth making an exception to that rule, which had been instituted for balance-of-payment reasons.

Mr. PASSMAN. You do know, of course, in the aid program, as such, under Dr. Baumgartner, there is a little item of $15 million for research.

They tell me if you put all the amount of money in all the bills for research together, it would exceed the amount of the total budget a few years ago. In everything you look at, there is a lot of money for research.

Mr. ANDREWS. There is over $7¼ billion in the Defense budget.

Mr. PASSMAN. Everywhere you go, there is research.

Mr. FORD. You have NASA, NIH.

Mr. ANDREWS. Every agency, including AID and civil service, has research programs.

Mr. CLEVELAND. And every private corporation too.

Mr. MONTOYA. I want to ask this question of the doctor—the listing and justification for this project is research in human reproduction not human deproduction.

Dr. WATT. That is correct.

Mr. MONTOYA. The justification for this particular project is to do medical research in human reproduction, not human deproduction.

Mr. ANDREWS. Will the gentleman yield?

Mr. MONTOYA. I think that explains the position of the President before and the President's position now. I do not see any inconsistency.

Mr. ANDREWS. I thought the problem was overproduction in the world—the exploding population.

Mr. GARY. It is. And there is not any question about it.

Mr. ANDREWS. It looks like here we are going to add to that problem.

RESEARCH PROGRAM OF WHO

Dr. WATT. If I may, sir, I would like to give a brief statement about this.

The research program of the World Health Organization was started by this country some 6 years ago with a planning grant. We made a grant of $300,000. Each year since that time we have given a voluntary contribution of $500,000 to the development of the planned program.

In addition to that, through their regular budget, there has been an increase in the regular budget of the WHO for research, and in addition, there have been grants-in-aid from other sources.

This particular contribution, in line with the discussions we have had here previously, will be in an amount of $500,000 with the idea that this will be a terminal grant of this voluntary contribution, not the first one, but the last of a series.

I believe this is the fifth.

In discussing the most effective way to see to it the program of the WHO would be of greatest importance to us, we felt, after considerable discussion, that of the four items which the Director General had suggested he would like to see built into this research program, the one that would be most important to us generally was this one on human reproduction.

So this last contribution is a matter of finishing a program rather than starting a new one.

Mr. PASSMAN. Thank you, doctor.

However, as far as the budget is concerned, it was looked upon as starting a new program in the Organization, and they had to take this as an exception.

Have I stated it correctly, according to your understanding, since you have to deal with the budget?

Mr. HILLS. In relation to the Budget Bureau, yes, sir.

PURPOSE OF PROGRAM FOR RESEARCH IN HUMAN REPRODUCTION

Mr. FORD. How does the doctor define what is meant by research in human reproduction?

Dr. WATT. I can illustrate, I believe, by a few examples, probably as well as any way.

One of the things we know very little about is just what are the processes which lead to an increase or decrease in fertility in a given population group.

Mr. FORD. Increase or decrease in fertility?

Dr. WATT. That is right—either one.

We know of some populations where birth rates go up, others where they come down. We have no understanding of the forces that bring it about.

Looking at populations about the world, we talk of the population explosion but, just the same, they are not exploding uniformly in all parts of the world, nor is it true it is going up in all parts of the world.

One of the important things to know from a health angle is, what are the facts in the environment that tends to lead to this increase or decrease. That is one sample.

Another type of example—we know very little in a systematic way—we can get a lot of old wives' tales—about the effect on physiology of the forces in the environment of crowding of one type or another, of competition for available foodstuffs, so again, because of the differences around the world, it is important that a systematic review and a systematic set of records be available. This is important to both the research people in this country and any other place that wants to get into this problem of the understanding of human reproduction.

It is in this context that we are hoping and planning to work with the WHO to provide this type of information on a worldwide basis so we will know and can determine in our own context how we relate to other countries.

Mr. PASSMAN. It is correctly stated, is it not, this $500,000 estimate seems to be for the purpose of establishing medical research in human reproduction? That is the way to define it?

Dr. WATT. That is correct.

Mr. GARY. Is this $500,000 the extent of the program, or is the World Health Organization going to put more than the $500,000 into the program?

Dr. WATT. The intent of this is to assure in their total research program there will be incorporated a unit for the study of human reproduction. Until such time as a senior scientific leader is found and put on the job, I do not know how to estimate the direction or scope of the program, but it is in our thinking that whatever is done would be reviewed and brought into their program through their normal budget rather than through voluntary contributions.

In other words, this contribution enables them to get started with such a plan, and if programs develop which require more or less, it would be reviewed in the regular way through their regular budget.

Mr. GARY. Is it not true that the population explosion today is one of the great problems that we are facing in the world?

Dr. WATT. Yes, I think so, and especially an understanding of it.

I am not sure it is as much a threat as many people believe. I think that it is our lack of knowledge about what is going on in the population of the world that causes us a great deal of difficulty, as much difficulty as is caused by the real factors involved.

Mr. GARY. And this money is supposed to furnish some of that knowledge?

Dr. WATT. Yes, sir.

Mr. GARY. To give us a greater knowledge of that subject?

Dr. WATT. That is right.

Mr. GARY. But it is a subject that is of great importance?

Dr. WATT. I think myself that the scientific aspects of this subject has been one of the really woefully neglected aspects. I think scientists as a whole must share some of the blame for our lack of knowledge for our failure to put this on a scientific rather than a hearsay type basis. I think it has been long overlooked both here and in other parts of the world.

PROGRESS IN THE MALARIA ERADICATION PROGRAM

Mr. GARY. What is the present status of the malaria program to which we have been contributing for a long time?

Dr. WATT. You are speaking financially, sir, or about the program itself?

Mr. GARY. I mean the general status of the program. We were told about 6 or 7 years ago, if we put up so much money for 5 years that they would guarantee the eradication of malaria at the end of 5 years.

Frankly, I thought that that was an optimistic goal at that time but I did think it was a very important program and I do know that they have had great success with it.

I would like for you to tell us something about the success of the program thus far and what the prospects are at the present time. It has obviously not been completed.

Dr. WATT. I can illustrate that with several figures, sir, to take first the success and then I hope to discuss some of our problems if I may.

This past year—and I am drawing on my memory for it, I believe I am approximately right when I say that something like 240 million people moved from an area where malaria was being transmitted to an area with no transmission. This did not mean they moved. It meant that malaria had been pushed out and so that something over 240 million people in this past year moved from what we call the attack phase to the consolidation phase, where it is a matter of holding malaria out. A lot of countries which have had malaria which are still shown as under attack have reduced the amount of transmission markedly but within many areas we have run into a hard core problem as we call it, of resistance, either the mosquitoes are not responding to the insecticide or one or another factor in the environment has meant that transmission still continues.

In this hemisphere we have two or three important areas in Central America, for example, where we are having a great deal of difficulty with the anopheles mosquitoes, just not falling into the trap we set for them. We put DDT on the walls and we hope the female, after having bitten, will go and sit there long enough to be killed. One of the fascinating stories I have heard about this is that for some reason the habits of these mosquitoes either have changed or they never did like to rest after they ate. Instead of staying in the rooms they bite and leave and go on out to the forest. We have also run into the same kind of problem in areas, nomad tribes for example, where the people sleep in tents or outdoors—they do not really have a house and therefore we have to find some other way of killing the mosquitoes.

These problems are being attacked by trying to come at it from another direction. One way is to find a long-acting drug which would in effect interrupt transmission, killing the malaria parasite in man and thus preventing the mosquito from picking up the parasite and then carrying it on to another person. This past year we have had in this country an outstanding success in terms of finding such a drug, in collaboration with drug houses. Research workers have actually found that a single dose of this drug prevents an individual from acquiring malaria for almost a year. If we can get such a drug to the point where a small amount—this is a very tiny amount—can be given the patient in such a way as it does not cause any complications this could be the way to interrupt transmission even though the mosquitoes themselves have gotten resistence.

Dr. Coatney of NIH is currently in Pakistan looking into the possibility of field testing this particular drug. We are planning on trying this in some other areas. I would say, sir, that we have a real mixture of extraordinary success in some areas and of unanticipated obstacles in others. If I may, I want to add one further point, that at this last World Health Assembly this was the first time that I am aware of in which all the nations of the world enthusiastically committed themselves to carry malaria eradication on to completion. Before this there had been reservations from a number of countries.

This year, without equivocation, they all committed themselves to carrying on this job, so that I think even though it will take us a little longer I do not have the reservation about our ability to accomplish eradication of malaria.

FISCAL YEAR 1964 PROGRAM FOR MALARIA ERADICATION

Mr. GARY. What is the budget for that program for next year?

Dr. WATT. All of the financing for this next year will be incorporated in the regular budget of WHO, at least insofar as our contribution is concerned. It is about $6¼ million. The total cost of the program which was originally met largely by voluntary contributions from us will be incorporated into the regular budget of WHO in 1964. We also are continuing to work with other countries on a bilateral basis of course, which you have heard about in other testimony, I am sure, sir. This program of global eradciation of malaria is one that I feel where we have set our sights for something really important and I believe we are going to get there.

Mr. GARY. I think you have made remarkable progress. I have been very much interested in the program from the very beginning and as I have said, I thought the original estimates were too optimistic but I thought the program was worthwhile and I think it has accomplished a great deal. I think it should be carried on to completion.

Dr. WATT. If I may add one little point, sir: I think one of the more serious things facing us in this country today. The fact is that we have as a nation—because we have gotten rid of malaria ourselves—have not continued to train people in this field so that we can contribute something more than funds to the program. I think we should go back and begin to train some of our young people so that they really can participate in these programs where the mosquitoes are and where the malaria is. We have a real problem in that we are sending our own people overseas. They go overseas and they get malaria. They come back to this country. If we do not have people who know and understand the disease we are not going to be able to detect it soon enough. We can get a reintroduction in this country because we still have the mosquitoes. I think we must continue to train our people to be able to carry on the right kind of surveillance here, sir. That is not a problem for your committee.

Mr. GARY. Thank you, Mr. Chairman.

Mr. CONTE. Mr. Chairman, will the gentleman yield?

Mr. PASSMAN. Yes.

RESEARCH ON HUMAN REPRODUCTION

Mr. CONTE. In regards to Mr. Gary's question concerning the $500,000 demographic study, are you cooperating with other nations? We had someone in here from India, I believe, saying there was a study going on there.

Mr. FORD. Not from India.

Mr. CONTE. I mean a State Department witness.

Dr. WATT. Mr. Chairman, one of the important purposes in this study is to permit coordination from different parts of the world in a central agency like the World Health Organization of what is going

on. We recently finished a study of the amount of money going into studies of human reproduction from U.S. sources. The NIH published a study about the first of the year. It showed something in the way of, I think, $6 or $7 million in research—again I do not recall the exact amount—but much of this was nongovernmental funds. The Ford Foundation and other foundations were putting money into different countries on studies of this sort. I feel it is most important for an organization like the World Health Organization to be in a position to know effectively where these studies are going on and assure that the results of these studies get widely distributed and widely known very promptly.

Mr. GARY. I would like to make a statement that I noticed in the paper just yesterday, in a Richmond paper, that a study is going to be made by the Rules Committee on this question of the amount of money that is being spent on research. I think my colleague, Congressman Howard Smith, is initiating such a study. I do not know how the Rules Committee is going to conduct it but I think it is a study that is well worth while. We are spending billions of dollars in research and I am afraid that there is a great deal of duplication. I think research is most helpful and we certainly can afford to spend a large sum on it, but with the great amount of research that is going on today there ought to be absolute certainty that there is no duplication and that the funds are being properly spent. I hope there will be a proper study of that kind. I am very glad to see that my colleague from Virginia, Mr. Smith, has suggested such a study and apparently is going to take steps to see that it is accomplished.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. Mr. Montoya?

PUBLIC LAW 480 CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

Mr. MONTOYA. Mr. Cleveland, the total voluntary contributions for which you have sought justification is in the amount of $136,050,000; is that correct?

Mr. CLEVELAND. That is correct.

Mr. MONTOYA. Does this encompass the use of Public Law 480 funds or expenditures?

Mr. CLEVELAND. It does not and that of course does not appear in the AID program as such.

Mr. MONTOYA. What amount is contemplated to be spent in Public Law 480 under the Public Law 480 program in support of these special organizations?

(Information subsequently supplied follows:)

Uses of Public Law 480 for contributions to international organizations, fiscal year 1963–64

	Estimated, fiscal year 1963	Estimated, fiscal year 1964
1. UN-FAO world food program	$2,573,000	$16,500,000
Commodities at market value	2,189,000	15,000,000
Ocean freight	384,000	1,500,000
2. UNICEF skimmed milk (estimated CCC value)	17,055,000	11,434,000
3. UNRWA:		
Portion of contribution granted in title II foodstuffs (estimated CCC value)	7,500,000	7,500,000
Title III contribution through UNICEF of milk for supplementary feeding program (estimated CCC value)	1,002,000	421,000
Purchases of Public Law 480, title I, local currencies from Treasury	4,000,000	4,000,000
4. UNESCO: Title I sales proceeds to be used in agreement with United Arab Republic for Nubian monuments program		11,000,000–13,000,000
5. U.N. economic assistance to the Congo	33,691,000	(1)
Title I commodities at market value and ocean freight	30,000,000	
Title II (estimated CCC value)	3,691,000	

[1] Classified.

Mr. CLEVELAND. One amount that takes the form of a contribution to an international organization, which is what we talk about here, is the $40 million for the world food program we were discussing before. There is also a $——— item in the Congo but that is now on a bilateral basis so it does not take the form of a contribution to an international fund.

Mr. MONTOYA. What do you mean a bilateral basis?

Mr. CLEVELAND. It is covered by a direct agreement between the Congolese Government and the U.S. Government.

Mr. MONTOYA. Is that going to be administered by one of the special organizations in the U.N.?

Mr. CLEVELAND. No. It will be administered by the Congolese Government with our AID mission looking over its shoulder.

Mr. MONTOYA. Why do you include them in this picture?

Mr. CLEVELAND. Because previously it has been part of the total amount that we have considered as programed for the Congo and the whole of the Congo operation was considered something to be discussed as a U.N. program. But we have changed that for fiscal year 1964.

Mr. MONTOYA. So this $——— for the Congo under Public Law 480 will not be administered in the U.N. context?

Mr. CLEVELAND. No.

Mr. MONTOYA. We have $———. What other?

Mr. CLEVELAND. The other principal item is the Palestine refugee program we use as much as possible of the money that is provided by the Congress in the form of surplus commodities, thereby saving the dollars.

Mr. MONTOYA. But that will be under the $17 million request which you are making?

Mr. CLEVELAND. Well——

Mr. MONTOYA. Or would that be in addition to the $17 million?

Mr. CLEVELAND. That is in addition. Our total request would actually be $24.7 million had we not knocked that down for purposes of

this cash discussion to the $17.2 million, on the assumption that we can use $7½ million worth of surplus foods.

Mr. MONTOYA. Any other Public Law 480 projects?

Mr. CLEVELAND. No others in this group of agencies.

There is a contribution in kind to UNICEF, but again it is not part of this request for cash contributions. The Children's Fund does draw some powdered milk and distribute it around the world but, again, that is not part of the amount of money we are talking about here.

Mr. MONTOYA. How much is that?

Mr. CLEVELAND. I do not know that I know offhand.

Mr. MONTOYA. In round figures, more or less.

Mr. CLEVELAND. I think I have the weight, but not the money. I do not think that we have the amount since it is not part of this program as such. I will have to get that and furnish it for the record.

Mr. MONTOYA. What I am trying to establish is, In addition to the $136,050,000 which you request here, is it your intention to expend under the Public Law 480 program an additional sum of $47,500,000?

Mr. CLEVELAND. That is correct—through international organizations.

Excuse me. There is a problem of the time period. The $40 million is for a 3-year period. The money we are talking about here is for a 1-year period so you would have to sort of take one-third of the 40.

PUBLIC LAW 480 PROGRAM IN FISCAL YEAR 1963

Mr. MONTOYA. How much of the Public Law 480 did you expend last year?

Mr. CLEVELAND. For the world food program, very little. It has only just got off the ground. Ten million was programed. That much did not get off the ground. I would think we would use probably $10 or $15 million this next year out of the $40 million.

INCREASE IN CONTRIBUTIONS TO U.N. ORGANIZATIONS

Mr. MONTOYA. You are actually increasing the Public Law 480 program under United Nations organizations. You are actually increasing it, aren't you?

Mr. CLEVELAND. Yes. That has been the idea. That has been a constant theme also in this committee.

Mr. MONTOYA. You are actually increasing the contributions into the special organizations of the U.N., the dollar contributions, aren't you?

Mr. CLEVELAND. To these organizations, except for the Congo operation where we have cut it way back and planned to handle most of it bilaterally.

Mr. MONTOYA. Leaving the Congo figure out last year, how much are you in excess over last year in contributions into these voluntary organizations?

Mr. CLEVELAND. Leaving out the Congo?

Mr. MONTOYA. Because I understand the Congo contribution last year was on account of the sending of troops in there and we had to assume most of the burden; is that correct?

Mr. CLEVELAND. That is correct.

Mr. MONTOYA. That is why I am trying to exclude it because it is not a special situation this year.

Mr. CLEVELAND. Speaking of U.N. organizations only.

Mr. MONTOYA. Yes.

Mr. CLEVELAND. The answer to your question would be $5.4 million. In addition there is an increase in the Indus waters which you will be coming to in another connection.

Mr. MONTOYA. What do you mean "5.4," because you are asking for $136,050,000 this year. How much was it last year without the Congo situation?

Mr. CLEVELAND. Without the Congo and the regional programs, such as Indus waters. The comparable figures are $82,550,000 for fiscal year 1963 and $87,950,000 for fiscal year 1964.

DETERMINATION OF U.S. PERCENTAGE CONTRIBUTION TO U.N.

Mr. MONTOYA. You have indicated here that the goal of the United States is to establish a basis of 40-percent contribution.

Mr. CLEVELAND. For certain kinds of programs only.

Mr. MONTOYA. That has been your goal?

Mr. CLEVELAND. Yes, for most of the assessed programs we are way below that; we are in the 30 percent, 20 percent, or sometimes the teens.

Mr. MONTOYA. On voluntary contributions you are 40 percent.

Mr. CLEVELAND. For technical aid, yes.

Mr. MONTOYA. What has made you establish this as a base?

Mr. CLEVELAND. It represents something like a fair share of the gross national product of all of the contributing countries in the world. Actually, on a strictly fair basis our percentage would be somewhat higher than 40 percent.

Mr. MONTOYA. What about on a population basis?

Mr. CLEVELAND. It would be——

Mr. MONTOYA. It would be very low, would it not?

Mr. CLEVELAND. It would be somewhat lower but if you take just the contributing countries, you see——

Mr. MONTOYA. Are you using the gross national product as a criterion more or less?

Mr. CLEVELAND. Yes; it is a good criterion for us to use. Other countries, of course, think you should apply to this situation a progressive taxation formula, that the richer countries should pay comparatively more. We have said, "No, let's make it close to a straight gross national product basis."

RESTRICTIONS ON USE OF U.S. CONTRIBUTIONS TO U.N.

Mr. MONTOYA. With respect to the U.N. special contribution for technical aid and the special fund, I did not get to ask you all the pertinent questions a few moments ago when we went into that but I can still not reconcile in my own mind the thought which you imparted to the effect that when we contribute into this fund and it is used for, say, a nation like Cuba, that we are actually not expending our own dollars in that effort. That is what I thought you had said.

Mr. CLEVELAND. The question of whose money is spent in any particular project is really a question of what services and supplies are

bought. If they hire all Danes, the Danish contribution will get used and ours won't get used. If they hire Americans, they will tend to use ours.

Mr. MONTOYA. Well, then, you are possibly contending that we could disidentify ourselves from any contribution to Cuba by just telling the Russians, "You assume rubles and we will go into another country and spend our dollars," but doesn't that amount to the same thing?

Mr. CLEVELAND. No. I have always taken the line that an international organization ought to be an undifferentiated pot into which all contributors put their money and then they agree on the constitutional arrangements for approving the expenditures from the pot. But there have been suggestions, and that is why this comes up, including a suggestion—in another committee of this House—that we should distinguish in some fashion and tie some kind of a string to our contribution, saying that none of our contribution could be spent for Cuba.

Mr. MONTOYA. What is wrong with that?

Mr. CLEVELAND. Well, because it presents the Secretary General with the problem of whether he is going to get this kind of a string from every country; every country is going to say, "You can only help our friends."

Mr. MONTOYA. What about narrowing it down to this proposition: To make that restriction apply only to those particular nations with which we do not enjoy diplomatic relations?

Mr. CLEVELAND. That still is a political string on a U.N. technical assistance program. The Soviets would probably encourage this because this would tend to break up the U.N. program and that is what, of course, they are always trying to do in one way or another.

Mr. MONTOYA. As a matter of fact, how many nations are there in the U.N. with which we do not enjoy diplomatic relations?

Mr. CLEVELAND. Several.

Mr. MONTOYA. Which ones?

Mr. CLEVELAND. Albania, Outer Mongolia, Cuba.

Mr. MONTOYA. How many nations in the U.N. with which Russia does not have diplomatic relations?

Mr. CLEVELAND. Rather——

Mr. MONTOYA. It would be less than that; would it not?

Mr. CLEVELAND. No. You have the Republic of China that they do not recognize, so there would be several in their case, too.

Mr. MONTOYA. It is about three or four nations both ways; is that right?

Mr. CLEVELAND. Yes. There probably would be a few more. South Vietnam would be another one, which is in the U.N. and not recognized by the Soviets. The Soviets have come right up to the brink of opposing particular projects for Vietnam and the Republic of China.

Mr. MONTOYA. Do we have any projects in Taiwan under U.N. sponsorship?

Mr. CLEVELAND. Oh, yes, indeed. Quite a lot. Vietnam, too.

Mr. MONTOYA. Did we oppose the participation of the U.N. in this Cuban project?

Mr. CLEVELAND. Yes, we did, on economic grounds.

Mr. MONTOYA. Did we vote against it? Did Mr. Hoffman vote against it?

Mr. CLEVELAND. Mr. Hoffman works for the U.N.

Mr. MONTOYA. He is an administrator of this particular——

Mr. CLEVELAND. He is the administrator of the U.N. Special Fund. It was the Governing Council of the Fund which approved the project.

Mr. MONTOYA. What did we do to oppose that, on the record?

Mr. CLEVELAND. We campaigned against it. We made a very vigorous record against it on several different occasions when it came up but we couldn't get even our best European friends to go along with it because they felt that if we once broke the line by tying this kind of political string to the program it was the beginning of the end of having a U.N. program in this field, so we literally did not get any other member of the Governing Board to go with us.

Mr. MONTOYA. Would you have any serious objection to a formula under which if any aid was extended, say to Cuba, that we would reduce next year's voluntary contribution by the proportion of contribution that would in effect go into Cuba through such a project?

Mr. CLEVELAND. That wouldn't present the same kind of constitutional problem at all.

Mr. MONTOYA. That would be all right, wouldn't it?

Mr. CLEVELAND. The amount of money going to Cuba is so small it wouldn't affect our contribution very much either way. But any political string to these appropriations I think would create difficulties between us and our friends in the U.N.

Mr. MONTOYA. I had this in mind, Mr.——

Mr. CLEVELAND. I think that is the most practical one of the various possibilities.

Mr. PASSMAN. Would my distinguished colleague yield?

Mr. MONTOYA. Yes.

Mr. PASSMAN. We spoke earlier today about this being a pot into which we make a 40-percent contribution. We make our contribution with no strings attached; is that correct?

Mr. CLEVELAND. The only string we have on it is the matching, Mr. Chairman.

Mr. PASSMAN. But there are no other strings?

Mr. CLEVELAND. That is right.

Mr. PASSMAN. If we had $74.5 million in the pot, and country X—we shall say Cuba—has an application for $1 million and it is approved that merely reduces the pot to $73.5 million; is that correct?

Mr. CLEVELAND. That is correct.

Mr. PASSMAN. Then if you have a further request, we shall say, from Cuba for $2 million and it is approved that would merely reduce the pot to $71.5 million; is that correct?

Mr. CLEVELAND. It sounds like they are getting an awful lot of money.

Mr. PASSMAN. You know what I am indicating. There is no way that you can unscramble this pot and say specifically that these U.S. dollars will not help Cuba.

Mr. CLEVELAND. Another committee of the House has suggested that we do just that.

Mr. PASSMAN. I am dealing with the present. There has been an allocation made to Cuba and whatever amount they approve, when it is finally disbursed just merely reduces the amount in the pot, does it not?

Mr. CLEVELAND. I think we should regard it as a pot. I agree with you.

Mr. PASSMAN. We make dollar contributions to the U.N. for our part of this fund, do we not?

Mr. CLEVELAND. That is right.

Mr. PASSMAN. Any liquidation of this fund, as it is presently administered, means the liquidation of our 40 percent of dollars, does it not?

Mr. CLEVELAND. Well, only if our kind of money is required for the particular project.

Mr. PASSMAN. It does not make any difference. The pot gradually works itself on down according to the allocation made on the same percentages put it. We do not specifically say, "No American dollars may be used to help this country and none to help that country."

Mr. CLEVELAND. No; we put no such condition on our contribution.

Mr. PASSMAN. No distinction with relation to the countries is made at all if it is approved by the U.N.; is that correct?

Mr. CLEVELAND. That is correct.

Mr. MONTOYA. To follow up what the chairman has asked, assuming that your approach and your analysis would be carried out with respect to Cuba—namely, that our dollars would not be used but that instead possibly rubles would be used, isn't it possible under the present structure of the Special Fund that that agency, the U.N. agency, could use our dollars to buy rubles to pay for Russian technicians? We have no control over that, do we?

Mr. CLEVELAND. The question that has been raised——

Mr. MONTOYA. Just answer my question: Is that possible?

Mr. CLEVELAND. I don't know whether it is constitutionally possible. That is what I was saying, but that we are now——

Mr. MONTOYA. I am not arguing the constitutionality of it. Isn't that practically possible?

Mr. CLEVELAND. It certainly is today; yes. If we tied that specific string presumably they could use our dollars to buy other currencies.

Mr. MONTOYA. We have tied no strings along those lines?

Mr. CLEVELAND. Since we have tied no strings today that certainly is possible. That isn't done as a matter of fact because the problem is they have too many rubles and so forth and not enough dollars. So the transfers don't get made that way.

Mr. MONTOYA. That is all, Mr. Chairman.

Mr. PASSMAN. Mr. Conte?

CHANGE OF U.S. POLICY TO BILATERAL PROGRAM IN THE CONGO

Mr. CONTE. Mr. Cleveland, I am not satisfied with your answer in regard to our change of policy in the Congo. I was there a few years ago and I interviewed quite a few people in the Congo and at that time I said, "Why do we have to funnel all this money to the United Nations? Why can't we do it on a bilateral program?" Because at that

time, as you will recall, the U.N. was in financial trouble and they had to come to the Congress for authorization for U.N. bonds. The purchase of U.N. bonds. I was told in the Congo and by witnesses across this table "We don't want to get into a bilateral program. That is the last thing in the world. We have to keep doing this through the United Nations because we don't want to get tangled in a cold war in the Congo with the Russians. If we start stepping in the Russians will start stepping in. Before you know it we are tangled in a cold war and we bring the Congo into the cold war."

That made a lot of sense. Now all of a sudden you change your policy. You are moving from a multilateral program to a bilateral program.

I am just wondering whether you are doing this because you want to keep the United Nations out of this mess, that you just can't afford to continue on this way, and if you had to continue on this way you would have to come back to the Congress for more money, which would be a very serious thing and it would be very difficult to obtain. And also whether you are getting to the point where under this World Court decision, these countries that have reneged and have not paid their contribution to the United Nations for the Congo fund, such as Russia, France, and any other country, that we are getting to the point now where they are either going to pay up or get out and lose their membership in the United Nations; is that right?

Mr. CLEVELAND. That is right.

Mr. CONTE. Are we trying to avoid that showdown?

Mr. CLEVELAND. These are two different kinds of money. The economic money we are talking about has never been assessed against all the members and was never involved in the Soviet attack on the peacekeeping operation and the article 19 debate and the U.N. bond issue—that whole side of the problem. That all had to do with the Congo military operation, the peacekeeping operation.

Mr. RHODES. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. RHODES. Is that correct, Mr. Secretary? I thought when the U.N. bonds were up for debate on the floor of the House that we were told that if nations did not make payments necessary to retire the bonds, there would be some impingement on the right to vote.

Mr. CLEVELAND. There will indeed. Absolutely. I am just saying that the economic aid, the supporting of the Congolese account, in technical assistance and imports and so forth, has never been financed by assessed funds and it is only the assessed funds that raise this constitutional problem about: If you don't pay, you lose your vote.

VOLUNTARY ASPECT OF U.N. ECONOMIC PROGRAM IN THE CONGO

Mr. CONTE. Let me stop you there. I want to make the record clear: How about the United Nations economic program, is this completely a voluntary program?

Mr. CLEVELAND. It is entirely a voluntary program.

Mr. CONTE. No assessments at all?

Mr. CLEVELAND. No assessments at all.

Now, we found ourselves paying rather more than 80 percent of the economic aid for the Congo. That is to say what we put up turned out to be more than 80 percent of the total contributed through the United Nations on a voluntary basis for economic assistance. This was supportable in an emergency for a very short time when there didn't seem to be any alternative. But once the three secessions had been taken care of by the central government and the U.N. working together—once a central government had come into power which had moderate orientation— once the Soviets, having tried two or three times to intervene, were really thrown out by the Congolese—once the objections to the Belgians coming back in had tapered off because the Congolese didn't resent them so much any more—once the Congo was unified again—then most of the members of the U.N. said to themselves, and so did we, "Maybe we shouldn't be putting up a lot of special money for the Congo. Maybe the Congo ought to be just like other countries and govern itself without not quite so much U.N. presence there."

In addition to that we had a special motive. As long as we continued to fund the program on a voluntary basis through the United Nations, we were likely to have to pay most of the tab. The Belgians were still fighting with the U.N. over various claims and troubles in the Congo. The Germans who were the next biggest potential contributor are not even members of the U.N. and so it is easier for them to work bilaterally than make a contribution to an organization that won't let them in. The British had domestic political reactions to the Katanga issue and they were also a little bit skittish about a U.N. contribution for this particular purpose. So altogether it looked as if the best way to get reasonably large contributions from other countries was to have a kind of consortium, a group of parallel bilateral programs, but also to maintain in the Congo a U.N. technical assistance operation covering the medical and educational and air traffic and some of the other services that the Congolese were not yet prepared to carry on themselves until they train more people. That is why we then reorganized our aid to the Congo, kept the U.N. Congo fund as a straight technical assistance fund—and that is where this $5 million would apply, on a 50-percent matching basis—and put the rest of our proposed assistance for the Congo into the regular African regional program. And it is also provided in that regular regional program that we would try to manage that Congo money so that our share of the total input from all sources wouldn't come out to more than about half. This is the recommendation, as you will recall, that the Clay Committee made, as a special case.

Mr. CONTE. I can see your point. I am not as optimistic as you are with regard to Adoula's government.

Mr. CLEVELAND. I am not optimistic. I am hopeful, but I am not optimistic.

U.N. TROOPS AND CIVILIANS IN THE CONGO

Mr. CONTE. How many United Nations personnel have we pulled out of there since we reverted to this policy?

Mr. CLEVELAND. On the military side, the troops have come down from over 19,000 to about 7,200 or so today.

Mr. CONTE. 7,200 remaining?

Mr. CLEVELAND. And they are coming down below that. They will probably be down to about 6,000 in the next few months. Then the question is, Are we going to keep the U.N. Force in there for a while to help on the internal security side or are we going to pull those troops out and risk a deterioration in the situation? This subject is currently being debated, as you know, in the newspapers and elsewhere.

Mr. CONTE. How many employees have they pulled out of the U.N. from the economic picture?

Mr. CLEVELAND. Well, none, really, net. They still have about 1,200 technicians in there.

Mr. CONTE. Does that include administrative personnel?

Mr. CLEVELAND. Yes, but most of them are really technical people working inside the Congolese Government; teachers, doctors, or whatever.

Mr. CONTE. Does that 1,200 figure take in everyone in any way affected or tied in with the United Nations in the Congo?

Mr. CLEVELAND. That is the civilian operations program.

Mr. CONTE. What else do you have there?

Mr. CLEVELAND. In addition, you have the 7,200 troops plus their headquarters operation, and that is all.

Mr. CONTE. 1,200 is your top figure?

Mr. CLEVELAND. 1,200 is the figure for civilian operations.

ACTION AGAINST COUNTRIES IN ARREARS ON ASSESSMENTS

Mr. CONTE. Coming back to the World Court decision now, are we actually going to enforce that decision by taking away the right to vote of these countries that have not met their assessments in regard to the military programs for the United Nations in the Congo?

Mr. CLEVELAND. Yes. The evidence so far is, faced with that possibility, countries come in and pay up instead.

Mr. CONTE. Let us have a list of those countries that have not met their assessment.

Mr. CLEVELAND. We can put our arrearage table in here.

(The table follows:)

Summary as of June 30, 1963, collections and arrearages for 1962 and prior years of United Nations accounts for the regular budget, Emergency Force and the Congo [1]

Year	Gross assessments	Credits and reductions	Net assessments	Amount received	Percent received	Balance due
United Nations regular budget: [2]						
Calendar year 1961	[3] $69,399,839	$5,321,143	$64,078,696	$63,527,314	99.1	$551,382
Calendar year 1962	74,124,117	7,450,960	66,673,157	61,511,476	92.3	5,161,681
Total balance due						5,713,063
United Nations Emergency Force:						
Calendar year 1957	15,028,988		15,028,988	11,077,188	73.7	3,951,800
Calendar year 1958	25,000,000		25,000,000	17,798,241	71.2	7,201,759
Calendar year 1959	15,205,000	41,226	15,163,774	10,849,800	71.6	4,313,974
Calendar year 1960	20,000,000	3,553,223	16,446,777	11,755,633	71.5	4,691,144
Calendar year 1961	[3] 19,000,000	1,754,991	17,245,009	12,442,254	72.1	4,802,755
January–June 1962	9,750,000	1,467,296	8,282,704	5,909,237	71.3	2,373,467
Total balance due						27,334,899
United Nations Congo account:						
July–December 1960	[4] 48,500,000	3,900,000	44,600,000	28,030,301	62.8	16,569,699
January–October 1961	100,000,000	15,305,596	84,694,404	54,870,802	64.8	29,823,602
November 1961–June 1962	80,000,000	11,457,858	68,542,142	42,929,802	62.6	25,612,340
Total balance due						72,005,641
Total amount due, regular budget, UNEF, and UNOC						105,053,603

[1] Source: United Nations statement on the collection of contributions as at June 30, 1963.

[2] Contributions to the regular budget, prior to 1961, are fully collected.

[3] Includes new members' assessments.

[4] Total costs, including airlift, amounted to $60,000,000.

Balance due, 1962 and prior years, June 30, 1963

Country	Regular budget	UNEF [1]	UNOC [2]	Balance due 1962 and prior years
Afghanistan		$39,322	$34,366	$73,688
Albania	$15,648	34,108	33,664	83,420
Argentina	927,177	856,376	399,372	2,182,925
Australia				
Austria			424,972	424,972
Belgium	798,899	158,778	2,876,284	3,833,961
Bolivia	24,410	38,059	33,664	96,133
Brazil	2,391		410,942	413,333
Bulgaria	15,387	129,306	141,055	285,748
Burma				
Byelorussian S.S.R.		443,761	1,108,811	1,552,572
Cambodia	24,746		27,298	52,044
Cameroon				
Canada				
Central African Republic				
Ceylon				
Chad		777	12,815	13,592
Chile	160,340	91,802	160,247	412,389
China	2,650,814	4,189,837	5,751,743	12,592,394
Colombia				
Congo (Brazzaville)				
Congo (Leopoldville)				
Costa Rica	9,231	7,628	23,978	40,837
Cuba	194,464	191,001	205,598	591,063
Cyprus				
Czechoslovakia	49,255	822,112	2,218,437	3,089,804
Dahomey	15,855	1,159	6,246	23,260
Denmark				
Dominican Republic		10,275	42,079	52,354
Ecuador			2,881	2,881
El Salvador		5,377	16,263	21,640
Ethiopia		65,085	34,365	99,450
Federation of Malaya				
Finland				
France			14,186,015	14,186,015
Gabon				
Ghana				
Greece	6,634			6,634
Guatemala	41,804	18,053	29,971	89,828
Guinea		8,219		8,219
Haiti	47,134	14,470	23,978	85,582
Honduras	29,138	8,408	23,978	61,524
Hungary	365,819	402,928	734,270	1,503,017
Iceland				
India				
Indonesia				
Iran			99,281	99,281
Iraq		76,598	75,744	152,342
Ireland				
Israel				
Italy				
Ivory Coast				
Japan				
Jordan		34,108	33,664	67,772
Laos				
Lebanon		19,845	12,108	31,953
Liberia				
Libya		34,108		34,108
Luxembourg			7,949	7,949
Madagascar			17,330	17,330
Mali		15	14,321	14,336
Mexico		527,028	602,331	1,129,359
Morocco			117,823	−117,823
Nepal	2,291	935	6,503	9,729
Netherlands				
New Zealand				
Nicaragua	15,759	2,963	23,978	42,700
Niger	1,783	4,983	15,386	22,152
Nigeria				
Norway				
Pakistan				
Panama		28,241	23,977	52,218
Paraguay	46,919	24,470	14,291	85,680
Peru		94,408	64,337	158,745
Philippines				
Poland		1,269,004	1,852,915	3,121,919
Portugal			161,919	161,919
Romania		375,230	757,181	1,132,411
Saudi Arabia		55,309	52,095	107,404
Senegal		971	7,994	8,965
Somalia			7,507	7,507

See footnotes at end of table, p. 1978.

Balance due, 1962 and prior years, June 30, 1963—Continued

Country	Regular budget	UNEF [1]	UNOC [2]	Balance due 1962 and prior years
South Africa			$1,249,477	$1,249,477
Spain		$867,164	771,483	1,638,647
Sudan		71,118		71,118
Sweden				
Syria	$32,356	32,667	7,955	72,978
Thailand		2,940	25,465	28,405
Togo		4,983	15,387	20,370
Tunisia				
Turkey				
Ukrainian S.S.R.		1,700,104	4,237,317	5,937,421
U.S.S.R.		14,218,288	32,052,762	46,271,050
United Arab Republic	82,269	284,742	258,155	625,166
United Kingdom				
United States				
Upper Volta		8,745	16,452	25,197
Uruguay	125,655	24,983	70,332	220,970
Venezuela			35,908	35,908
Yemen	26,885	34,108	33,664	94,657
Yugoslavia			299,358	299,358
Total	5,713,063	27,334,899	72,005,641	105,053,603

[1] United Nations Emergency Force.
[2] United Nations operation in the Congo.

Mr. CLEVELAND. Just before the last General Assembly, the one a couple of months ago, there were 10 countries that were more than 2 years behind in their dues and everyone of them finally came in and paid up.

Mr. CONTE. Do they pay up entirely or do they just pay up to a certain point?

Mr. CLEVELAND. Just enough. One of the Latin American countries paid up just what it needed to pay plus $1.

However, that means every time there is a new assessment they have to pay it in full in order to stay with their nose above water.

The Soviets will be 2 years behind in their dues next year, 1964, if they continue to boycott as they say they will, all peacekeeping operations.

Now, our view is that article 19 is self-enforcing; that is, the President of the General Assembly just doesn't allow anybody in that position to vote. There obviously would be a big row about it and appeals to the Chair and so forth. We obviously will have to go into whatever is the first General Assembly session in 1964, whether it be the regular fall session or a resumed session or a special session in the spring, as we have had for each of several years past. We will have to be sure that we have a solid majority willing to defend the U.N. against this attack on the U.N.'s capacity to act. With a solid majority, a dependable majority in the Assembly the voting situation can be controlled and the Soviet vote can be removed.

Now, our guess is that the Soviets will do as usual. That is to say they will come kicking and screaming and shouting down to the intersection, barreling at top speed on a collision course, shouting for everybody to get out of the way because otherwise the U.N. is going to be ruined. Then, just at the very last psychological moment they will veer off and there won't have to be a collision. But they won't veer until the very last moment and they won't veer then unless they are perfectly sure they would be licked by a majority of the General

Assembly. If they are perfectly sure they will be licked they will drop this—and probably start something else.

Mr. CONTE. Will they try to appeal the ruling of the Chair in re article 19?

Mr. CLEVELAND. Just what procedure they would use I don't know. Undoubtedly they would appeal. If you war game the parliamentary situation, an appeal is already about 4 or 5 steps down the line. There are several steps they could take before that which I won't suggest to them on the record here. They may not have thought of all of them.

DURATION OF U.N. OPERATIONS IN THE CONGO

Mr. CONTE. One more question, Mr. Secretary: How long do you think the United Nations operations will have to continue on in the Congo? Do you have any projection?

Mr. CLEVELAND. We are now discussing with the U.N., and with our people in the Congo, whether the U.N. peacekeeping operation ought to stay there beyond the end of this year. It is only financed now to the end of this year. Some of the U.N. people are inclined to say, "Why don't they solve their own internal problems? Let's stop bleeding the Organization."

On the other hand, a great many African countries, the Congolese themselves, and most of the representatives of countries who are in the Congo think that you might get too many massacres and too much trouble if the internal security effect of those U.N. troops were removed too quickly. I am not ready to say what the administration position will be on that subject because we probably won't really have one for several more weeks while we watch the situation develop in the Congo. On the economic side my guess is that U.N. technical aid would be needed for another 2 or 3 years especially for and training of the Congolese until the Congolese can resort to a sort of normal underdeveloped status whereby their aid will come mostly from bilateral programs and directly from the specialized agencies of the United Nations in the usual way.

Mr. CONTE. Can we suggest the bilateral programs be eliminated at that point or just the U.N.?

Mr. CLEVELAND. As you perhaps know, I went over there for the President and made a survey of just this problem and concluded that this was the sweetest underdeveloped country in the world. If they could just get so they could govern the country they wouldn't have an economic problem. They can produce a surplus of resources and start exporting to other places. But they have got to get so they can govern the country and that means a massive job of leadership training and technical training. That is the kind of thing you can't hurry beyond a certain speed, and do it right. So my projection has been that inside of 5 years—and perhaps sooner if the internal security situation settles down enough—they ought to be off everybody's back. This is unlike most of the countries of the world. This is one that should not be on our back for a long time. They really have the resources.

Mr. PASSMAN. Thank you Mr. Conte.

Thank you, Mr. Cleveland.

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I believe this concludes that part of the U.N. request for which you are testifying.

INDUS WATERS PROJECT

We have with us Mr. Walter Farr, Jr., who will testify on the Indus waters project.

Mr. Farr's statement is already in the record.

The 1963 program was $30 million; is that correct, sir?

Mr. FARR. The 1963 request was $30 million; that is right.

Mr. PASSMAN. Your estimate for fiscal year 1964 is $43.1 million?

Mr. FARR. That is right.

Mr. PASSMAN. This is a project for which in 1962 the agency requested $16.9 million and the Congress approved that sum in full, but you ended up the year obligating $34.5 million for the project which you succeeded in doing by transferring from the Contingency Fund, the use of deobligated funds and transfers from the development grant program.

Have I stated that situation correctly?

Mr. FARR. I am not sure exactly from what funding categories the transfers were made in 1962. They were transferred from various accounts. I think it was correctly stated in the record last year where the money did come from.

Mr. PASSMAN. You requested $16.9 million but you ended up the year obligating $34.5 million. You requested $30 million for this program in fiscal year 1963; is that correct?

Mr. FARR. That is right, sir.

Mr. PASSMAN. What amount did you obligate for the project in fiscal year 1963?

Mr. FARR. $24.6 million.

Mr. PASSMAN. What happened to the other $5.4 million?

USE OF FISCAL YEAR 1963 FUNDS ALLOCATED TO INDUS FOR CONGO ECONOMIC ASSISTANCE

Mr. FARR. It was not obligated for this purpose. It presumably was used for contributions to other international organizations.

Mr. PASSMAN. Specifically, for what projects?

Mr. FARR. I cannot answer that question.

Mrs. WESTFALL. May I speak to that, Mr. Chairman: The original request for U.N. economic assistance to the Congo was $34.3 million. The total obligation was $39.4 million. The saving on the Indus project went to the Congo.

Mr. PASSMAN. For the Indus waterways you requested $30 million, but you obligated $5.4 million less?

Mrs. WESTFALL. Yes, sir; and $5.1 million was transferred within the contributions to international organizations appropriation.

Mr. PASSMAN. To what project, specifically?

Mrs. WESTFALL. To the program of economic assistance to the Congo, sir.

Mr. PASSMAN. To what accounts, just the fund for the Congo?

Mrs. WESTFALL. The U.N. economic program for the Congo; yes.

Mr. PASSMAN. Did we actually, after making our adjustments last year, provide the full amount that you requested for the Congo?

Mrs. WESTFALL. I believe you appropriated the full amount we requested.

Mr. PASSMAN. If that is true, that was for every program in this appropriation; is that correct?

Mr. TENNANT. That is correct.

Mrs. WESTFALL. That is correct.

Mr. PASSMAN. Why would you not have permitted the $5.1 million to lapse rather than to increase the other programs?

Mrs. WESTFALL. The need for the Congo was greater than had been initially estimated, sir.

Mr. PASSMAN. By what evaluation? It is money we are dealing with, you know. Who made the determination, and when was it made?

Mrs. WESTFALL. Given the achievement of political security that was beginning to occur in the Congo it was worthwhile to move ahead with the Government's plan for economic stabilization.

Mr. PASSMAN. Who made that decision and determination?

Mrs. WESTFALL. I believe it was finally made by the AID Administrator, sir, but I would be happy to get the whole story on that and put it in the record.

Mr. PASSMAN. We wish you would do so.

(The information requested follows:)

JUSTIFICATION FOR INCREASE IN U.S. CONTRIBUTION TO PROGRAM OF U.N. ECONOMIC ASSISTANCE TO CONGO

Actual fiscal year 1963 contributions to U.N. economic assistance programs for the Congo totaled $39,400,000 as compared with $34,300,000 requested in the fiscal year 1963 congressional presentation. The increase of $5,100,000 was required to help meet a critical gap in external import financing which resulted from a shortfall in the level of contributions expected from other countries and a worsening of the economic situation in the Congo. The Congo Government plans to launch a major stabilization effort involving a series of measures to bring Government expenditures and prices under control. In order to assure the success of these measures it was essential, among other things, to provide for an adequate flow of imports this calendar year.

ANTICIPATED ADDITIONAL FISCAL YEAR 1964 NEEDS FOR INDUS PROJECT

Mr. PASSMAN. The estimate for fiscal year 1964 is $43.1 million, which would certainly indicate that now you are asking for an increased amount for this project to offset the amount that you did not need last year. When you found out you did not need it then you allocated it to other programs in the Congo.

I note on page 2 of your statement that you indicate there may be an additional fiscal year 1964 requirement of $5.8 million beyond the estimate and, further, that this additional amount would represent a potential claim on the contingency fund; is that correct?

Mr. FARR. Yes, sir; that is correct.

Mr. PASSMAN. It is disappointing that programs are so loosely worked up and justified, and the actual estimates are so uncertain, that you have this range where it is impossible for the committee to know, the Congress to know, and the taxpayers to know even how much you are giving away on a project of this type.

How do you arrive at these conclusions?

Can you give us some reasons for what you are doing?

Mr. FARR. I can give you some reasons.

Mr. PASSMAN. We wish that you would.

Mr. FARR. The contributions that the U.S. Government makes to the Indus fund are based on a treaty which the United States and other nations and the World Bank signed. That treaty sets forth certain percentages the various countries contribute.

The total amounts which are to be contributed during each year depend upon the amount the World Bank, as administrator of the fund, must actually pay out to contractors who are building the Indus works.

ESTIMATED TOTAL COST OF FUNDING INDUS PROJECT

Mr. PASSMAN. What is the total cost of the project?

Mr. FARR. The total amount that the governments and the Bank have agreed to——

Mr. PASSMAN. What is the total cost of constructing the Indus waterway project?

Mr. FARR. As Mr. Gaud indicated last year, we were then, and still are, in negotiation with the Government of Pakistan to define just what formula we will use and what works we will finance through the Indus fund, and it was in connection with that problem that the representatives of other governments and the World Bank are now meeting.

Mr. PASSMAN. We have been working on it about 2 years. We have not yet determined actually what our costs will be?

Mr. FARR. We said last year we would tell you when we had anything definite. We really do not have anything definite now. I would be happy to tell you where we stand.

Mr. PASSMAN. Can you give us an estimate as to what it is going to cost the American taxpayer to finally meet our commitments?

Mr. FARR. The plan now under consideration would mean that all of the contributing governments, including the World Bank, will not have to contribute more than an additional $— hundred million——

Mr. PASSMAN. Let us talk about the U.S. contribution.

Mr. FARR. The United States——

Mr. PASSMAN. We want the total cost of the project, you understand, but we are primarily interested in AID's contribution to it.

Mr. FARR. Under the treaty, AID, or the U.S. Government, is presently obligated to contribute $177 million in grants.

Mr. PASSMAN. Give us the total.

Mr. FARR. It is a total of $482 million, including all currencies.

Mr. PASSMAN. What percentage is $177 million of the total?

Mr. FARR. The U.S. contribution in all currencies is approximately 54 percent of the total. This is under the treaty.

We now know on the basis of current cost estimates, which include a number of contracts that have already been let so they are firm and other cost estimates which are as firm as one can make them, that the replacement work alone will cost in foreign exchange approximately $275 million more than has been committed under the treaty.

Mr. PASSMAN. I note, on page 2 of your statement, that the amount of the total contribution that the United States might ultimately be called upon to make to the Indus fund is in doubt?

Mr. FARR. Yes.

Mr. PASSMAN. On page 3 you say you will advise this committee promptly if there is any new commitment above the $842 million.

This is fantastic.

Could you give us a general idea of what part we will be called upon to contribute of the additional $— hundred million?

Mr. FARR. I said $315 million.

Mr. PASSMAN. We are still in the field of uncertainty as to developments?

Mr. FARR. Yes.

Mr. PASSMAN. Why could we not get some better estimate before we become involved in a project such as this?

Mr. FARR. The Indus fund agreement was essentially a political agreement to solve a political problem, to prevent a war.

Mr. PASSMAN. It may be a $5 billion problem.

This is tied in with a lot of other things. I am speaking not of just this project, but related projects. We have given a great deal of money to that country.

Mr. FARR. We are contributing substantially.

Mr. RHODES. In your statement you say:

> The development program originally contemplated for Pakistan would cost almost double the $895 million commitment of the World Bank and the contributing governments, including the United States.

Does that mean we will be stuck for our portion of $895 million in addition to the $482 million to which we are already committed?

Mr. FARR. No, sir; it does not mean that.

It means the Pakistanis would like it to mean that, but we do not intend to do that. That is the issue which is under negotiation right now.

FINANCING OF TARBELA DAM

Mr. PASSMAN. Later on you say:

> Negotiations are still underway with the Government of Pakistan toward an agreement upon the final scope of the system of irrigation and power facilities in the Indus Basin which will be financed out of the fund.

What does that statement mean?

Mr. FARR. That means in more popular parlance that the Pakistanis would like us to finance the Tarbela Dam, which is a large dam on the Indus River which was originally contemplated in the works. That dam—just the dam, not any hydroelectric facilities, canals, or anything else—is presently estimated to cost some $780 million in all.

Mr. PASSMAN. In addition to the Indus?

Mr. FARR. That is in addition to another figure. That is in addition to the $895 million, plus the $275 million that I mentioned as being the cost of replacement works above the total contribution. You add to that $780 million for the total cost of the Tarbela Dam, and that is where we get this double figure.

Now, the contributing governments and the Bank have no intention of fully financing the Tarbela Dam out of the Indus fund.

Mr. PASSMAN. Could you give us a general idea what our limitations will be?

Mr. FARR. Yes, sir.

Mr. PASSMAN. Do you have any idea as to whether——

Mr. FARR. I can tell you what we are trying to do now and what this meeting is discussing this afternoon.

The political commitment, if you will——

Mr. PASSMAN. You are discussing this with the Pakistan people, or our own people?

Mr. FARR. With representatives of the United Kingdom, Germany, Canada, Australia, New Zealand, and the World Bank.

Mr. PASSMAN. Today?

Mr. FARR. Starting at 4 this afternoon.

Mr. PASSMAN. You are talking about money that may not be disbursed for 6 or 7 years.

Could you put the grant total together so we will know what the plans of the Pakistanis may be?

Mr. FARR. What we are talking about is a political settlement with the Pakistanis.

Mr. PASSMAN. You have mentioned several figures. I think you would want to show in the record all phases of it. You have the Indus water project.

Mr. FARR. That is what we are talking about.

Mr. PASSMAN. You also have the Tarbela Dam project.

Let us get all the figures you mentioned, including the Tarbela Dam. How much is involved?

Mr. FARR. There are two things you have to separate.

You have to separate how much money is going to be contributed.

ESTIMATED TOTAL COST OF INDUS PROJECT

Mr. PASSMAN. We want the total cost.

Mr. FARR. That is one thing.

Another thing is what the total works will cost, and they are quite different things; they are quite different figures.

Mr. PASSMAN. Let us get the estimated cost of these projects. We have been dealing with this for years—not this project, but how other projects are worked out.

Could we arrive at an estimate of the total cost?

Mr. FARR. If the Indus fund were to finance all of the replacement works—the canals that connect the rivers—the Mangla Dam and the Tarbela Dam, the total cost would be in excess of $2 billion. We do not intend to finance all of this.

Mr. PASSMAN. We hope you do not. We hope the figure will be different from the past. It is my understanding the total cost of the construction program for the Indus water project has almost doubled.

Mr. FARR. Yes; if we financed all the works.

U.S. SHARE OF FINANCING

Mr. RHODES. If you financed them all, what would the U.S. share be?

Mr. FARR. This is pretty "iffy" because we have no intention of doing it.

In the fund the U.S. Government has financed 54 percent of the total cost. However, we have only financed, I believe, 39 percent of the foreign exchange cost.

Mr. PASSMAN. Let us keep it all together now.

Our contribution is about 54 percent?

Mr. FARR. Including rupees.

Mr. PASSMAN. It took dollars to accumulate rupees originally, so we are still dealing with dollars; therefore, it is 54 percent?

Mr. FARR. That is right.

Mr. PASSMAN. We are not willing to charge off these foreign currencies as just paper because it took American dollars to get those rupees, so it is 54 percent. Is that our treaty agreement?

Mr. FARR. Our treaty agreement is in terms of rupees and dollars.

Mr. PASSMAN. For a total of what amount?

Mr. FARR. It works out that we agreed to contribute under the treaty $482 million worth of currencies.

Mr. PASSMAN. Which is 54 percent of the estimate at that time?

Mr. FARR. Which is 54 percent of the then commitment. The commitment and the treaty provided that the nations would contribute $895 million toward the construction of certain works.

Mr. RHODES. Can you break this down between rupees and dollars?

Mr. FARR. Yes; I can.

Of the U.S. contribution, $235 million was in Pakistan rupees, $70 million was in a development loan, and $177 million was in grant contributions. That adds up to $482 million, or 54 percent of the full $895 million.

Since these funds clearly will not pay even for the works to replace the water for irrigation in Pakistan which is being diverted to India, and since the political obligation of all of these governments and of the Bank was to furnish Pakistan with replacement water plus an element of development, the issue is what kind of a political settlement, using money, of course, can the contributing governments and the World Bank make with Pakistan to settle this matter once and for all.

Mr. PASSMAN. Should we not indicate at this point that when we are talking about replacement, we are speaking in terms of replacing the water that normally would go to Pakistan? It has been diverted into India?

Mr. FARR. That is right.

Mr. PASSMAN. That is a commitment on our part of $482 million for just the replacement of what they are losing by diversion.

Now, the second phase would be whether or not you wanted to develop it so that you would increase the water supply for Pakistan?

Mr. FARR. Actually——

Mr. PASSMAN. Would that be the second phase of the project?

INACCURACY OF ORIGINAL COST ESTIMATE

Mr. FARR. I do not believe that is stating it quite right.

The $482 million worth of dollars and Pakistan rupees, which the United States agreed to contribute, was a contribution toward replacement and some development. At that time, back in 1960, the cost estimates which were pretty terrible we will all agree, indicated that this amount of money would pay for the replacement works and, in addition, would pay for some tube wells and a dam on the Indus.

Now, it has turned out that this $895 million will not come anywhere near paying for all this.

Mr. PASSMAN. It may be double?

Mr. FARR. It certainly would be double to do all these things.

Mr. PASSMAN. What would you have if you double the $895 million? What would you have over and above the replacement?

Mr. FARR. The figure is something over $2 billion. It is really more than double if you want to be honest.

It is more than double, really. What you would have——

Mr. PASSMAN. Is this not an awful predicament for a respectable nation, or a group of nations, to get into, when they do not know anything about what it is going to cost or accomplish? Yet we get involved to half a billion dollars. We know now to accomplish what we thought we would accomplish in 1960, that the cost will be doubled, and we are still not getting into the Tarbela project and all the rest.

Mr. FARR. If all Indus fund contributors more than doubled their contributions, there could be built a very substantial dam at Tarbela which would be a very substantial development project in Pakistan.

Mr. PASSMAN. What do we get?

I am speaking about the recipients of the expenditure, if we stop at $895 million, the original figure considered?

Mr. FARR. We would get the replacement works, but only two-thirds finished.

Mr. PASSMAN. This is a terrible mess we have gotten into. What is going to be our position?

Mr. FARR. Our position?

Mr. PASSMAN. What is going to be our position, as we have committed ourselves to $482 million, the U.S. share of the $895 million, which is 54 percent, and we find that the other contributing nations——

TYPE OF U.S. ASSISTANCE

Mr. FARR. They are all making grants. We are the only country making a loan.

Mr. PASSMAN. Is this not the old 40-year, three-quarters of 1 percent credit?

Mr. FARR. That is our loan. The other governments are making grants.

Mr. PASSMAN. Have I made a statement of fact? Is this the type of credit we are making, a 40-year, three-quarters of 1 percent service charge?

Mr. FARR. The loan portion is that kind of a loan.

Mr. PASSMAN. Is the $235 million that type of credit?

Mr. FARR. No, sir. Those are Pakistan rupees.

Mr. PASSMAN. The development credit part is $70 million?

Mr. FARR. That is right.

Mr. PASSMAN. That is no interest, three-quarters of 1 percent service charge, 40-year payout, 10-year grace period?

Mr. FARR. That is right.

Mr. PASSMAN. The $177 million is an outright grant on our part?

Mr. FARR. That is right.

BREAKDOWN OF COMMITMENTS TO INDUS FUND

Mr. PASSMAN. Will you furnish for the record a spread of the other nations, and the amount that they are contributing? Give us a list of those who have pledged the other 46 percent.

Mr. FARR. Yes, sir; I have that right here.

(The information follows:)

Indus Basin Development Fund—Commitments in fund agreement

[In U.S. dollar equivalent]

Contributor	Foreign exchange		Pakistan rupees	Total, all currencies	
	Grant	Loan		Commitment	Percent of total
Australia	15,601,600			15,601,600	1.7
Canada	22,544,119			22,544,119	2.5
Germany	31,500,000			31,500,000	3.5
IBRD		80,000,000		80,000,000	8.9
India	173,768,000			173,768,000	19.5
New Zealand	2,800,000			2,800,000	.3
Pakistan	1,232,000		27,580,000	28,812,000	3.2
United Kingdom	58,408,000			58,408,000	6.5
United States	177,000,000	70,000,000	235,000,000	482,000,000	53.9
Total	482,853,719	150,000,000	262,580,000	895,433,719	100.0

Source: Indus Basin Development Fund Agreement, progress report by the Administrator for the period July 1, 1962–Dec. 31, 1962.

STATUS OF FUNDING TABELLA DAM

Mr. PASSMAN. What is the present status of the Tarbela Dam project?

(Discussion off the record.)

Mr. FARR. The U.S. Government does not intend that the Indus fund will fully finance the Tarbela Dam.

Mr. PASSMAN. As it stands at this time——

Mr. FARR. As to whether the Tarbela Dam will ever be financed with U.S. money, I cannot say.

U.S. SHARE OF ADDITIONAL COSTS

Mr. PASSMAN. What is the U.S. position on the doubling of the $895 million?

Mr. FARR. We do not intend that the Indus fund be doubled.

Mr. PASSMAN. Have you given any thought as to how much over and above the $482 million will be considered?

Mr. FARR. We have given a great deal of thought to that.

Mr. PASSMAN. Have you gotten far enough so that you can impart that knowledge to the committee?

Mr. FARR. I can.

Mr. PASSMAN. How much?

(Discussion off the record.)

Mr. FARR. We think it is important to the U.S. Government that this matter be settled.

Mr. PASSMAN. I would have a lot of serious discussion before I would reach any figure.

INADEQUACY OF PRESENT FUNDING FOR PROPER PROJECT COMPLETION

Mr. RHODES. If you should happen to enter into such an agreement as this with Pakistan, what sort of an end product would you have? Would you have a project which is operable?

Would you have one which is anywhere near adequate, or would you have partially finished dams and canals?

Mr. FARR. We would not. The plan we are discussing with the World Bank and the other contributing governments is a sensible plan, we think.

Mr. PASSMAN. But you said earlier on the $895 million, that is as far as we can go today? Beyond $895 million, it is something we may get into later?

Mr. FARR. That is right.

Mr. PASSMAN. If you stop at $895 million——

Mr. FARR. You really have nothing.

Mr. PASSMAN. Why did we ever get into that predicament?

We got our money together rather rapidly. You transferred out of the contingency fund to get it up. Now we find that instead of doing the job you intended to do, it will do only half a job.

Mr. FARR. I agree it is an unfortunate situation.

Mr. GARY. It was a political deal.

NATURE OF INDUS FUND AGREEMENT

Is my understanding right on this, it is a treaty?

Mr. FARR. It is a treaty.

Mr. GARY. The administrative branch and the Senate got us into it; did they not? It had to be proposed by the President of the United States and ratified by two-thirds of the Senate; is that correct?

Mr. FARR. Well, I frankly am not sure whether the Indus Development Fund Agreement is a treaty which is ratified by the Senate.

Mr. PASSMAN. I do not think so.

Mr. FARR. I do not think it is.

(Information subsequently supplied follows:)

LEGAL CHARACTER OF INDUS FUND AGREEMENT

The Indus Basin Development Fund Agreement is an executive agreement entered into pursuant to the authority of the Mutual Security Act of 1954, as amended, and did not require Senate consent.

ORIGINAL COST ESTIMATES

Mr. PASSMAN. The AID people had to make the recommendations, and approve the estimate; is that not right?

Mr. FARR. Well, the AID people have never done the cost planning.

Mr. PASSMAN. Who arrived at the cost of $895 million as being the magic figure to take care of replacement?

Mr. FARR. Well——

Mr. PASSMAN. Do you not think we are entitled to know?

Mr. FARR. The Pakistanis and the World Bank did it, but——

Mr. PASSMAN. And the AID people took it that way and they did not go behind it.

Mr. FARR. No. There will not be unfinished dams and unfinished canals, but it will not be possible within that sum of money to contract for all of the canals that are necessary to transport water from the northern rivers down to the southern rivers. Only some of the canals can be financed. The World Bank is in a position where it can let a contract for only one more of the system of link canals. It cannot let the remaining contracts until the contributing governments or somebody comes up with some additional money.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. If we go to $895 million and stop, no doubt there will be a great deal of dissatisfaction. There would just be rather general turmoil, would there not?

Mr. FARR. That is right.

Mr. PASSMAN. As to why we ever started unless we were going to finish it?

Mr. FARR. That is right.

Mr. PASSMAN. Would you be in position to state to the Pakistanis, "You got us into this mess. We accepted your data as to the cost and we funded on that basis. We were misled and that is it"?

Mr. FARR. I do not think we would be in position to make quite that statement, sir.

Mr. PASSMAN. They got us into it. You said earlier you made the commitment based on a study made by the Pakistanis in connection with the World Bank, did you not?

Mr. FARR. Yes.

Mr. PASSMAN. If these people got us into the mess, why would you not be in position to say something of that nature to them? If we would make this kind of a commitment based upon engineering data they were so sure was correct, and they got you into it, why would you not say, "We have discharged our obligation and we are going to stop"? You have had a look at the money we have given Pakistan. Is it not in excess of $3 billion already?

Mr. FARR. It may be, sir. I do not know the figure.

Mr. GARY. He also said that there were some U.S. engineers mixed up in it.

Mr. FARR. There were.

It would be a very difficult thing for the United States to take the position we would not contribute anything toward the completion of these works.

(Discussion off the record.)

Mr. PASSMAN. I wish you would give us some information now as to what American engineers got involved in this matter.

Mr. FARR. They were engineering firms which were hired by the Pakistan Government.

There were a number of such firms, very good ones.

Mr. PASSMAN. Could you provide us with a list of the firms?

Mr. FARR. I certainly can, sir.

Mr. PASSMAN. How about our own Corps of Engineers?

Mr. FARR. They were not involved; except that the chief engineer working for Pakistan was former head of the Corps of Engineers.

Mr. PASSMAN. What was his name, Wheeler?

Mr. FARR. Wheeler works for the Bank. General Itschner is on contract with the Pakistan Government.

Mr. FARR. No. There will not be unfinished dams and unfinished canals, but it will not be possible within that sum of money to contract for all of the canals that are necessary to transport water from the northern rivers down to the southern rivers. Only some of the canals can be financed. The World Bank is in a position where it can let a contract for only one more of the system of link canals. It cannot let the remaining contracts until the contributing governments or somebody comes up with some additional money.

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U.S. FUNDS OBLIGATED

Mr. PASSMAN. This is a pretty good kettle of stew here. How much have we funded already of our total commitment for the three segments? What has been the total amount that we have already obligated?

Mr. FARR. $235 million in all currencies.

Mr. PASSMAN. Could you give us a breakdown of the amount of it that is in rupees and in dollars?

Mr. FARR. The equivalent of $99.1 million in rupees. The entire $70 million loan has been obligated; although it has not all been disbursed.

Mr. PASSMAN. I am more interested in obligating, because you get behind that obligation curtain and we cannot get much of it back.

Mr. FARR. That is right, sir, $65.9 million of the dollar grants have been obligated. To recapitulate, it is $65.9 million grants, $70 million loans, $99.1 million worth of rupees, which I add to $235 million.

Mr. PASSMAN. Are the other members of the consortium meeting their commitments as originally agreed?

Mr. FARR. Yes, sir.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Good luck to you.

Mr. FARR. Thank you, sir.

PERCENTAGE OF PROJECT WHICH COULD BE COMPLETED UNDER CURRENT FUNDING

Mr. RHODES. Mr. Farr, could you give us an estimate as to what percentage of the project will be completed with this $895 million, sort of a ballpark guess? Will it be 40 percent, 50 percent, 60 percent, or what?

Mr. FARR. I honestly cannot. You are talking about two things. You are talking about physical facilities and you are talking about money.

Mr. RHODES. Let's put it on the basis of——

Mr. FARR. It depends upon what physical facilities you deem part of the works. That is what we negotiate on.

Mr. RHODES. Let me set the guidelines a little closer. You are supposed to bring into being a certain amount of water as an additional resource for Pakistan. Is that a fair statement?

Mr. FARR. The first thing which we feel, at least politically, obligated to do is to finance the construction of such canals and dams as are necessary to channel water from the northern rivers into the three southern rivers, which are being diverted by India. That we define as replacement works or works to replace the water which is being diverted by India.

Mr. RHODES. Can you do all of that?

Mr. FARR. No, we cannot.

Mr. RHODES. You cannot even do the replacement job for that?

Mr. FARR. No, we cannot.

ADDITIONAL FUNDS NEEDED FOR REPLACEMENT WORKS

Mr. RHODES. How much can you do?

Mr. FARR. In terms of money we presently estimate if an additional

$275 million of foreign exchange is put in, this could be accomplished. Now in addition to that $275 million of foreign exchange there would have to be some additional rupees, which it would be up to the Pakistan Government to contribute, so that you cannot simply add 275 and 895. You have got to add 895, 275 and then some additional rupees. I can tell you how many they are if you want to know.

Mr. RHODES. Please do.

Mr. PASSMAN. That makes it double.

Mr. FARR. Yes, pretty nearly. The total cost of the replacement works, including a special reserve of $28 million which would be necessary to indemnify the Indians at the rate of $9 million a year if the replacement works are not finished by 1970, is approximately $1,300 million.

Mr. PASSMAN. Would you repeat that figure?

Mr. FARR. $1,300 million. You will recall that the present resources pledged to the fund add up to $895 million, which leaves a shortfall in all currencies of approximately $405 million.

Mr. RHODES. So with the money which is projected, $895 million, you can complete about 70 percent of the job of replacement of water?

Mr. FARR. I guess you would say that.

DEVELOPMENTAL ASPECT OF INDUS PROJECT

Mr. RHODES. How much more is involved in this project? Are we supposed to go forward and do more than just replace water?

Mr. FARR. The language of the agreement talks in terms of replacement plus an element of development.

Mr. RHODES. In those words?

Mr. FARR. In those words. An element of development might be interpreted by the Pakistanis as an $800 million dam. We consider that to be much more than an element of development.

Mr. RHODES. A very ambitious interpretation.

Mr. FARR. That is right. We are thinking in terms of an element of development as being ———.

Mr. RHODES. Quite a spread.

Mr. FARR. And this would go a long way toward increasing the height of the Mangla Dam which we are financing, or it could finance a number of other projects.

(Discussion off the record.)

Mr. PASSMAN. Will the gentleman yield?

Mr. RHODES. Yes.

Mr. PASSMAN. They are on the receiving end. They have everything to win and nothing to lose. We do not have to go actually crawling to those people, do we, about this?

Mr. FARR. No.

NEED OF INDIA FOR WATER

Mr. PASSMAN. Are the Indians in need of all the water that they have diverted that would normally go to Pakistan? Is it in excess of their needs or not?

Mr. FARR. Is Arizona in need of all the water that it is getting from the Supreme Court decision?

Mr. PASSMAN. I do not know. What is the answer to my question? Do they need all the water?

Mr. FARR. The answer is that there is a great deal of vary arid land in the neighborhood of these rivers as they rise in India and there are

a great many people who are land hungry in India, so that certainly the Indians need more irrigated land and they need more power.

Mr. PASSMAN. They are not taking something they do not need and cannot use, but they are taking something that nature did not give to them; is that correct?

Mr. FARR. Well, the legal——

Mr. PASSMAN. I am not talking about the legal part. They are diverting water.

Mr. FARR. Rights to water are difficult to resolve in the United States and are even more difficult to resolve when you have two sovereign countries, particularly countries like India and Pakistan, with the pent-up hostility between them.

Mr. PASSMAN. Had it been left up to nature's way of handling it, of course, there would have been more of this water going to Pakistan rather than India because it is a manmade project that diverted it; is it not?

Mr. FARR. Yes.

Mr. RHODES. Off the record.

(Discussion off the record.)

Mr. RHODES. Thank you.

AMERICAN ENGINEERING FIRMS ASSOCIATED WITH INDUS PROJECT

Mr. PASSMAN. Give us some information on the American engineering firms.

Mr. FARR. You want to know the names of the American engineering firms.

Mr. PASSMAN. The name of the American engineering firms that Pakistan employed to develop this project for them. I can understand how AID can get involved, but I think we ought to find out the American engineers who got us into this. I would like to refer to it as a "mess."

Mr. FARR. May I make one observation because I do not like to have aspersions cast on American engineering firms.

Mr. PASSMAN. If they miss it by a hundred percent, I am interested in knowing who they are.

Mr. RHODES. Their own work indicts them. I would not try to defend them if I were you.

Mr. PASSMAN. We want to know who the engineering firms are who say, "Come along, this is it, get your money," and we find they are off 100 percent.

(Information requested follows:)

U.S. ENGINEERING FIRMS PARTICIPATING IN INDUS COST ESTIMATES

The following U.S. engineering firms participated in the preparation of cost estimates of the Indus works before execution of the Indus Treaty:

Harza Engineering Co. International;

Tippetts, Abbott, McCarthy & Stratton; and

Tipton & Kalmbach, Inc.

Mr. PASSMAN. Did AID finance the engineering contracts that the Pakistans employed them for?

Mr. FARR. I can answer that and the answer is "No."

Mr. PASSMAN. At least if they did it was indirectly. You pour $3 billion into a country, and you pay them the dollars, they have to get the dollars somewhere. The engineers did not work for rupees.

Thank you, gentlemen, we shall adjourn until 1 p.m. tomorrow.

TUESDAY, JULY 30, 1963.

LATIN AMERICA

WITNESSES

TEODORO MOSCOSO, ASSISTANT ADMINISTRATOR FOR LATIN AMERICA, AGENCY FOR INTERNATIONAL DEVELOPMENT
STERLING J. COTTRELL, ACTING ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS
REUBEN STERNFELD, DEPUTY ADMINISTRATOR FOR DEVELOPMENT PLANNING AND PROGRAM, AID
BARRY PASSETT, PROGRAM OFFICER, LATIN AMERICA, AID
JOSEPH CARWELL, DEPUTY DIRECTOR, OFFICE OF INTER-AMERICAN REGIONAL ECONOMIC AFFAIRS, STATE
HERBERT K. MAY, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS
EDWARD F. TENNANT, CONTROLLER, AID
HARRY ACKERMAN, CONGRESSIONAL LIAISON STAFF, AID
LEIGH M. MILLER, LEGISLATIVE PROGRAMS COORDINATOR, AID
STANLEY B. SCHEINMAN, LEGISLATIVE PROGRAMS COORDINATION STAFF, AID
TOM KILLEFER, U.S. EXECUTIVE DIRECTOR, INTER-AMERICAN DEVELOPMENT BANK
ALEXANDER ROSENSON, DEPUTY U.S. EXECUTIVE DIRECTOR, INTER-AMERICAN DEVELOPMENT BANK

Mr. PASSMAN. The committee will come to order.

We shall be glad to hear at this time from the Honorable Sterling J. Cottrell, Acting Assistant Secretary of State for Inter-American Affairs.

STATEMENT OF ACTING ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

Mr. COTTRELL. Mr. Chairman and members of the subcommittee, I am pleased to have this opportunity to appear before you to support the fiscal year 1964 AID program of the Alliance for Progress. The Alliance for Progress is based on a recognition of fundamental changes in the social, economic, and political fields in Latin America. It helps give form and continuity to those changes. It reflects the goals set forth in the Act of Bogotá and the Charter of Punta del Este, which calls for societies based on freedom and social justice to be achieved through self-help, basic reform, and external cooperation. The funds requested will be used to support self-help effort and increased political stability achieved in substantial agreement with U.S. political objectives.

IMPORTANCE OF ALLIANCE FOR PROGRESS

Our relations with the American Republics in the era of the sixties rests on the Charter of Punta del Este, signed by all of the members of the Organization of American States, except Cuba. It is perhaps more compelling than a treaty—it is a commitment to mutual efforts

freely undertaken by 19 Latin American countries and the United States to carry out social and political improvements, thus adding an essential dimension which was lacking in the good-neighbor policy of the thirties.

President Kennedy has described Latin America as "the most crucial area in the world today." For the Soviets, Latin America is an area offering unusual possibilities. Since the advent of Castro in 1959, Communist subversion in the hemisphere has been intensified, taking the form of infiltration and popular front action.

Castroism has recently cast a shadow of violence and bloodshed across some parts of the continent. The violence of Castroism has stemmed in part from pangs of frustration. Radio attacks and Fidelismo violence constitute honest and unimpeachable testimony to the increasing difficulties met by Communist subversion. Despite Castro's drive to export subversion throughout Latin America his conquests have been small. Indeed there is evidence that for the present he has lost ground even among groups who once looked upon him as a hero. Latin Americans are learning that Castroite terrorism brings them privation and suffering. We have learned that, when a better way opens before them, they will tend to reject violence.

ROLE OF THE ALLIANCE

The Alliance for Progress and all related endeavors perform a double role in this shrinking world. On the one hand they contribute positively to the establishment of a healthy relationship between the United States and our neighbors. On the other hand, it contributes to economic and social growth of the Latin American countries. Changes are never wholly popular. The forward movement of any program must spark controversy and the Alliance is no exception to this rule. Yet differences over tactics cast no doubt on our strategic commitment to achieve the goals of this 10-year effort, called for by President Kennedy in his address of March 13, 1961, on the Alliance for Progress. In this address he stated that:

> Our hemisphere's mission is not yet completed. For our unfulfilled task is to demonstrate to the entire world that man's unsatisfied aspiration for economic progress and social justice can best be achieved by free men working within a framework of democratic institutions.

OBJECTIVES OF THE ALLIANCE

We hear two kinds of criticism of the Alliance for Progress. Some people are troubled by the weakening of old institutions. Others are convinced that change comes far too slowly. Between these two extremes we must be guided by practical and limited goals. Always we work within the climate of a given way of life, cooperating with people, attack specific evils and to reach specific goals. The first objective of the Alliance has been to halt the deterioration of the Latin American economies, and to achive a measure of aggregate economic growth.

Those in this country and in Latin America who complain that the Alliance is too slow should remember that stunted economic growth and political instability cannot be corrected in a few years. Progress is social and political as well as economic.

ACCOMPLISHMENTS OF ALLIANCE

What the Alliance has accomplished thus far is to halt the deterioration of the Latin American economies and to concentrate attention on positive, constructive goals. There are impressive signs of improvement. Estimates of gross national product in 1962 shows an increase of over 4 percent over 1961 levels for the region as a whole, except for Argentina which shows the only decline, one of over 3 percent. Export earnings of the Latin American Republics in 1962 reached record levels and were 6 percent higher than in 1961, despite decreases suffered by Brazil, Guatemala, and Uruguay. The preliminary figures for 1963 show a further upward trend with export prices relatively stable. Increased earnings by most countries stemmed largely from increases in the volume of export sales. Argentina, the Dominican Republic, Haiti, and Nicaragua showed increases in export earnings over 1961 in excess of 20 percent. Ecuador, El Salvador, Mexico, Paraguay, and Peru showed increases ranging from 10 to 20 percent. Most remarkable of all is that export earnings in 1962 were over $1 billion higher than in 1954, when prices of Latin American export commodities were at an all time high. This clearly demonstrates the underlying vigor and dynamism of the Latin American economies.

The growth in GNP in 1962 over 1961 and the increase in export earnings has permitted Latin American countries to remain the best customer for U.S. goods and services. Exports from the United States to these countries reached $3.2 billion in 1962.

A series of measures are now underway further to strengthen Latin American export earnings. Among the most important are the proposed International Coffee Agreement, the IMF program to stabilize export receipts (compensatory financing), the proposal for export financing adopted at the recent Caracas meeting of the Inter-American Development Bank, and a variety of other efforts to reduce restrictions on the import of Latin American products, particularly in European markets.

PROGRESS IN ECONOMIC INTEGRATION AND DEVELOPMENT PROGRAMS

Considerable progress has been made in integrating the Central American Economies which by mid-1966 will have completed the formation of a common market. No area in the world today compares with Central American determination to proceed with full economic integration. As an economic association it provides for the free movement of persons, goods, and capital across natural borders.

As the European Common Market began to take shape, nine South American countries and Mexico adhered to the Treaty of Montevideo of 1960 bringing into being the Latin American free trade area. It is at present a mechanism for conducting reciprocal negotiations for the reduction of tariffs over a 12-year period. At the end of that period, a free trade area should become operative. The creation of regional markets should help break down internal artificial rigidities and stagnation in production. This would provide an incentive for increased investment by domestic and foreign enterpreneurs. As the European experience has shown, once Latin American countries learn to cooperate among themselves, they will be able to compete better in world markets.

With increasing vigor, the Latin American countries both unilaterally and through the various organs of the Inter-American System are forging tools which will help chart the direction of peaceful change through well-defined long- and short-range economic development programs. The practical lesson gained from this activity is it is necessary to involve as many different sectors of society as possible in the formulation of the policies of change. For there is a growing belief in Latin America that until people have a role in economic progress, there will be no economic progress.

STRENGTHENING OF INTERNAL SECURITY AND CONTROL OF COMMUNIST SUBVERSION

We witnessed last October the Soviet-Cuban attempt at nuclear blackmail. This was followed by internal Communist subversion and guerrilla warfare in Peru and Venezuela. The insidious character of this type of warfare has created new requirements for training and equipment for the Latin American military and civilian security forces. Many of the governments of Latin America moving through difficult, formative periods of democracy look to us for help in developing the special capability required to deal with forces of disorder. They must seek out and take into custody loads of arms and bands of men that move clandestinely across their land, sea, and air borders for subversive purposes; must deal effectively with public disorders in cities; and must prevent or control guerrilla outbreaks in rural areas.

Recognizing the threat of Castroism, President Kennedy and the Isthmian Presidents met in San Jose March 18–20, 1963. In accordance with the decisions taken by the Presidents, the ministers of the respective countries responsible for internal security met in Managua, Nicaragua, on April 3–4 to develop common measures to control subversive activities. At that meeting, the ministers agreed to recommend to their governments the taking of steps to: (1) prohibit travel to Cuba of Latin Americans for training in subversion; (2) impede clandestine movement of arms into the Isthmian countries; (3) prevent the introduction of subversive Communist propaganda materials; (4) establish a cooperative system of surveillance to impede clandestine movement of persons, propaganda materials, and arms for subversive purposes; (5) establish organizations in each country to counteract Communist subversion in the isthmus; and (6) to consult further on ways to combat subversion.

On July 3 the Council of the Organization of American States approved the transmission to member governments of the LaValle report containing recommendations to deal with travel to Cuba for (a) training for subversion in Latin America and (b) flow of subversive propaganda from Cuba and (c) the transference of funds to support Castro-Communist subversive activities in the hemisphere. In transmitting this report to member governments, the Council urged that implementation of specific measures be taken as rapidly as possible. The report provides bases for (a) unilateral action in dealing with the Communist subversive threat and (b) cooperation among governments to strengthen unilateral actions.

PUBLIC SAFETY AND CIVIC ACTION PROGRAMS

However, the strengthening of the internal security posture of these forces cannot be considered apart from social and economic development since each contributes to the progress of the other and both are essential to halt Communist ambitions. In developing internal security programs for Latin America, we have found that the civil police forces in many countries want assistance in police administration, training, and operational techniques, and particularly require greater mobility and more adequate communications, largely related to riot control and other threats. Consequently, the public safety program is planned to meet these requirements. Closely allied to, and an integral part of our internal security programs are civic action programs which are designed to contribute to economic and social development by using the valuable skills and resources of the armed forces of the Latin American countries in improving the welfare of the people and contributing to the economic growth of the nation.

POSITIVE ROLE OF LATIN AMERICAN MILITARY

It is most heartening to observe the increasing awareness of the Latin American military of the immense good to be derived by their contribution in the field of civic action. In some countries, they aid the local populace of depressed areas in the construction of school buildings, pure water supplies and access roads; they provide for periodic visits of medical teams to isolated areas to improve health conditions and to advise on methods of improvement in sanitation and prevention of disease; they furnish military inductees with occupational training which will increase their contribution to the national economy after release from service; and in other countries, they contribute to colonization of remote areas by building airstrips, delivering construction materials, and transporting colonists to their destination. Thus, by assisting the peasant or rural dweller to identify himself with the national government and realize that the military representatives have his interest and future in mind, the military in Latin America can and are establishing themselves in the public mind as a constructive and economically responsible element in the national life.

Considerably more emphasis is being given in our programs on training selected Latin American military personnel in our military schools in the United States and the Canal Zone in riot control, counterguerrilla operations and tactics, intelligence and counterintelligence, public information, psychological warfare, and other subjects which will contribute to the maintenance of public order and the support of constitutional governments.

Political democracy is rapidly gaining ground throughout Latin America and the military in recognition of this fact have become defenders of constitutionalism. This year we have seen both in Peru and Argentina the military concerned with constitutional succession and withdrawing from the political scene following the election of a head of state. In Ecuador where a military junta seized power, one of its first acts was to set a time limit within which to hold a democratic election. What the Latin American military appears to have learned is that to govern effectively requires the loyal support of the electorate.

U.S. CONTRIBUTION TO THE ALLIANCE

We are living in a shrinking world with increasing proximity to each other of people of different income, or different political traditions, of different social standards. This increasing proximity has in past eras led to tensions and antagonisms. Fortunately, the U.S. experience has provided a key to the solution of this problem. We have lived by the simple rule that people who work together for common goals and mutual interest achieve a measure of concord. This concord issues from peoples need for each other in economic accomplishment and political stability.

Those in Latin America who minimize the U.S. contribution to the Alliance because it constitutes only one-tenth of the projected financial investment in this "decade of progress" do not minimize the spark that this contribution has inspired. The manner in which the U.S. contribution is utilized, the careful choice of purposes, has the result of bringing about maximum stimulation and at the same time a deeper understanding of the task upon which we have embarked in the Alliance. In requesting AID funds, we are mindful of the responsibility to continue our quest for those directions of effort which will enable the Latin American countries to increase their per capita income, raise their standard of living, improve production methods, build low cost houses, help provide educational opportunities for the people.

In the achievement of these goals lies the most effective force in the building of dynamic societies. In requesting these funds for the Alliance for Progress, we are utilizing economic means to achieve political goals—namely the safeguarding of their political independence without which their security and our security is constantly threatened.

Mr. PASSMAN. Thank you, Mr. Secretary.

We shall now hear from the Honorable Teodoro Moscoso, Assistant Administrator for Latin America, Agency for International Development.

STATEMENT OF U.S. COORDINATOR, ALLIANCE FOR PROGRESS

Mr. MOSCOSO. Mr. Chairman and members of the committee, I am pleased to come before you to discuss the fiscal year 1964 program of the Alliance for Progress. My purpose today is to outline the basis for our request for appropriations of the funds necessary for U.S. participation in the Alliance, and to try to answer your questions.

AID AND THE ALLIANCE

The proposed program for fiscal year 1964 compared with actual authorizations and obligations in fiscal year 1962 and preliminary authorizations and obligations in fiscal year 1963 follows:

[In millions of dollars]

	1962	1963	1964
Development loans	288.7	[1] 342.8	602.0–722.0
Development grants	82.3	[1] 121.5	[2] 105.0
Supporting assistance	107.2	104.4	17.7

[1] Includes bilateral inter-American program for social progress funds.
[2] Includes $11,200,000 for Latin American share of nonregional program expenses.

FISCAL YEAR 1964 REQUEST

The request is made up of new appropriations of $550 million for development loans, $100 million for development grants, and $17.7 million for supporting assistance. In development lending, we foresee loans on the basis of requirements above the $550 million request, within the range of $602 to $722 million. To achieve this level, all the unutilized funds from the past year will be necessary. In addition, the region has programed $5 million of grant fund recoveries for reobligation. This year, we are also requesting an additional $200 million for the Inter-American program for social progress, the program for which the Congress appropriated funds in May 1961. Of this, $195.5 million will go for increased lending authority to the Social Progress Trust Fund, under the trust agreement between the United States and the Inter-American Development Bank. An additional $4.5 million is requested to carry forward special projects of the Organization of American States.

INSTRUMENTS OF U.S. PARTICIPATION IN THE ALLIANCE

The United States participates in the Alliance for Progress through several institutions. Food for peace utilizes our farm surplus in the pursuit of U.S. policy and humanitarian interests. The Export-Import Bank makes hard loans favoring U.S. suppliers. The Peace Corps provides a person-to-person transfer of skills and democratic attitudes. In addition, the international lending agencies continue to assist private enterprise and public infrastructure projects, such as roads, communication systems, and power as well as stabilization programs in Latin America.

ACTIVITIES OF SOCIAL PROGRESS TRUST FUND

The Social Progress Trust Fund supports housing, water supply, land settlement, and higher education activities essential to the success of the Alliance charter goals. The Trust Fund has been a significant force in carrying forward the self-help and multilateral orientation of the Alliance for Progress.

As of June 30, the Trust Fund had made 64 loans which, with technical assistance and administrative costs, amounted to $357 million. Of these loans, $157 million went for housing, $112 million for water supply and sanitation, $67 million for improved land use and settlement, and $13 million for advanced education. Some $8.7 million has gone for technical assistance and administration. As of June 30, the Trust Fund had $37 million left to lend against priority applications amounting to over $300 million. The $37 million is earmarked for loans for which approval is imminent within 60 days. During the life of the Trust Fund, applications in excess of $1 billion have poured in—notwithstanding the fact that, when it became apparent last summer that the Trust Fund could be overcommitted within its first 18 months, a deliberate effort was made to discourage new applications.

AID'S ROLE IN THE ALLIANCE

With the AID's portion of the Alliance funds, we have tried to establish a new mode of operations, a break from the past. Our

emphasis is on a program of building continuing and self-sustaining institutions—school systems, credit institutions for private businessmen and farmers, and many others which are vital elements in our own free society. These institutions are designed to help the Latin American nations move ahead with self-help and reforms, as required under our aid agreements.

The principal tool through which we aim to effect long-run growth is the development loan. Latin America is not an area which merely needs some economic stimulus as provided by the hard loans of the Export-Import Bank and World Bank. Nor are all the countries in a purely preliminary growth stage in which the primary requirement is the basic know-how necessary before major development can begin. Most of Latin America lies between these poles. These nations are taking first steps—planning, stabilization, tax reforms, building of modern institutions—on the path of major evolutionary change. Our aid is marginal but it can provide the impetus for such developmental change.

As an example, let us take a savings and loan system. Technical assistance alone will not suffice to set it up. We may have to provide the seed capital to get it started. Time is needed to lay the groundwork, develop the machinery, and get the operation moving. It will not come about under the requirement of repaying, in 5 or 10 years, funds for a project which will be capable of returning initial capital only after a much longer time.

The development loan or credit is not, in a purely economic sense, as favorable to the United States as a hard loan, but it is what development in Latin America requires. It does mean that upon its fruition the United States can expect both the achievement of central Alliance objectives and the return of U.S. dollars.

INTER-AMERICAN PROGRAM FOR SOCIAL PROGRESS

The loans which the Social Progress Trust Fund has made and the technical assistance given by the Organization of American States have contributed a strong multilateral influence for reform. I cannot overemphasize the significant role which these organizations, working with funds appropriated by Congress for the Inter-American program for social progress, have played in creating the climate for self-help and development which now exists in Latin America.

For example, the Trust Fund's high standards and the IDB's willingness to refuse projects of less than top priority have helped to raise the standards for sound planning and project preparation all over Latin America.

REFORMS ACCOMPLISHED

As pointed out by the Clay Committee, the Alliance is a long-term venture of great scope and complexity, "and the Alliance should not be judged on whether it has accomplished in 2 years what must take much longer." As we look back, however, at our program's operation over the past 2 years we find a great measure of satisfaction.

Major fiscal reform programs are underway in 11 countries: Argentina, Bolivia, Brazil, Colombia, Chile, Costa Rica, Dominican Republic, El Salvador, Mexico, Panama, and Venezuela. Seven

other countries have improved their tax systems and administration or have fiscal reform legislation pending.

Venezuela, the Dominican Republic, Colombia and two States in Brazil have initiated major land reform programs. Other, more limited land reform programs, are underway in Chile, Panama, Uruguay, and Central America. Trust Fund and AID efforts in farm credit, resettlement, and increasing production are helping move the reform effort forward.

Seven Latin American countries have submitted development plans to the OAS Panel of Experts: Colombia, Chile, Bolivia, Mexico, Venezuela, Honduras, and Panama. Brazil, Ecuador, Peru, and others are expected to submit plans shortly.

There are self-help housing programs in Argentina, Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Panama, Peru, and Venezuela. Of the 162,000 housing units financed under Social Progress Trust Fund programs, over 40 percent will be built under aided self-help and mutual aid systems, where families participate directly in the construction of their homes. Savings and loan associations have been or are being established in Argentina, Chile, Dominican Republic, Ecuador, El Salvador, Guatemala, Panama, Peru, and Venezuela.

Private development banks have been established or are in the process of being established in seven countries: Bolivia, Brazil, Honduras, Panama, Colombia, Dominican Republic, and Ecuador. Other intermediate credit institutions for relending to small- and medium-sized private firms have been established in Peru, Mexico, and Chile. Investment guarantee agreements are in force between the United States and 17 countries.

ALLIANCE BASED ON MUTUAL CONFIDENCE

Our experience has shown us that, in order to meet the self-help and reform requirements of the Alliance, and in order to capture the imagination and confidence of the Latin American people, (1) we must be prepared to refuse to commit or to spend unless we are convinced that it will be in our national interest and (2) we must be prepared to offer U.S. assistance whenever a Latin American nation initiates the social and economic changes we are encouraging.

We have made our request for funds on our very best estimates, country-by-country, on what will be needed to fulfill the goals of the Alliance and our strategy for each country over the coming year. These estimates are based on the most careful analysis of each country's plans and prospects by U.S. country teams in the field, staff here in Washington, and in some cases through evaluation of national efforts by the OAS Panel of Experts or the World Bank.

The Alliance is based on mutual confidence. When this confidence is called into question, the Communists and other opponents of the Alliance are quick to jump on the entire concept of the Alliance and create those crises of confidence which lead to capital flight, political instability, and further disillusionment for the people of Latin America. Whether we fully utilize the funds requested will in the last analysis depend on Latin American performance. But if the United States is to enter into an undertaking, we must exercise leadership:

we must show our confidence, and we must have behind us the wherewithal to make the undertaking a success, provided the requisite conditions are met.

It should not be surprising that large amounts of our fiscal year 1964 program are planned for countries plagued by major political problems. If Latin America is to move from stagnation and instability to economic progress and political stability, the United States cannot turn its back on countries which are facing such problems. For example, Brazil is currently in the midst of a struggle to undertake difficult economic and financial measures designed to combat inflation. If our economic assistance is to be part of our total foreign policy to strengthen the forces of freedom and stability, we cannot sit back. We must meet Brazil's requests for assistance—if and as Brazil lives up to the Alliance's objectives of stabilization and growth.

Our aid is a great deal more than a banking venture, however. Through aid, we extend a hand to those fighting for common goals, a hand which must be extended firmly the more intense that struggle becomes. The hand has several fingers: the hemispheric multilateral institutions, such as the Social Progress Trust Fund and the OAS, are actively engaged in the struggle with us.

MAJOR PROGRAMS IN 1964

Major programs for fiscal year 1964 are as follows:

BRAZIL

In Brazil, the Alliance focus is on continued growth within a stabilized economy—vital to the solution of the major economic and political problems. The bulk of our development loan assistance, and that of other U.S. and international agencies, will be concentrated in fiscal year 1964 on the development effort. AID strategy is to provide development lending both on a project and a program basis. In addition, the United States has joined with the Government of Brazil in a series of special programs for the northeast where Castro Communists are concentrating their efforts. The United States will continue its assistance to improve the living conditions in seriously depressed communities, improve the human and economic resource base, and help improve land use and increase the food supply. The Trust Fund is helping Brazil's major effort to provide water and sewerage facilities, particularly in its great urban centers.

ARGENTINA

Argentina is coming out of a period of political and fiscal chaos. Throughout that period, Argentina remained firmly on the side of the United States and the Alliance in international affairs. Elections promised by the military after last year's coup have been held. The prospects for forward movement in this potentially rich country are good. The United States will assist in Argentina's attempt to increase farm exports by an average annual rate of 10 percent over the next 5 years. The Argentines will bear the bulk of the burden themselves. AID expects to help the Argentines work toward this goal by considering loans for agricultural credit and rural development.

The Trust Fund has a major housing development program in operation. This program will help to provide visible evidence of progress under the Alliance while the stabilization program takes hold.

COLOMBIA

Colombia's continued success in meeting Alliance goals depends on her ability to mobilize increasing amounts of domestic resources for development. Much progress has been achieved. Financial reforms, including devaluation, have been undertaken. The stable political situation and incentives to new private industry have contributed to a high investment level. The United States is playing a key role in the formation of an international consultative group, under the leadership of the World Bank, to provide the external financing called for in the Colombian development program. It is expected that the IBRD, the IDB, and DAC countries will be major participants. AID has been particularly active in helping Colombia to establish or expand intermediate credit institutions in industry, agriculture, and housing. This effort will continue in fiscal year 1964. The Trust Fund is helping to build housing for 80,000 people and to provide water and sewerage for 4 million.

CHILE

Chile provides a similar potential for accelerated self-help and progress toward Allinace goals. The Government of Chile has a strong general reform orientation—beginning with the politically courageous financial revaluation of last fall and extending to land, tax, and public administration reform efforts. The United States is supporting Chile's stabilization and development efforts by strengthening internal credit and financial institutions. The focus for 1964 is on improved public administration, private sector growth, rural improvement and education. The World Bank and the IDB are also expected to participate heavily in Chile's development program. The Trust Fund has major programs underway in housing, water, agriculture, and higher education.

Other major Alliance efforts will take place in Peru and Central America.

PERU

Peru's return to constitutional government offers great promise for the fulfillment of Alliance goals there. The U.S. program is designed to help the Peruvians move forward in tax reform, public administration and planning; and development of the depressed southern mountain areas.

CENTRAL AMERICA

Achievement of economic growth in Central America will depend both on the performance of the individual countries and on regional economic integration. Accordingly AID is providing some grant and loan assistance to national development programs, even as new assistance is shifted to the development of regional institutions: The Central American Bank for Economic Integration, a regional transportation program, and the creation of other facilities promoting Central American integration.

PRIVATE INVESTMENT

Economic assistance in fiscal year 1964 will continue to strengthen the vital role of the private sector. We recognize that, as the Clay Committee pointed out, public actions are often the keys to business confidence. Since the Latin American's themselves are financing 80 percent of Alliance investment, over $8 billion last year, this confidence must be nurtured. Public actions cover a whole gamut of monetary, fiscal, and investment decisions. To strengthen private enterprise and build confidence, we have actively supported stabilization and exchange reforms. Our experience in Colombia, Chile, and other major Latin American countries shows that less inflation means increased private investment. The financial reforms underway in several of the major countries are already helping to abate capital flight and to increase confidence in the business community.

GROWTH OF CREDIT INSTITUTIONS

In addition to our effort to help create conditions of stability in which free enterprise can flourish, AID and the IDB are moving directly to stimulate the growth of credit institutions which will have a long-range multiplier effect on productive investment in Latin America. Loans to agricultural development banks, industrial banks, and savings and loan associations are reaching the farmer, the small businessmen, and the homeowner directly. To be sure that these groups are helped and not burdened by such credit, we insist that the rates of relending be carefully controlled. They provide a means for those who, although eligible in the past, have been unable to gain credit from commercial lending sources. The new institutions help to create local savings, expand the tax base, and build confidence and entrepreneurial spirit among a new group of investors.

STEPS TAKEN TO ENCOURAGE U.S. PRIVATE INVESTMENT IN LATIN AMERICA

We have also taken steps to encourage U.S. private investment in Latin America such as the expanded use of investment guarantees. There is $260 million worth of investment guarantees active in Latin America today. We are promoting joint ventures, housing guarantees, investment surveys and local currency Cooley loans. The President is proposing a 30-percent tax credit for investment in less developed areas.

While a "wait and see" attitude has been present in many quarters, U.S. business firms are not fleeing Latin America. Certainly, in manufacturing there is a new inflow of U.S. capital. A $10 million assembly plant for one of Detroit's top automobile manufacturers opened in Venezuela this year. The Chase Manhattan Bank has invested in buying into banks in Brazil and Venezuela, opened new branches in the Caribbean, and generally expanded its activities in the region. As David Rockefeller pointed out in a speech in Mexico City the other day, many major U.S. industrialists are "bullish" about the investment future in Latin America. New net direct investment in manufacturing was over $100 million in 1962, and total investment, including reinvested earnings, depletion and depreciation allowances, was close to a billion dollars.

As I reported to you last year, we are continuing to encourage the participation of private U.S. organizations and individuals in the Alliance—labor groups, cooperatives, farm organizations, universities, business committees, and the like. For example, the American Institute for Free Labor Development has initiated a vital labor leader training program, is setting up a series of free trade union centers in Latin America, and is bolstering local union activities in social development fields.

U.S. ADMINISTRATION

We can also report progress in the solution of our own problems of administration and policy. Coordination between AID, other U.S. agencies, and the international institutions has improved. Coordination with the Inter-American Development Bank has been extremely close as our two new organizations have learned from each other. The DAC nations increased their long-term official and private capital flow to Latin America to some $300 million in calendar year 1962, a 50-percent increase over 1961. And we in AID have been able to focus our development effort more sharply; 75 percent of our development lending is programed for Brazil, Argentina, Colombia, Chile, and Central America. No AID development lending is programed for Venezuela this year. This nation has reached a point where she can, with technical assistance to strengthen her human resources and long-term loans from international banking institutions, continue to carry forward her development program from more conventional lending sources. We have terminated technical assistance activities in British Honduras and Surinam and closed out our AID missions. In Haiti, where it appears impossible to use economic assistance to reach U.S. objectives, we have cut off our development aid.

CONCLUSION

The Alliance is gaining speed. In some countries and in some cases, when self-help measures and performance on commitments have not been forthcoming, we have withheld our assistance. But across the board, in general economic progress and in self-help, the countries of Latin America have commenced a major new chapter in their 400-year history. The Alliance has brought into being 140,000 new houses and 8,000 new classrooms, it is supplementing the diets of one out of every four schoolchildren in the region. The Inter-American Development Bank, the OAS, and other regional institutions have provided great impetus for progress and development. We cannot let this process of social and economic change slacken.

Above all, there is a new spirit of solidarity abroad in Latin America. It is based on mutual confidence, under the Alliance for Progress. Above the disagreements and frictions that we read about from day to day—and that are natural in a continent in ferment—there was unity when it counted, last October, in the Cuban crisis. While the world watched this most serious postwar crisis with bated breath, the hemisphere republics stood as one.

Let us not forget that the Alliance for Progress is the framework within which we can anchor and institutionalize this basic unity of our republics in the continuing struggle for the preservation of the essential values of our free society.

Mr. PASSMAN. Thank you, Mr. Moscoso, for your comprehensive statement.

The committee will take a very brief recess to respond to the House rollcall.

(Brief recess.)

IMPORTANCE OF SUCCESS FOR THE ALLIANCE FOR PROGRESS

Mr. PASSMAN. The committee will come to order.

Let me say that I am thoroughly convinced of the importance of making the Alliance for Progress workable and successful.

I am also thoroughly convinced, regardless of the shortcomings in the program and the fact that funds far in excess of the needs for the program are being requested, that Mr. Moscoso is trying to do a good job.

Mr. FORD. Off the record.

(Discussion off the record.)

SPEEDUP OF AID TO PERU

Mr. PASSMAN. I would like to insert in the record a newspaper article headed "Peru President Sworn, Asks Aid Speedup." The article goes on to state:

LIMA, PERU, July 29 (AP).—American-educated Fernando Belaunde Terry was sworn in as President of Peru yesterday and called for a speedup in aid from the U.S.-sponsored Alliance for Progress.

(The article referred to follows:)

PERU PRESIDENT SWORN, ASKS AID SPEEDUP

LIMA, PERU, July 29.—American-educated Fernando Belaunde Terry was sworn in as President of Peru yesterday and called for a speedup in aid from the U.S.-sponsored Alliance for Progress.

The 51-year-old architect, whose inauguration ended more than a year of military rule, told a joint session of Congress he was grateful for the Alliance for Progress but that it must overcome certain faults.

"Otherwise there will continue to hang over Latin America the threats of discord and violence which must be banished from the continent," he said.

Mr. Belaunde criticized the requirement of detailed studies before projects are approved for Alliance aid. There might not always be time for such studies, he said.

Mr. Belaunde said prices for raw materials in Latin America are "ridiculously low" and must be raised to stamp out poverty.

"The times should be over in which prices are cut to the extent that men can be sacrificed in order to produce raw materials," he said.

Mr. Belaunde, embarking on a 6-year term as Peru's 68th President, was cheered by the crowd in the gallery as he entered the Chamber of Deputies.

Gen. Nicholas Lopez Lindley, leader of the military junta which seized power last July to prevent Victor Raul Haya de la Torre from winning the presidency, said the junta had kept its promise to turn over the Government to freely elected civilian leaders.

In the June election, Mr. Belaunde was high man and Mr. Haya de la Torre ran second.

COMPARISON OF FISCAL YEAR 1963 APPROPRIATION AND FISCAL YEAR 1964 BUDGET

Mr. PASSMAN. This program must work for Latin America and we must work together to see that it works.

I believe that in fiscal 1963 you had a request for $425 million for the Alliance for Progress development credits and $100 million for development grants, making a total of $525 million. Is that correct?

Mr. Moscoso. That is the correct appropriation.

Mr. PASSMAN. Could you tell us how much below that figure your 1964 request is? Since you did not need all the money we gave you last year, we thought maybe you had made adjustments.

Mr. Moscoso. The request is $550 million for development loans.

Mr. PASSMAN. Let us talk about the original budget request now. Is it down or up over last year?

Mr. Moscoso. It is above last year's.

Mr. PASSMAN. What amount are you requesting for the Alliance for Progress for fiscal year 1964?

Mr. Moscoso. $550 million for development credits.

Mr. PASSMAN. Is that the original budget request?

Mr. Moscoso. No.

Mr. PASSMAN. Let us deal with the budget request.

Mr. Moscoso. $600 million.

Mr. PASSMAN. The original budget estimate was $667 million, was it not?

Mr. STERNFELD. $600 million was the original budget estimate. It was amended down to $550 million.

Mr. FORD. Amended when and on what basis?

Mr. PASSMAN. I repeat, $667,700,000 was the original budget estimate; was it not?

Mr. STERNFELD. Just for development credits the original request printed in the President's budget message was $600 million in new appropriations. This was amended down to $550 million when it was estimated that we would have a carryover larger than originally estimated in the budget.

Mr. PASSMAN. I think you are mistaken and I think you want the record to show the facts. Your actual request was $667,700,000, and I refer you to page 11 of your own justifications. Let us either accept that as being the original budget estimate or let us cut it down.

Mr. Moscoso. This is supporting assistance?

Mr. PASSMAN. Development credits and supporting assistance.

Mr. Moscoso. $667 million is right.

Mr. PASSMAN. Is it $667,700,000?

Mr. Moscoso. If you include——

Mr. PASSMAN. The Social Progress Trust Fund?

Mr. Moscoso. $200 million.

Mr. PASSMAN. So the original budget estimate was $667,700,000?

Mr. Moscoso. That is right.

Mr. PASSMAN. So the increase is actually $342,700,000 over the fiscal 1963 appropriation?

Mr. Moscoso. Over the request?

Mr. PASSMAN. No; over the appropriation.

Mr. STERNFELD. Over the appropriation, $332 million.

Mr. PASSMAN. Is it not $342,700,000? And subsequently the President reduced or amended the budget request; did he not?

Mr. STERNFELD. No. This is the amended request, the figures you have before you.

Mr. FORD. On page 11?

Mr. STERNFELD. On page 11.

Mr. PASSMAN. The one in January was about $50 million higher; was it not?

Mr. MOSCOSO. Mr. Chairman, the comparison of these two figures would not be fair unless we mentioned in the year before we did not ask any funds for a program separate and apart from the program we are asking funds for now. We did not ask any funds for the social progress trust fund. If you were to add to the $525 million the $200 million available under the social progress trust fund, you will find it is $725 million.

Mr. PASSMAN. What we have to do is take your request for 1 year against your request the following year, because every year new programs are given birth.

Mr. MOSCOSO. But these are not new programs. The Social Progress Trust Fund is an old program.

Mr. PASSMAN. But if you exclude that fund you are still $142 million higher than fiscal 1963.

UNLIQUIDATED FUNDS AVAILABLE FOR LATIN AMERICA—ALL SOURCES

Could you tell us the amount of unliquidated funds to the credit of Latin American countries, all 16 spigots?

Mr. STERNFELD. Do you want gross for the World Bank——

Mr. PASSMAN. We are talking about U.S. funds, all spigots but not the World Bank. Of course we should include IDA.

Mr. MOSCOSO. May I give you the figure? The Alliance loan or credit, $510 million.

Mr. PASSMAN. Give the total.

Mr. MOSCOSO. For economic assistance, $995,702,000.

Mr. PASSMAN. That is economic assistance. Let us get the other spigots.

Mr. MOSCOSO. Supporting assistance, $71,387,000.

Military assistance, $81,377,000.

The grand total is $1,148,466,000.

Mr. PASSMAN. That sum does not include Public Law 480?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Can you give us the amount of Public Law 480, unliquidated?

Mr. MOSCOSO. We have the figures on the currencies.

Mr. PASSMAN. We want to deal with the unliquidated credits to see what the total available funds are.

Mr. MOSCOSO. $124 million total for Latin America up to December 1962.

Mr. PASSMAN. Now, have you included any of the banks, such as the Inter-American Development Bank?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Could you give us that unliquidated credit?

Mr. MOSCOSO. $241,300,000 plus $100,700,000, a total of $342 million on loans made through the ordinary capital and Fund for Special Operations of the Inter-American Development Bank.

Mr. PASSMAN. So according to those data, and not picking up any of the several other spigots, you have $1,614,466,000 in unliquidated funds to the credit of all Latin American programs with which you deal?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. But this does not include IDA?

Mr. MOSCOSO. No.

Mr. PASSMAN. What do you have in IDA now?

Mr. MOSCOSO. $60.8 million.

Mr. PASSMAN. How about the Export-Import Bank, unliquidated?

Mr. MOSCOSO. May I give you the World Bank?

Mr. PASSMAN. Not the World Bank. Let us go to our own money agencies. What is the Export-Import Bank unliquidated?

Mr. MOSCOSO. $388 million.

Mr. PASSMAN. That is a total of $2,063,266,000.

Mr. STERNFELD. Mr. Chairman, I think we gave you a figure on IDB which includes non-U.S. funds.

Mr. PASSMAN. How much of the $60.8 million would be non-U.S. funds?

At least this much is available in the pipeline for disbursement in future years, with the exception of whatever amount of non-U.S. funds is in IDB?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. That is still a lot of money and I am sure you want to put all the figures together, the same as I do.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Mr. Director, did any countries, territories, offices, or other units receive any economic assistance from the United States for the first time in fiscal 1963 in your area?

Mr. MOSCOSO. New countries?

Mr. PASSMAN. Or territories or offices or other units?

Mr. MOSCOSO. No, sir; no new program in any of these countries.

NEW PROGRAMS IN FISCAL YEAR 1963

Mr. PASSMAN. The question is, Did any countries, territories, possessions, units, or offices receive any economic assistance from the United States in 1963 that had not been receiving aid in prior years?

Mr. MOSCOSO. The only thing I can remember is the Caribbean Commission that received about $110,000, I believe. That is the only thing I can think of.

REGIONAL OFFICE FOR CENTRAL AMERICA AND PANAMA

Mr. PASSMAN. What about ROCAP?

Mr. STERNFELD. That was in existence last year.

Mr. PASSMAN. Did you justify funds for both of the items last year?

Mr. FORD. What is ROCAP?

Mr. MOSCOSO. Regional Office for Central America and Panama. This is an attempt to try to assist the Central American countries in integrating their facilities and becoming one single trading area.

Mr. PASSMAN. Can you tell us when you justified this item and the page of the hearings?

Mr. MOSCOSO. On page 12 of last year's presentation book under "Proposed fiscal 1963 program" you will find Central American region, $4,500,000, last year.

Mr. STERNFELD. And we discussed this item before the committee, Mr. Chairman.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. MOSCOSO. Mr. Chairman, on July 25, last year, on page 43 of the hearings, you will find near the bottom of the page an explanation of the proposed economic integration of Central America, and I mentioned there the establishment of the regional group.

Mr. PASSMAN. Page 1 of the justifications indicates you propose to transfer $10 million from the Alliance for Progress grants to supporting assistance in fiscal 1963. Did this transfer occur?

Mr. STERNFELD. Yes, sir.

Mr. MOSCOSO. It did occur; yes, sir.

DEVELOPMENT GRANT TOTAL FOR 1963

Mr. PASSMAN. What was your final Alliance for Progress development grant total for fiscal 1963?

Mr. MOSCOSO. $121,500,000.

INVESTMENT GUARANTEE AGREEMENTS IN LATIN AMERICA

Mr. PASSMAN. Does the United States have an investment guarantee with each country or territory which is scheduled to receive economic assistance in fiscal 1964?

Mr. MOSCOSO. We do have, except with Brazil and Mexico. We have a partial agreement with three countries, and we have agreements with the rest of them.

Mr. PASSMAN. Partial agreements?

Mr. MOSCOSO. Yes, in the sense that they do not provide the same coverage as the others.

Mr. PASSMAN. Is there a question of these governments not being willing to enter into agreements, or is it that you have not had time to negotiate the final agreements?

Mr. MOSCOSO. I would say, Mr. Chairman, it is probably the latter; that we have not perhaps devoted as much time as we should to convince these countries of the desirability of making these agreements.

Mr. PASSMAN. Do they need any convincing to be honest and fair with us?

Mr. MOSCOSO. Yes, sir; they do, because we have to take into consideration, Mr. Chairman, that there is a considerable amount of nationalism which makes some of the countries in Latin America pretty much the same as Canada and Australia—they are a little bit leery of too much of the means of production being owned by one single country.

Mr. PASSMAN. Would you, Mr. Director, tell us your understanding of the investment guarantee agreements?

Mr. MOSCOSO. We have three types of guarantees.

Mr. PASSMAN. Let us take the most comprehensive one.

Mr. MOSCOSO. The most comprehensive is the extended risk guarantee, in which we cover any risk, but cover only about 75 percent of whatever risk there is.

Mr. PASSMAN. What are you covering them against?

Mr. MOSCOSO. We also have specific risk guarantees which cover them against war, expropriation, revolution, insurrection, or lack of convertibility of the currency.

Mr. PASSMAN. Devaluation of the currency, any manipulation other than what could be termed a formal depreciation. Is that spelled out? You could have a fluctuation of 2 or 3 percent over a period of years.

Mr. MOSCOSO. It is spelled out in the agreement.

Mr. PASSMAN. Why would they object to entering into an agreement as applied to expropriation?

Mr. MOSCOSO. We have agreements on convertibility with all countries except Brazil and Mexico.

Mr. PASSMAN. Have you a stipulation, saying "If your currency should lose 2 or 3 percent in purchasing power over a period of 5 years, the guarantee would apply," or does it have to be some planned——

Mr. MOSCOSO. There is a stipulation in the agreement.

Mr. PASSMAN. Do you remember what it may be?

Mr. MOSCOSO. No, sir; I do not.

Mr. PASSMAN. Why would any nation object to entering into an agreement that it would not expropriate the properties of foreign investors?

Mr. MOSCOSO. The expropriation agreements are in force in all countries except Brazil, Mexico, Chile, and Peru.

Mr. PASSMAN. Why would they object to entering into such agreements?

Mr. MOSCOSO. Some countries will object because there is a substantial ownership of some of their public utilities by foreign companies, and these Latin American countries feel that as they grow they should be able to operate their own public utilities. As you know, Mr. Chairman, right here in the United States it is possible at times for the States——

Mr. PASSMAN. I do not know of any property we ever expropriated, do you, unless it was some adjustment for freezing accounts?

Mr. MOSCOSO. Yes; there have been.

Mr. PASSMAN. Have we actually expropriated, just for pure meanness, foreign investments?

Mr. MOSCOSO. No.

COMAP REPORT ON INVESTMENT IN LATIN AMERICA

Mr. PASSMAN. Here is what I led up to:

U.S. INVESTORS REPORTED SHUNNING LATIN AMERICA

Investors are shunning Latin America because risks are too great and earnings too low, according to J. Peter Grace, an adviser to the Kennedy administration on the Alliance for Progress.

The investment climate is worse now than ever, Mr. Grace told a news conference yesterday, warning that the Alliance cannot stimulate Latin American economic development without substantial help from private capital.

This item is from the Evening Star, Washington, D.C., for Wednesday, April 10, 1963.

Mr. MOSCOSO. I agree with the last part of the statement.

Mr. PASSMAN. What is erroneous about the rest of it, that investors are shunning Latin America? This is serious business, and we shall have to call an ace an ace if we are ever to help these people. You agree to that, do you not?

Mr. Moscoso. Oh, yes; of course.

Mr. PASSMAN. You read the article, I am sure.

Mr. Moscoso. Yes, sir; in the first place, Mr. Chairman, this is a report which was not exactly agreed upon by all the members of the COMAP committee.

Mr. PASSMAN. But the majority approved the report; did they not?

Mr. Moscoso. There was so much to-do in the press, I never got to know whether any vote had been taken on this thing. The important thing is that a very substantial group of business people thought this was Mr. Grace's opinion. In other instances, that was not exactly the case. We have a great deal of information contrary to Mr. Grace's opinion that the investment climate is worsening.

CUMULATIVE U.S. AID TO BRAZIL

Mr. PASSMAN. Incidentally, how much have we given Brazil, which so far has not entered into this agreement? Could you give us the total amount of aid to this country?

Mr. Moscoso. Yes.

Mr. PASSMAN. Include all spigots.

Mr. Moscoso. Economic——

Mr. PASSMAN. Give us the total.

Mr. Moscoso. $1,736 million since 1946.

Mr. PASSMAN. Through when?

Mr. Moscoso. 1962.

Mr. PASSMAN. How about 1963?

Mr. Moscoso. May I say, Mr. Chairman, that they have already repaid $756 million of that, $791 million including interest.

Mr. PASSMAN. In local currency?

Mr. Moscoso. No, sir; in dollars.

Mr. PASSMAN. All right, the net is $1 billion that we have given. Why do they object to entering into this investment guarantee agreement?

Mr. Moscoso. Mr. Chairman, if it was a gift——

Mr. PASSMAN. A lot of it is a disguised grant, labeled development loans, and even my good friend, the economist from New York over here, called this thing by its right name, development credits.

Mr. Controller, what has been the total to Brazil?

Mr. TENNANT. $1,955 million through 1962. That includes military, Public Law 480, economic, and Exim.

Mr. Moscoso. I did not mention military. That would be added to that.

ADVISABILITY OF UNIFORM INVESTMENT GUARANTEE AGREEMENT

Mr. PASSMAN. I am just wondering if we could not have a uniform investors' guarantee contract and say: "This is it." We have never been accused of being unfair. We are generous. We want to help our neighbors. What if we just said: "This is the contract. We want to help you. We will help you. We will encourage private capital to come in. But it requires this type of contract."

Mr. Moscoso. Mr. Chairman, I think nothing would please some of the extreme leftist elements in the congresses of some of the Latin

American countries more than to have something like this happen. This would really put the economies of these countries into a tailspin.

Mr. PASSMAN. I do not know why, if they are only guaranteeing us that they will not steal from us or expropriate, legal stealing. We shall take a brief recess.

(Brief recess.)

Mr. PASSMAN. We have the reputation of being fair, generous, considerate, and helpful, and there is no reason in the world why we should not have a uniform contract. Then there would not be any question about these people coming in. When you are wishy-washy and they know they can continue getting aid without such a contract, why would they not operate on such a basis? That is human nature.

Mr. MOSCOSO. Mr. Chairman, I am not a lawyer, but I have tried to get into this quite deeply because I was just as concerned as you are, why. It so happens the Constitution of each country varies. Most of these agreements require that the United States be able to take certain positions in case there is a default and we have to make good on one of these guarantees. For instance, some countries have constitutions which do not allow foreign companies to own property in their countries.

Mr. PASSMAN. If they have such types of constitutions, then why do you not just stay out until they have a constitution and meet it?

Mr. MOSCOSO. The difficulty, Mr. Chairman, is that it does not sound too outlandish for a country to have in its constitution a prohibition against a foreign company's owning property within the country.

Mr. PASSMAN. I am not asking these people to go beyond reason, but you said earlier that the reason this thing had been held up was that you had not had time to negotiate.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You would not have to negotiate if you had a fixed document and said: "This is it. Take it and read it and see how you like it. If you are not in, you are not in, that's all." There would not be any bickering.

Mr. MOSCOSO. I wish it were that easy, Mr. Chairman.

Mr. PASSMAN. It is that easy if we just stop appeasing people and saying: "We have some money to give you, and we would like to do it on our basis, but if we cannot give it to you on our basis, we will do it on yours. How much, please?"

Mr. MOSCOSO. The trouble is that we are dealing with the private sector of the United States. In many instances they have markets which they want to protect. They want to go in there and manufacture and not let a foreign company preempt the market. They want us actually to come to terms with these people and work out these agreements. If we had——

Mr. PASSMAN. You indicated that you had such guarantees in all the countries but two or three or four.

Mr. MOSCOSO. That is right. We are getting to it now.

Mr. PASSMAN. Of course, this goes around the world. There are nations which have not yet actually worked out their constitutions. They know what is going on over here. If people are able to get aid without this kind of guarantee, in all probability they will insist on the same kind treatment, but that is enough as far as I am concerned.

I note you have proposed programs for British Guiana, Jamaica, and Trinidad for fiscal 1964. Are these units of government members of the Alliance for Progress?

Mr. Moscoso. No, they are not, Mr. Chairman. They are part of the Western Hemisphere, but they are not——

Mr. PASSMAN. Sure they are, just the same as Louisiana is in the Western Hemisphere, but that does not answer my question.

Mr. Moscoso. No; they are not.

Mr. PASSMAN. Thank you. Is each of them an independent nation now?

Mr. Moscoso. Jamaica and Trinidad are independent nations, of those three.

Mr. PASSMAN. Which ones are not independent nations?

Mr. Moscoso. Two are independent nations. Jamaica and Trinidad are now members of the U.N. and of the IBRD.

Mr. PASSMAN. Let us get the answer.

Mr. Moscoso. British Guiana is not an independent nation.

Mr. PASSMAN. Is that the only one?

Mr. Moscoso. That is the only one.

Mr. PASSMAN. Is British Guiana a possession of some other nation?

Mr. Moscoso. British Guiana——

Mr. PASSMAN. Is a possession or territory——

Mr. Moscoso. Of Great Britain.

Mr. PASSMAN. How much aid do you have requested for British Guiana for fiscal 1964?

Mr. Moscoso. $1,500,000.

Mr. PASSMAN. You know we are today in so much serious trouble with our gold reserves and our international balance-of-payments situation, and it is getting worse. And we are now borrowing money directly from some of the European nations. I wonder if we are trying to borrow money from the United Kingdom?

Mr. Moscoso. I would not know, Mr. Chairman.

Mr. PASSMAN. Do you have to get the United Kingdom's permission before you can start one of these aid programs in one of their territories or possessions?

Mr. Moscoso. I do not know the history.

(Off the record.)

Mr. PASSMAN. If you do not have the answer, some of the supporting witnesses may answer. Do you have to get the permission of the country of which they are a territory before you can give them aid?

Mr. Moscoso. I am told that we do have.

Mr. PASSMAN. Would we not look silly if we went to Great Britain and said, "We want to borrow some dollars that you have," if you have them, "to deal in commerce so we can give your territory down in Latin America some aid."

What useful purpose does it serve for this country to start aid programs in territories and possessions of these old countries such as France and Great Britain? Is not the obligation first that of what we call the metropole?

Mr. Moscoso. Yes, sir. In the case of British Guiana, as you know, Britain has proposed a constitution, and the granting of independence to British Guiana.

Mr. PASSMAN. I know, but that has not happened yet. That is like trying to figure out whether it will be a boy or girl before it happens. You can do a pretty good job of guessing.

Mr. MOSCOSO. I see the chairman's point.

NUMBER OF NATIONS RECEIVING U.S. AID

Mr. PASSMAN. You do know, of course, Mr. Director, that for fiscal 1964 we have an aid program planned for 95 nations and 4 possessions. That is the latest count. There may have been some more brought in since we were given that information.

Would it not cause you a little concern to think that out of 112 nations of the world, this thing has gotten so wild and woolly that in fiscal 1964—forgetting about those we had in earlier years that are out now, and there are a few of those which you can count on two hands and have some fingers left—you have a program for 95 nations and 4 territories? Does that fact worry you a little?

Mr. MOSCOSO. It would, because I would like to be sure that I know that I was getting something out of it. I think the United States is getting something out of it.

Mr. PASSMAN. I never said you are not possibly getting something out of it, but sometimes it is quite difficult to ascertain what it is.

This country has a public debt that exceeds, by $24 billion, the combined public debts of all the other nations of the world. We do not have sufficient gold to meet the demands, if they should be made, for even half what we owe, subject to call if other countries exercised that right.

If you include what it requires to support our monetary system, then you only have $3.5 billion in gold to pay off $25 billion, mathematically. Would that situation not warrant some consideration before we fool around and get in every nation of the world with an aid program?

Mr. MOSCOSO. Mr. Chairman, the national security of the United States is involved, and it is obviously desirable for the United States to have a program if it thinks that this is going to be to its benefit.

Mr. PASSMAN. I would agree with you if we could ever envision that our money reservoir is of the same dimensions as the Pacific Ocean and all you have to do is just tap it and start drawing out, and you have an inexhaustible supply of funds, but that is not true. We have to borrow money now from future generations, and there is no assurance we can ever pay it back.

I wonder why we do not use a little more common sense. We are in Communist nations with aid. We are in dictatorships. We are in neutralist nations. We are just as easy to make as the loosest one you ever met.

PHASING OUT OF U.S. AID TO BRITISH HONDURAS

Mr. MOSCOSO. Mr. Chairman, I want to state that I had taken two or three positions which have given me a considerable amount of satisfaction because I think it goes to show that we do not do these things unless there is a good purpose to be served.

For instance, British Honduras is going to be given independence, has been offered independence by the United Kingdom, and will be an independent nation.

Mr. PASSMAN. How many AID people have we there now?

Mr. MOSCOSO. We have closed what we had there. That is one of the comments I wished to make.

AID TO BRITISH GUIANA

Now, in the case of British Guiana, we have a problem which is well known by anybody who reads the newspapers, and I am sure the chairman knows it.

Mr. PASSMAN. Could you not get Great Britain alarmed over this situation?

Mr. MOSCOSO. ———.

Mr. PASSMAN. Why do you not let them take care of it? But, do you not know that the prospering nations such as Great Britain, France, and Italy, which have had phenomenal recovery, will not come in as long as we pick up their tabs? Why do you not turn one loose and see what they will do?

Mr. MOSCOSO. Mr. Chairman, the question is ———.

Mr. PASSMAN. ———.

Mr. MOSCOSO. ———.

Mr. PASSMAN. You are not selling the British, the French, and the Italians that short, are you?

How firm is the estimate for the British territory, British Guiana, which seems to be on the verge of going Communist, if it has not already done so?

Mr. MOSCOSO. This is primarily a technical assistance program.

Mr. PASSMAN. It is technical to the extent of $1,500,000.

Mr. MOSCOSO. $1,500,000.

Mr. PASSMAN. That is a lot of money. How much have we given this territory in the past?

Mr. MOSCOSO. We have given them $4.3 million through fiscal year 1963.

CLASSIFICATION OF INFORMATION

Mr. MINSHALL. Mr. Director, I have directed a similar line of questions to other regional directors. On page 81 of your justifications, you have a shaded or gray zone which means it is classified and not available for public consumption. It is marked "Confidential."

Why is this material on page 81 marked "Confidential"? About 90 percent of it is so marked. Half of it you can read in your daily newspaper.

Mr. MOSCOSO. This is a sensitive area.

Mr. MINSHALL. Why is it sensitive?

Mr. MOSCOSO. Take the third paragraph:

(Off the record.)

Mr. MINSHALL. Now let us look at the next column. Quoting from this same page:

According to the U.S. economic planning team, the rate of growth * * *.

You discuss the rate of growth. What is classified about the rate of growth?

Mr. MOSCOSO. I really do not see it.

Mr. MINSHALL. I could point out numerous instances. Maybe some of this should be classified, but by and large, most of this material is overclassified.

Mr. Moscoso. I could not agree with you more, Congressman. I do not see it as a classified matter.

Mr. MINSHALL. There are many other items like this. I do not want to take the committee's time now to point them out. I hope next time, before you bring the bill to this committee, you will go over this yourself and find out why they have made the classifications they have.

Mr. Moscoso. I will make a note of it and see that instructions are given to the peope who are responsible for this.

Mr. MINSHALL. They are gray-shade happy here, whatever you want to call it.

Mr. PASSMAN. In the same connection, page 81, to which I think you referred, ———.

They are practically to the other philosophy, but we believe we can buy them back to our side?

Mr. Moscoso. May I ——

Mr. PASSMAN. You may say anything you wish.

USEFULNESS OF ECONOMIC ASSISTANCE TO PREVENT SUBVERSION

Mr. Moscoso. I am grateful to have this opportunity.

I personally think that, properly used, economic assistance, with the reforms we require to be made in order to get it, is one of the ways of preventing outside forces from subverting democratically elected governments.

Mr. PASSMAN. What outside forces?

Mr. Moscoso. The Soviet bloc.

Mr. PASSMAN. If those people are inclined to go Communist, if they lean in that direction——

Mr. Moscoso. We should not push them.

Mr. PASSMAN. Certainly, do not push them. But do you have to give away the wealth of unborn generations, Mr. Director? You are trying to buy them away from following a philosophy that they obviously subscribe to.

Mr. Moscoso. Mr. Chairman, I hate to differ with you, but it so happens that I have had some personal experience with——

Mr. PASSMAN. Where?

Mr. Moscoso. I come from a part of the United States where, if we had not had an economic development program, there would have been a really difficult problem.

Mr. PASSMAN. Where was that place?

Mr. Moscoso. In Puerto Rico, with a net income per capita of $121 per year in 1940.

Mr. PASSMAN. It all depends on what you can buy with $121. I know Puerto Rico had a weak economy, but I could tell you stories of what many of us have had to endure in our lives, including myself, and we never thought about going Communist, we never thought about the Government giving us a handout. All we wanted was an opportunity.

ASSISTANCE TO BRITISH GUIANA

Mr. MINSHALL. Before you leave British Guiana, Mr. Chairman, I would like to ask one question.

How many people are there in the AID mission there?

Mr. STERNFELD. Eleven technicians.

Mr. MINSHALL. You are going to demonstrate to the people, and I quote:

through a small, well-placed technical assistance program, that the United States continues to maintain an interest in their social and economic well-being.

Describe this small, well-placed technical assistance program which costs $1.5 million.

Mr. MOSCOSO. It is right here, Mr. Minshall.

Mr. MINSHALL. Paraphrase that for us in capsule form at this point in the record.

Mr. MOSCOSO. To improve agricultural institutions and services to farmers; transportation, to conduct preliminary studies for the development of roads in the area; health and sanitation, programs to combat yellow fever and to eradicate filariasis.

Mr. MINSHALL. The total cost is $1.5 million and eleven people are in charge of these programs?

Mr. MOSCOSO. Eleven technicians.

Mr. MINSHALL. That is all I have, thank you.

SUSPENSION OF AID TO HAITI

Mr. PASSMAN. On Haiti, the original budget request, or estimate, was $1,700,000 in supporting assistance. That is grant aid for fiscal year 1964.

Is this estimate still firm, in view of the fact that our Government has suspended aid to Haiti?

Mr. MOSCOSO. Sir, the only program we have there right now at this moment is this humanitarian program——

Mr. PASSMAN. How about the $1,700,000? Do you still have the budget request in?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. How much do you have on hand unliquidated to the credit of Haiti at this time?

Mr. MOSCOSO. May I say why we have this program?

Mr. PASSMAN. Let me get this answer first.

I know malaria eradication is important.

Mr. MOSCOSO. We have Santo Domingo right next door.

Mr. PASSMAN. Let us get right down and discuss facts. How much do you have unliquidated to the credit of Haiti?

Mr. TENNANT. $9.5 million was our estimate of unexpended. I believe the actual unliquidated figure would be slightly under $5 million.

Mr. PASSMAN. In all spigots?

Mr. TENNANT. Yes, sir; military and economic.

Mr. MOSCOSO. It has all been shut off.

Mr. PASSMAN. How much have you deobligated from Haiti since the President reinaugurated himself?

Mr. MOSCOSO. This is another term.

Mr. PASSMAN. Since he elected himself to another term. You have deobligated $4.4 million?

Mr. STERNFELD. Yes; $4.4 million of supporting assistance and $200,000 of development grants.

Mr. PASSMAN. From what projects and funds did you deobligate this amount?

Mr. MOSCOSO. We do not have the information here. We will be very glad to supply it for the record, Mr. Chairman.

(The information supplied follows:)

Haiti—Deobligations of prior-year funds during fiscal year 1963

Project No.	Description	Amount deobligated
		Thousands
	Supporting assistance:	
521-A-12-AC	Roads, south peninsula	$334
521-A-14-AB	Rural credit	200
521-A-19-AA	Agricultural production	2,243
521-A-19-AA	Agricultural production (Artibonite Valley)	1
521-W-31-AF	Municipal street repair	2
521-W-31-AE	Port-au-Prince, Cayes Road	6
521-P-51-AA	Malaria eradication	13
521-W-52-AK	Water distribution construction	69
621-N-67-AB	Adult literacy	98
521-N-69-AA	Assistance to rural education	1,343
521-Q-75-AA	Public administration	54
621-W-76-AL	Haitian-American Development Organization, Central Office	50
521-Z-99-AA	Technical support	11
	Total, supporting assistance	4.424
	Development grant:	
521-A-12-AC	Assistance to public works department	2
521-W-12-AI	Cooperative service in public works	1
521-A-19-AA	Technical assistance in agriculture (Artibonite Valley)	7
521-W-19-AI	Cooperative service in agriculture	44
521-W-59-AA	Technical assistance in health and sanitation	16
521-W-59-AB	Cooperative service in health and sanitation	29
521-X-69-BB	Technical assistance in education	20
521-X-71-BC	Assistance, traffic control	1
521-W-99-AD	Poté Colé housing project	7
521-Z-99-AA	Technical support	2
521-Q-75-AA	Public administration	62
	Total, development grant	191
	Grand total	4.615

Mr. PASSMAN. How about the development credit for the airport in Haiti?

Mr. MOSCOSO. That has been suspended.

Mr. PASSMAN. I am not talking about suspended. Let us not get the word "suspension" mixed up with the amount deobligated, that you took out and used somewhere else.

Mr. MOSCOSO. No, that has not been deobligated.

Mr. PASSMAN. Why has it not been deobligated?

Mr. MOSCOSO. It has been suspended.

Mr. PASSMAN. You are talking about funds that we have suspended and not actually diverted to other purposes.

Mr. MOSCOSO. This has been deobligated.

Mr. STERNFELD. The $4.4 million, Mr. Chairman, was deobligations of supporting assistance funds which was reported to the committee in connection with the report on the use of deobligated money. We refused that $4.4 million on projects which had been earlier presented to the committee.

INCREASE IN FISCAL YEAR 1963 TRINIDAD PROGRAM

Mr. PASSMAN. You deobligated here and spent it and increased programs in Trinidad. Now you are coming in and asking for some of the money to be put back into the pipeline?

Mr. MOSCOSO. No. The deobligated funds which were used in the Trinidad program were used for projects which were presented.

Mr. PASSMAN. I did not say they were not presented, but you supplemented the original allocation to the same amount that you deobligated from Haiti. Is that a statement of fact?

Mr. STERNFELD. The program was increased by that amount.

Mr. PASSMAN. Is it a statement of fact?

Mr. MOSCOSO. You are right.

Mr. PASSMAN. There was a supplement to the original allocation?

Mr. MOSCOSO. In the case of Trinidad, yes.

PAYMENT TO DOMINICAN REPUBLIC FROM CONTINGENCY FUND

Mr. PASSMAN. Last year the committee had some discussion with you regarding the possibility and feasibility of using $22 million out of the fiscal 1963 contingency fund to reimburse the Dominican Republic for $22 million on their sugar quota. As you will recall, you and the chairman of this subcommittee had some correspondence dealing with this matter, and which finally ended up suggesting that you seek an appropriate authorization for this purpose.

How was this particular problem finally resolved?

Mr. MOSCOSO. Mr. Chairman, as you recall, there was a sugar bill at that time which was being considered by the Congress, and no resolution had as yet been made with regard to this matter. The question of time is important in this. There was no possible way that we could know in what manner this thing was going to be resolved.

The $22 million had become one of the significant political issues that had been taken up in the Dominican political campaign.

The decision was taken to utilize contingency funds to make available for developmental programs in the Dominican Republic this amount of money.

Mr. PASSMAN. Even after agreeing—I believe that you did—there should be a specific authorization, they used the contingency fund to give these people $22 million?

Mr. MOSCOSO. We thought——

Mr. PASSMAN. I am just asking the question.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. What happened to the court cases?

Mr. MOSCOSO. Those court cases, I understand, were withdrawn.

Mr. PASSMAN. Was that done as soon as we gave them the money?

Mr. MOSCOSO. No; I do not recall when it was done.

Mr. PASSMAN. Let us find out what date they were withdrawn, because I thought we agreed that there should be legislation, and you asked for specific authorization, did you not? When and where and how and at what level did they call that litigation off?

Mr. MOSCOSO. I can get that.

(The information follows:)

DOMINICAN REPUBLIC LEGAL ACTION

The Government of the Dominican Repubic's suit for return of the sugar fees was dismissed in February 1963, on petition of the GODR. The suit was dismissed with prejudice, which means that it cannot be reinstated. This action occurred under the Council of State Government, prior to the inauguration of President Bosch. The $22,750,000 grant agreement with the Dominican Republic was signed on March 12, after the inauguration of the new Government.

Mr. PASSMAN. I think they are taking us everywhere. I realize that this thing is as loose as can be but it looks as if occasionally we could keep our word to each other on something upon which we agree.

Last year a witness said specifically about another program, "Before we do anything or spend any money, we will come back and discuss it with you." They did so this year after they had spent $1,638,000 in inaugurating a $50 million program.

Have we given the Dominicans the $22 million? Has it been allocated?

Mr. MOSCOSO. It has been made available to them through the letter of credit system for U.S. procurement.

AID TO DOMINICAN REPUBLIC SINCE FALL OF TRUJILLO

Mr. PASSMAN. Will you tell us the total amount of our commitments to the Dominican Republic since this new regime came into power?

Mr. MOSCOSO. The new regime that come to power in January?

Mr. PASSMAN. It does not make any difference as long as you keep it within the meaning of the new regime or, we shall say, since Trujillo was assassinated.

Mr. MOSCOSO. $55.6 million.

Mr. PASSMAN. How many spigots have you put together there?

Mr. MOSCOSO. AID sources.

Mr. PASSMAN. How long?

Mr. MOSCOSO. Since the assassination of Trujillo.

May 30, 1961.

Mr. PASSMAN. In just 2 years we have committed ourselves to $55,600,000. If you had just given them $35,600,000 and said the other will be forthcoming when the court has handed down its decision, do you think we would have lost them?

Mr. MOSCOSO. Mr. Chairman, it is one of those things—unless it is lost, you never know for sure it would have been lost.

Mr. PASSMAN. Do you think they would have been any closer to us if you had made it $44 million rather than $22 million?

Mr. MOSCOSO. A political assessment was made by people who are trained in those things, and the political——

Mr. PASSMAN. This was a political judgment?

Mr. MOSCOSO. That is right.

These funds were not put in anybody's hands. These funds were used for projects for which we established a certain degree of supervision.

Mr. PASSMAN. If you send groceries to my house, it is reasonable to assume that I am going to eat out of the same groceries; is that not right?

Mr. MOSCOSO. That——

PAYMENT TO DOMINICAN REPUBLIC DURING PENDING COURT CASE

Mr. PASSMAN. I thought we had an agreement that it was proper that you get an authorization. This thing was pending in the courts. Now you come back this year and tell us, "No, we did not go through with the authorization. We gave them the $22 million. Then they withdrew the suits." You did not even permit the courts to decide the issues.

Mr. MOSCOSO. Mr. Chairman, at that time we thought that, in the preparation of the Sugar Act, there would be legislation inserted, and it was not possible because that Sugar Act was one of the most difficult pieces of legislation.

Mr. PASSMAN. You had something important pending, waiting for a court decision. Then you give the people the $22 million that you are in court to decide whether or not they had a legal claim to it.

After you gave them the $22 million, it is obvious then that the court would not hand down an opinion.

Anyway, I thought we concurred that we were pursuing it on that basis.

PROPOSED FISCAL YEAR 1964 ASSISTANCE TO DOMINICAN REPUBLIC

What amount do you have proposed for the Dominican Republic for fiscal 1964, all 16 spigots?

Mr. MOSCOSO. $———, of which $——— would be supporting assistance. Development lending is also contemplated.

Mr. PASSMAN. We are in accord, it was a political consideration by which we gave them the $22 million out of the contingency fund?

Mr. MOSCOSO. Yes; $2.5 million in grants and $——— in supporting assistance is the specific 1964 request, plus loans.

Mr. PASSMAN. Supporting assistance is grants, also, is it not?

Mr. MOSCOSO. Grants.

Mr. PASSMAN. It either is or is not. Is it a grant?

Mr. MOSCOSO. These will be grants.

Mr. PASSMAN. Is there any Public Law 480 aid in there?

Mr. MOSCOSO. $——— programed for next year.

Mr. PASSMAN. Let us put it all together. Also the military.

Mr. MOSCOSO. $———.

Mr. PASSMAN. What is the total?

Mr. MOSCOSO. $———.

Mr. PASSMAN. I read here:

> $22,750,000 has been programed to the Dominican Republic for urgently needed assistance for diversification of its economy which had been adversely affected by loss of income from sugar production and export. Contingency funds were used for such a cash grant to meet the demands upon its economy.

If it was a cash grant, it is budgetary support; is it not?

Mr. MOSCOSO. Yes; out of the contingency fund.

Mr. PASSMAN. It is budgetary support, though.

Mr. MOSCOSO. Mr. Chairman, I will tell you this is one of the finest pages of Latin American history written by the United States; the fact that we did what we did.

Mr. PASSMAN. You say it is a good investment?

Mr. MOSCOSO. Yes, sir.

We supported the dictatorship there for 31 years, Mr. Chairman.

CONTINGENCY FUND PAYMENT TO DOMINICAN REPUBLIC BASED ON POLITICAL CONSIDERATIONS

Mr. PASSMAN. If this regime turns into a dictatorship, we will still support them. It does not make any difference. Dictatorships get it just as freely as any others. However, I am just a little bit peeved about the fact that practically every day we uncover things where

the committee had an understanding that certain things would happen, and we find later that it happened, but we were not told about it or that it was done in a different way, as in this matter with the Dominican Republic.

Mr. Moscoso. I want to see we do have a complete record.

The impression one might get, and I do not think it is intended, Mr. Chairman, is that we do these things without rhyme or reason, without considering the interests of the United States, et cetera. I think we should give an opportunity to my colleagues——

Mr. PASSMAN. We are going to hear from them in future days. However, we shall get along with these money questions.

You have already said this other matter was on a political basis. You could not make it any plainer. It was budgetary support. You could not make that any plainer.

I know I made a statement of fact that you said we should have an authorization. We expected an authorization. We felt you would not give it away. Then you come along later and say that, based upon political considerations, we will give them $22,750,000 out of the contingency fund into their budget as a cash grant.

Mr. Moscoso. We have a democratically elected non-Communist government——

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

SECTION 202(B) COMMITMENTS

Mr. PASSMAN. Last year you indicated a possibility of the United States making a section 202(b) commitment to Colombia and possibly to Chile. Did either of these possibilities materialize during the fiscal year?

Mr. Moscoso. No.

U.S. AID TO EDUCATION IN LATIN AMERICA

Mr. PASSMAN. Page 32 indicates that you have $27,143,000 proposed for the development grants in the education sector. In addition to this estimate, how much did you anticipate would be made available under the development credit appropriation for capital construction?

Mr. Moscoso. Including everything, including training and——

Mr. PASSMAN. Everything in the education sector.

Mr. Moscoso. Over $100 million in all economic assistance for education. We can't give you the exact figure.

Mr. PASSMAN. Around $100 million. That is in the field of education?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. Do you have any hospitals or any hospital programs, either capital investments or grants for training, maintenance, and so on?

Mr. Moscoso. I don't recall any hospitals, Mr. Chairman.

Mr. PASSMAN. Or facilities in connection with hospitals?

Mr. Moscoso. Equipment?

Mr. PASSMAN. Yes.

Mr. Moscoso. We have some mobile health units operating in Central America. These are jeeps equipped——

Mr. PASSMAN. We shall take a short break to enable me to answer the phone.

(Discussion held off the record.)

Mr. MONTOYA. Mr. Chairman, was the previous questioning to elicit how much capital expenditures had been made and the answer was $100 million?

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

Mr. PASSMAN. We were talking about both segments of the educational program—development credits and the development grants. Put the two together and it is $100 million in Latin American for fiscal year 1964.

Is that correct?

Mr. MOSCOSO. That is the estimate.

Mr. PASSMAN. It could go higher?

Mr. MOSCOSO. Or lower.

Mr. PASSMAN. How does this proposal for fiscal year 1964 aid to education program compare with the fiscal year 1963 program, all segments of it, for Latin America?

Mr. MOSCOSO. This is about the same, Mr. Chairman.

Mr. PASSMAN. As the curtain has been drawn on fiscal year 1963, can you give us the exact amount spent in this field?

Mr. MOSCOSO. May we supply that for the record, Mr. Chairman?

Mr. PASSMAN. Yes.

(The information requested follows:)

Fiscal year 1963 program in education

The fiscal year 1963 obligation figures for education programs in Latin America are as follows:

	Thousands
Development grants (education projects)[1]	$33,755
Development grants (training)[2]	7,870
Development loans[1]	12,045
Public Law 480 (child feeding)	30,020
Peace Corps (education and training)	5,400
OAS education and training	4,100
Total	[3] 93,190

[1] Includes education components in other projects.

[2] Includes all AID participants training for Latin America in other than designated education projects. Training component which is built into the latter is an additional $451,000. This amount is included in the development grants (education) total above.

[3] Local currency loans and grants from Public Law 480 sales in Brazil will provide an additional $21,700,000 for school building and other educational purposes in northeast Brazil.

Mr. PASSMAN. You stated it was about $100 million. It could be higher or lower for 1963; is that correct?

Mr. STERNFELD. It is $100 million—subject to checking it.

We will supply the firm figure for 1963.

Mr. PASSMAN. You have a bilateral agreement with every country and territory scheduled to receive grant aid in fiscal 1964?

Mr. MOSCOSO. So far as I know we do.

TOTAL FISCAL YEAR 1964 U.S. SUPPORT TO OAS AND PAHO

Mr. PASSMAN. I note that the Organization of American States and the Pan American Health Organization are proposed to receive $2,-

850,000 and $2,300,000, respectively, in the 1964 grant program. In addition to these sums of money how much will these two organizations receive from other foreign assistance appropriations and from other U.S. appropriations—for example, the State Department?

Mr. MOSCOSO. I wouldn't have that information, Mr. Chairman.

Mr. PASSMAN. Can you get the information?

Mr. MOSCOSO. Yes; I would be glad to get it for the record.

(The information supplied follows:)

Contributions and grants to the Organization of American States

	Fiscal year 1962	Preliminary fiscal year 1963	Programed for fiscal year 1964
From Department of State—OAS, regular budget contribution	6,452	8,682	9,659
From AID—			
(1) Special Alliance for Progress grant: 1961 IAPSP appropriation, (pending request)	6,000		4,500
(2) Pan American highway survey, Darien	2,000		
(3) OAS, free world fellowship program		610	300
(4) Public information program		1,600	
(5) Dominican Republic election observers		57	
AID grants administered by State Department:			
(1) Pan American Health Organization:			
(a) Malaria	2,000	2,000	2,000
(b) Water	300	300	300
(2) OAS, technical cooperation program	1,850	2,200	2,300

FISCAL YEAR 1964 UNPROGRAMED LOANS

Mr. PASSMAN. Page 11 of the justifications indicates that you have a range of $32 to $40 million in unprogramed development credits; it that correct?

Mr. MOSCOSO. Unprogramed loans?

Mr. PASSMAN. Unprogramed development credits, a range of $32 to $40 million.

Mr. MOSCOSO. That is right, sir.

ILLUSTRATIVE NATURE OF PROJECTS PRESENTED TO COMMITTEE

Mr. PASSMAN. We are dealing with many uncertainities in this program, many wide ranges.

Other witnesses say these programs are illustrative, that the law is broad enough that they could, shall we say, vacate every project in this book and substitute new projects in their stead.

Under "Development credits" they do not know what projects or what programs or what countries they will give the money to until they get the money.

Is it your understanding that the language is that broad, that these are illustrative—not that you will but that you could, if you should decide to transfer these projects from, we shall say, flood control to a brick building somewhere, or what you justify for country X you can give it to country Y—is that your understanding of the program?

Mr. MOSCOSO. Insofar as lending——

Mr. PASSMAN. So far as having the legal right to do it?

Mr. MOSCOSO. Insofar as lending is concerned; that is correct. Insofar as——

Mr. PASSMAN. How about the other types of programs?

Mr. Moscoso. The other types of programs, this is the best estimate we can make.

Mr. PASSMAN. But they are illustrative. If you go according to the law, it is broad enough that you could transfer funds from one country to another, substitute one program for another, and you could, not that you will but you could, and still be within the law, void every program in this book and substitute new programs for them?

Mr. Moscoso. That is correct.

Mr. PASSMAN. That is a little loose; is it not?

Mr. MILLER. The statute does establish certain criteria for each of the categories.

U.S. CONTRIBUTION TO OAS AND PAHO

Mr. Moscoso. You wanted a quick answer to this information and it is here, Mr. Chairman, on the Pan American Health Organization. The U.S. makes a contribution to the OAS.

Mr. PASSMAN. That is the Organization of American States.

Mr. Moscoso. U.S. contribution is $8,688,000 in 1963.

The Pan American Health Organization is $3,392,000 for 1963.

UNPROGRAMED DEVELOPMENT LOANS

Mr. PASSMAN. To go back to page 11 of the justification, you have a range of $32 to $40 million in unprogramed development credits?

Mr. Moscoso. That is right.

Mr. PASSMAN. Could that item be considered a contingency account?

Mr. Moscoso. No, sir. These are the ranges of proposed development lending for those countries where there is an asterisk.

Mr. PASSMAN. It is unprogramed.

Mr. Moscoso. It is the total of the proposed programs for those countries.

Mr. PASSMAN. You have indicated in your justifications by country what the program is. This is an amount that you have entered as unprogramed which you may or may not use.

Is that correct?

Mr. Moscoso. If we do not get the loans we will not use them.

Mr. PASSMAN. I believe you misunderstood the question. You have many of these countries indicated here which will have certain funds.

Mr. Moscoso. That is right.

Mr. PASSMAN. Now we get to the bottom of the page and you put in from $32 to $40 million in an unprogramed category. Is that, plainly stated, a contingency account which could be used in addition to that part which you justified for each individual country?

Mr. Moscoso. In other words, if we took some of these unprogramed funds and used them——

Mr. PASSMAN. I am afraid you still do not understand. When you have added up all your programs by country, and I believe there are 20 in your area; is that correct?

Mr. Moscoso. For proposed development lending; yes.

Mr. PASSMAN. When you put together the totals by country, then in addition to that amount you have a range from $32 to $40 million unscheduled.

Mr. MOSCOSO. If we don't put——

Mr. PASSMAN. It is actually unscheduled. You have no program for it. You may or may not use the $32 to $40 million during the year. Is that correct?

Mr. MOSCOSO. It is the total program for those countries where the asterisks appear.

In each of these countries we have not indicated a specific amount and we have put down here under the program loans the range of funds that we believe will be utilized——

Mr. PASSMAN. But you may not have any.

Mr. MOSCOSO. We have an idea of what——

Mr. PASSMAN. However, you have no specific programs, as you say "unprogramed" for the $32 to $40 million.

Mr. MOSCOSO. Like all lending organizations, and I know that the chairman is familiar——

Mr. PASSMAN. One is contingency fund. The other people answered yes, it is a contingency account in that you have no specific programs.

Mr. MOSCOSO. In this case it is not a contingency because we know there will be development loans or credits requested of us from these countries in certain amounts.

Mr. PASSMAN. How do you know?

Mr. MOSCOSO. We have country missions——

Mr. PASSMAN. You are requesting for your area a total of $667,-700,000 which would go into several spigots. You have programs in this book which would add up to that total until you get into the unprogramed items. This is a supplement to any other program you may have. Is that correct?

Mr. MOSCOSO. It is included in the $667 million.

Mr. PASSMAN. I know it is, Mr. Director, but it is unprogramed.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You may or may not use it.

Mr. MOSCOSO. In any event, Mr. Chairman, all the amounts we are asking for development lending may or may not be used, but——

Mr. PASSMAN. This money would be more uncertain than the other parts of it?

Mr. MOSCOSO. No. The situation is this: In many instances where we have asterisks there now we have specified by this time a number of loan requests.

Mr. PASSMAN. Have you been told about this by some of your counterparts in other regions? Some of them recognize it as a contingency account and so acknowledge it? Are you guarding against the same thing?

Mr. MOSCOSO. I don't know about it.

Mr. PASSMAN. So far as I am concerned it is a contingency fund if you do not have programs for it. It is unprogramed.

Mr. MOSCOSO. If I may continue, Mr. Chairman. We have an asterisk before that country's name, for example. Nevertheless, we already have information from our mission to the effect that a loan request will be made for a private development bank——

Mr. PASSMAN. When did that request come in from a private development bank?

Mr. MOSCOSO. May of 1963.

Mr. PASSMAN. If everything worked out as it should have——

Mr. MOSCOSO. This would have appeared.

Mr. PASSMAN. If everything had worked out as it should have this bill would have moved possibly in May or early June. What we pass this year will be retroactive to July 1.

Had we examined you on this request sometime in February or March, and we hope to do so next year, the answer would be yes, there are no programs and it would have to be accepted as a contingency account. It is late in the year and you are getting requests now for this contingency money.

Mr. MOSCOSO. No, Mr. Chairman, and I will tell you why. We start to get the country assistance programs about the beginning of the winter or by the end of fall.

Mr. PASSMAN. A contingency is something unforseen and you have no specific program but they may be programed. Is that your understanding of a contingency—it is made available in the event you have programs which develop after you get the appropriation?

Mr. MOSCOSO. We have been trying to get together this development bank for quite a while.

Mr. PASSMAN. I want to know if we have the same understanding of a contingency. It is an amount put in the bill to meet emergencies for which there is no ready program but during the year something may develop for which you will need money out of this contingency fund to meet a specific program or programs.

Mr. MOSCOSO. That would be a good definition but this is not——

Mr. PASSMAN. At the time you printed these books you arranged from $32 to $40 million in here as nonprogramed.

I read from page 11 now: Unprogramed and revised on July 10, 1963.

I cannot make it any clearer.

Now tell us about the bank.

Mr. MOSCOSO. I think next year you will find fewer asterisks in there.

We shall be able to give you a better idea of the loans which are already in the making.

Mr. PASSMAN. Congratulations.

PRIVATE DEVELOPMENT BANK

Now tell us about the bank.

Mr. MOSCOSO. The private development bank for that country; yes, sir.

The seed capital for the industrial bank.

Mr. PASSMAN. How much seed capital?

Mr. MOSCOSO. $———. As you know, Mr. Chairman, in this country the entire banking system is nationalized. We believe this is holding back development and we want the private sector to be bolstered, to be encouraged, so we are trying to have this private development bank set up.

Mr. PASSMAN. You let the Government in on what you are doing in this country?

Mr. Moscoso. It will have to be done with the approval of the Government. In order to obtain a charter for this bank we will have to obtain Government approval.

Mr. ANDREWS. Won't that be putting your proposed bank in competition with the Government?

Mr. Moscoso. The Government does not have a bank of this type. This will be a development bank.

Mr. ANDREWS. But it is a lending institution. All banks are lending institutions, and you would be directly competing with the Government.

Are you sure the Government will give you a charter to go in competition with them?

Mr. Moscoso. The Government has shown a certain degree of reluctance, not for that particular reason but for other reasons.

Mr. ANDREWS. You don't know what the real reason is. Many times you can cover up your reason.

Mr. PASSMAN. They showed a reluctance to our giving ——— for seed money for this bank?

Mr. Moscoso. Ideologically they feel they should have only Government-owned banks. We feel that is to the detriment of private enterprise and we would like to see the private sector flourish, as we would like to see it flourish all over Latin America.

Mr. PASSMAN. Who is requesting this loan?

Mr. Moscoso. A group of businessmen who will participate and put up capital of their own. They will have to put up a substantial amount of capital.

Mr. PASSMAN. How far have you gone with this commitment?

Mr. Moscoso. We are trying very hard, Mr. Chairman. This is something which I think is a desirable thing for this country, and for the sake of the type of society we believe in, the free enterprise society, which has done a lot of good for this country.

Mr. PASSMAN. Would this bank be in connection with the savings and loan associations?

Mr. Moscoso. No, sir; but it would mobilize local savings for utilization in local industrial development.

Mr. PASSMAN. Does it involve cooperatives and loan associations?

Mr. Moscoso. No, sir.

U.S. PROMOTION OF COOPERATIVES IN LATIN AMERICA

Mr. PASSMAN. Do you have that program going in Latin America, also?

Mr. Moscoso. Yes; in several countries.

Mr. PASSMAN. I read this—"$50 million." That is a lot of seed capital, is it not, for cooperatives?

Mr. Moscoso. That is not it.

Mr. PASSMAN. We have so many here; let us check it. This involves cooperatives.

Mr. Moscoso. I know the projects.

Mr. PASSMAN. They do not pay taxes. A news report states:

> Most U.S. aid to the cooperative movement will be furnished by the Agency for International Development, but some would come from the Social Progress Trust Fund, administered by the Inter-American Development Bank, and from the Peace Corps.
>
> About 250 members of the Peace Corps, for example, will help in the organization of about 1,000 cooperative credit unions.

Did you read that statement?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. We shall insert that article in the record.

(The article referred to follows:)

[From the Washington Post, June 20, 1963]

U.S. PLANS $50 MILLION FOR LATIN COOPERATIVES

(By Dan Kurzman, staff reporter)

The United States expects to spend more than $50 million this year on the promotion of a cooperative movement in Latin America under the Alliance for Progress.

This program, it is hoped, will simultaneously strengthen free enterprise on the continent and deprive the Communists of their favorite propaganda argument—that capitalism means subservience to feudal interests and the United States.

"As the cooperatives will be owned and controlled by the people themselves," a U.S. official said, "the Communists will have a hard time attacking them."

The development of such democratically owned and operated institutions will also help to foster democracy among long-exploited villagers who have never before had the opportunity to decide anything, U.S. officials believe.

TO PHASE OUT SUPPORT

Furthermore, the program is expected to speed up economic development. The United States will phase out its support gradually, leaving a self-sustaining cooperative movement in each Latin country that can continue to expand on its own.

Since Washington inaugurated this cooperative program a year ago, it has spent about $4 million—$3 million on contracts with American cooperative organizations for the export of cooperative techniques and $1 million for the maintenance of experts in the Latin countries.

By fall, the United States expects to provide a $50 million fund for the establishment of an inter-American cooperative finance system, which would comprise a central bank in Washington and branch banks in 12 to 15 Latin countries.

These institutions would be used exclusively to finance the development of cooperatives, which would eventually own the banks. Each time a cooperative borrowed from a national branch it would be required to purchase stock equal to 5 percent of the loan until the entire debt incurred by the United States was retired.

MORE THAN 75 PLANNED

More than 75 cooperative projects in 15 Latin American countries are now under study or in the process of being established with the help of U.S. cooperatives. Major schemes, in addition to the banking program, are planned in the credit union, housing, supermarket and agricultural fields.

The National Farmers Union recently brought 70 Latin American farmers from 6 Latin countries to live for a year in U.S. farm communities, mainly in the Northwestern States, to learn how to operate farming cooperatives. In the future, about 75 will be trained here each year.

Under study now are such diverse projects as a cooperative development administration, similar to that of Puerto Rico, to help the Dominican Republic movement, a bus transportation cooperative in Peru, a grain marketing cooperative in Ecuador, and fishing cooperatives in Colombia.

Most U.S. aid to the cooperative movement will be furnished by the Agency for International Development, but some will come from the Social Progress Trust Fund, administered by the Inter-American Development Bank, and from the Peace Corps.

JOB FOR PEACE CORPS

About 250 members of the Peace Corps, for example, will help in the organization of about 1,000 cooperative credit unions in some 600 remote Central American villages.

Alliance-financed mobile medical health units will charge villagers 50 cents a visit. The money will be deposited in a credit union for use in financing community schools, hospitals, sewage systems, and other projects.

AID has contracted with the Cooperative League of the United States to establish a new hemispherewide cooperative organization for the promotion of cooperative development through media such as newsletters.

Mr. MOSCOSO. There are quite a number of those already organized, Mr. Chairman. May I take one moment on this?

This is an idea which has been brought up.

This is an attempt by a group of Latin American countries which have co-ops to try to establish a system similar to the U.S. system of co-op banks.

They would like to establish something similar to this, and that is all that is being considered at this time.

Mr. PASSMAN. Are we not getting off fast, putting 250 Peace Corps men out to help establish these outfits?

Did you read that report earlier?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. How about the other thing we were talking about, the $——— of seed money?

Mr. MOSCOSO. This is a private development bank in order to provide industrial credit to small- and medium-sized industrialists.

Mr. PASSMAN. Would they be eligible to apply for larger credits out of any of the 16 other spigots through which we dispense foreign aid?

Mr. MOSCOSO. The bank would be under certain criteria. They would have to have certain paid-in capital; they would have to be well managed——

Mr. PASSMAN. Well heeled?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. If they are well heeled why let them in on it? You did not mean to say well heeled, did you?

Mr. MOSCOSO. I didn't say that.

Mr. PASSMAN. I asked you and you said yes.

Mr. MOSCOSO. Well managed.

Mr. PASSMAN. Then this would place them in position to make applications for larger and more loans from certain functions of the AID Agency. Is that right?

Mr. MOSCOSO. The normal way in which the borrowers lend these funds provides that we approve all sub-loans over and above a certain level.

Mr. PASSMAN. I thought you approved them at all levels.

Mr. MOSCOSO. No, it would be impossible. When you get down to $1,000 loans it would cost more to——

Mr. PASSMAN. How much can you get without it being approved. What is the limit?

Mr. MOSCOSO. In this bank we have not been able to arrive at that point yet.

Mr. PASSMAN. What is the amount you can get without having it approved?

Mr. MOSCOSO. In this particular bank this has not been decided.

Mr. PASSMAN. How about one where you have decided?

Mr. MOSCOSO. $100,000 in some and up to $50,000 in others. It all depends on the capabilities of the people running the bank.

Mr. PASSMAN. Are you letting incapable people dish money out up to $50,000 and you pick up the capable category above $50,000?

Mr. MOSCOSO. In the first place, we try to assure ourselves that the people running the operation are capable.

Mr. PASSMAN. But you do not approve it. They have the right to approve it up to $50,000?

Mr. MOSCOSO. Up to a certain level depending on their capability. If people are not experienced we try to make that level the lowest possible level.

Mr. MINSHALL. I am not quite clear yet as to how the bank is organized. You put in $——— for seed capital. How much other money is going in and whose money is going in? Tell us more about it.

Mr. MOSCOSO. This would be private enterprise supplying the capital.

Mr. MINSHALL. How much is that?

Mr. MOSCOSO. This is subject to negotiation.

Mr. MINSHALL. How much are you figuring on?

Mr. MOSCOSO. We are not yet at that stage.

Mr. MINSHALL. Have you any idea?

Mr. MOSCOSO. Yes, we have an idea.

Mr. MINSHALL. What are you shooting for?

Mr. MOSCOSO. We try to get 50–50, 50 percent participation by the private sector. We don't get it all the time.

Mr. MINSHALL. What do you hope to get out of this country?

Mr. MOSCOSO. We will try to get half. I can assure you that when we don't get as much as that, it is because we have exhausted every possible device in order to get them to put up as much of their own money as possible.

Mr. MINSHALL. What is the minimum you will go for before you put up your money?

Mr. MOSCOSO. It depends on the country.

Mr. MINSHALL. We are talking about ———.

Mr. MOSCOSO. In the case of this country, this is one of those cases where I would be willing to let the ratio be a rather low one in order to maintain the private sector.

Mr. MINSHALL. How low?

Mr. MOSCOSO. I would go as low as 25 percent.

Mr. MINSHALL. In other words, they put up $——— and you put up $———?

Mr. MOSCOSO. That would be 33 percent.

Mr. PASSMAN. The total would be $——— then.

Mr. MINSHALL. How much does the national bank get for its money?

Mr. MOSCOSO. Interest rate?

Mr. MINSHALL. Yes; what do they get and what do you plan to get?

Mr. MOSCOSO. What we hope to do is to be able to supply credit at a lower interest rate and be able to make it available for private enterprise so that the public sector does not preempt all the credit available in the country.

LOANS MADE TO INTERMEDIATE CREDIT INSTITUTIONS

Mr. FORD. How many of these banks in toto, in all of these countries, have you established? Give us a general figure and then supply the precise figure for the record.

Mr. MOSCOSO. Bolivia, Brazil——

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

Mr. FORD. Also I would like the percentage we have contributed and the percentage others from the private sector have contributed in each instance.

Mr. MOSCOSO. Right, we shall do that.

(The information requested follows:)

Loans to intermediate credit institutions, as of June 30, 1963

[In thousands of dollars]

Country	Institution	Loan amount	Agreement date	Interest rate (percent)	Host country contribution	Subloans [1]		
						Number	Aggregate amount	Interest rate (percent)
	Development banks:							
Brazil	COPEG Development Bank [2]	4,000	March 1963	[3] 4	7,000			10
Chile	Chilean Development Corp	40,000	August 1962	¾	40,000	25	40,000	Various
Ecuador	National Securities Commission	5,000	July 1962	[3] 5¾	3,300			9
El Salvador	INSAFI Development Bank	4,500	June 1963	¾	1,637			8
Central America	Bank for Economic Integration	5,000	July 1962	4	16,000			6¼
Total (loans)		58,500						
	Housing:							
Argentina	Central Housing Bank	12,500	June 1963	[3] 5¾	12,500			9
Chile	Central Housing Bank	5,000	June 1961	4	5,000	5	1,000	7
	Central Housing Bank (Public Law 480)	1,500			(4)			
Colombia	Instituto de Credito Territorial	12,000	August 1961	4	15,000	18,906	8,097	8
Dominican Republic	National Housing Bank	2,100	January 1963	[3] 3	2,000			8
Ecuador	Ecuadorian Housing Bank	5,000	October 1961	4	5,000	1	44	7
Panama	Caja de Ahorros	2,500	February 1962	4	1,250			6
Peru	Mutual Savings & Loan Association [2]	1,000	July 1960	5¾				10-12
	Mutual Savings & Loan Association (Public Law 480)	1,000	July 1960	(4)	(4)			
	Central Home Loan Bank	7,500	July 1961	4	7,500	13	3,480	812
Uruguay	Mortgage Bank of Uruguay	6,000	February 1963	[3] 2	15,000			
Venezuela	Fundacion de la Vivienda Popular [2]	5,000	March 1961	5	10,000	46	5,000	10
	Banco Obrero	10,000	December 1961	4	10,000	1	300	7-8
	Foundation for Community and Municipal Development.	30,000	November 1962	¾	30,000-70,000			6
Total (loans)		101,100						
	Agricultural credit institutions:							
Colombia	Caja de Credito Agrario	8,000	August 1961	4	5,500	5,722	4,000	5-9
	Institute of Agrarian Reform	10,000	June 1963	¾	50,000			8
Costa Rica	National Bank	5,000	September 1961	3½	9,600	9,753	4,886	6
		5,000	April 1963	[3] 3¼	0			6
El Salvador	Banco Central	8,900	June 1963	¾	0			3¾
Mexico	Bank of Mexico	20,000	June 1962	¾	33,500			6
Peru	Institute of Agrarian Reform	9,000	September 1961	3¼	7,400	1	200	7-9½
Venezuela	Agriculture & Livestock Bank	10,000	September 1962	¾	10,000			3-6
Total (loans)		75,900						
Grand total		235,500						

[1] As of Mar. 31, 1963.

[2] These loans were to private institutions for private sector relending. The remaining loans, with the exception of the Chilean Development Corp. went to public institutions explicitly for private sector relending.

[3] These loans have 2-step repayment procedure, where the host government may repay the loan to the U.S. Government at ¾ percent fee.

[4] Not available.

Mr. ANDREWS. Off the record.

(Discussion held off the record.)

LABOR PROBLEMS IN LATIN AMERICA

Mr. PASSMAN. I indicated we wanted to work with you in helping to make this Alliance for Progress program work. I mean that.

However, it will not work until we tighten it up and approach it on a businesslike basis.

Here is something, on page 96, dated June 7, 1963, from Time magazine:

LATIN AMERICA, PADDING THE PAYROLLS

Featherbedding is a business malaise in many parts of the world, but in Latin America it is a hallowed institution enjoyed by the participants, cheered by the masses, and endorsed by the politicians. Now the featherbeds are getting softer than ever.

Four men to a job. The problem spreads across the whole range of industry. At least 5,000 of Bolivia's 25,000 mineworkers and 30,000 of Argentina's 180,000 railway workers are superfluous. Chile's creaking national railroad employs 87 men per mile of track versus 27 in Britain, where that number is considered heavy featherbedding. Brazilian 10,000-ton freighters have an average 49 crewmen each, while similar ships under other flags use only 37. Argentina's depressed auto manufacturers, producing at scarcely 30 percent of capacity, are desperately trying to thin their ranks; but when Kaiser tried to do so, workers seized the plant and threatened to burn it along with management hostages trapped inside. Peru's Lima-Callao tramcar company, which recently pulled out of bankruptcy, is not permitted by the unions to fire anyone, although it has four workers for every real job.

Latin American labor unions are clamoring for still more stretching of the available work. Last week in Argentina, where payroll padding is a costly legacy from Peron's days, 2 million unionists staged a paralyzing 1-day walkout in hopes of pressuring the Government to create still more jobs. And in Venezuela, labor unions celebrated a new contract virtually forbidding United States—

and so on.

I imagine you read this article.

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. How long do you believe it will be before these people come to their senses and recognize we want to help them, we are helping them, we shall continue to help them, but they will also have to help themselves?

Mr. MOSCOSO. Will you give me a few moments to answer this question, Mr. Chairman?

Mr. PASSMAN. Surely.

Mr. MOSCOSO. I think your concern is very valid and it has been my concern, too. It also has been the concern of people in our Agency.

This has to stop. Now, can you stop it at once or how long will it take to stop it?

The answer is that it will depend on the various countries and it will depend on the governments of those countries. It will depend on the economic growth taking place in those countries, the creation of new job opportunities which will permit the displacement of these superfluous workers.

I agree with you they are too abundant in many cases.

Every time we have an opportunity to make a contract with any one of these countries where we can influence the reduction of this surplus labor group in these entities we try to do it.

Mr. PASSMAN. What happened in Bolivia yesterday? Let us get something current.

Mr. MOSCOSO. There was a strike in the mine there. Off the record.

(Discussion off the record.)

Mr. PASSMAN. And the miners struck?

Mr. MOSCOSO. The miners struck.

Mr. PASSMAN. Is there any indication there has been any progress whatsoever?

Mr. MOSCOSO. Yes. Great progress has been made.

Mr. PASSMAN. That is by your evaluation.

I have a letter here from a friend of yours regarding a disgruntled Argentinian.

U.S. RELATIONS WITH ARGENTINA

Mr. MOSCOSO. Relations between the United States and Argentina never have been better. My colleague here can vouch for that.

On October 22 we were sitting at the edge of our chairs. The first country in Latin America to come forth and offer to assist us in surrounding Cuba was Argentina.

TOTAL U.S. AID TO ARGENTINA

Mr. PASSMAN. How much did it cost us to get them in that frame of mind? Let us find out how much we have given Argentina since the inception of the program.

Mr. TENNANT. $617.5 million.

Mr. MINSHALL. They were the first country?

Mr. MOSCOSO. Yes. Every country joined us.

Mr. PASSMAN. Let us get the total and then subtract it. Can you give us the whole thing?

Mr. TENNANT. $617.5 million.

Mr. PASSMAN. That is Public Law 480 and everything else?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. How much local currency do we have?

Mr. MOSCOSO. Deduct $156 million from that.

ARGENTINA'S GOLD TRANSACTIONS

Mr. PASSMAN. A half billion dollars we gave Argentina, then.

When the AID program started these people started demanding dollars for what they earned from their exports. They took our money to pay for what they normally would buy with their money and evidently accumulated money to their credit in excess of their needs to deal in commerce.

In 1960 they purchased $50 million of our gold.

In 1961 they purchased $90 million of our gold.

In 1962 they sold us back $85 million of our gold.

They have drawn $55 million of our gold in those 3 years.

Mr. MOSCOSO. I shall say this. The Argentine gold holdings have dropped substantially.

Mr. PASSMAN. I have given it to the penny from the Treasury statements.

Mr. MOSCOSO. We are talking about two different things.

Mr. PASSMAN. I refer to the amount of gold they have extracted from the U.S. Government.

The net amount of gold they have drawn out of the United States is the amount I mentioned. It started with this fantastically high AID program.

OBLIGATIONS OF SOCIAL PROGRESS TRUST FUND

How much has been obligated with the Inter-American Bank out of the $394 million out of the Social Progress Trust Fund in 1962?

Mr. MOSCOSO. $357 million.

Mr. PASSMAN. What is the unobligated balance left in the fund as of June 30, 1963?

Mr. MOSCOSO. $37 million.

Mr. PASSMAN. What is the unliquidated balance out of the $394 million?

Mr. MOSCOSO. $339 million.

Mr. PASSMAN. So the actual liquidations would be only——

Mr. MOSCOSO. $55 million.

Mr. PASSMAN. In how many years?

Mr. MOSCOSO. Two years.

Mr. PASSMAN. Can you supply for the record a list of the obligations by country, by date, and the amount?

Mr. MOSCOSO. Yes, sir; we shall be glad to do that.

Mr. PASSMAN. And the purpose of the credit?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. We shall also insert in the record at this point the justification, pages 99 through 106, which list the loans approved from the Trust Fund with the name of the borrower, the purpose, the amount, and the terms.

Mr. MOSCOSO. Yes, sir.

(The information referred to follows:)

Date authorized	Borrower	Date of loan contract	Purpose of loan	Total cost of project or program in U.S. dollars or equivalent	Percent of total cost provided by SPTF and dollar amount
1961 Aug. 3	Instituto de Vivienda y Urbanismo de Panama. Guarantor—Government of Panama.	*1961* Aug. 22	Housing for low-income groups ($800-$2,400 a year). 3,000 units—⅓ self-help. Relending rate per year to ultimate borrower—6 percent; 20-year terms.	$10,444,917	73% $7,600,000
Aug. 3	Banco Central de Reserva de El Salvador for use of the Federacion de Cajas de Creditos. Guarantor—Government of El Salvador.	Nov. 24	Relending to small farmers for development of agriculture (not coffee) and livestock. Relending rate per year to ultimate borrower—9½-12 percent; 10-year terms.	2,800,000	71% $2,000,000
Aug. 3	Banco Obrero de Venezuela for use of Division de Vivienda Rural de Ministerio de Sanidad y Asistencia Social. Guarantor—Government of Venezuela.	Nov. 15	Rural housing for low-income groups. ($550-$800 a year) 35,500 units—all self-help. Relending rate per year to ultimate borrower—up to 3½ percent; 20-year terms.	45,950,000	26% $12,000,000
Aug. 10	Instituto Nacional de Vivienda y Urbanismo de Costa Rica.	Oct. 31	Urban housing for low-income groups ($648-$1,440 a year). 5,725 units—purchasers' savings. Relending rate per year to ultimate borrower—8 percent; 20-year terms.	16,000,000	22% $3,500,000
Aug. 10	Banco Central de Reserva de El Salvador for use of Administracion Nacional de Acueductos y Alcantarillados. Guarantor—Government of El Salvador.	Nov. 17	Community sanitation facilities in 5 principal cities.	1,400,000	60% $840,000
Oct. 12	do	Nov. 17	Community water supply and sanitation facilities in 34 small towns.	3,830,000	71% [2] $2,700,000
Oct. 19	Republic of Peru for use of the Instituto de la Vivienda.	Nov. 24	Urban and rural housing for low-income groups ($355-$1,120 a year) 35,200 units between 50 to 80 percent self-help. Relending rate for year to ultimate borrower—5 percent; with 20 year terms.	48,700,000	47% [3] $22,800,000
Oct. 19	Cooperativa de Credito Central del Peru. Guarantor—Government of Peru.	Oct. 27	Small loans through local credit cooperatives for housing, improved land use, potable water and sanitation facilities. Relending rate to credit cooperative: 8 percent; to ultimate borrower—12 percent.	2,700,000	37% $1,000,000
Oct. 26	Establecimiento Publico Empresas Municipales de Cali, Colombia. Guarantor—Government of Colombia.	*1962* Apr. 16	Expansion of water supply system in Cali.	4,780,000	51% [4] $2,454,000
Nov. 16	Republic of Colombia, for the use of Instituto de Credito Territorial. Guarantor—Government of Colombia.	Feb. 2	Urban housing for low-income groups ($366-$2,200 a year) 12,950 units. Relending rate to ultimate borrower—8 percent, plus 1 percent for insurance. Term: up to 20 years.	29,340,000	51% $15,200,000
Nov. 22	Empresas Municipales de Cucuta, Colombia. Guarantor—Government of Colombia.	Feb. 3	Community water supply and sanitation facilities in Cucuta.	9,161,000	56% [5] $5,183,000

See footnotes at end of table.

Loans (through June 30, 1963)

Percent of total cost provided by local resources	Participation of local resources	Loan term	Annual interest (payable in local currency)[1]	Disbursement period from date of loan contract	Undisbursed balance	Status of loans		Income collected
						Disbursed	Repaid	
		Years	*Percent*	*Years*				
27% $2,844,917	IVU: 11 percent; purchasers savings and self-help labor, 16 percent.	27	1.25	2	$3,599,582	$4,000,418	$38,000	$47,450
29% $800,000	Government of El Salvador, 29 percent.	20	1.25	2	1,500,000	500,000	10,000	6,398
74% $33,950,000	Government of Venezuela 53 percent and self-help labor 21 percent.	20	1.25	2	8,575,757	3,424,243	300,000	24,284
78% $12,500,000	INVU 46 percent; purchasers' savings 20 percent; and purchasers' amortizations 12 percent.	25	1.25	2	537,487	2,962,513	17,500	33,963
40% $560,000	Government of El Salvador, 40 percent.	30½	2.75	2	696,000	144,000	8,400	1,322
29% $1,130,000	Government of El Salvador, 29 percent.	30	2.75	2	1,114,406	1,585,594	27,000	12,936
43% $20,900,000	Self-help labor, 9 percent and Government of Peru, 34 percent.	20	1.25	2	16,897,780	5,902,220	114,000	83,350
63% $1,700,000	Accumulated savings in 248 credit cooperatives, 63 percent.	21	1.25	1½	456,418	543,582	12,500	8,361
49% $2,326,000	Empresas Municipales de Cali, 49 percent.	20	2.75	2	1,541,404	912,596	10,000	9,169
49% $14,140,000	Purchasers, 19 percent; self-help labor, 8 percent; local resources in 3-way procedure, 12 percent; and ICT, 10 percent.	20	1.25	1½	9,864,727	5,335,273	76,000	30,586
41% $3,978,000	Empresas Municipales de Cucuta, 35 percent and beneficiaries, 9 percent.	[6] 20 [7] 30	2.75	2	4,250,487	932,513	27,000	8,548

Date authorized	Borrower	Date of loan contract	Purpose of loan	Total cost of project or program in U.S. dollars or equivalent	Percent of total cost provided by SPTF and dollar amount
1961 Nov. 22	Republic of Chile, for use of Direccion de Obras Sanitarias.	*1961* Apr. 16	Community water supply in Concepcion and Talcahuano.	6,054,000	17% [8] $1,050,000 41% [9] $2,470,000
Nov. 30	Superintendencia de Aguas e Esgotos do Reconcavo, Salvador, State of Bahia, Brazil.	Mar. 1	Community water supply and sewerage services for city of Salvador (Bahia).	8,127,000	50.7% $4,120,000
Dec. 7	Republic of Venezuela, for the use of the Division de Acueductos Rurales de Ministerio de Sanidad y Asistencia Social.	May 3	Community water supply for 330 towns with populations under 5,000 each.	20,000,000	50% $10,000,000
Dec. 7	Department of Montevideo Uruguay.	----------	Expansion of sewerage facilities in Montevideo.	12,000,000	19.5% $2,500,000
Dec. 14	Instituto Nacional de Obras Sanitarias (INOS), Venezuela. Guarantor—Government of Venezuela.	May 3	Community water supply for 55 communities with populations from 5,000 to 10,000.	21,000,000	48% $10,000,000
Dec. 21	Corporacion de Fomento de la Produccion de Chile (CORFO) for the Caja de Colonizacion Agricola de Chile.	2	Housing for low-income farmers ($225 annual). 504 units. Incorporates self-help. Relending rate to ultimate borrower: 6 percent. Up to 30 years term.	[10] 16,350,000	7% [11] $1,268,000
Dec. 21	Corporacion de Fomento de la Produccion de Chile (CORFO).	16	Supervised agricultural credit for small farmers and their cooperatives. Average loans: $250-$750. 1 to 10 years, interest and other fees not to exceed 6 percent.	21,770,000	46% $10,000,000
1962 Feb. 28	Municipalidad de Quito, Ecuador. Guarantor—Government of Ecuador.	July 10	Community sewerage facilities for Quito and 15 suburban communities.	3,925,000	76% $3,000,000
Feb. 28	Banco Ecuatoriano de la Vivienda. Guarantor—Government of Ecuador.	July 23	Housing for low-income sectors in Guayaquil, Quito, and smaller communities (up to $800-$900 a year)—7,600 new units and 1,500 rehabilitated units; cost limited to $2,500—incorporates self-help and other techniques (cooperatives, employee's loans).	16,400,000	62% $10,600,000
Mar. 8	Banco de Guatemala------	Aug. 3	Community water supply and sanitation facilities in 82 small towns.	5,150,000	67% $3,500,000
Mar. 13	Banco do Estado de Guanabara, S.A., Brazil Guarantor—State of Guanabara, Brazil.	May 5	Expansion of sewerage facilities in the State of Guanabara (Rio). Top priority plan, part of a longer term $39,000,000 project.	22,473,000	48.9% $11,000,000
Mar. 13	-----do----------	May 5	Community water supply for State of Guanabara (Rio).	53,537,000	23.3% [12] $12,500,000

See footnotes at end of table.

(through June 30, 1963)—Continued

Percent of total cost provided by local resources	Participation of local resources	Loan term	Annual interest (payable in local currency)[1]	Disbursement period from date of loan contract	Undisbursed balance	Status of loans		Income collected
						Disbursed	Repaid	
		Years	*Percent*	*Years*				
42% $2,534,000	Government of Chile, 39 percent and local taxes, 3 percent.	20	2.75	3	2,132,440	337,560	17,500	4,926
49.3% $4,007,000	State government, 32.1 percent; SUDENE, 9.9 percent sanitation fund, 6.3 percent; and operations surplus, 1.0 percent.	23	2.75	2	3,069,697	1,050,303	15,000	12,942
50% $10,000,000	Government of the Republic, regional governments, and other governmental agencies, 50 percent.	20	2.75	2	5,572,951	4,427,049	40,000	8,270
80.5% $9,500,000	Bond proceeds, 78.3 percent and municipal resources, 2.2 percent.	21	2.75	2½	2,500,000	--------	--------	--------
52% $11,000,000	Government of Venezuela and INOS, 52 percent.	20	2.75	2	6,161,255	3,838,745	80,000	24,774
49% $8,025,000	Government of Chile, 49 percent.	30	1.25	2	1,118,000	150,000	5,000	920
54% $11,770,000	Government of Chile, 54 percent.	20	1.25	2	8,850,000	1,150,000	50,000	6,225
24% $925,000	Municipality of Quito, 24 percent.	20	2.75	2	2,800,000	200,000	--------	--------
38% $5,800,000	Banco Ecuatoriano de la Vivienda, 9.9 percent; welfare funds, 3.8 percent; employers, 3.8 percent; self-help, 5.0 percent; and purchasers, 15.5 percent.	30	1.25	2	9,600,000	1,000,000	--------	--------
33% $1,650,000	Government of Guatemala, 33 percent.	22	2.75	2½	3,400,000	100,000	--------	163
48.1% [12] $10,806,000	SURSAN—48.1 percent (land tax; increased rates for sewerage service; state revenues).	30	2.75	2½	10,058,553	941,447	7,500	12,106
52.1% [14] $27,870,000	SURSAN—52.1 percent (land tax; increased rates for sewerage service; state revenues).	30	2.75	2½	10,193,199	2,306,801	5,000	17,979

Date authorized	Borrower	Date of loan contract	Purpose of loan	Total cost of project or program in U.S. dollars or equivalent	Percent of total cost provided by SPTF and dollar amount
1961		*1961*			
Mar. 15	Asociacion Mutual de Credito para la Vivienda "El Pueblo" Peru. Guarantor — Government of Peru.	May 1	To encourage further accumulation of private capital through savings for construction of low-income family homes. 400 units; value including land: not over $5,000 each; for families in the $1,560 annual income range. Savings and loan technique-loans to borrowers at 10-12 percent interest. Maximum cost of house: $3,760.	$2,069,200	48.3% $1,000,000
Mar. 15	Nacional Financiera, S. A. Mexico, for use of Secretaria de Recursos Hidraulicos (Federal). Guarantor — Government of Mexico.	June 15	Community water supply in 12 towns in Yucatan State and sanitation facilities in Quintana Roo Territory.	15,280,000	60% $9,200,000
Mar. 22	Government of Argentina.	May 4	Advanced education, teaching and research equipment for 8 national universities.	10,000,000	50% $5,000,000
Mar. 29	Instituto Nicaraguense de la Vivienda (INVI), Nicaragua. Guarantor — Government of Nicaragua.	Aug. 2	Low-income housing, mostly urban. Annual income brackets $428–$2,200 (with 60 units up to $3,000). 2,850 units; cost including land: from $1,551 up to $3,700. One-half built by self-help and mutual aid. Relending rate: not over 8 percent (less for lowest income categories). 20–25 years' term.	7,789,000	67% $5,200,000
Mar. 29	Instituto de Vivenda Urbana (IVU), El Salvador. Guarantor—Government of El Salvador.	June 7	Urban housing for low-income groups ($576–$1,536 per annum). 5,000 units. Cost including land: up to $3,200; ½ built by aided self-help. Relending rate: 6 percent; 20- to 30-year term.	11,300,000	54% $6,100,000
Mar. 29	Banco Obrero, Venezuela. Guarantor — Government of Venezuela.[18]	June 8	Urban housing for low-income groups. Annual income bracket—$715–$2,700. 5,710 units: cost including land: from $2,400 to $4,806; relending rate not over 4 to 7 percent; 30-year term.	15,000,000	66.7% $10,000,000
Apr. 5	Banco do Nordeste do Brazil S.A. Guarantor—Government of Brazil.	----------	Installation, expansion, and improvement of water and sewerage systems in Recife, Maceio, Natal, Campina Grande, Teresina, Sao Luis.	18,534,000	70% [18] $12,990,000
Apr. 12	Caixa Economica do Estado de Minas Gerais, Brazil. Guarantor—State of Minas Gerais.	Oct. 31	Expansion of agricultural credit (including financing of farm homes and buildings, for low-income farmers). Agricultural credits average from $166 to $800 for 2 to 12 years, at not over 7 percent. Self-help housing credits not to exceed $800.	13,000,000	49% $6,400,000

See footnotes at end of table.

(*through June 30, 1963*)—Continued

Percent of total cost provided by local resources	Participation of local resources	Loan term	Annual interest (payable in local currency)[1]	Disbursement period from date of loan contract	Undisbursed balance	Status of loans		Income collected
						Disbursed	Repaid	
		Years	*Percent*	*Years*				
51.7% $1,069,200	Members' deposits 20.9 percent; national housing loan 10.8 percent; borrowers' participation (land) 20 percent.	21	1.25	1	$491,523	$508,477	$12,500	$2,383
40% $6,080,000	Secretaria de Re cursos Hidraulicos, 29 percent; State of Yucatan, 11 percent.	20	2.75	2	9,200,000	----------	--------	--------
50% $5,000,000	Government of Argentina (in addition, the Government has allocated $12,000,000 to purchase other similiar equipment).	15	1.25	2	4,500,000	500,000	25,000	1,342
33% $2,589,000	Home-buyers' resources and self-help, 13.3 percent; Government of Nicaragua 11 percent; INVI 8.7 percent.	25	1.25	2	3,696,669	1,503,331	--------	2,351
46% $5,200,000	El Salvador, 21 percent; IVU, 14 percent; home buyers, 11 percent.	30	1.25	2	4,474,919	1,625,081	30,500	12,631
33.3% $5,000,000	Banco Obrero, 23.3 percent; home buyers, 10 percent.	22	1.25	2	9,000,000	1,000,000	50,000	5,644
26% [17] $4,810,700	Government of Brazil, Nordeste Agencies, state government, 26 percent.	30	2.75	2½	12,990,000	----------	--------	--------
51% $6,600,000	ACAR, $4,400,000, 34 percent; Caixa and Banco Brazil, $1,300,000, 10 percent self-help, $1,900,000—7 percent.	20	1.25	2½	6,400,000	----------	--------	--------

Date authorized	Borrower	Date of loan contract	Purpose of loan	Total cost of project or program in U.S. dollars or equivalent	Percent of total cost provided by SPTF and dollar amount
1961 Apr. 19	Instituto Mexicano de Investigaciones Tecnologicas, A.C., Mexico. Guarantor—Nacional Financiera, S.A.	*1961* Aug. 30	Acquisition of research equipment and laboratory apparatus.	$400,000	100% $400,000
Apr. 19	Nacional Financiera, S. A., for use of Secretaria de Recursos Hidraulicos de Mexico. Guarantor—Government of Mexico.	June 15	Improved use of approximately 12,500 acres of agricultural land in southern Yucatan through boring deep wells, installing pumping equipment, construction of ditches and channels, building of service roads.	2,500,000	40% $1,000,000
May 17	Caja Central de Ahorros y Prestamos de Chile. Guarantor—Government of Chile.	June 13	Strengthen savings and loan system, encourage private savings, and assist in financing housing through cooperatives. 2,300 low-income housing units. Average cost per house: $3,300; average annual income per family benefited: $1,400. Term 15-25 years. Relending rate to home buyer—about 6 percent a year.	7,697,000	65% [20] $5,000,000
May 31	Instituto de Acueductos y Alcantarillados Nacionales de Panama (IDAAN). Guarantor—Government of Panama.	June 14	Installation and/or improvement of water supply systems in 7 Panamanian towns.	3,835,000	72% $2,762,000
June 14	Banco Nacional de Nicaragua (BNN).	Sept. 20	Supervised rural credit: 75 percent to increase agricultural production and improve marketing; 25 percent to construct and improve farm homes and structures, chiefly by self-help. Loan terms: up to 15 years; relending rate: not over 6 percent; maximum credit to 1 farmer: $1,500 (50 percent of credits to average not over $750). Farm family income: $100 a year.	4,033,000	62% $2,500,000
July 12	Instituto Nacional de Fomento Municipal de Colombia. Guarantor—Government of Colombia.	Aug. 21	Water supply and sewerage service in more than 300 urban centers and enlargement and improvement of the potable water system in the city of Buenaventura.	34,080,000	[22] $8,500,000 26%
July 26	Sociedad Promotora de Viviendas Economicas Limitada (PROVIEN) de Chile. Guarantor—Corporation de Fomento de la Produccion (CORFO).	*1963* Jan. 22	Housing for low-income sectors (up to 20 percent, $165 monthly; the rest, a maximum of $130 monthly). 1,900 units, purchaser's savings. Service on subloans: not to exceed 25 percent of monthly family income of beneficiaries.	7,642,857	$2,000,000 26%

See footnotes at end of table.

(*through June 30, 1963*)—Continued

Percent of total cost provided by local resources	Participation of local resources	Loan term	Annual interest (payable in local currency)[1]	Disbursement period from date of loan contract	Undisbursed balance	Status of loans		Income collected
						Disbursed	Repaid	
		Years	*Percent*	*Years*				
([18])	([18])	15	1.25	1½	$360,000	$40,000	--------	--------
60% $1,000,000	Secretaria, 26 percent; benefited small farmers, 34 percent.[19]	20	1.25	2	1,000,000	----------	--------	--------
35% $2,697,000	Caja Central, 25 percent; beneficiaries, 10 percent	27	1.25	2	3,572,689	1,427,311	$25,000	$9,521
28% $1,073,000	IDAAN, 28 percent [21]	27	2.75	2	2,421,978	340,022	13,810	4,536
38% $1,533,000	BNN, 34.6 percent: self-help (housing), 3.4 percent.	20	1.25	2½	2,250,000	250,000	--------	781
$19,080,000 58%	IFM, 58 percent	30	2.75	2	8,075,000	425,000	--------	2,527
$5,642,857 74%	CORVI, 50 percent; lands, 6 percent; savings, 4 percent; self-help, 14 percent.	21	1.25	2	1,600,000	400,000	--------	--------

Date authorized	Borrower	Date of loan contract	Purpose of loan	Total cost of project or program in U.S. dollars or equivalent	Percent of total cost provided by SPTF and dollar amount
1961 Aug. 2	Banco de Guatemala	*1962* Oct. 1	Urban housing for low-income sectors ($40 to $140 monthly). 5,260 units in the cities of Guatemala, Antigua, Zacapa, 3,260 units built by self-help system; 2,000 units by savings and loan associations. Relending rate to beneficiaries: up to 8 percent per annum, with a 25-year maximum term.	$10,740,000	[22] $5,300,000 48.5%
Aug. 16	Banco de Nordeste do Brasil, S.A.	----------	Urban housing for low-income sectors (maximum 4 times the effective minimum wage). 8,500 units. Relending rate to beneficiaries to be fixed by Administrator. Credit service: not to exceed 25 percent of monthly family income.	7,158,600	[23] $3,850,000 54.5%
Aug. 23	Banco Agricola de la Republica Dominicana. Guarantor—Government of the Dominican Republic.	Oct. 12	Agricultural credits for small farmers, especially for cultivation of rice, beans, and potatoes; improved land use and marketing of farm products. Interest and other charges to ultimate borrower not to exceed 8 percent per annum of the amounts due.	5,790,000	[23] $3,000,000 52%
Aug. 30	Banco Nacional de Fomento de Honduras. Guarantor—Banco Central de Honduras.	Dec. 1	Agricultural credits for small farmers to increase production, construction of rural housing, and marketing. Interest rate to beneficiaries to be fixed by Administrator and the borrower, with 15-year terms.	3,575,000	$2,500,000 70%
Sept. 20	Republica Oriental del Uruguay.	*1963* May 21	Urban housing for low-income sectors (US$55–US$190 monthly). 4,100 units in suburbs of Montevideo, city of Mercedes and other lesser urban centers. Rate of interest on credits to beneficiaries: up to 6 percent with maximum of 25-year terms.	15,300,000	[23] $8,000,000 52.3%
Nov. 8	Instituto Agrario Nacional de Venezuela. Guarantor—Government of Venezuela.	*1962* Dec. 19	Consolidation of rural settlements through an agrarian reform program.	83,700,000	[26] $10,000,00 12
Nov. 15	Universidad de Chile. Guarantor—Corporacion de Fomento de la Produccion (CORFO).	Dec. 19	To support a program to enlarge the educational system of Chile's regional universities.	6,847,000	[27] $2,300,000 34%
Nov. 15	Universidad Nacional Mayor de San Marcos del Peru. Guarantor—Government of Peru.	Dec. 17	Contribution to a program to establish, maintain and equip a postgraduate science department to provide advanced instruction, principally in the basic science fields.	3,002,000	[29] $1,500,000 50%

See footnotes at end of table.

(*through June 30, 1963*)—Continued

Percent of total cost provided by local resources	Participation of local resources	Loan term	Annual interest (payable in local currency)[1]	Disbursement period from date of loan contract	Undisbursed balance	Status of loans		Income collected
						Disbursed	Repaid	
		Years	*Percent*	*Years*				
$5,140,000 51.5%	Instituto Cooperativo Interamericano, 28.5 percent; Caja Central de Ahorro y Prestamos, 23 percent.	27	1.25	[24] 2 [25] 2½	$5,200,000 98,563	$1,437	--------	--------
$3,308,600 45.6%	Prior savings, 7 percent; land and appurtenances, 17.3 percent; mutual aid, 13.7 percent; Public Law 480, 7.5 percent.	26	1.25	2	3,850,000	----------	--------	--------
$2,790,000 48%	Banco Agricola, 48 percent.	20	1.25	2	1,125,599	1,874,401	--------	--------
$1,075,000 30%	BNF, 30 percent	20	1.25	2½	2,250,000	250,000	--------	$589
$7,300,000 47.7%	INVE, 19 percent; Consejo Dptal. de Montevideo, 8 percent; Consejo Dptal. de Soriano, 4 percent; Banco Hipotecario, 16.7 percent.	26	1.25	2	8,000,000	----------	--------	--------
$71,000,000 85%	IAN, 85 percent	20	1.25	2½	10,000,000	----------	--------	--------
$3,924,000 57%	Universidad de Chile and communities, 57 percent.	15	1.25	2½	2,300,000	----------	--------	--------
[28] $622,000 21%	Universidad Nacional Mayor de San Marcos, 21 percent; other sources, 29 percent.	15	1.25	2	1,500,000	----------	--------	--------

Date authorized	Borrower	Date of loan contract	Purpose of loan	Total cost of project or program in U.S. dollars or equivalent	Percent of total cost provided by SPTF and dollar amount
Nov. 29	Banco Hipotecario Nacional de Argentina.	*1963* Jan. 24	Urban housing for low-income sectors (up to $200 monthly for families with more than 6 members and up to $150 for smaller families) 15,000 units—50 percent in cooperative projects, 20 percent in projects assisted by official housing agencies, 10 percent in projects aided by private enterprise, 10 percent under self-help system, and 10 percent representing housing to be rehabilitated.	$60,000,000	$30,000,000 50%
Dec. 6	Instituto de la Vivienda de Honduras. Guarantor—Government of Honduras.	May 7	Urban housing for low-income sectors ($55-$130 monthly) 716 units. Service on loans to beneficiaries: not to exceed 25 percent of family income.	1,469,000	$1,000,000 68%
Dec. 20	Banco Nacional de Fomento de Paraguay (BNF). Guarantor—Government of Paraguay.	Feb. 1	Improved use of land and marketing of agricultural products. Only farmers who are personally working farms with less than 30 hectares of land maybenefit. Maximum subloan: $1,500.	4,338,000	$2,900,000 66.9%
Dec. 20	Central American Universities. Representative and financial agent: Banco Centro-Americano de Integracion Economica. Guarantor—Government of each Central American country.	June 17	To finance an advanced education program in 5 Central American countries and to encourage the university integration effort initiated by the Central American Supreme University Council.	10,833,000	[20] $2,925,000 27%
Dec. 28	Government of the Dominican Republic.	Feb. 28	Housing for low-income sectors ($30-$180 monthly) 5,000 units—self-help and mutual aid systems. Interest rate to ultimate borrower up to 7 percent per annum, with 25-year terms.	6,375,000	[21] $3,500,000 55%
Dec. 28	Nacional Financiera, S.A. de Mexico. Guarantor—Government of Mexico.	June 6	To help low-income farmers through construction of irrigation and drainage works in the watershed area of Lerma-Chapala-Santiago.	6,000,000	$3,000,000 50%
Dec. 28	Corporacion Boliviana de Fomento. Guarantor—Banco Central de Bolivia.	Jan. 24	Settlement of approximately 8,000 low-income farm families.	21,450,000	[21] $6,500,000 30.3%
1963 Jan. 24	Banco de Crédito Agricola de Espírito Santo, S.A. Guarantor—State of Espirito Santo (Brazil).	June 10	Financing a program of agricultural credit that will benefit some 5,000 small farmers within the next 3 years. Individual loans are not to exceed the equivalent of $1,500.	3,420,800	$2,000,000 58.5%

See footnotes at end of table.

(through June 30, 1963)—Continued

Percent of total cost provided by local resources	Participation of local resources	Loan term	Annual interest (payable in local currency)[1]	Disbursement period from date of loan contract	Undisbursed balance	Status of loans		Income collected
						Disbursed	Repaid	
		Years	*Percent*	*Years*				
$30,000,000 50%	Private enterprise, 3.3 percent; recipients, 12 percent; provincial and municipal housing institutions, 5 percent; trade unions and cooperatives, 12.5 percent; Banco Nacional Hipotecario, 17.2 percent.	25	1.25	2½	27,400,000	$2,600,000	--------	--------
$469,000 32%	Instituto de Vivienda, 21 percent; beneficiaries, 11 percent.	27½	1.25	2½	1,000,000	--------	--------	--------
$1,438,000 33.1%	BNF, 21.7 percent; Ministry of Agriculture, 2.3 percent; Government, 9.2 percent.	20½	1.25	2	2,900,000	--------	--------	--------
$2,925,000 27%	Universidades Centroamericanas, 27 percent.	18	1.25	2	2,925,000	--------	--------	--------
$2,875,000 45%	Purchasers, 23.5 percent; Government, 21.5 percent.	27	1.25	2½	3,476,690	23,310	--------	--------
$3,000,000 50%	Purchasers, 15.0 percent; Secretaria de Recursos y Hidraulicos, 35.0 percent.	20	1.25	2	3,000,000	--------	--------	--------
[2] $10,100,000 47%	Government of Bolivia, 47 percent.	25	1.25	3	6,500,000	--------	--------	--------
$1,420,800 41.5%	Government of the State of Espirito Santo, 15.0 percent; BCAES, 6.3 percent; Rediscounts at the Banco do Brasil and Instituto Brasileño del Café, 9.0 percent; Asociación de Crédito y Asistencia Rural del Estado de Espirito Santo (ACARES) and Secretaria de Agricultura, 11.2 percent.	20	1.25	2	2,000,000	--------	--------	--------

Date authorized	Borrower	Date of loan contract	Purpose of loan	Total cost of project or program in U.S. dollars or equivalent	Percent of total cost provided by SPTF and dollar amount
1961		*1961*			
Jan. 31	Cooperative de Consumidores Unidos (UNICOOP) Santiago Ltda. Guarantor-Corporación de Fomento de la Produción de Chile and Cooperativa Sodimac Ltda.	Apr. 26	Improvement of marketing facilities in Santiago through farmer's cooperatives.	$1,175,000	$600,000 51.1%
Jan. 31	Instituto Nacional de Colonización. Guarantor—Government of Ecuador.	----------	Integration of the rural communities from the Sierra Andina into the national economy through vocational training, housing construction, elementary education, and other programs.	5,516,000	$1,880,000 34.1%
Jan. 31	Instituto Nacional de Colonización. Guarantor—Government of Ecuador.	----------	Settlement of 1,600 families in a region known Santo Domingo de los Colorados, in the provinces of Pichincha, Esmeralda, Los Rios y Manabi.	3,935,000	$2,535,000 64.4%
Feb. 14	Government of Guatemala.	----------	Rural credit program for low-income farmers to be carried by the Ministry of Agriculture. It will benefit some 2,300 families within a 2-year period.	3,500,000	$2,500 000 71.4%
Feb. 19	Government of Ecuador..	----------	Construction of 15 water supply and 4 sewerage systems benefiting 18 cities with a total population of 150,000.	6,224,000	$5,500,000 88.4%
Mar. 7	Servicio Autónomo Nacional de Acueductos y Alcantarillados (SANAA). Guarantor—Government of Honduras.	Apr. 8	Improvement of the water supply system of the city of Tegucigalpa.	2,700,000	$2,150,000 79.6%
Mar. 21	Corporación Boliviana de Fomento. Guarantor—Banco Central de Bolivia.	June 14	Construction of 3,870 houses for low-income families in the cities of La Paz, Cochabamba, Potosí, Oruro, and Santa Cruz.	5,429,000	$4,000,000 73.7%
Apr. 18	Universidad de Oriente de Venezuela. Guarantor—Corporación Venezolana de Fomento.	----------	Development of the university's program of basic science and technology.	2,400,000	[34] $1,000,000 41.7%
June 20	Nacional Financiera, S.A. Guarantor—Government of Mexico.	----------	Colonization and improved use of some 52,000 hectares in El Limón, zone of the State of Tabasco in southern Mexico.	62,400,000	[35] $5,000,000 8.0%
June 28	Government of Nicaragua.	----------	Studies for the proposed improvement of the sewerage system of the city of Managua.	235,000	$185,000 78.7%

(through June 30, 1963)—Continued

Percent of total cost provided by local resources	Participation of local resources	Loan term	Annual interest (payable in local currency)[1]	Disbursement period from date of loan contract	Undisbursed balance	Status of loans		Income collected
						Disbursed	Repaid	
		Years	*Percent*	*Years*				
$575,000 48.9%	UNICOOP, 48.9 percent.	13	1.25	2	$600,000	----------	--------	--------
[12] $2,860,000 51.8%	Government of Ecuador, 27.2 percent; Beneficiaries, 24.6 percent.	20	1.25	2½	1,880,000	----------	--------	--------
$1,400,000 35.6%	Government of Ecuador, 25.3 percent; Beneficiaries, 10.3 percent.	20	1.25	2½	2,535,000	----------	--------	--------
$1,000,000 28.6%	Government of Guatemala, 28.6 percent.	25	1.25	2	2,500,000	----------	--------	--------
$724,000 11.6%	Government of Ecuador, 11.6 percent.	30	2.75	2½	5,500,000	----------	--------	--------
$550,000 20.4%	SANAA, 20.4 percent	25	2.75	3	2,150,000	----------	--------	--------
$1,429,000 26.3%	Participating institutions, 8.4 percent; beneficiaries, 17.9 percent.	30	1.25	2½	4,000,000	----------	--------	--------
$1,100,000 45.8%	Universidad de Oriente, 45.8 percent.	15	1.25	2	1,000,000	----------	--------	------
$32,400,000 51.1%	Government of Mexico, 48.0 percent; beneficiaries, 3.1 percent.	25	1.25	2	5,000,000	----------	--------	--------
$50,000 21.3%	Government of Nicaragua, 21.3 percent.	7	2.75	1½	185,000	----------	--------	--------

Footnotes on page 2052.

(Footnotes for table on pages 2038 through 2051.)

[1] In addition to interest, a commitment fee af 0.75 percent payable in U.S. dollars, is charged on all operations. This fee covers the administrator's administrative costs.
[2] El Salvador provides $1,400,000 equivalent annually for the total water—sewerage program for 80 towns
[3] Also DLF loan of $5,000,000 (10 percent).
[4] Colombian resources will supply over 70 percent of 10-year program.
[5] During 1961–65, Colombia proposes to spend in this field $60,200,000, of which 75 percent will be from local resources.
[6] Water.
[7] Sanitation.
[8] IDB loan from ordinary capital.
[9] SPTF loan.
[10] Part of a total project.
[11] Plus $7,057,000 loan from Fund for Special Operations (IDB); total, $8,325,000, 51 percent. Additionally, the Administrator provided technical assistance for $265,000.
[12] An additional $667,000 U.S. grant of counterpart funds from agricultural surplus under Public Law 480 (3 percent).
[13] $11,500,000 loan from the resources of the IDB's Fund for Special Operations.
[14] An additional $1,667,000 U.S. grant of counterpart funds from agricultural surplus under Public Law 480 (3.1 percent).
[15] The Government of Venezuela will also provide schools, community centers, etc., costing $2,200,000 at the present official exchange rate (3.35 Bs. to $1). The Government is planning to spend $166,089,000 in housing.
[16] Includes $112,000 for technical assistance.
[17] $733,300 Public Law 480 "counterpart funds", 4 percent.
[18] Nacional Financiera, S.A., Banco Nacional de Comercio Exterior, S.A., and Banco de Mexico, S.A., will provide over $500,000 annually to cover the annual operating expenses of the Instituto, including provision of $40,000 for purchase and maintenance of equipment.
[19] In addition, the benefited farmers will invest $490,000 in agricultural equipment over a period of 4 years following completion of the project.
[20] In addition, the savings received by the savings and loan associations during the 2 disbursement years are conservatively estimated at 2,800,000 escudos ($2,000,000), which would increase the total combined resources to $9,697,000 of which the SPTF loan represents 51 percent.
[21] Taking into account the construction of sewerage and other sanitation projects which IDAAN plans to finance during the next 4 years with its own resources under the national program, IDB's contribution would diminish from 72 percent to approximately 47 percent.
[22] $2,500,000 loan from Fund for Special Operations and $4,000,000 loan from the Bank's ordinary capital resources; total $15,000,000, 42 percent.
[23] Includes $100,000 for technical assistance.
[24] ICIV.
[25] CCAP.
[26] In addition, a $2,700,000 loan from the Fund for Special Operations, 3 percent. Includes $200,000 for technical assistance.
[27] The Ford Foundation contributed $623,000 to the financing of this program, 9 percent.
[28] Includes $120,000 for technical assistance.
[29] Another 29 percent expected to come from other external sources.
[30] The remaining 46 percent will be contributed by other institutions.
[31] In addition $2,600,000 granted from the Fund for Special Operations; total $9,100,000, 12 percent. Includes $200,000 for technical assistance.
[32] The remaining 10.7 percent of the cost will be provided by other foreign aid.
[33] In addition, 776,000 (14.1 percent) from the food for peace program.
[34] The Ford Foundation will contribute an additional $300,000, or 12.5 percent.
[35] In addition, an IDB loan from its ordinary capital; $25,500,000, 40.9 percent.

Mr. PASSMAN. In that same package we had $6 million for the Organization of American States. Furnish information on that matter, please.

Mr. MOSCOSO. Yes, sir.

(The information supplied follows:)

Unobligated and unexpended balance of IAPSP funds (as of June 30, 1963)

[Amounts in millions of dollars]

	Appropriation	Unobligated balance	Unexpended balance of total appropriations
Pan American Union (OAS)	6	0.1	2.3
Chile reconstruction	100	0	18.0
Social Progress Trust Fund (IDB)	394	37.0	339.5
ICA/AID	100	1.5	54.7
Total	600	38.6	414.5

CHILEAN EARTHQUAKE REHABILITATION LOAN

Mr. PASSSMAN. In that same package we had $100 million for the Chile earthquake rehabilitation loan.

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. What happened to that money?

Mr. MOSCOSO. We obligated it all.

Mr. PASSMAN. Has it been liquidated?

Mr. MOSCOSO. All but $18 million where the papers are being processed.

Mr. PASSMAN. As I recall it, they had unliquidated certain of the commitments made by the U.S. Treasury. Are you familiar witht those commitments?

Subsequent to the earthquake the Treasury made available certain credits to Chile which had not been utilized at the time we brought out the bill for the $100 million.

Mr. MOSCOSO. This might be stabilization loans made by the Treasury.

Mr. PASSSMAN. Find out the amount and whether we used it.

Mr. MOSCOSO. I shall be glad to find that out, sir.

(The information supplied follows:)

UNLIQUIDATED CHILEAN EARTHQUAKE COMMITMENTS

The U.S. Treasury approved a 1-year, $15 million standby credit for the GOC on February 10, 1961, the same date the IMF approved a standby agreement with Chile. The GOC never drew on this standby credit and it expired on February 10, 1962.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

Mr. PASSMAN. We shall now adjourn until 1 o'clock tomorrow afternoon.

WEDNESDAY, JULY 31, 1963.

WITHDRAWALS FROM U.S. TREASURY

Mr. PASSMAN. The committee will come to order.

I hold in my hand the Treasury statement dated July 25, 1963. The Treasury has collected during the first 25 days of this fiscal year $4,924,588,494.32, but they have withdrawn from the Treasury $8,991,068,877.97.

As far as establishing an alltime deficit, if this trend continues, or if we compare this to withdrawals from the U.S. Treasury for the corresponding period last year, we have withdrawn in excess of $1 billion more this year than we did in the corresponding period last year, for 25 days.

I want to say to the distinguished Secretary, we are always glad to have you with us.

Mr. COTTRELL. Thank you.

REPORTED LOSS OF GRAINS SHIPPED TO AUSTRIA

Mr. PASSMAN. This is from a letter addressed to a colleague:

The reported loss of $24 million worth of grains sent to AID, Austria, has not brought forth any word of explanation and a fixing of responsibility or any

indication of interest from the President, the Secretary of State, the Secretary of Agriculture, or anyone else in the administration.

I fear this is typical of the irresponsible way foreign aid is being administered.

I wonder if you would see if you can get us a little information on that matter?

Mr. SCHEINMAN. Certainly, sir.

I would be very happy to provide that.

(NOTE.—See additional information on p. 2139.)

O. ROY CHALK INTERESTS IN THE PHILIPPINES AND LATIN AMERICA

Mr. PASSMAN. This item is dated Wednesday, July 31, 1963, from the Washington Post:

Chalk marks AID off his slate.

Among the many interests of O. Roy Chalk, president of D.C. Transit System, Inc., are the Alliance for Progress and a 795-mile railroad in Central America. The railroad he controls; the Alliance he does not. The railroad and the Agency for International Development's Alliance for Progress brushed briefly this spring and then drew apart—but in the wake of their fleeting contact bruised feelings developed on both sides.

What we want to find out is if Mr. Chalk made this trip to Latin America to check this investment using the investment survey account.

You did have an application from him and he is listed. It was to go somewhere?

Mr. MOSCOSO. The Philippines.

Mr. PASSMAN. Did you also ask for consideration to go to Latin America?

Mr. MOSCOSO. He has been going there on several occasions to look into this railroad which he acquired from the——

Mr. PASSMAN. Has not yet turned in an expense account under the investment survey but his name is there for a trip to the Philippines? Is that a statement of fact?

Mr. MOSCOSO. That is what I understand.

Mr. PASSMAN. Is it true? Is he on the list?

Mr. MILLER. The list which was submitted to the committee, I believe, concerning applications under the investment survey program listed D.C. Transit System to do a transportation system study in the Philippines.

Mr. PASSMAN. Is this the same Mr. Chalk and the same D.C. Transit?

Mr. MILLER. I believe——

Mr. PASSMAN. Also figuring on building a railroad in Central America, is that right?

Mr. MILLER. My understanding is that Mr. Chalk has an interest——

Mr. PASSMAN. This is the same O. Roy Chalk, and the same D.C. Transit System, Inc., that went to Latin America, the same fellow who went to the Philippines?

Mr. MILLER. Mr. Chalk has an interest in the D.C. Transit System and Mr. Moscoso, I believe——

Mr. PASSMAN. The O. Roy Chalk who has an interest in the D.C. Transit System, Inc., went to the Philippines to check on whether it would be feasible and advisable for him to make an investment there, and he asked the investment survey fund to participate in the expenses under a legal arrangement; is that true?

Mr. MOSCOSO. I presume it is, Mr. Chairman.

Mr. PASSMAN. Let us find out.

Mr. MOSCOSO. You said——

Mr. PASSMAN. Is it the same man?

Mr. MOSCOSO. I do not really know.

Mr. PASSMAN. Is it, Mr. Miller?

Mr. MILLER. All I can testify to is that the D.C. Transit System has an approved application on October——

Mr. PASSMAN. We want to know whether or not O. Roy Chalk, president of the D.C. Transit System, Inc., applied to the Investment Survey to be reimbursed for part of his expenses to go to the Philippines. We want to know if this is the same O. Roy Chalk who went to Central America to look into a 795-mile railroad project.

Mr. NATCHER. Mr. Chairman, will you yield?

Will you let me answer that question?

Mr. PASSMAN. Yes, sir.

Mr. NATCHER. Mr. Chairman, you are referring to one and the same man.

Mr. PASSMAN. Thank you very much, Mr. Natcher.

Do you know whether or not he has applied, or will apply, for consideration to be reimbursed for expenses to Latin America?

Mr. MOSCOSO. No.

Mr. PASSMAN. You do not know of any application?

Mr. MOSCOSO. I do not know of any application, Mr. Chairman.

Mr. PASSMAN. Would he be eligible?

Mr. MOSCOSO. This application of his was for a loan to rehabilitate an already existing railroad which he bought from the purchasers, the original owners, who were the United Fruit Co.

Mr. PASSMAN. I am trying to clear up the record because it says: "Chalk at a stockholders meeting of the railroad, took out after AID."

This clipping will be made a part of the record.

(The clipping follows:)

[From the Washington Post, July 31, 1963]

CHALK MARKS AID OFF HIS SLATE

(By Jerry Doolittle, staff reporter)

Among the many interests of O. Roy Chalk, president of D.C. Transit System, Inc., are the Alliance for Progress and a 795-mile railroad in Central America.

The railroad he controls; the Alliance he does not.

The railroad and the Agency for International Development's Alliance for Progress brushed briefly this spring and then drew apart—but in the wake of their fleeting contact bruised feelings developed on both sides.

It all began in October 1962, when interests headed by Chalk bought control of the International Railways of Central America, a line formerly owned by United Fruit Co. which carries bananas and other freight through El Salvador and Guatemala.

The new owners revived an already pending request to AID for $3.2 million to bear half the cost of replacing the line's steam locomotives with 44 diesels.

On May 29, two things happened. AID notified Chalk that he could have the loan only if he got the Governments of El Salvador and Guatemala to guarantee it. And Chalk, at a stockholders' meeting of the railroad, took out after AID.

"I merely said," he recalls, "that they didn't have the guts to make a decision."

Getting governmental guarantees, he said, was an impossible condition which would involve getting the legislatures of both countries to pass special acts.

In the meantime, Chalk had been at work finding private financing for the diesel locomotives, and announced at the same stockholders' meeting that he had succeeded.

And in late June, he ran in the Washington Post and the New York Times a paid ad which described itself as "an editorial of great interest reprinted as a public service by America's largest Spanish language daily."

This was El Diario-Las Prensa, which Chalk also owns. The editorial blasted AID for its supposed inability to make decisions and its lack of "people-to-people programs."

An AID spokesman suggested yesterday that Chalk's failure to get the Alliance for Progress loan may have lain behind the criticism.

But Chalk himself denies this vigorously. "I'm not mad at anybody," he said yesterday. "I was merely applying constructive criticism, which I feel it's my duty to do."

He said there was no connection whatsoever between the loan application affair and the appearance of the editorial.

"I had had recent dealing with them, and I had personal experience with the way they have to get all sorts of agencies to agree before they go ahead and do anything. I felt it was my duty as a citizen and an editor to put it before the people and the Congress and the President."

Mr. MILLER. Mr. Chairman, I did not mean to be unresponsive.

It is my understanding that the D.C. Transit System is not involved in the railroad arrangements made in Central America.

Mr. PASSMAN. I did not say anything about being involved.

Mr. Chalk did go down to check the situation, did he not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. I wanted to know if it was the same O. Roy Chalk and that is all I was trying to find out.

Mr. MOSCOSO. It is the same.

Mr. PASSMAN. When the Administrator of AID is out of the city, then the Assistant Administrator, the Deputy Administrator, becomes the Acting Administrator; is that correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. If the AID Director is in Washington, could the Deputy write letters signing them "Acting Administrator"?

Mr. MOSCOSO. Yes.

Mr. MILLER. According to the delegation of authority——

Mr. PASSMAN. He could be Acting Administrator in this office with the Administrator being the Administrator in an adjacent office?

Mr. MILLER. It would be highly unusual.

Mr. PASSMAN. I thought it would be unusual.

I got a letter from the Deputy Administrator signed "Acting Administrator" when I believe, the Administrator was in town.

Mr. MILLER. I believe the date of that letter, Mr. Chairman, the Administrator was not in town.

Mr. PASSMAN. He was in town attending a meeting of the Foreign Affairs Committee the day before yesterday.

Mr. MILLER. The following morning, on July 30, he was in town.

Mr. PASSMAN. I am just trying to find out how you run this outfit.

Mr. MILLER. Mr. Chairman, if you like his signature——

Mr. PASSMAN. If you like, I will give you both letters.

REPAYMENT OF LOANS TO LATIN AMERICAN COUNTRIES

Mr. Director, yesterday you mentioned several times the amount paid back to the United States by Latin American countries. I assume you were talking about hard Export-Import Bank loans?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Not AID credits?

Mr. MOSCOSO. That is right.

Most of those are Export-Import Bank loans, that is right.

Mr. PASSMAN. Most, or all of them?

Mr. MOSCOSO. I would say most, because there are some that are not——

Mr. PASSMAN. This could go back to the inception of the Export-Import Bank loans to Latin America, could it not?

Mr. MOSCOSO. I was trying to convey, Mr. Chairman and members of the committee, the fact that in Latin America, they are a good client of the lending agencies and they have a good repayment record.

Mr. PASSMAN. You are dealing now with the old, established Export-Import Bank hard loans?

Mr. MOSCOSO. Right.

Mr. PASSMAN. You picked up figures that may have gone back many years, did you not?

Mr. MOSCOSO. No, sir; they are mostly from 1946 to 1962.

Mr. PASSMAN. At least that clears the record and we know what it is all about.

SOCIAL PROGRESS TRUST FUND

The estimate for the Social Progress Trust Fund for fiscal 1964 is $200 million; is that correct?

Mr. MOSCOSO. That is right, sir.

Mr. PASSMAN. Yesterday, we ended our hearings with a request for some information on the Social Progress Trust Fund, and I believe you indicated the unobligated balance as of June 30, 1963, of the $394 million which was appropriated for this Trust Fund in fiscal year 1963 was $37 million; is that correct?

Mr. MOSCOSO. That is right, sir.

Mr. PASSMAN. The fiscal 1964 estimate is $200 million, of which $195.5 million is to be allocated to the Social Progress Trust Fund, and $4.5 million is to be allocated to the Organization of American States; is that correct?

Mr. MOSCOSO. That is right.

REPAYMENT OF SOCIAL PROGRESS TRUST FUND LOANS

Mr. PASSMAN. What are the terms of the loans by the Social Progress Trust Fund to the Latin American nations?

Mr. MOSCOSO. The terms vary according to the field of social development involved.

Mr. PASSMAN. Are these hard-dollar loans or are they repayable in local currency?

Mr. MOSCOSO. They are repayable either in local currency or in dollars, at the option of the borrower.

Mr. PASSMAN. How many of the loans that you have made to date are repayable in dollars?

Mr. KILLEFER. The borrower has an option to pay in dollars——

Mr. PASSMAN. How many loans are repayable in dollars and how many in local currency? The borrower has the option?

Mr. KILLEFER. He has the option.

Mr. PASSMAN. Would they have an advantage today in repaying these loans with dollars rather than local currency?

Mr. KILLEFER. To meet your question headon, I think that it is obvious that most Latin American countries find great difficulty in paying with dollars; and that is the reason we are trying to help them.

Mr. PASSMAN. There would not be any advantage whatsoever for these countries electing to repay these loans in dollars rather than in their own currency, as long as they have that option?

Mr. KILLEFER. Some countries like Panama, the dollar is freely convertible with the local currency. There really is not any difference.

Mr. PASSMAN. If there is no difference, why do you not have a contract whereby they repay in dollars and not in local currency?

Mr. KILLEFER. As a matter of fact, in the year and a half of our operation under this Fund, the repayments have been approximately $1.4 million, of which about $400,000 has been in dollars.

Mr. PASSMAN. What countries paid in dollars and what countries paid in local currency?

Mr. KILLEFER. I will supply that for the record. I do not have the breakdown here.

(The information follows:)

SOCIAL PROGRESS TRUST FUND—ADMINISTERED BY INTER-AMERICAN DEVELOPMENT BANK

U.S. dollar collections as of June 30, 1963

Country	Interest [1]	Service charge [2]	Principal [1]	Total
Argentina		$503		$503
Brazil		9,220		9,220
Chile	$8,454	7,188	$72,500	88,142
Columbia	9,189	13,705	10,000	32,894
Costa Rica		10,259		10,259
El Salvador		9,888		9,888
Guatemala		35		35
Honduras		221		221
Nicaragua		1,175		1,175
Panama	21,912	6,285	38,000	66,197
Peru		35,284		35,284
Venezuela	25,966	18,302	120,000	164,268
Total	65,521	112,065	240,500	[3] 418,086

[1] The payments of interest and principal in U.S. dollars reflects the exercise of the option of the borrowers to make such payments in their own currencies or in U.S. dollars.

[2] A service charge of ¾ of 1 percent payable in U.S. dollars is a requirement of all Social Progress Trust Fund loan contracts.

[3] In addition to these dollar collections, there were collections in Latin American currencies equivalent to $996,059.

Source: Office of the Treasurer, August 6, 1963.

Mr. PASSMAN. Do you know of any nation where it would be to its advantage to repay in dollars? If you do not know, if it is a convertible currency and one is as good as another, why do you not have it repaid in dollars?

Mr. KILLEFER. I have already explained to you that normally, of course, it is to the great disadvantage of a country——

Mr. PASSMAN. I appreciated your reply but I thought you were hedging and trying to reverse your prior statement.

Maybe I misinterpreted the meaning.

Mr. KILLEFER. Perhaps you did.

What I meant to say, Mr. Chairman, was that in some countries, dollars are no better than the local currency. It does not happen often, but Panama is one example.

Mr. PASSMAN. I believe Panama has a currency that is equivalent to the dollar; does it not?

Mr. KILLEFER. They have a currency called the balboa. It is equivalent to the dollar.

Mr. PASSMAN. It is equal to the dollar. Just like in Okinawa they used to use yen and now they use American currency out there.

Mr. KILLEFER. Similarly, Mr. Chairman, the Guatemala quetzal is equal to the dollar.

Mr. PASSMAN. If they are in that good shape, why are you in with an AID program? Why can you not require those countries to repay these loans in dollars?

Mr. KILLEFER. We do make a good many loans repayable in dollars, Mr. Chairman.

Mr. PASSMAN. I am talking about the Social Progress Trust Fund, and why you have in there an option that if the country is in as good shape as it is, and has a currency that is convertible, then why do you want to complicate it by having this repaid in local currency?

Did you make any social progress loans to Haiti out of this fund?

And what about Peru?

Mr. MOSCOSO. None to Haiti.

Mr. PASSMAN. Peru?

Mr. MOSCOSO. Some to Peru.

U.S. HOLDINGS OF PERUVIAN CURRENCY

Mr. PASSMAN. Could you tell us the amount of Peruvian currency we have to our credit?

Mr. MOSCOSO. At the end of March 1963, the dollar equivalent was——

Mr. PASSMAN. The dollar equivalent was how much?

Mr. MOSCOSO. Otherwise we get all fouled up; $6,887,000 as of March 31, 1963.

Mr. PASSMAN. Is that in excess of our needs for that currency?

Mr. TENNANT. This is not an excess local currency country.

Mr. PASSMAN. This is the balance as of March 31, 1963. Are you looking at Peru now?

It would appear you are picking only one item, but do we not have $334,873,044?

Mr. TENNANT. The figure Mr. Moscoso read to you was the amount credited to the AID program.

Mr. PASSMAN. There is a lot of difference between $334 and $6 million.

Mr. STERNFELD. That is $334,000.

Mr. PASSMAN. Then, is the $6 million figure also supposed to be thousands?

Mr. STERNFELD. There is a larger figure on the other table there.

Mr. PASSMAN. Gentlemen, you still do not have it.

Mr. Controller, do you have this chart? Will you identify this, as to whatever it represents?

Mr. TENNANT. These are the Treasury account figures.

Mr. PASSMAN. Tell us about that information. You run into $6 million in one place, do you not? What is the second big figure, that $334 million?

Mr. TENNANT. This shows $334,873,000 U.S. dollar equivalents.

Mr. PASSMAN. That is the way you figured it, is it?

Mr. TENNANT. Excuse me. This is $334,873.

Mr. PASSMAN. Is the top figure $6,000 rather than $6 million?

Mr. TENNANT. $6,782.

Mr. PASSMAN. You used millions earlier?

Mr. TENNANT. I see what happened here, sir.

I think the local currency column is in thousands of units and the dollars are not.

That figure should be——

Mr. PASSMAN. Could you see why there would be confusion?

Mr. TENNANT. That depends on whether or not you are talking——

Mr. PASSMAN. We are talking about the dollar equivalent currency, and I only wanted to know how much Peruvian currency we own, and I must admit I do not know as much as I did when we started, because we got two figures.

I thank you for trying, though.

Mr. TENNANT. The total the AID program has is $6,887,000 as of March 31, 1963.

Mr. PASSMAN. He said $6 million, and then, again, we are off.

Mr. TENNANT. I think we just corrected that.

Mr. MOSCOSO. The answer is this, Mr. Chairman——

Mr. PASSMAN. Let us start over again.

Mr. MOSCOSO. It says here in thousands of units.

Mr. PASSMAN. Then the $6 million becomes $6,000, and the $334 million becomes 0? You are still dealing with millions? You have confused the units?

Mr. MOSCOSO. It is wrong.

Mr. PASSMAN. Would you want to bet your salary as to which one is right?

Here we have one little country and you cannot even figure out whether that figure is in millions or thousands.

Mr. MOSCOSO. Mr. Chairman, may I?

Mr. PASSMAN. Do you want to take your position now, finally?

Mr. MOSCOSO. I think it will be necessary to see what is wrong with these figures, but I can see that the figures Mr. Tennant has there apparently are the correct figures and the heading is correct, too.

Mr. PASSMAN. Your assistant is getting ready to disagree with you.

Mr. MOSCOSO. This may be reporting two different things.

Mr. TENNANT. Mr. Chairman, the Treasury Department figures include some funds not available to AID.

Mr. PASSMAN. I do not care what they are available for. You have 16 spigots from which you draw this stuff. Do not confuse it by saying we get back out of repayment in this spigot this certain amount.

I asked about the total amount.

Mr. TENNANT. We misunderstood you and we will give the official Treasury figures for all holdings.

(Information supplied follows:)

Local currency holdings acquired without payment of dollars per Treasury Department records as of Dec. 31, 1962

Peru account:	Dollar equivalent of local currency holdings
U.S.-owned currency:	
In Treasury accounts	3,558,128
Transferred to AID accounts	5,356,296
Transferred to State Department accounts	2,118
Total	8,916,543
Country-owned counterpart funds	19,328
Total, all accounts	8,935,871

REPAYMENT OF S.P.T.F. LOANS IN LOCAL CURRENCY

Mr. PASSMAN. Is the Social Progress Trust Fund the only source of hard dollar loans which are repayable in soft currency?

Mr. MOSCOSO. No; I think the Fund for Special Operations of the IDB also has loans repayable in local currency or dollars.

I am talking about the Inter-American Development Bank. U.S. sources?

Mr. PASSMAN. Then I am correct; am I not?

Mr. MOSCOSO. Public Law 480?

One of the U.S.——

Mr. PASSMAN. Am I correct in my assumption that the Social Progress Trust Fund is the only source of hard dollar loans repayable by option in local currency?

Mr. MOSCOSO. From this program; yes, sir.

Mr. PASSMAN. From the AID program?

Mr. MOSCOSO. Yes, sir.

SINGLE AID PACKAGE FOR THE ALLIANCE

Mr. PASSMAN. Last year when you—and when we speak of "you," we mean the Agency, or the executive branch—requested authorization for the Alliance for Progress program from the Congress, was it your intention to authorize a single package of aid to Latin America, which was to emphasize the Alliance and bring aid together for Latin America in one package?

Mr. MOSCOSO. Did I say that?

Mr. PASSMAN. I asked the question whether last year when the executive branch requested authorization for the Alliance for Progress program from the Congress, was it your intention, or the executive branch's intention, to authorize a single package of aid to Latin America, which was to emphasize the Alliance and bring aid together for Latin America into one package?

Mr. MOSCOSO. No; the requests that we are making here are for AID participation, but there are other requests.

Mr. PASSMAN. That is not answering my question.

Mr. MOSCOSO. That was last year. I do not know. I would like to understand the question.

Mr. PASSMAN. Last year when the executive branch requested an authorization for the Alliance for Progress from the Congress, was it the executive branch's intention to authorize a single package of

aid for Latin America, which was to emphasize the Alliance, and bring aid together for Latin America in one package?

Mr. MOSCOSO. No, sir; this is exclusively——

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Mr. Miller, will you give us your understanding of this matter?

Mr. MILLER. Mr. Chairman, my understanding was that the first part of your statement is correct; that the presentation last year was to emphasize the Alliance for Progress. There were, however, other sources of funds available for Latin America in this bill.

Mr. PASSMAN. In the AID package?

Mr. MILLER. In the AID package, including supporting assistance. There was existing at the time the Social Progress Trust Fund which was appropriated 2 years ago, Public Law 480, and the Export-Import Bank. Mr. Moscoso's duties as Coordinator——

Mr. PASSMAN. If you limit it to AID and get away from Public Law 480 and the Export-Import Bank, then is it correct?

Mr. MILLER. "Supporting assistance" is in a separate category and is used in Latin America to some extent.

Mr. PASSMAN. What did you request last year for the Alliance for Progress program? Did you not ask for a single package authorization?

Mr. MILLER. For development loans and grants, we did.

Mr. PASSMAN. Is this presently being justified on that basis?

Mr. MOSCOSO. That plus the Social Progress Trust Fund, which is included in the request for funds.

Development grants and loans for the Alliance for Progress are being justified here.

Mr. PASSMAN. Not in one package, and it is still scattered?

Mr. MOSCOSO. It is divided between grants and loans.

Mr. PASSMAN. But you intended last year to have a single package covering the items you just mentioned; is that correct?

Mr. PASSETT. I thought you might be referring to the funding level, the original request for funds in those two categories.

Mr. PASSMAN. May I suggest we take a brief respite from our labors while we go down and vote, and then see if you can come up with a unified answer to the question?

(A short recess was taken)

Mr. PASSMAN. The committee will come to order.

Before we recessed briefly to go to the floor, I stated that last year it was my understanding that when the executive branch requested authorization for the Alliance For Progress program from the Congress it was perhaps your intention, or that of the executive department, to authorize a single package of aid to Latin America, which was to emphasize the Alliance and bring aid together for Latin America into one package. Is that correct?

Mr. MOSCOSO. No, sir.

UNOBLIGATED BALANCES OF IDB

Mr. PASSMAN. Thank you.

What is the amount of the unobligated balance available to the ordinary capital of the Inter-American Development Bank and what

is the unobligated balance in the Special Operations Fund of the Inter-American Development Bank?

Mr. MOSCOSO. May I have the U.S. Director answer the question on that, sir?

Mr. PASSMAN. Yes.

Mr. KILLEFER. With respect to the ordinary resources of the Bank, the balance of uncommitted capital June 30 this year was $286,614,000, including both dollars and Latin American currency.

Mr. PASSMAN. Yesterday, when you gave us the grand total of unliquidated funds to the 21 Latin Americans countries in which we have an aid program, did that include this item?

Mr. MOSCOSO. The unobligated balances?

Mr. PASSMAN. We put together the unliquidated funds. Does that include this item?

Mr. MOSCOSO. Yes. But, Mr. Chairman, you will recall that I corrected——

Mr. PASSMAN. I am familiar with the fact that there was one fund that had a portion of other currencies, but I just wanted to know——

Mr. MOSCOSO. This is in this fund.

Mr. PASSMAN. If you included it.

Mr. MOSCOSO. Yes, sir; this is the fund we are talking about right now, regular fund.

Mr. PASSMAN. What figure did you give us, sir?

Mr. KILLEFER. The figure I just gave you was $286,614,000 of ordinary resources. That includes local currencies and dollars.

Mr. PASSMAN. Yesterday we were given a figure of $342 million, in round figures. How can we go about reconciling the difference? Or could it be that this is one fund and now you will add to it some additional funds?

Mr. STERNFELD. $342 million out of ordinary capital and Funds for Special Operations. This was the undisbursed balance on loans already made. I assume it did not include the drawdown on the callable capital.

Mr. PASSMAN. Gentlemen, we have two answers, the one you gave us yesterday, the one you gave us today. Will you try to reconcile the difference between the two?

Mr. MOSCOSO. We will be glad to, Mr. Chairman. I have this from ordinary capital, $241.3 million I gave yesterday.

$342 million was the undisbursed balance of loans already made—$241.3 million from ordinary capital, and $100.7 million from the Fund for Special Operations. This does not include the unobligated balance.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

LOANS APPROVED BY IDB WHICH MAY HAVE BEEN REJECTED BY AID

Mr. PASSMAN. Do you have a list of any loans approved by the Inter-American Development Bank from any or all of the three windows for projects that AID originally rejected?

Mr. MOSCOSO. Approved by the Bank that we rejected?

Mr. PASSMAN. Yes, previously. You have the Inter-American Development Bank, with three windows. You have applications going to the Bank; you have applications coming to AID.

Mr. MOSCOSO. We could give you——

Mr. PASSMAN. You could not say categorically they have not approved loans that AID originally rejected?

Mr. MOSCOSO. Chances are——

Mr. PASSMAN. If you cannot make a positive statement, will you have a look at the facts and give us an answer?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Thank you.

(The information supplied follows:)

AID–IDB PROJECT REFERRALS

Although numerous projects are referred between AID and the IDB, neither agency has approved a project formally rejected by the other. Continuous coordination between the two agencies, statutory requirements for the approval of the IDB loan projects by the National Advisory Council, and U.S. participation through the U.S. Executive Director of the IDB in determining eligibility for Social Progress Trust Fund projects, all preclude the possibility of IDB approval of a loan to finance a project rejected by AID. AID loans are processed through similar channels before approval, and it is thus unlikely that an IDB rejected project would be approved by AID.

AID, the "lender of last resort," has cooperated with the IDB in seeking the best utilization of available resources, with AID in some cases referring projects to the Trust Fund which may have been submitted first to AID. With the need and demand for help in the social progress field overwhelming, IDB has been flooded with applications, and has had to assure that its limited resources are not overcommitted in one country or one sector. In those cases where Trust Fund resources were inadequate, high priority loan applications have been taken by AID or jointly financed with AID.

REFORMS IN TAXES AND LAND DISTRIBUTION

Mr. PASSMAN. What have the Latin American countries done in the way of self-help and reform in the field of taxes and land reforms since September 1960? I am talking about something substantial, not bills that have been introduced that are pending, not tax bills that become laws that have not been enforced. We want you, if you will, to answer the question with some positive facts with a spread of 3 years, 1960, 1961, and 1962. Maybe we had better start with September of 1960.

We agree this thing is going to have to work. We should not be imagining it is working maybe when it is not. We want positive information. For each nation that we have helped, we want the amount of taxes they collected in 1960, in 1961, 1962, and 1963, beginning with September of 1960. Not just money accruing to the treasury, because we had a lot of cash grants. We are talking about actual taxes paid in to the government. If you will get that information for us, we shall be grateful.

Then, if you would, tell us the number of acres of land in each country that has been parceled out to the individuals, and the percentage. Do not mix it up with public lands. You know the type we are talking about, where they are breaking up these large estates. Give us the number of acres by country that have been turned over to the individuals and the percentage of the total cultivatable land. Then you may also tell us the amount of public land that has been deeded to individuals. Cite your authority in each instance. Do you have it now on taxes?

(Information supplied follows:)

LAND DISTRIBUTION IN LATIN AMERICA

While the basis of any agrarian reform program is the redistribution of rights to own and cultivate land, certain changes in institutions and services (credit, technical assistance, price policies, transportation, and storage) are required to assure that redistribution is meaningful and productive. Once an agrarian reform law is passed, it is necessary to organize institutions to apply the law, and for these institutions to in turn prepare basic studies necessary for effective implementation. In most cases, the first step, passing of an agrarian reform law, has only recently occurred in Latin America. As exceptions, the programs of Bolivia and Mexico, have been in effect over the years. Those programs have recently been stepped up, and can be considered an important part of the Alliance effort.

"With respect to the implementation of agrarian reform programs in countries that have recently passed laws on this subject, it is worth noting that none of them has shown substantial progress in its land redistribution program. This is partly due to the fact that it has only been a few months since the laws were issued and the specialized institutions responsible for applying them organized" (Inter-American Economic and Social Council, report of the second meeting of Special Committee II, "Agricultural Development and Agrarian Reform, 1963," p. 8).

Nevertheless, land has been distributed. Total by source of land (private or public) as available to AID, follow:

Country	Year	Number of acres [1] distributed by sources				
		Private [2]	Private acquired for distribution	Private distributed as percent cultivated	Public	Total
Argentina	1961 to 1963				246,000	246,000
Bolivia [3]	September 1960 to 1962	3,378,000		9.58	2,549,000	5,927,000
Brazil [4]	September 1961 to 1963	100,000		.03	300,000	400,000
Chile [5]	1962 to 1963	9,000	(189,000)	.06	1,420,000	1,429,000
Colombia [6]	April 1962 to 1963	18,000	(191,000)	.04		18,000
Dominican Republic [7]	do	14,000	(8)	.44		14,000
Ecuador	1961 to 1963	[9] 23,000		.25	(10)	23,000
Guatemala	1961 to 1962				98,000	98,000
Honduras	November 1962 to 1963				10,000	10,000
Mexico [11]	September 1960 to September 1962.	13,740,000		6.17	3,435,000	17,175,000
Paraguay	1961 to 1963	[12] 339,000		11.15	234,000	573,000
Peru	1962 to 1963	[13] 4,000	(108,000)	.01	73,000	77,000
Uruguay	1961 to 1962	71,000		.18		71,000
Venezuela	do	536,000	(240,000)	1.04	220,000	756,000
Total		17,449,000			7,994,000	25,443,000

[1] Source: Inter-American Economic and Social Council, report of the 2d meeting of Special Committee II, "Agricultural Development and Agrarian Reform, 1963", and country submissions to Special Committee II.

[2] Private lands acquired by the government and distributed.

[3] Social Progress Trust Fund, 2d Annual Report. Private land distributed as percent of total is IDB estimate.

[4] USAID Brazil estimate.

[5] Submission to agricultural development and agrarian reform committee and Embassy airgrams July 3d and Oct. 9, 1962; includes land distributed by the church. In addition to public land distributed to new owners, provisional or final deeds for former public land have been granted to occupants in area of 1,495,000 acres.

[6] Embassy message of Apr. 10 and airgram of July 26, 1963.

[7] Estimate from report of the 2d meeting of Special Committee II, "Agricultural Development and Agrarian Reform, 1963."

[8] Land distributed is part of project to distribute estimated 600,000 to 1,000,000 acres of lands formerly belonging to Trujillo and associates (Embassy airgram Apr. 8, 1963). Several thousand acres have been donated to the land reform program by private individuals and companies.

[9] In spite of the fact that agrarian reform legislation has not been passed, the National Land Settlement Institute has made 23,000 acres available through purchase from a private company to 700 occupants.

[10] Titles have been adjudicated for 50,000 acres of public lands.

[11] President of Mexico's Report to Congress, September 1960 and September 1961. Private land distributed as percent of total is IDB estimate.

[12] Principally grazing lands.

[13] Distributed since April 1963.

Mr. MOSCOSO. The taxes, Argentina, total revenue in pesos, 1961——

Mr. PASSMAN. Break it down to the equivalent of dollars.

Mr. MOSCOSO. I could not convert it in my head.

Mr. PASSMAN. Have it converted and we will take it up tomorrow.

Mr. CONTE. Why not get the pesos for now?

Mr. PASSMAN. The gentleman may ask for anything he wants.

Mr. CONTE. How many pesos to the dollar, Mr. Chairman?

Mr. PASSMAN. Give the gentleman anything he wants. As far as my question is concerned, it deals with dollars.

Mr. MOSCOSO. I have it here converted, Mr. Chairman.

Mr. PASSMAN. All right, if you have it converted. Argentina, 1960 tax collections?

Mr. MOSCOSO. 1960, 1962 is preliminary, 1963 estimated.

Mr. PASSMAN. You are dealing positively with the year 1960?

Mr. MOSCOSO. 1961.

Mr. PASSMAN. Give it to us for 1961.

Mr. MOSCOSO. Argentina, $880 million.

Mr. PASSMAN. From what sources?

Mr. MOSCOSO. Total tax revenues.

Mr. PASSMAN. Is that the amount paid in in taxes and has nothing to do with any other money accruing to the Treasury?

Mr. MOSCOSO. This is tax revenues.

Mr. PASSMAN. What amount did they collect in 1960?

Mr. MOSCOSO. I have 1961, 1962——

Mr. PASSMAN. You already have 1962 as an estimate.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. If you do not have——

Mr. MOSCOSO. No, it is not an estimate. It is the preliminary figures.

Mr. PASSMAN. Would it not be better to go back to 1960 and deal with the positive part of it? You have 1960 and you have 1961. Those 2 years are positive. If you get into a year where it is just an estimate and preliminary, we do not have anything proved.

Mr. MOSCOSO. I think it is preliminary and acceptable.

Mr. PASSMAN. If you do not mind, sir, can you get the information for 1960?

Mr. MOSCOSO. Yes, we can get it.

I do not have it here. I would have to get it.

Mr. PASSMAN. I am going to specifically request that you get us the information for the year 1960. Then we shall move into 1961, and when we make a positive case of the increase, then it will be all right to deal with a preliminary figure.

Mr. MOSCOSO. 1960, Argentina, $645 million. 1961, $880 million. 1962, $1,292 million.

Mr. PASSMAN. You said in 1962 it was preliminary.

Mr. MOSCOSO. Just like all the figures that come out at the end of the fiscal year.

Mr. PASSMAN. Let us deal with the 2 years dealing with positive figures, $645 million to $880 million. How much of that could you charge to inflation and how much——

Mr. MOSCOSO. These are in dollars.

Mr. PASSMAN. I know they are in dollars. Let us discuss briefly the inflationary spiral they had in Argentina. Come down now to

cost-of-living index 1960 and 1961. What we are trying to find out is whether any of these tax laws have brought in more dollars.

Mr. MOSCOSO. I can prove it if you give me the opportunity.

Mr. PASSMAN. You will have the opportunity. You give us the differences for those 2 years. Then if you could give us an estimate of how much the new tax laws brought in, and then how much possibly would be from increase in the economy. There are a lot of different factors.

Mr. MOSCOSO. This is a report, Mr. Chairman, of the Inter-American Development Bank. It has the various taxes accrued, laws approved.

Mr. PASSMAN. How do you relate that information to the cost-of-living index on the same page?

Mr. MOSCOSO. While it is not deflated to reflect the cost-of-living index, it is converted at a single rate of exchange. It is already done.

ARGENTINA'S BUDGETARY DEFICITS

Mr. PASSMAN. Your taxes, 1960, $645 million; 1961, it was $880 million. Now if we deal with the deficit, instead of being decreased, it increased; is that correct?

Mr. MOSCOSO. Yes; it increased.

Mr. PASSMAN. If we project that on to the estimate for 1962, in just 2 years the deficit went from $141 million to $500 million. Does that fact indicate anything significant?

Mr. MOSCOSO. That indicates a serious——

Mr. PASSMAN. Inflation?

Mr. MOSCOSO. Not necessarily. Serious fiscal difficulty they are having.

Mr. PASSMAN. It follows, nevertheless, that as the domestic revenues start up, then the deficit starts up. It really goes wild in 1962 over 1961, in that the deficit went to $500 million from $150 million. Of the $1,292 million, could you tell us——

Mr. MOSCOSO. 1962 was a rather unusual year. They had a change in government, there were increases in defense expenditures, there were increases in capital outlays. That by itself accounts for about half of the budget deficit.

Mr. PASSMAN. You had in fiscal 1963, I suppose, which was their 1962 year, $88,800,000 in aid. Is that sum reflected in the $1,292 million?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. That would make it even more one-sided because without that money the deficit then would have been $588 million; would it not?

Mr. MOSCOSO. No; these funds were not disbursed during that particular year.

Mr. PASSMAN. Let us consider 1962, when you had $22 million in aid; is that correct?

Mr. MOSCOSO. That is right.

RELATION OF BUDGETARY DEFICITS TO DEVELOPMENT PROGRAMS

Mr. PASSMAN. In 1960 you had a deficit of $141 million, but during that year we gave Argentina $22 million and yet their deficit jumped up to $150 million. It does not appear that aid is helping at all. We

see that our aid is growing, but the minute you step up your aid, their budget deficit goes up. You would expect it to be the other way, would you not?

Mr. Moscoso. I would interpret that they are not supporting their budget with our aid.

Mr. PASSMAN. What are they doing with it?

Mr. Moscoso. They have other capital outlays and other necessities.

Mr. PASSMAN. Much of what they originally spent their own budget for they are doing now out of aid, which should take the pressure off their budget; should it not?

Mr. Moscoso. No, sir. It goes to show that it was not taken off because the budget deficit increased.

Mr. PASSMAN. The budget deficit increased; yes. If you had a subsidy coming in to the U.S. Government that we could spend on our public works projects here in America, that would certainly relieve the budget, would it not, or the Treasury Department from spending that money? Would it not improve the condition?

Mr. Moscoso. Supposing an increase in public works were to take place also at the same time and concurrently.

Mr. PASSMAN. The more aid we give them, the larger the deficit is going to be?

Mr. Moscoso. Let us put it this way. The more public works will be built, the more infrastructure will be put in, the more development will take place. I do not think it necessarily follows that the deficit will be larger, Mr. Chairman.

Mr. PASSMAN. You may not think so. I do. You have a fantastically high aid program now going into Argentina. When you started this program, they were operating with a $141 million deficit. You put in $22 million. The following year the deficit went up to $150 million. Then you put in $88 million. The deficit jumped up to $500 million. I thought we were helping them, but if this is what is happening, it simply means inflation will follow. Would you understand it that way?

Mr. Moscoso. Yes, and we have a program now with Argentina to stabilize the cost of living in the country. They have an IMF agreement which they have kept up.

Mr. PASSMAN. Is that one country where you have that tremendous inflation?

Mr. Moscoso. It has been pretty much restrained now. The peso has been stable over the last 3 or 4 months now. As a matter of fact——

Mr. PASSMAN. I am not talking about 3 or 4 months, but the past 2 or 3 years. Have you had a considerable amount of inflation?

Mr. Moscoso. Yes, they had strong inflation beginning in 1962.

Mr. PASSMAN. Is that fact not positively reflected in budget receipts as well as the annual deficit?

Mr. Moscoso. Normally when there is a deficit, you have inflation—normally. It does not necessarily follow.

EFFECT OF INFLATION ON BUDGETARY SITUATION—ARGENTINA

Mr. PASSMAN. Can you tell us whether or not it was inflation that created the budget receipts or whether or not it was by tax laws they passed?

Mr. Moscoso. Tax laws. Not only that, but better administration of the tax laws.

Mr. PASSMAN. Better administration is one thing. That is something we should have everywhere.

Mr. FORD. Would the chairman yield?

Mr. PASSMAN. Yes, when I get this one question about the tax laws. Can you tell us the dates the laws were enacted and specifically what the new tax laws brought in in the way of dollar equivalent?

Mr. Moscoso. February 1962.

Mr. PASSMAN. Is that the date of the act?

Mr. Moscoso. Yes.

The legislation enacted by Congress, tax reforms. The main provisions as follows: (a) The General Tax Division was given administrative autonomy to permit maximum flexibility in its collection operations. The nontaxable minimum was increased from 24,000 pesos to 36,000 pesos annually for all categories, except for income from——

Mr. PASSMAN. Are you dealing specifically with the new laws?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. What is the total that you got from the new laws?

Mr. Moscoso. In the case of——

Mr. PASSMAN. Argentina.

Mr. Moscoso. We do not have it broken down by various laws.

Mr. PASSMAN. I will not pursue it today, but I want to make this one observation, and then I shall yield to Mr. Ford.

Please go with me now to page 28 of 1961. You estimated that the domestic revenues would be $1,753 million. Now let us take your optimistic estimate of what you are going to get, which is $880 million, or just about half.

If that indicates success, I cannot comprehend. Look at my book and see if I am reading it correctly.

Mr. Moscoso. This is converted at 85 pesos to the U.S. dollar.

Mr. PASSMAN. You said it would be $1,753 million, but when you come up with your estimate, it is only $800 million.

Mr. Moscoso. You have a different conversion figure. If you convert at 120 pesos per dollar——

Mr. PASSMAN. This is broken down. This is inflation. You told us it inflated everything. This was your estimate. When you come to the actual, it is 50 percent of that amount.

Mr. FORD. I understand because I am sure you are reading from last year's justifications and this year's book.

Mr. PASSMAN. Domestic revenues, estimate would be $1,753 million. We get to this, and it is only $880 million.

Mr. FORD. I am looking, Mr. Moscoso, at the words at the top of that area in the justification book, and it says million dollar equivalents in the 1962 book.

Mr. Moscoso. That is right.

Mr. FORD. And in the 1963 book the same phraseology is used.

Mr. Moscoso. That is right. I converted at 120 pesos per dollar.

Mr. PASSMAN. It is either inflation—but even with the inflated figure, you only got half of what you estimated you would get for that year. We have to make this thing make sense.

This thing is either succeeding or it is not succeeding. If it is not, then we are going to have to work together to make it work. We just cannot tear up the estimate you gave us previously.

Mr. Moscoso. I would like to——

Mr. PASSMAN. Both have been adjusted to the dollar equivalent, and this was the estimate of what you would get in 1961, but now it winds up at just a little over half that sum.

Mr. FORD. There needs to be some reconciliation.

Mr. PASSMAN. There is no way to reconcile it other than accept the facts where the dollar equivalent was presented last year and this year. The estimate was one figure last year, and this year it indicates that it is just about 50 percent which has been realized of what they expected.

We will have to break it down on every nation when we get to it. We shall return to Argentina when we get to the individual nations.

AUDITING AUTHORITY OF GAO AND INSPECTOR GENERAL UNDER SPTF

Do the General Accounting Office and the Inspector General of the State Department have any authority to audit expenditures made under the Social Progress Trust Fund program of the Inter-American Development Bank?

Mr. Moscoso. They can ask for any information.

Mr. PASSMAN. Is the authority presently broad enough for them to do the auditing?

Mr. Moscoso. They can do it through us.

Mr. PASSMAN. Do they have the same access and same authority to apply to the Inter-American Development Bank as they do to all other AID projects?

Mr. Moscoso. They would have to do it through us, Mr. Chairman, because it is not normal for the U.S. Comptroller to go into the books of an international——

Mr. PASSMAN. Do they have to get permission from the Bank? The Inspector General, under the present authorization, does not have the right to audit the books of the Inter-American Bank under the present authority?

Mr. Moscoso. They can get any information they want doing it through us.

Mr. PASSMAN. Does the General Accounting Office or the Inspector General of the State Department have authority to audit the expenditures made under the Social Progress Trust Fund program of the Inter-American Development Bank without having to get special permission, or authority, from AID or the executive or some other branch—the present authority is not broad enough for them to go into audits without permission?

Mr. Moscoso. I think it is sufficiently broad right now to be able to get any information he wants.

Mr. PASSMAN. Under the present authority can the auditors from the General Accounting Office or the Inspector General of the State Department move in without advance notice and do the same type of audit on the accounts of the Inter-American Bank as they can on the AID accounts around the world?

Mr. MILLER. I can speak only to the Inspector General.

Mr. PASSMAN. Speak to that.

Mr. MILLER. His statutory authority is found under section——

Mr. PASSMAN. Can you tell us whether or not the authority would apply equally to the Inter-American Development Bank without advance notice or permission as it would to other AID accounts?

Mr. MILLER. I was trying to be very precise. His authority is covered by section 624(d)(2).

Mr. PASSMAN. I am familiar with the authority, but is it broad enough to permit the auditors to move in on the same basis and make the same kind of audit of the Inter-American Development Bank accounts as they would the the AID agency and possibly Development credits?

Mr. MILLER. Under the authority he only has authority to review and to conduct such reviews as he believes necessary for U.S. programs.

Mr. PASSMAN. Thank you. You know very well the authority is not that broad.

Mr. MILLER. I am trying to answer your question.

Mr. PASSMAN. You know the answer.

Mr. MILLER. The answer is only under U.S. programs but not under programs administered by the Inter-American Development Bank.

Mr. PASSMAN. Let us limit it to the Social Progress Trust Fund then, specifically.

Mr. MILLER. He has authority, it is my understanding, only to review whatever residual rights the United States has in——

Mr. PASSMAN. Then the auditor does not have the right?

Mr. MILLER. He does not have the right to go in——

Mr. PASSMAN. Thank you. Why do you make it so difficult for us to ever get an answer?

Mr. MILLER. I am trying to be precise, Mr. Chairman.

NATIONAL DEVELOPMENT PLANS IN LATIN AMERICA

Mr. PASSMAN. How many members of the Alliance for Progress program have completed national development plans and how many have been approved by their own government and the panel of nine?

Mr. MOSCOSO. All the members are now doing planning, and the following have already submitted their plans to the panel of experts: Colombia, Chile, Bolivia, Mexico, Panama, Venezuela, Honduras.

Mr. PASSMAN. How about the other countries?

Mr. MOSCOSO. Brazil and Ecuador and Peru are expected to submit theirs very shortly, and we expect other countries to follow before the end of the year. There might be one or two exceptions. We have 10.

Mr. PASSMAN. Could it be that they are getting their aid a little easier some other way?

Mr. MOSCOSO. I do not understand the question, sir.

Mr. PASSMAN. I speculated that maybe they are getting all the money they want or need from some other source, because we would have thought that all of them would have been in rather promptly with a plan to get into this program. Would you not have thought so?

Mr. MOSCOSO. No; because planning is an extremely difficult job. In some countries that have not done——

Mr. PASSMAN. Under the aid program they are getting billions of dollars of assistance, are they not, without any plans?

Mr. MOSCOSO. For projects in the majority of the cases.

Mr. PASSMAN. This phase deals with the same type of programs and projects, does it not?

Mr. MOSCOSO. There are two kinds of plans, general plans and sectoral plans.

Mr. PASSMAN. Some of the nations, I think you named seven, have completed plans.

That leaves 12 yet to complete their plans?

Mr. MOSCOSO. Yes; there are 19 countries.

Mr. PASSMAN. How long has the Alliance for Progress program under this section been in effect? How long would they have been eligible for consideration out of this fund, since 1960? Calendar 1961, I suppose.

Mr. MOSCOSO. 1961. May of 1961.

Mr. PASSMAN. Two years. Of the 12 nations that have not yet completed their national development plans, could you insert in the record the total amount of aid to each of them for the years 1961 and 1962?

Mr. MOSCOSO. Yes.

(The information supplied follows:)

Total U.S. economic assistance to Latin American Republics without national development plans submitted to the OAS panel

[In millions of dollars]

Country	Fiscal year 1961	Fiscal year 1962	Country	Fiscal year 1961	Fiscal year 1962
Argentina	68.8	78.8	Haiti	11.8	7.5
Brazil [1]	303.9	202.5	Nicaragua	11.8	13.7
Costa Rica	10.0	10.3	Paraguay	10.7	8.0
Dominican Republic	0.1	36.6	Peru	58.9	78.2
Ecuador	13.1	36.5	Uruguay	2.8	6.7
El Salvador	6.6	23.2			
Guatemala	31.8	9.3	Total	530.3	511.3

[1] Brazil has completed a plan but has not yet submitted it to the OAS.

NOTE.—The 7 countries with plans received a total of $408,700,000 in U.S. assistance in fiscal year 1961 and $581,000,000 in fiscal year 1962.

U.S. ASSISTANCE TO LATIN AMERICAN DEVELOPMENT PLANNING ACTIVITIES

Mr. PASSMAN. How much money has the United States extended under the Alliance for Progress program in the form of grant aid for assistance to the various Latin American countries in developing their national development plans?

Mr. MOSCOSO. In 1963 for development planning activities, including feasibility surveys and public administration, technical assistance——

Mr. PASSMAN. It falls under the same category. Give us the amount of grant aid out of Alliance for Progress funds.

Mr. MOSCOSO. Grants—$4,740,000.

Mr. PASSMAN. For what year?

Mr. MOSCOSO. 1963.

Mr. PASSMAN. Could you give the information for 1962?

Mr. MOSCOSO. No, sir, we do not have it. We do not have it, but will be glad to get it for the record.

Mr. PASSMAN. How about for 1961 also while you are getting it?

Mr. MOSCOSO. 1961 also.

(The information supplied follows:)

Development planning activities

Total, fiscal year 1961	$450,000
Total, fiscal year 1962	3,072,000

Mr. PASSMAN. Off the record.

(Discussion off the record.)

UTILIZATION OF FUNDS BY PAN AMERICAN UNION FOR THE OAS

Mr. PASSMAN. I believe the OAS received $6 million under the original appropriation for the Inter-American program for social progress; is that correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. How did the OAS utilize this money?

Mr. MOSCOSO. The projects are the following:

Agriculture and agrarian reform, $524,600. Taxation and tax reform, $336,620. Public administration, $125,940. Education and training, $422,056. Education and training, engineering and science education, $16,580. Urban and community developments, and housing, $291,620. Public health, $170,284. Public information, organization and methods, $19,500. National planning agencies, $71,166. Export commodities—market problems, $50,236. Support of missions, $200,000, task forces. That gives a total of $2,228,616.

The details of the balance are technical assistance, Alliance for Progress mission technical pool, $100,000.

Technical advisory mission to Brazil, $350,000. Technical advisory mission to Chile, $10,000. Technical advisory mission to Ecuador, $296,600. Technical advisory mission to Haiti, $67,710. Technical advisory mission to Panama, $23,000. Technical advisory mission to Paraguay, $188,625. Technical advisory mission to Uruguay, $269,-459. Technical advisory mission to the Dominican Republic, $103,580. Central American regional mission, $350,000. Technical advisory mission to Brazil for agriculture and agrarian reform, $8,000. Technical advisory mission to Colombia for agriculture and agrarian reform, $111,039. Technical advisory mission to Venezuela for agriculture and agrarian reform, $7,000. Support of technical advisory missions, $134,600. Support of the Panel of Nine, $800,000. Unprogramed as of December 31, 1962, $351,771. That adds up to $3,171,384. Overhead of $600,000.

Mr. PASSMAN. Overhead for what purpose?

Mr. MOSCOSO. For handling the whole program.

Mr. PASSMAN. Who gets that money?

Mr. MOSCOSO. The Pan American Union, broken down in salaries and personnel contracts, $302,000; equipment, $90,000; rental of office space, $165,000; miscellaneous, $43,000; total of $600,000.

Mr. PASSMAN. Did you have much difficulty distributing this money in so many different categories?

Mr. MOSCOSO. The budget was submitted to us by the Pan American Union. Over a period of weeks we discussed it.

OAS TECHNICAL ADVISORY MISSIONS TO LATIN AMERICAN COUNTRIES

Mr. PASSMAN. We are talking only about $6 million. Could you now give us the total amount of money that each of these countries and projects got out of all other aid spigots, comparable to this, during the

same period? We do not like to do business in these odd figures. It is $394 million and we decided to make it $400 million. They could not justify it for $396 million and we wanted to round it out. This is just a little extra sweetener in the pie.

We want to find out what countries received money for similiar accounts, if it is technical assistance, you had an awful lot of missions going out. Of course, you do have AID missions going out all the time. If you will, give us that information.

Mr. Moscoso. Would it help if I explained the purpose of these missions?

Mr. PASSMAN. Go ahead and do so.

Mr. Moscoso. I would like to have the opportunity to explain.

U.S. AND OAS TECHNICAL ADVISORY MISSION TO BRAZIL

Mr. PASSMAN. Take a technical aid mission for $350,000 for——

Mr. Moscoso. Brazil?

Mr. PASSMAN. The technical advisory mission to Brazil.

Mr. Moscoso. To assist them in developing their planning.

Mr. PASSMAN. Let us find out the number. How many went in the mission?

Mr. Moscoso. I do not have the detail.

Mr. PASSMAN. What were they supposed to do, if anything?

Mr. Moscoso. They were supposed to assist the Brazilians in doing comprehensive national planning. The reason for our not getting involved in that is we think the national planning efforts of a country are a very delicate operation and should be handled primarily by the nationals themselves or by people that they themselves pick without any intervention on our part.

Mr. PASSMAN. Did we give something out of another account for the same purpose, national planning, to Brazil, to the Latin American pot divided up similar to this? How much did the mission get out of the second pot to do the same thing? Let us get the two together.

Mr. Moscoso. We gave $650,000.

Mr. PASSMAN. To Brazil?

Mr. Moscoso. Yes; for the Northeast regional plan.

Mr. PASSMAN. To do the same type of planning?

Mr. Moscoso. No; it is a different type of planning.

Mr. PASSMAN. A national plan?

Mr. Moscoso. But this is regional planning of the northeast area. We did it jointly with a Brazilian agency.

Mr. PASSMAN. For Brazil, though?

Mr. Moscoso. Yes; with Brazil.

Mr. PASSMAN. Here we have two little items, $650,000 out of one spigot, or account, $350,000 out of another. Did you use the same mission, Mr. Moscoso, to accomplish the same purpose?

Mr. Moscoso. No; this is an entirely different mission.

Mr. PASSMAN. What kind of plans did they work out for the $350,000?

Mr. Moscoso. That has not been spent because I am told the mission was not able to get there.

Mr. PASSMAN. How about the $650,000?

Mr. STERNFELD. That is being spent. We are actually working with the SUDENE at this time.

Mr. PASSMAN. You got one mission there for the $650,000 but did not get the mission for the $350,000, speaking of the U.S. mission that could not get there?

Mr. MOSCOSO. This was not a U.S. mission. The mission I am talking about that did not get there is the OAS mission.

Mr. PASSMAN. What was the reason it did not get there?

Mr. MOSCOSO. We are having difficulty in getting personnel for some of these operations. Planning is a difficult job.

Mr. PASSMAN. This is a function of the OAS, is it not, this $350,000 planning part of the $6 million?

Mr. MOSCOSO. They accepted responsibility for taking on the planning function or developing plans, to assist countries in developing plans, in most Latin American countries.

Mr. PASSMAN. When do you suppose you will call this back in and deobligate it?

Mr. MOSCOSO. I imagine that we would deobligate only when we have information from OAS that definitely they are not going to be able to do it.

Mr. PASSMAN. Do all other projects fall in the same general category?

Mr. MOSCOSO. As far as I know——

Mr. PASSMAN. We only want to examine on one or two. If this is the exception rather than the rule——

Mr. FORD. Will the chairman yield?

Mr. PASSMAN. Yes.

Mr. FORD. When was this effort initiated with this $350,000 mission?

Mr. STERNFELD. The Brazilian mission was delayed by the various changes that have taken place in the Brazilian Government and particularly in the changes of ministers in charge of the effort Brazil is doing in the planning field. There have been changing organizations to deal with. The Brazilian Government asked for this type of assistance, I think it was in 1962. The OAS has been attempting since October to send a mission down there. In May 1962 the Government of Brazil, through its representative on the Council of American States, presented a written request for technical assitance to assist the organization known as Coplan, the Brazilian National Planning Commission. This commission has undergone a series of reorganizations. As a matter of fact, as of July 11, this month, the President of Brazil reorganized the whole planning effort in Brazil. It is our hope that with this new organization, which is a strengthening of the planning mechanisms, the Government of Brazil will again request the OAS to provide this kind of assistance.

It has been held up from moving ahead in that both the Brazilians and the Pan-American Union did not feel that this assistance would be used, given the disorganization taking place in the Government of Brazil's planning effort.

The other figure talked of, the $650,000, is for a planning organization in the northeast of Brazil similar to our TVA, a regional organization (Sudene). This is an effort in which the United States was directly involved and by which we have continued to provide them assistance, particularly in the area of industrial and social research.

Mr. FORD. How soon do you expect this smaller one, $350,000, to get off the ground?

Mr. Moscoso. We have the mission director, the U.S. AID mission director for Brazil, here. I think he can give us an accurate and up-to-date bit of information.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. KUBISH. I would say prospects are very good that the Brazil planning organization will be able to receive and will warrant support of this $350,000 on planning in the very near future. In the last 3 months of last year Brazil hastily developed a 3-year development plan. They put together a broad outline of a plan. In the early months of this year proposals were made to set up a minister for planning. Just on July 11, as Mr. Sternfeld pointed out, the President of Brazil signed a decree bringing all planning operations in Brazil directly into the Executive Office of the President. He indicated he would meet with them once a week, and he was going to endeavor to carry forward on economic planning and development of projects in Brazil that would make it possible for the country to develop faster.

We believe that he will go ahead with this plan and that it will be possible for them to get assistance from abroad on planning that they desire and that we are willing to make available.

Mr. ANDREWS. Will the gentleman yield?

Mr. FORD. Yes.

Mr. ANDREWS. I wonder if the Director could tell us how many technicians are involved in this $350,000 project.

Mr. PASSMAN. Mr. Moscoso did not know the number.

Mr. KUBISH. These are people coming through OAS.

Mr. ANDREWS. You do not know how many will be involved in the $350,000 project?

Mr. KUBISH. No, sir, I do not.

ADVISORY MISSION FOR URUGUAY

Mr. PASSMAN. You have $269,459 for Uruguay listed for the same purpose. What has been the progress there?

Mr. Moscoso. An advisory mission was sent to help the Government of Uruguay.

Mr. PASSMAN. An OAS mission?

Mr. Moscoso. Yes, jointly sponsored by OAS and the Inter-American Development Bank and Economic Commission for Latin America.

Mr. PASSMAN. If you could get technicians for Uruguay for the same type of project, why could you not get them for the $350,000?

ADVISORY MISSION TO BRAZIL

Mr. Moscoso. In the case of Brazil, by the time they had been able to—this is an OAS operation—to get the technicians, there was a request from the Government of Brazil that in view of the fact that they were reorganizing the COPLAN operation, that the OAS should hold back.

Mr. PASSMAN. It was not a question, then, of not being able to recruit technicians?

Mr. Moscoso. Both.

Mr. PASSMAN. You said earlier you could not recruit the technicians and now you say Brazil asked you to hold them up. Off the record.

(Discussion off the record.)

Mr. MOSCOSO. On the record, both things.

Mr. PASSMAN. You did not say that a while ago, but now you say both.

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. How many technicians did you recruit before Brazil served notice to hold back?

Mr. MOSCOSO. I do not know. This is an Organization of American States operation.

Mr. PASSMAN. I thought you said earlier they could not get there because you could not recruit personnel. Now you say it is a combination of reasons. You could not recruit personnel and they asked you to hold personnel up.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. How many did you recruit and what disposition did you make of them after you received the request from Brazil to hold it up?

Mr. MOSCOSO. In the first place, I did not receive the request.

Mr. PASSMAN. I mean the agency. When I say "you", I am talking about——

Mr. MOSCOSO. I do not know how many persons.

Mr. PASSMAN. Does the gentleman from Brazil know?

Mr. KUBISH. In the case of OAS, sir, I do not know if any technicians were recruited. In the case of technicians to go to the northeast of Brazil there has been great difficulty in getting people to go there.

Mr. PASSMAN. I am talking about the $350,000. We were told earlier that you had not liquidated the fund because these people could not get there. Pursuing it, they could not recruit the people. Now we find out they could recruit them but Brazil said they did not want them. How much progress have you made, if any, toward recruiting personnel, from the $350,000?

Mr. STERNFELD. We would have to check with the OAS here in Washington.

Mr. PASSMAN. If you had told us that a while ago——

Mr. MOSCOSO. I said so, Mr. Chairman.

Mr. PASSMAN. You answered directly a while ago as to the reason. Now we find out it is different.

ADVISORY MISSION TO URUGUAY

Mr. STERNFELD. In the case of Uruguay we have the names of the people, work they are doing, and we can supply to the committee if it so desires a report of the kind of actions it has been carrying out in Uruguay, the amount of money that is spent on the services, professional service contracts, amount on travel and——

Mr. PASSMAN. Put the information in the record, please.

(The information follows:)

MISSION TO URUGUAY

1. Organization and composition

An advisory mission to assist the Government of Uruguay in the formulation and execution of a general economic and social development program was sent under the joint sponsorship of the OAS, IDB, and ECLA, and organized on the basis of an agreement between the OAS and the Government of Uruguay. The group began its work in February 1962, and is scheduled to remain in the field for approximately 1 year.

Mr. Angel Monti was named chief of the joint group, and Mr. Julio Melnick as program coordinator. The other members of the mission were:

Name	*Field of Activity*
Richard F. Berendt	Social programing
A. O. Cataldi	Demography
Alberto Fracchia	National accounts
Ricardo Garcia Posada	General economics
Roque Garcia Frias	Statistics
Jorge Irisity	General programing
Thomas Boyd Jabine	Statistics
Ernesto Horacio Monteverde	National accounts
Luisa Quesada	Census
Francisco Sibauste	Census
Alejandro Vegh Villegas	Industry

2. Program as of December 21, 1962

This tripartite mission has been given responsibility for assisting the government in the formulation of both a short- and a long-term development program, including, in particular, a detailed diagnosis of the principal obstacles to development in the various sectors of the economy and in the social field, notably housing. The mission is currently engaged in assisting the authorities in preparing a detailed public investment program for 1964; projections for the quadrennial budget period 1964–67; and a broad perspective plan for the next 10 years. These are to be considered by the new government that will take office in March 1963. The mission has been handicapped by the lack of basic economic data and particularly by deficiencies in budget information on the general government sector and the many autonomous agencies with responsibilities in the economic and social fields. Much of the current activity of the mission is devoted to coping with the problems raised by the institutional organizational problems within the government structure and by the lack of statistical data arising largely from delays in taking a census.

3. Results and perspectives

During the 11 months it has been working the mission has—

(*a*) Been instrumental in establishing a number of interagency working groups to coordinate activities and develop and improve the administrative machinery for planning. These groups have been formed in the fields of agriculture, communications, health, housing, and education. In order to promote greater public understanding of and participation in the national planning effort, both Government officials and experts drawn from the private sector are included in the groups.

In the field of agriculture 11 of these interagency working groups are presently reviewing prospects for the major commodities (including cereals, sugar products, and animal products) and are to make recommendations on certain aspects affecting agricultural output.

(*b*) Prepared an inventory of investment projects in the public sector; with the cooperation of the working groups described above. The inventory includes projects such as roads, communications, educational institutions, and power installations underway or in the formulation stage. Information is given on the scope of the project, the extent to which feasibility has been determined, and the authorities responsible for the different stages of its execution. It also provides an indication of the need of any further studies or technical assistance required for implementation.

(*c*) Successfully completed a first training program in the field of economic planning.

(*d*) Nearly completed a comprehensive study of the budgetary system and is engaged in assisting authorities in determining specific measures for improving and reorganizing present budgetary procedures. This work is based on intensive efforts to obtain from the 63 autonomous Government agencies all the detailed data concerning their operations as well as their investment plans—efforts that began when the mission first started.

(*e*) Also advanced in the preparation of a consolidated budget account for the public sector that will, among other things, give a more precise indication of the impact of these activities on the total economy and furnish a systematic framework for public sector plans.

(*f*) Progressed in the preparation of a detailed analysis of the tariff system, designed to provide the basis for a trade policy that will be in line with general development and fiscal policy, and promote the objectives of the Latin America Free Trade Association (LAFTA).

(*g*) Almost completed an assessment of longer term needs and requirements in the social fields; namely, housing, education, and health and sanitation facilities. This work is providing the basis for developing further projects in the fields concerned. In connection with these studies the mission has undertaken special statistical compilations in order to fill the gaps in the availability of basic information.

(*h*) Undertaken with regard to sectoral programing, an analysis of the potentialities of the pulp and paper industry and a comprehensive survey of the textile industry. Similar studies of the chemical and food-processing industries are also in process. All of the studies are intended to determine the domestic market prospects of these industries and their outlook within the Latin American free trade area.

(*i*) Virtually completed a well-integrated set of national accounts estimates, for which data have been organized according to the principal areas of economic activity. In addition, much work has also been done to improve the nation's statistical services and extensive surveys of industry, transport, and communications have been undertaken to obtain the necessary data.

The mission, as can be seen from the above, is now completing the initial phases of its work. The next phase is to assist authorities in readying projects for financing and execution, particularly in the fields indicated above. Moreover, in order to allow further precision and refinement in planning, a comprehensive survey of natural resources should be made. More intensive effort in launching a massive housing program, improving public administration, taking a census and formulating a meaningful agricultural plan are among the priority fields still to be covered. It is expected that within a few months the Government of Uruguay will be ready to submit its development plan for evaluation by an OAS ad hoc committee and be in a position to start the systematic implementation of the plan later this year.

Alliance for Progress

Status of project funds, by object class of record as of Dec. 31, 1962

Object class code	Object class title	Project budget	Allotment of funds	Obligations incurred				Unobligated allotments (col. 4 − col. 7)
				Disbursements	Unliquidated obligations	Total obligations incurred	Unobligated budget (col. 3 − col. 7)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
01	Salaries and personal service contracts	$169,600	$169,600	$28,727.28	$17,855.81	$46,583.09	$123,016.91	$123,016.91
02	Per diem	66,600	66,600	22,911.68	4,957.00	27,868.68	38,731.32	38,731.32
03	Travel	20,259	20,259	8,633.08	217.79	8,850.87	11,408.13	11,408.13
04	Reproduction and contractual printing	6,000	6,000				6,000.00	6,000.00
05	Supplies and services	4,000	4,000				4,000.00	4,000.00
06	Communications		1,000	160.98		160.98	(160.98)	839.02
07	Equipment							
08	Rental of space							
09	All other (not otherwise classified)	3,000	2,000				3,000.00	2,000.00
	Total	269,459	269,459	60,433.02	23,030.60	83,463.62	135,995.38	185,995.38

MULTIPLICITY OF AID ORGANIZATIONS

Mr. PASSMAN. Examining on this bill several years ago, we firmed up, and I think it is still in the hearings, subject to correction now, that you had seven funds and different brands of a general size furnishing technical aid to the Latin American countries—OAS, FOA, bilateral technical aid, multilateral technical aid, all doing the same thing. Why would you people not recommend, since it is all a giveaway anyway, consolidating this thing in one package? Then you can make loans out of it, you can give grants out of it, but at least you would not have five technical aid missions maybe getting off five different planes coming in. You check the record. I think, subject to correction, that it is either six or seven technical aid activities doing identically the same work. You had them financed out of the different organizations that I named. Now you have taken the technical aid and put it in with some other account. It is all stirred up together. You cannot find it.

Mr. TENNANT. You are probably referring to development grants.

Mr. PASSMAN. Development grants. It is all mixed up.

I yield to the distinguished gentleman from New Mexico.

AUTHORITY TO ALLOCATE U.S. FUNDS TO THE OAS

Mr. MONTOYA. Mr. Moscoso, by what authority are you expending aid funds through the OAS in this particular aspect of operation?

Mr. MOSCOSO. When Ambassador Gordon came before this committee in 1961, I was not around, but I read the hearings. I understand that he mentioned the desirability of a small amount of these funds from the social progress program being made available for planning this program and that these funds should be made available through the Pan American Union, to give it the multilateral character that the program required.

Mr. MONTOYA. Do you make a special grant to the OAS and to the Pan American Union?

Mr. MOSCOSO. We have.

Mr. MONTOYA. By what authority in the law? Aren't the international organizations coming in a separate category?

Mr. MOSCOSO. "Latin American development and Chilean reconstruction assistance," Public Law 86–735.

Mr. MONTOYA. What is the provision of the law that authorizes your agency to make specific grants to the OAS and to the Pan American Union?

Mr. MOSCOSO. May I read it just a minute?

> * * * 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 strengthening of the personal resources on authority of the Organization in order that it may play a role of increasing importance in aspects of hemispheric cooperation.

Mr. STERNFELD. This was included in the appropriation act which this committee enacted in 1961, Public Law 87–41.

Mr. MONTOYA. Then if you can make one grant of a few thousand dollars to OAS and to the Pan American Union, then perhaps you can make grants of all the moneys to the OAS and Pan American Union for disbursement to Latin America.

Mr. Moscoso. This was discussed with the Congress at that time. I remember reading even the amount was discussed.

CONTROL OF ALLIANCE FUNDS BY OAS

Mr. MONTOYA. This is what I am getting to, Mr. Moscoso. A few weeks ago Mr. Kubichek came out with a very glowing recommendation that what the United States should do was that it should turn over all the Alliance for Progress funds and bilateral aid funds to an agency of the Organization of American States and that that organization or agency should decide with Latin American direction how these funds should be spent.

I don't think we are about to accept such a recommendation.

Mr. Moscoso. No. We are not accepting that recommendation as a desirable one to handle this program. This has been said publicly.

Mr. MONTOYA. This was the opening of the door.

Mr. Moscoso. I think the members of this committee have seen my statements to that effect.

FUNDS PROGRAMED FOR OAS

Mr. PASSMAN. If the Congress approves some part of the $200 million for the inter-American program for social progress in fiscal year 1964, the OAS is scheduled——

Mr. Moscoso. $4.5 million; that is right.

Mr. PASSMAN. OAS is scheduled to receive $4,500,000?

Mr. Moscoso. That is right.

Mr. PASSMAN. How does the OAS plan to utilize this $4½ million?

Mr. Moscoso. It will be used for similar purposes to the purposes that I have just enumerated.

Mr. PASSMAN. Is it not somewhat premature to request any $4½ million for projects now where for some of them you have not disbursed a dime, on account of not being able to get personnel?

Mr. Moscoso. Mr. Chairman, what happened in the case of Brazil is that by the time they were able to get personnel this reorganization had taken place in the Brazilian Planning Organization.

May I say that we have to keep in mind that getting personnel of this kind is a difficult job.

NEED FOR ADDITIONAL FUNDS FOR THE INTER-AMERICAN PROGRAM FOR SOCIAL PROGRESS

Mr. PASSMAN. We established yesterday that you have more than $2 billion unliquidated to the credit of the Latin American countries. We are not going to think about the billions we have already given them. We are talking about in excess of $2 billion unliquidated. Then we find this type of a statement, on page 110 of the justifications:

> Renewal of the trust fund will demonstrate the serious desire of the United States to assist Latin American development.

Does it take $200 million more after the billions we have given them and another billion more in the pot to convince them?

Read this:

> Renewal of the trust fund will demonstrate the serious desire of the United States to assist Latin American development; especially to assist the people

of Latin America and do so not only through bilateral aid but also appropriate lending terms through multilateral.

Does it take this kind of action to convince them? This is $200 million extra.

Mr. Moscoso. Mr. Chairman, you know that last year we testified here about the great difficulties the Latin Americans had had in claiming the attention of the United States in getting assistance in their economic development. You will recall I mentioned the fact that in comparison with other regions of the world they had been neglected. The Latin Americans felt that way. The Latin Americans have felt also that the United States should, for historical and traditional reasons, have special interest in their welfare. I also mentioned the fact that after the disastrous visit of our Vice President in Latin America in 1958, it had become quite evident that there was a need for a revision of this policy, which eventually resulted in President Eisenhower initiating the Social Progress Trust Fund at the conference held in Bogotá and I believe that if the funds which are required for the continuation of this program are not made available, it will be read or will be considered by the Latin Americans that we are not going to continue to assist them.

Mr. PASSMAN. Even if the Congress should appropriate a substantial part of the $667,700,000, do you still have to keep this one shot in the arm proposition going, notwithstanding the fact that you have 10 or 15 times that much planned out of other spigots in subsequent years?

Mr. Moscoso. I will tell you why, sir. This is the one opportunity in which there is a multilateral approach for Latin America.

Mr. PASSMAN. Define "multilateral."

Mr. Moscoso. In which the Latin Americans themselves will participate in the——

Mr. PASSMAN. How much have they contributed to the Social Progress Trust Fund?

Mr. Moscoso. In the sense of funding——

Mr. PASSMAN. How much have they contributed directly to this account in this Fund?

Mr. Moscoso. Nothing in the Fund. They have contributed in their effort and they have contributed in their local participation.

Mr. PASSMAN. They are supposed to do that. They are the recipients of the aid.

Mr. Moscoso. That is right, sir.

Mr. PASSMAN. This is supposed to be a one shot-in-the-arm proposition. You tell these people, "We are willing to do this if you do that." We have disbursed about $45 million of the total fund; is that correct?

Mr. Moscoso. No; it is more than that. It is $55 million.

Mr. PASSMAN. You have disbursed $55 million out of the $394 million approved by the Congress?

Mr. Moscoso. That is right.

CONSOLIDATION OF FUNDS FOR LATIN AMERICA

Mr. PASSMAN. We have also established that you have a total of $2 billion unliquidated in all the spigots that we enumerated. It would appear to me that the time is coming, that since you are going to ac-

complish the same thing out of the other funds, that we just should not keep all these different accounts and different funds and different projects going because believe me, Mr. Director, you can go to the record and you will find in many instances six, seven, or eight different branches of the aid program are doing identically the same kind of work. You change the rules too often. You are getting it to the point that it is impossible to administer. Why would you not be satisfied to get a substantial appropriation under this fantastically high request and try to coordinate the efforts of these people under the special fund and get along with the program in the Alliance for Progress?

Mr. Moscoso. To start answering your question, Mr. Chairman, I must insist that this was not a one-shot operation. The witnesses who testified much before I ever came here to Washington—but I have read their hearings—in several instances indicated that there would be a request made again, and this year precisely. I remember Ambassador Gordon——

Mr. PASSMAN. That was before you had an Alliance for Progress program. That program came along later. How well do I remember that when the distinguished chairman of the Foreign Affairs Committee, in justifying this item to the Congress, said over and over again,

> We will not ask the Congress to appropriate any money against this authorization until necessary reforms and tax laws have been passed and are being carried out,

but the ink was still wet on the document when we made the appropriation.

Subsequently the Alliance for Progress program came along. It was determined by President Kennedy that this thing should be greatly stepped up. We have stepped it up greatly. We are cooperating with you, but you want to keep alive, also, something that was created prior to the Alliance for Progress.

MULTILATERAL ASPECT OF SOCIAL PROGRESS TRUST FUND

Mr. Moscoso. Mr. Chairman, because of the multilateral qualities of this fund, I think the additional appropriation should be made.

Mr. PASSMAN. The multilateral part comes in the voting, and does not come in the other members making a contribution into this fund.

Mr. Moscoso. Except, sir, that if you obtain a loan from a bank to build something—a silo—you are not going to get a 100-percent loan. You are going to have to put up quite a bit of your own money and of your own effort. That is what the Latin Americans are doing. If they had the money, they would not come to us for assistance.

Mr. PASSMAN. It is to their benefit to put up something, is it not?

Mr. Moscoso. That is right. They are doing it.

LATIN AMERICAN INVESTMENT IN OWN DEVELOPMENT

I will show how much they put down, in the words of David Rockefeller, president of Chase Manhattan Bank; $8 billion.

Mr. PASSMAN. They should have put up 10 times that amount if they can afford it. They are the recipients.

Mr. MOSCOSO. These are the words of Mr. Rockefeller:

Investments in significant areas of Latin America have shown signs of resiliency. During the initial year of the Alliance for Progress, Latin American nations invested over $8 billion of their own public and private funds.

Mr. PASSMAN. That is encouraging information.

If they are able to do that, it seems to me they do not need all the money that you are requesting.

Mr. RHODES. If the Chairman will yield, those are not your figures, are they?

Mr. MOSCOSO. These are the figures of Mr. Rockefeller.

Mr. RHODES. Do they square with your figures?

Mr. MOSCOSO. "On the basis of my own recent travels in Latin America and our research specialists"——

Mr. RHODES. You are the witness, not Mr. Rockefeller. Do those figures square with the figures which you have?

Mr. MOSCOSO. They do square. We do not have the exact figures of Mr. Rockefeller. He says over $8 billion. Ours is a little higher, closer to $9 billion.

Mr. PASSMAN. Could you tell us the amount they spent on the same projects the year before they got this?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. You have only disbursed $55 million of this fund?

Mr. MOSCOSO. Yes, sir; $55 million.

Mr. PASSMAN. If they are able to put up $8 billion to our $55 million——

Mr. MOSCOSO. That is not what I mean, sir. I meant they have made an effort, and they are investing their funds. I am not saying this has been a matching operation.

Mr. PASSMAN. How much have they disbursed for the projects?

Mr. MOSCOSO. $55 million has been disbursed.

Mr. PASSMAN. That is what we have disbursed. They have disbursed $8 billion?

Mr. MOSCOSO. Not in matching operations, sir. I mean in total investment in Latin America. Some of that money has obviously been made available as local participation by these countries because the Inter-American Development Bank requires something like 50-percent participation in order to be able to get the——

Mr. PASSMAN. Let us pin it down.

Mr. MOSCOSO. 53 percent.

Mr. PASSMAN. They have disbursed——

Mr. MOSCOSO. $55 million.

Mr. PASSMAN. $55 million, and the Latin Americans have disbursed $8 billion. What is Mr. Rockefeller talking about, then?

Mr. MOSCOSO. He is talking about the substantial amount of money they have invested.

Mr. PASSMAN. They spent that much money in their country.

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Would they have spent eight and a half billion if we had not given them anything?

Mr. MOSCOSO. $8 billion, less the amount required for local participation in order to get the loans from the Social Progress Trust Fund from the Inter-American Development Bank.

Mr. PASSMAN. In fact, you do not know what they spent. I do not, either. You are dealing with an $8 billion item that may have been spent in Latin America simply because we went in with $55 million. There may not be any relationship whatsoever.

Mr. MOSCOSO. I think the best relationship, sir——

Mr. PASSMAN. I am speaking of these two items, Mr. Moscoso.

Mr. MOSCOSO. I want to relate them. I think the best thing would be for, and I can bring this in to you, for the value of the participation of the several countries in the projects for which the Bank loaned $55 million.

Mr. PASSMAN. $55 million of our money generated $8 billion that was spent in those countries?

Mr. MOSCOSO. I am not trying to imply that. If I did that I would like to have that implication erased from the minds of the members.

Mr. PASSMAN. How do you relate the $55 million to the $8 billion figure?

Mr. MOSCOSO. You cannot relate it.

Mr. PASSMAN. I did not think so.

I yield to Mr. Ford.

COMMITMENTS UNDER SOCIAL PROGRESS TRUST FUND

Mr. FORD. Mr. Director, in what year was the $394 million made available?

Mr. MOSCOSO. 1961.

Mr. FORD. In fiscal year 1961?

Mr. MOSCOSO. May of 1961. Calendar 1961. The fund was set up in fiscal 1962.

Mr. FORD. How much in loans, face value, has been committed?

Mr. MOSCOSO. Everything except $37 million, but there have been disbursements of only $55 million.

Mr. FORD. So you have committed in loans $394 million less $37 million?

Mr. MOSCOSO. Yes, sir.

Mr. FORD. You have had disbursements in cash of $55 million?

Mr. MOSCOSO. $55 million.

Mr. FORD. How much do you have in a backlog of applications?

Mr. MOSCOSO. $300 million.

Mr. FORD. Are those of recent vintage?

Mr. MOSCOSO. No.

Mr. KILLEFER. Some of them are as old as a year, Mr. Ford, and then others are as new as about 6 months ago but about 6 months ago the Bank began discouraging additional applications because the funds were beginning to run short.

Mr. FORD. These loans are for how long a duration?

Mr. MOSCOSO. Up to 25 years.

Mr. FORD. Can you give us an average?

Mr. MOSCOSO. 15 to 25 years.

REPAYMENT OF LOANS UNDER SOCIAL PROGRESS TRUST FUND

Mr. FORD. When is the first repayment expected?

Mr. MOSCOSO. There are some already on which they are repaying, Mr. Ford. I understand there are some repayments already coming in.

Mr. FORD. Do you have the figure on repayments?

Mr. MOSCOSO. Yes.

Mr. KILLEFER. $1,400,000 has been repaid already

Mr. FORD. Is that repayment in local currencies or in hard U.S. dollars?

Mr. KILLEFER. $400,000 of it is in dollars and the balance in local currencies.

Mr. FORD. So $1 million in local currencies and $400,000 in U.S. dollars?

Mr KILLEFER. That is correct.

Mr. FORD. Is that the ratio you expect in the future?

Mr. KILLEFER. I think so.

Mr. FORD. How do you determine whether it should be repaid in dollars or in local currency?

Mr KILLEFER. The Social Trust Fund, the contract that sets up the Trust Fund, the contract entered into by the United States and the Bank under which the Bank acts as administrator, that agreement, Mr. Ford, provides that repayment can be made in the currency of the borrower, even though the loans are always made in dollars, at the option of the borrower or he can pay back in dollars if he wishes. In addition to the interest rate that is charged on the loan there is a service charge of three-quarters of 1 percent that always must be paid in dollars and the purpose of that is to pay the Bank for its cost of administering the loan so those amounts will always be paid in dollars. The other amounts may be either in dollars or local currencies and I would think that the proportion would probably be about the same, but it is impossible to tell now.

Mr. PASSMAN. Will the gentleman yield?

Mr. FORD. Yes.

INTEREST RATE

Mr. PASSMAN. Are these interest-free loans, other than the three-quarters of 1 percent service charge?

Mr. KILLEFER. No, sir.

Mr. PASSMAN. Is that three-quarters of 1 percent in addition to the interest?

Mr. KILLEFER. Yes, sir.

Mr. PASSMAN. What is the interest rate?

Mr. KILLEFER. The interest rate on all the Social Progress Trust Fund loans is 1¼ percent, except for loans for water, where there normally is a 2¾ percent interest rate.

Mr. PASSMAN. Plus in every instance a three-quarters of 1 percent service charge?

Mr. KILLEFER. Yes, sir.

Mr. FORD. The three-quarters of 1 percent is always repaid in dollars?

Mr. MOSCOSO. Yes, sir.

Mr. FORD. And it is optional with the Board of Directors?

Mr. KILLEFER. No; with the borrower. The borrower has the right to either pay dollars or local currency.

Mr. FORD. Is there any incentive to him to repay in dollars?

Mr. KILLEFER. Normally not, except where there isn't any difference between the dollar and this local currency, as is the case in some countries.

REUSE OF LOAN REPAYMENTS

Mr. FORD. When the service charges are paid and when the loan amount plus interest is repaid, what happens to the funds?

Mr. MOSCOSO. Revolving.

Mr. FORD. It is a revolving fund?

Mr. MOSCOSO. Yes. It can be reloaned.

Mr. FORD. It requires no further congressional approval?

Mr. MOSCOSO. No, sir.

Mr. FORD. It can be utilized as the Board of Directors sees fit?

Mr. MOSCOSO. Until the trust is extinguished and then the funds have to go back to the Treasury of the United States.

U.S. TERMINATION RIGHTS UNDER SPTF AGREEMENT

Mr. FORD. Who has the right to cause termination of the basic agreement? What are our rights of termination?

Mr. MOSCOSO. We can do it under certain conditions. The U.S. Director can give us the conditions.

Mr. KILLEFER. Termination is covered in article 7 of the agreement. It is very short. I could let you see it, sir.

Mr. FORD. I have a copy here.

Mr. KILLEFER. It is on page 9.

Mr. MOSCOSO. You are reading from a different document.

Mr. FORD. What page is it?

Mr. PASSMAN. Go to page 116 and you will find it, Mr. Director.

Mr. KILLEFER. I am reading from the Trust Fund agreement and it is article 6. Section 602 of that article provides that "If at any time it appears to the Administrator"—that is, the Inter-American Development Bank—"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 30 days, or if pursuant to article X of the agreement establishing the Bank and 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."

Mr. FORD. Read the next section, will you please?

Mr. KILLEFER. The next section, 603, provides that, "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."

TERMS OF SPTF LOAN REPAYMENTS

Mr. FORD. What would be wrong with requiring that these funds be repaid in dollars, not only the service charge but the principal and interest?

Mr. MOSCOSO. Mr. Chairman, as you know, the dollar shortage is one of the problems that the Latin-Americans have and we would just be imposing an additional burden upon them. I believe that maybe 5 or 10 years from now, something like that could be considered with-

out creating any problem but at this time it might create a substantial problem. Notice that our lending is done in dollars, but our lending is done at a much longer term than their lending. In a sense these terms of the Social Progress Trust Fund are not hard but neither are they soft because they pay two and a quarter plus three-quarters of 1 percent. That gives you a total of 3 percent and terms of 16 or 20 years, which is about the average that they are lending, is not to be considered exactly soft so in exchange for that, the semihardness of the term, they have the option of paying either in dollars or in local currency.

ESTIMATED SPTF DISBURSEMENT IN FISCAL YEAR 1964

Mr. FORD. What are you forecasting in disbursements for the current fiscal year, based on the funds presently available?

Mr. MOSCOSO. In the Social Progress Trust Fund?

Mr. FORD. Yes, sir. You disbursed $55 million. What are you forecasting for fiscal year 1964?

Mr. MOSCOSO. I think there is a rising curve.

Mr. FORD. I assume that. What are we talking about specifically?

Mr. MOSCOSO. Maybe the Director of the Bank can give it to us.

Mr. KILLEFER. The best way to get at that, Mr. Ford, is the disbursements have been just about doubling every 6-month period and I would estimate that the amount disbursed by the end of this calendar year would be somewhere around $100 million of these funds.

Mr. FORD. $100 million over the $55 or $100 million including?

Mr. KILLEFER. Cumulatively $100 million.

Mr. FORD. That leaves you $294 million still not disbursed as of January 1, 1964?

Mr. KILLEFER. That is right.

Mr. FORD. Is that a good record?

Mr. KILLEFER. I think it is a splendid record.

Mr. FORD. If that is true, why do you need $200 million more?

Mr. MOSCOSO. Because of the fact that the funds, except for $37 million, have been already committed. In other words, the loan agreements have been signed. It is a question of the disbursement that is going to take place at that rate.

May I mention something in support which I think is very important in connection with the repayment in dollars or local currency? That is this: Most of these are social projects. As a matter of fact, the great bulk of them are social projects and their dollar earning value is pretty nearly nil except in the long run. That is another one of the reasons why the option was working to this agreement.

CONVERTIBILITY OF LATIN AMERICAN CURRENCIES

Mr. PASSMAN. Did you testify earlier today that all of these currencies were convertible?

Mr. MOSCOSO. No, sir; or if I did, it was a mistake.

Mr. PASSMAN. Did the Bank representative so testify?

Mr. KILLEFER. I did not say that. If I did, I misspoke myself.

Mr. MOSCOSO. There are certain countries that have comparable currencies, Panama, Guatemala.

Mr. PASSMAN. Someone said, I think, that these currencies were convertible. I said, I believe if that be so, why would you have an optional clause in there? Do you remember me saying that?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. If we get a half dozen different types of answers we will all be confused.

Mr. ANDREWS. May I ask a question about one of these loans, Mr. Chairman?

Mr. PASSMAN. Certainly.

RELENDING RATES OF CREDIT INSTITUTIONS IN LATIN AMERICA

Mr. ANDREWS. On page 99 you describe a loan of $2,700,000 guaranteed by the Government of Peru and the loan is made to the Cooperative of Credit Central of Peru and the purpose of the loan is for small loans through local credit cooperatives for housing, improved land use, potable water and sanitation facilities. The SPTF put up a million of that loan and the local resources provided amounted to $1.7 million.

Mr. MOSCOSO. 63 percent.

Mr. ANDREWS. That loan is for 21 years. The rate of interest is 1¼ percent, plus the service charge of three-quarters of 1 percent, making it 2 percent.

Now my question has to do with the way that money is reloaned. You state here that "The reloaning rate to the Credit Cooperative, 8 percent, to the ultimate borrower, 12 percent." In my opinion that is all out of line. You are not helping the ultimate borrower by charging him 12 percent interest on money that the co-op gets for 2-percent interest.

Mr. MOSCOSO. Is that the question?

Mr. ANDREWS. That is all I want to ask.

Mr. MOSCOSO. Subject to additional information that the U.S. Director may bring in I want to remind the Congressman, in this particular case I do not know whether the option was to repay in dollars.

Mr. ANDREWS. I am not concerned about how the option to repay is worded but my point is this loan was made for the purpose of helping that ultimate borrower, the man who buys his home, and you are making him pay 12-percent interest, which is usurious, in my opinon.

Mr. MOSCOSO. There are two factors involved. No. 1 is the cost of handling the loan, and the other one is the risk of maintaining the value of the loan for repayment purposes.

Mr. PASSMAN. Would you yield?

Mr. ANDREWS. Yes.

Mr. PASSMAN. Are you penalizing those who can pay and will pay because some of them cannot and will not pay? Did you say that this rate is on account of the risk involved?

Mr. MOSCOSO. It is not the risk, Mr. Chairman. The risk is in connection with the exchange rates. You see, if you have to make a dollar repayable loan, or maintain the original value when repaying in local currency and because of inflation or other factors the local currency deteriorates in value, in respect to the dollar——

Mr. PASSMAN. You have the option of repaying either way, and if you are dealing with the currency on that basis, local currency, out

at this 12-percent level, it certainly would trace right back to the 2-percent borrowing level.

Mr. MOSCOSO. In this particular case——

Mr. PASSMAN. I think you said that it is the risk involved, so you are penalizing the man who can pay and will pay. Since you are dealing in local currency at the 12-percent level, you are also dealing with local currency at the 2-percent level, are you not?

Mr. MOSCOSO. No, you are not. In this particular case this loan is repayable in dollars or local currency.

Mr. PASSMAN. It is optional, is it not?

Mr. MOSCOSO. Yes, but they agreed in the contract to repay it in dollars and then in that particular——

Mr. ANDREWS. Then it is not optional. It is mandatory it be paid in dollars.

Mr. PASSMAN. It is optional that these loans be repaid either in dollars or local currency?

Mr. KILLEFER. That is right.

Mr. PASSMAN. So far as I am concerned it would appear you would want to extend that same consideration right out to the 12-percent level.

Mr. KILLEFER. May I?

Mr. PASSMAN. Certainly.

Mr. KILLEFER. Mr. Chairman, this institution that the loan was made to is one that is really managed by Father Dan McClellan, a U.S. Catholic priest down in Latin America and one of the very best loans imaginable. It hits the smaller person, not with a 12-percent interest rate which is usurious, as the impression has been thus far this afternoon, but quite the contrary.

Mr. ANDREWS. Your book says, "Relending rate to the credit cooperative, 8 percent. To the ultimate borrower, 12 percent."

Mr. KILLEFER. That is correct.

Mr. ANDREWS. That means if a man borrows $100 he is going to repay $112 at the end of the year.

Mr. KILLEFER. That is right.

Mr. ANDREWS. That is just as plain as ABC.

Mr. KILLEFER. That is right. Let me explain the reason for it and how it came about.

Up until the time this institution was created, there was not any facility available at all for credit in Peru except by going to usurers who would charge as much as 12 percent a month. This loan represents a tremendous reduction from that amount. The reason for the 12 percent, 12 percent sounds high, I agree, but the reason is we have already established in these countries that there is inflation, but this fellow, who is the ultimate borrower, he continues to pay——

Mr. ANDREWS. What type man is he? Is he a worker?

Mr. KILLEFER. Yes. These loans are made to people who are in an extremely low income bracket.

Mr. ANDREWS. That is all the more reason why I think it is bad to be charging them 12 percent. I do not care how you figure it out. You are not helping him when you charge him 12-percent interest.

Mr. KILLEFER. Yes, you are.

Mr. PASSMAN. We fought this thing out for you in conference.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Let us understand what it is all about. They said directly and to the point, we are having to charge this rate because these high rates have been customary in the country from time immemorial and if we went in and cut the rate you would break all the others and those who owed money would not pay it. We fought this thing out in conference for you on the basis that this has been an old, established policy, to charge these high rates of interest.

You remember that controversy?

Mr. MOSCOSO. Yes, sir.

Mr. GARY. Let me ask, isn't this exactly the same situation? Don't they operate under the same system as our industrial banks in this country? You go to an industrial bank. They lend you money for, say, a year. You pay 6 percent interest on the full amount borrowed for the duration of the loan. The interest is deducted and you receive cash for the balance. Then you pay back so much a month and because you do not hold all of the money for the entire period of the loan it finally works out that you actually pay about 12 percent interest but you are charged 6 percent interest to begin with. You pay 6 percent for a year. Then you repay the loan in weekly or monthly installments and because you do not hold all of the money for the entire year the interest averages out about 12 percent for the year. Isn't that the situation?

Mr. PASSMAN. I am going to get on the record if the gentleman does not mind.

You answer that question, please.

Mr. MOSCOSO. Yes.

Mr. PASSMAN. When this bill went to conference, it was rather a mean conference and representatives from the other side insisted on a lower interest rate. We had been filled in by the people downtown, those who recognized the age-old policy in Latin America to charge high interest rates, that it would be unworkable and if you did lower the interest rate you would defeat the purpose of the appropriation.

It seemed that this was good reasoning because you had millions of these people who made their investments in these small associations, receiving interest rates up as high as 12 percent on their investments, and if you lowered this all of them would immediately withdraw their savings and you would bankrupt every institution doing business. Do you remember that discussion, Mr. Miller?

Mr. MILLER. Yes.

Mr. PASSMAN. Upon that basis we carried the fight for you. It would appear now that these people have had an opportunity to start working it down to where it will be more advantageous to this little man and that action I certainly endorse.

Mr. MOSCOSO. Mr. Chairman, may I inject this, that there is also the question of maintenance of value of the loan. In case there should be a deterioration of the currency of the country the group to whom we loaned the money would not have sufficient pesos to convert into dollars to pay us for the loans, to pay the Bank for the loans.

Mr. PASSMAN. I gave you the reason that you brought to us and asked if we would carry the battle for you. We went in and carried

the battle. We used the same argument then that I have reviewed today, because it is the argument you gave us.

What is the trend now? Is it downward? Do the other people now start paying less interest on the savings?

Mr. Moscoso. I would say the trend is definitely down, sir. You will be interested to know that some of the loans are now being made at 9½ and 10 percent.

Mr. PASSMAN. The trend now is the rates are working down. That is for the other banks?

Mr. Moscoso. Yes, sir.

Mr. GARY. Mr. Chairman, may I ask this one question? Isn't it also true, you lend this money to the building and loan association?

Mr. Moscoso. That is right.

Mr. GARY. They are obligated to you. It is a simple transaction. You lend them the money. They pay you back.

Mr. Moscoso. That is right.

Mr. GARY. But when they get that money they lend it to any number of small investors.

Mr. Moscoso. That is right, sir.

Mr. GARY. They have to collect from those small investors monthly or weekly or whenever they can get it and the building and loan association has to bear the costs of servicing these loans among the hundreds and possibly thousands of borrowers they have.

Mr. Moscoso. That is right.

Mr. GARY. That is an expense. That has to be figured in, in the rate of interest that they charge these borrowers.

Mr. Moscoso. You are right, sir.

Mr. ANDREWS. Mr. Chairman.

Mr. PASSMAN. Mr. Andrews.

Mr. ANDREWS. In my opinion 12 percent is a high rate of interest.

Mr. GARY. They are charging it in your State right along.

Mr. ANDREWS. I don't think so.

Mr. GARY. I think the industrial banks and building and loan associations charge it.

We have a legal rate in my State of 6 percent, but they still charge this 12-percent interest because they charge you 6 percent on the loan when you get it and you pay it back in installments. You do not keep the entire amount the whole time and they have figured out that over the period——

Mr. MONTOYA. Discount rate.

Mr. GARY. The fact it is paid back, weekly or monthly, it averages out about 12 percent.

Mr. ANDREWS. All I can say is the man who pays 12 percent has my sympathy.

Mr. GARY. The man who has to borrow money has my sympathy if he pays 4 or 5 percent.

Mr. ANDREWS. Here is another loan—Venezuela—on the same page, for rural housing for low income groups.

Relending rate per year to the ultimate borrower, up to 3½ percent, and then one for Panama, the first one on that page, another project loan for low income groups, relending rate per year to ultimate borrower, 6 percent.

PROJECTS FINANCED BY AID WHICH WERE TURNED DOWN BY IDB

Mr. PASSMAN. Has AID approved any project that you know of in any country which was turned down by the Inter-American Development Bank?

Mr. MOSCOSO. No; I said, sir, that I did not know of any case in which that had happened.

In this particular case we have had, that is right; we have had cases in which the Inter-American Development Bank could not make the loan, for a number of reasons.

Mr. PASSMAN. You mean they did not make the loans, and the AID Agency made them?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Provide us with a list of those loans, if you will.

Mr. MOSCOSO. We will.

(NOTE.—See statement on p. 2064.)

INCREASE IN SOCIAL PROGRESS TRUST FUND

Mr. PASSMAN. Has the Inter-American Development Bank agreed that the social progress trust fund may be increased in accordance with section 302 of the trust fund agreement?

Mr. MOSCOSO. Yes.

ESTIMATED EXPENDITURES UNDER SOCIAL PROGRESS TRUST FUND

Mr. PASSMAN. Your liquidations for the first 2 years amounted to $55 million. Do you expect for it to be $45 million in 1963?

Mr. MOSCOSO. No.

Mr. PASSMAN. The gentleman said so over here, and Mr. Ford said, "Then you will have liquidated $100 million on January 1, 1964."

Mr. KILLEFER. I would say the 6-month disbursement period from the end of June 1963, to the end of this year, would be roughly the amount of the disbursement up until this time, so it would be around $100 million. It is impossible to tell how much——

Mr. PASSMAN. Did I not say $55 million? Then during this year it will be $45 million, to bring it to $100 million?

Mr. MOSCOSO. Six months.

Mr. KILLEFER. The $45 million you mentioned is a fair figure from what I said, but it only relates to the last 6 months of this year.

Mr. PASSMAN. Which will mean that you will have liquidated on December 31, calendar year, $100 million.

Mr. KILLEFER. You mean disbursed?

Mr. PASSMAN. Disbursed.

Mr. KILLEFER. Yes.

Mr. PASSMAN. When I say liquidated, I mean disbursed, which will mean, and I think this was established earlier in an exchange with Mr. Ford, $294 million in the fund unliquidated?

Mr. KILLEFER. Yes; that is right.

Mr. PASSMAN. And at this time you have $37 million unobligated.

Mr. KILLEFER. $37 million.

We expect those funds will have been obligated in another 60 days, Mr. Chairman.

(Additional information supplied follows:)

SOCIAL PROGRESS TRUST FUND EXPENDITURES

Total expenditures for the trust fund for the year ending June 30, 1964, are estimated at $125.6 million, made up as follows:

	Million
Disbursements against loans	$110.4
Letters of credit outstanding [1]	10.0
Administrative expenses	3.0
Technical assistance grants	2.2
Total	125.6

[1] Representing outstanding bank letters of credit opened with the IDB's guarantee in favor of suppliers. The Bank's commitments under these letters of credit while not constituting actual disbursements, are virtually equal to disbursements.

Total expenditures from the inception of the trust fund to June 30, 1964, are estimated at $185.1 million as follows:

	Million
Expenditures to June 30, 1963 (include administrative expenses and T/A grants)	$59.5
Expenditures in year ending June 30, 1964	125.6
Total	185.1

The major item in total expenditures is, of course, disbursements against loans. As is natural in a new institution, disbursements began slowly, but have been increasing at an accelerating rate. This can be seen from the following table showing loan disbursements by 6-month periods up to the middle of 1963:

Period	*Disbursements*
June 19 through Dec. 31, 1961	$850,000
Jan. 1 through June 30, 1962	5,473,170
July 1 through Dec. 31, 1962	16,419,183
Jan. 1 through June 30, 1963	31,770,874

The estimate for disbursements in the year ending June 30, 1964, is based partly on past trends and partly on a careful examination of the status of outstanding loans.

In considering the trust fund's disbursements record, it should be borne in mind that disbursements can begin only after the signing of the respective loan contracts. Until very recently it has been the Bank's procedure to negotiate the details of the contracts after making the respective authorizations, the time lag between authorization and signature of the contract having been about 90 days.[2]

The Bank has a rigorous system of control over disbursements in order to assure that funds will be used only for the purposes for which they have been borrowed and that U.S. procurement provisions are adhered to as required. Such controls unavoidably slowed up disbursements somewhat, particularly during the early days of the trust fund when procedures were being formulated and the borrowers had to familiarize themselves with the control requirements.

Finally, it should be noted that many trust fund loan contracts contain special provisions relating to the reform or reorganization of the borrowing institutions, as conditions precedent to disbursement. In some cases, disbursements have had to be held up because of unavoidable delays in such reforms.

It is expected that by the latter part of fiscal year 1964 (ending June 30, 1964) disbursements on trust fund loans will reach a rate approximating $200 million per annum.

[2] This system was changed as of July 1, 1963. At the present time, the formal loan resolution is not presented to the Board of Directors for approval until the contract provisions have been substantially agreed upon with the borrower.

MEXICAN URBAN DEVELOPMENT PROJECT

Mr. PASSMAN. In 1961 we were told that a Washington architect, or engineer, had worked out an agreement with his counterpart in Mexico City. They had moved up to a high echelon in the Mexican Government to get their cooperation and recommendations of carving

out a little subcity about 20 miles out, at a tremendous cost. I wonder if that application ever reached your desk. If so, did you turn it down?

Mr. Moscoso. I do not recall receiving any application of that kind, sir.

Mr. PASSMAN. Do you remember the project that I am talking about?

Mr. Moscoso. I remember that you mentioned the fact that you had a Mexican project that you were worried about and we sent a wire down to the field to identify the project, but we could not find any.

Mr. KILLEFER. I am not familiar with it. We have made no such loan. It did not come up to our bank department.

Mr. PASSMAN. You had the application.

Some members of the subcommittee came to my office, and we heard direct reports. We decided later to trust the good judgment of the people who administered the program to say "no."

Mr. Moscoso. Apparently they guessed we would say "no," and the thing was not submitted. I couldn't find it.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Mr. Gary?

NEED FOR TAX AND LAND REFORM IN LATIN AMERICA

Mr. GARY. Mr. Chairman, I have some questions on this fund. This Alliance for Progress Trust Fund is a matter that I have been very much interested in because I feel the threat of communism to America in Latin America is one of the most serious threats that we face today. It is one thing to have communism in Russia, but quite another to have it right next to our own borders. Therefore, I think anything we can do to stop the development of communism in those countries is to our advantage.

It is for that reason that when the Alliance for Progress was first initiated, I was thoroughly in favor of it because it was my understanding we were going to have an alliance, and that the South American countries and our country would work together to improve some of the conditions that were creating a fertile soil for the spread of communism.

I have heard various reports as to what has been accomplished in this direction, and I am informed that in Latin America you have a great many wealthy people and a great many poverty-stricken people. I am informed that the reason so many poverty-stricken people are to be found is because they have not had adequate tax laws there to tax those who can afford to pay to remedy those conditions, and even after the tax laws were enacted, the people who had the most money and were most able to pay evaded the taxes. Therefore, they do not have the money to carry out the reforms that are necessary in those countries.

I also understood that there were certain conditions of land ownership that added to the difficulties. I, for one, am not willing to tax American taxpayers to remedy those conditions which have been created by their own people. I am willing to see our country help the governments of Latin America to straighten out their affairs, but

not until the Latin Americans themselves cooperate to the fullest. What progress has been made in this respect?

The Alliance is based on the assumption that the countries of Latin America will increase the amount of resources they devote to economic development, Mr. Moscoso, but can you give us a clear description of the amounts the Latin Americans are investing in their own development and something of the progress they are making toward fulfilling the pledges they made at Punta del Este?

Mr. Moscoso. We have in our country programs, as they have come in from the field, an estimate of the amount of public and private investment which is being made in the several countries.

As I said a while back the estimate we have now is close to $9 billion.

FISCAL REFORMS UNDERTAKEN

The fiscal reforms, I believe, are good ones insofar as the efforts of the Latin American countries are concerned. I am considering the fact that they do not have a great tradition of taxing. We have major structural tax reform programs in 11 countries in Latin America at this time, and we have 7 countries that have improved their tax systems and the administration of these systems.

Mr. GARY. Can you give us a list of those countries?

Mr. Moscoso. Yes.

Major tax reform programs are going on in Argentina, Bolivia, Brazil, Colombia, Chile, Costa Rica, the Dominican Republic, El Salvador, Mexico, Panama, and Venezuela.

Mr. GARY. Does that mean that they have passed more equitable tax laws to distribute the burden?

Mr. Moscoso. Yes, sir.

They have also undertaken better administrative procedures.

ASSISTANCE TO LATIN AMERICAN COUNTRIES BY U.S. INTERNAL REVENUE

I would like to show the Congressmen an article that appeared recently. Unfortunately, it does not show the photograph but there was a photograph of an Internal Revenue agent assisting us in tax reform, tax administration reforms, in Chile. This person is working with us as a part of the team and is part of an inter-agency arrangement which we have with the Internal Revenue Service.

There are literally dozens of these people assisting us in Latin America and so much so that the Department of the Treasury has created a special Division of Technical Assistance, international technical assistance, in order to cope with this problem. They have assigned a very able person to head this division and he has, on several occasions, in front of me, made presentations to officials of the several governments to induce them to utilize the services of his Division in increasing substantially the tax take of the country without necessarily having to go to their congresses or parliaments for changes in the legislation.

I remember perfectly well the meeting right after the San Jose Conference in Nicaragua in which this gentleman, Harold Moss, made a presentation and induced right there in that meeting two countries to request the services of his division and sign a contract with the service in order to perform this same job you see described in this report from Chile.

Mr. GARY. Would you like to have this inserted in the record?

Mr. MOSCOSO. If you want to have it; yes. It is a very interesting indication that there is something going on.

Mr. RHODES. Would the gentleman yield?

Mr. GARY. Yes.

Mr. RHODES. Does he offer his services to these countries for a fee?

Mr. MOSCOSO. No; this is part of the technical assistance program we provide in most countries.

Mr. RHODES. Mr. Moss works for you?

Mr. MOSCOSO. Yes; but he is an employee of the Treasury Department, Internal Revenue.

Mr. RHODES. In other words, when this job of analysis of tax structure is done, is it done in-house, or do you contract for it?

Mr. MOSCOSO. They are done in-house. Primarily, it is done right there in the field. Of course, some people have been brought up for training here at the U.S. Treasury.

Mr. RHODES. Thank you.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. MOSCOSO. If you will allow me, there is a postscript to a letter from a U.S. official in Chile in which mention is made of the effect of legislation being implemented in Chile at this time. He says that, regarding tax reform, "I think it would be interesting to hear how much griping, complaining, and dire prophecies re decapitalization one hears from the people." That is one of the reasons why we have to think in terms of assisting some of these countries with outside aid during this traditional process.

He says that this man was "almost in tears today at lunch time" and goes on further to say, "This is no sham reform but one that really affects the pocketbooks of many. The inheritance tax is also very high and so far it looks as though it will pass.

Mr. PASSMAN. Would the gentleman yield?

Mr. GARY. Yes, sir.

Mr. PASSMAN. I said in the beginning that we had to make this Latin American program work.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. But the people from the very top echelons say it is not working and it has been one of the most disappointing things we have ever dealt with. Only during the last few months did they kind of soften up on this a little.

We are going to help you make this program work, but you cannot make it work by imagining and reading beautiful things into the record.

We are going to put this article in the record.

(The article referred to follows:)

[From Parade, May 19, 1963]

SOMETHING NEW IN SOUTH AMERICA—HERE COMES THE U.S. TAX COLLECTOR

(By Ed Kiester)

SANTIAGO, CHILE.—Latest export of the United States to this Latin American Republic are nine men with business suits, pleasant manners, and sharp unyielding minds.

They are tax collectors. These boys from the U.S. Internal Revenue Service have been operating here for the last 2 years. Their mission: to teach their Chilean counterparts the secret of how to part a taxpayer from his money. And so far, to the despair of shocked and reluctant Chileans, they have been wildly successful.

Since the Americans came, tax collections here have increased between $30 and $50 millions a year. They are expected to jump twice that next year. But increased revenue is only part of the story. The Americans have helped close loopholes, modernize procedures, and crack down on chiselers. And, to the wonder of all Chile, they have taken 2 persons to court, have 2 others awaiting trial, and are investigating an additional 50.

THE GOOD OLD DAYS

All this is a far cry from the way things used to be here. In the entire country—in fact, in all Latin America—no one, but no one, had ever been tried for tax fraud. In whole regions of Chile, not a single person ever had filed an income tax return.

In a classic case, a man purchased a valuable business property in Santiago, the capital, for $300,000 in cash. The transaction brought him to the attention of authorities, who found he never had paid taxes. Asked about it, the man protested, "Why, I've never earned enough money to pay taxes."

Furthermore, those who dodged the tax colectors usualy managed to avoid paying a penalty. The law assessed penalties, fines, and interest for overdue taxes—but every 2 years Chile's congress passed a law "forgiving" them.

To us, revolutionizing this taxless paradise may not sound very neighborly, but it is actually (according to the tax men) being done for our benefit. Under President Kennedy's Alliance for Progress program for Latin America, the United States agrees to give aid to those countries which show willingness to help themselves.

But Uncle Sam sees no reason to shell out U.S. taxpayers' money when Latin America's homegrown taxpayers go scot free. Accordingly, to qualify for funds, a nation must first institute tax reforms. Chile is the first to do so. Actually, Uncle Sam would like to see the Chileans go even further. Eighty percent of tax money here comes from sales taxes and import duties—levies which fall hardest on people least able to pay. The United States would like to see income tax rates changed to squeeze more out of upper-bracket incomes. Chile's Congress is now debating such a step. Meanwhile, the problem is to collect the maximum under existing laws.

Says Norman D. Nowak, the thickset, energetic New Yorker who heads the nine-man advisory group in Santiago: "The present system would not seem so inequitable if it were being properly enforced. The income tax schedule is not really so much below ours. But collections have not been made, good administration has not been followed. It may be that sound administration is as important as new law."

When Nowak first came here in 1961—at the personal request of Eduardo Urzua Merino, the Chilean Director of Internal Revenue, whom he had once shepherded around the Manhattan IRS office—administration of the tax laws was anything but good.

Taxes were being withheld from the wages of factory workers; other Chileans were filing regular returns, but few of the returns were being audited. Collectors, inspectors, and clerks were untrained.

Underpaid agents held second jobs—sometimes for the very persons whose taxes they were supposed to check during the day. Most complicated of all, no one had ever written down all the Chilean tax rules, procedures, and regulations in one place. Most agents carried them around in their heads.

Nowak started off with a drastic program. Aided by a revolving staff of American specialists plus 85 full-time Chilean instructors, he set up a training program, wangled a 50-percent pay boost, had the offices redecorated and refurnished, put a crash crew to work drawing up a Chilean tax code.

More important, he showed the average Chilean taxpayer that the agents meant business. He handpicked 50 men for an intelligence division, trained them in such things as how to eavesdrop, shadow a suspect, use a hidden mike. Then—after passing the word that informers would be rewarded—he turned them loose on tax frauds.

BATHING SUIT FRAUD

Result: The golden age of Chilean tax dodging came to an abrupt halt. The fraud team suddenly pounced on the office of a bathing suit manufacturer and confiscated its records. Then they charged that the firm had falsified invoices, made up phony purchase orders and doctored accounts to make their profits look small. They also made certain that the case—first of its kind on the continent—got wide publicity when it went to court.

The Chief of the Division, Jorge Varela, then let the word out that his office was investigating 40 or 50 more cases. He also said auditing would be increased fivefold—and that, in the U.S. tradition, the agents would concentrate on returns from the higher income brackets.

As a result of all this, there is today a new attitude about taxpaying in Chile—and it's one that most Americans would recognize. Reluctantly, many taxpayers are beginning to file returns for the first time—and honest ones at that. Among the 2,800 agents, there is a new zeal and a new esprit de corps. Nowak's job isn't over, but he is looking forward to going home.

"All we wanted to do was make them independent," he says—"set up a professional service and enable them to get the absolute most they were entitled to. That's what we're getting in Chile. Soon it'll be just as tough on tax cheats as the States."

Mr. GARY. I wanted to say that a good many newspaper articles have been placed in the record on the other side, and I would like to see a few on this side.

CHILEAN BUDGET DEFICITS

Mr. PASSMAN. This article deals with Chile.

Last year they showed in million dollar equivalent, $569 million, and with a deficit of $97 million. Last year in putting in a conservative estimate you said on the million dollar equivalent, domestic revenues would be $773 million, and then instead of getting $773 million, the hearings this year indicate they got only $569 million, a disappointingly low amount compared to your estimate.

If you projected this to 1962, even with the AID program going, the deficit of this country jumped up to $174 million. I am not going to delay the gentleman's examination, but let us be careful about how we envision the success of this thing.

Thank you for yielding.

Mr. GARY. Mr. Chairman, I have no objection to your putting anything in the record. I have been very patiently sitting here for months.

Mr. PASSMAN. I am putting in the record the factual statistics.

Mr. GARY. I have no objection to that, but you have put a great many newspaper articles in the record.

Mr. PASSMAN. I want, if possible, to keep the record straight.

Mr. GARY. I have no objection in the world to any rebuttal you desire to insert.

DIFFERENTIATION IN SUPPORTING ASSISTANCE AND DEVELOPMENT LOAN CRITERIA

Mr. Moscoso, in making loans to help countries with balance-of-payments difficulties, you sometimes use supporting assistance funds primarily for stabilization purposes. You sometimes use development loans primarily for development purposes?

Mr. MOSCOSO. That is right.

Mr. GARY. Under the Marshall plan, these two categories went together. What accounts for the variations?

How do you decide whether to apply supporting assistance or development loan funds in a given situation?

Mr. MOSCOSO. It is a question of criteria, Mr. Congressman.

In the case of some of the countries, there is not sufficient developmental justification for the particular assistance we may be giving in their balance-of-payments problem, and it is primarily and preponderantly a question of trying to prevent a deterioration of the political situation to the point where we may have great difficulties in that country.

However, wherever there is the potential of the developmental program, we do then give them the assistance out of development loan funds.

In other words, it is a question of whether or not they meet development criteria, whether we give them the assistance out of the development lending funds or out of the supporting assistance funds.

Mr. PASSMAN. My reasons had nothing to do with the insertions. I just wanted to read this into the record.

Mr. GARY. That is all I asked for.

Mr. MOSCOSO said it is a statement from somebody of the situation in Chile, and I just wanted it to be put in the record. I do not know what is in the article. I have not had an opportunity to read it.

Mr. PASSMAN. I wanted to show what is in that statement does not compare with the statistics on which they have justified their requests for money. That is all I wanted to show.

U.S. ACTION WHEN ALLIANCE CRITERIA ARE NOT MET

Mr. GARY. Mr. MOSCOSO, the Latin Americans may be behind us in economic development, but they are not newcomers to politics. If we expect them to comply with Alliance aid criteria, we have to indicate to them that we mean business. What have we done when our standards have not been met?

Mr. MOSCOSO. We have in many instances, or in several instances, at least, when conditions have not been met, suspended the disbursements on the loans which have been made. We also have instances in which loans which they needed quite badly had not been made available at the time because they did not conform to our criteria.

Mr. GARY. Can you give us some instances of that kind?

Mr. MOSCOSO. Yes. One instance is Ecuador, where just a few months ago we suspended disbursement on a loan because they had not complied with the conditions we imposed on them of approving a tax reform bill promulgating the regulations in connection with the bill, and of initiating other administrative reforms of that kind.

In the case of Guatemala, a number of months ago, where a request very urgently was made for support, budget support, we insisted they take the necessary measures to correct the situation with their own resources.

They managed to find the resources, and the loan was not used.

The most drastic case is the case of Haiti where we completely suspended the airport loan of $2.8 million because these people were not complying with the conditions that were imposed. I could continue mentioning cases of this type.

EFFORTS TO IMPROVE LATIN AMERICAN PUBLIC ADMINISTRATION

Mr. GARY. Essential to the success of the Alliance is the ability of the Latin American countries to execute programs, once they are adopted. What kind of an effort are these countries conducting to improve their administration and their capacity to implement development programs?

Mr. MOSCOSO. One of the more important items of administration has been planning and, as the members of the committee have seen, we have a very intensive program to get the Latin American countries to do their planning.

There are also a great number of programs for the betterment of the administrative capability of the Latin American countries. In many instances, this is done through university contracts, either in the country itself or we do it through participant training by bringing the trainees here to the United States.

I have here a statement on public administration.

We have a program in the Dominican Republic, a very strong program, on public administration. There has been established a Public Administration Reform Commission. The University of Michigan has a contract which will soon be in operation setting up a program of surveys to support their statistical work. We have a program in Peru where the Institute of Public Administration of New York has begun an advisory service to Peru under an AID contract.

We have an intraagency contract with the Internal Revenue Service for providing tax administration advice to quite a number of countries.

In many ways, we have assisted the Latin American countries in bettering their administrative capability.

In Argentina, Columbia University and the University of Buenos Aires have a combined program of training professors in business administration and in Bolivia we have a customs——

Mr. GARY. Where are the professors from?

Mr. MOSCOSO. Columbia University, teaching the teachers. That is to get leverage and a multiplier effect.

In Bolivia, the United Kingdom has been assisting with customs experts in order to assist them in the control of contraband, which is one of the ways in which there is a lot of leakage of revenue to the Government.

In Brazil, we have a University of Southern California contract to assist in public administration, and the University of Bahia and Michigan State also have been doing effective work with the School of Business Administration on some of their problems.

In Chile, we have a tax modernization program, which I just mentioned to you and showed you that piece in the paper about, and then we have a University of Chicago and Catholic University program in economics.

By the way, that one is almost finished.

In Colombia, we have a program with the school of administration of finance and this is being carried out through the services of the Syracuse University.

In Costa Rica, we have a public administration adviser and some short-term contractors who are also assisting the Costa Ricans in bettering their public administration.

If the Congressman wants, I could go on for the rest of the other countries, but I would like to mention just one more.

In the case of Guatemala, we have an inservice training center and we are training about 1,000 employees annually.

We are also helping set up a civil service system in Guatemala.

Mr. GARY. It is your intention to continue to push that program?

Mr. MOSCOSO. That is right.

It is basic. An underdeveloped country has an underdeveloped government and unless we have capably run governments, it is going to be difficult to accomplish the program.

LAND AND AGRARIAN REFORM PROGRAMS IN LATIN AMERICA

Mr. GARY. One of the worst impediments to social as well as economic progress in Latin America is that in so many cases, the man who ought to be the backbone of the social complex and of the private enterprise system, the individual farmer, does not even own his own land.

You mentioned some cases of initiation of major land reform programs.

Specifically, what have been the results of these programs?

Mr. MOSCOSO. The major programs that have been started since the Alliance are those in Colombia and the Dominican Republic. Venezuela has a strong program but this was started a few months prior to the establishment of the Alliance.

We are going to bring for the record, at the request of the chairman, the exact number of farms that have been set up, the number of acres involved, et cetera.

You will notice in the case of land reform, we have not had as much land distribution as you would expect; but we have had an awful lot of agrarian reform in the sense that we are trying to better their agricultural capabilities.

We are not thinking of agrarian reform exclusively in the breaking up of the big estates. That is not the whole answer. That is desirable and that will have to be done, but many other things will have to be done, particularly bettering agricultural instruction in the universities, setting up extension services, setting up agricultural experiment stations, setting up and supervising agricultural credit systems. A number of those have been set up. Those are some of the things we have had more success with up to now, but in many instances the countries are addressing themselves to their agrarian reform problems. In the case of quite a number of them, this is a 10-year problem—so far as the political implications are concerned—more than a betterment of their agricultural capabilities.

In every one of the instances, what we are trying to do is to increase the agricultural capacity of the country.

BILATERAL VERSUS MULTILATERAL AID FOR LATIN AMERICA

Mr. GARY. There has been a great deal of discussion of the relative merits of bilateral and multilateral aid. I know that the United States has supported both methods.

In which direction should we be heading in Latin America?

Mr. Moscoso. I think a very good case can be made for enlargement of the multilateral type of lending, particularly the kind in which we are retaining a great degree of authority over the utilization of funds, and in which the Latin Americans participate as advisers as to ways and means in which these funds should be used.

For instance, one of the reasons why I was so insistent and vehement, almost, in connection with the Social Progress Trust Fund, is that that is one of the instances where we are applying the multilateral approach to development in Latin America.

I believe that this can be refined even further to a point where many of the reforms and measurement of performance, with regard to these reforms, will be done by the Latin Americans themselves. I think that we already have made a start toward that when the Inter-American Economic and Social Council met in Mexico in October of last year.

It was a very interesting meeting in which Latin Americans, as far as I know, for the first time started to point the finger at each other in the sense they had not performed. That is, the sense that they had not done as well as they should do.

Mr. GARY. Does the program you are presenting reflect this judgment?

Mr. Moscoso. Well, you have seen my insistence that the Social Progress Trust Fund be considered favorably by the members of the committee.

INCREASED USE OF U.S. PRIVATE GROUPS AND ORGANIZATIONS TO SUPPORT THE ALLIANCE

Mr. GARY. The United States could save a great deal of AID money if you would persuade private groups, cooperatives, labor unions, business groups, and the like, to involve themselves actively in the Alliance and make it a true people-to-people program.

You mentioned only a few examples of such activity.

Are you really getting such cooperative action?

Mr. Moscoso. Yes, sir.

We have very strong programs both of cooperative development and also of labor union types, to increase the capability of democratic labor unions in having a greater participation in the economic development of the country. I think I explained last year that we have a very good arrangement with the business community, the American business community, the AFL–CIO in jointly financing and supervising operation of the American Institute for Free Labor Development.

Every 90 days a new batch of young labor leaders is trained under the auspices of this institute.

The institute, by the way, not only does the training of these labor leaders, but they also have a social services division which undertakes to assist the labor unions in Latin America in preparing requests for assistance on projects of a social nature, primarily housing.

Mr. GARY. Business groups and labor groups are cooperating, working together, in that enterprise?

Mr. Moscoso. Yes, sir.

The institute is jointly financed by business, labor, and government. It is a very interesting tripartite operation.

Mr. GARY. In what particular countries is that working?

Mr. MOSCOSO. As a matter of fact, the main center for training is here in Washington but we have established regional training centers in several Latin American countries.

We now have training centers in Ecuador, Chile, and Honduras.

Mr. GARY. What is the budget of that operation?

Mr. MOSCOSO. I am sorry, but we have the figure for our participation but do not have the exact figure for business participation. That is, the business group participation. It is $800,000 for our part and it is about $500,000 on the part of the business group. I will be glad to put the exact figure in the record.

Mr. GARY. Please put the amounts supplied by us, amounts supplied by the business groups, and any amount supplied by labor and any others that contributed.

Mr. MOSCOSO. In the case of the labor group, the amount is a little less. But they are also participating with all personnel and with the presentation of the whole program and the supervision of the whole program.

(The information supplied follows:)

PARTICIPATION IN AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

From the inception of the American Institute for Free Labor Development program (March 1962) through June 30, 1963, the labor and business contributions (as reported by AIFLD) to AIFLD funding were:

Labor	$222,900
Foundations	77,600
Corporations (including Latin American associations)	135,750
Total, business and labor	436,250

AID programed a total of $1,060,000 in fiscal year 1963 for all AIFLD activities.

The education side of the AIFLD program, to which labor and business contribute, provides the most accurate reflection of the comparative participation by the various groups. It is here that AID gave $442,000, and labor and business combined gave $436,250.

Of the AID contribution through regional projects, $580,000 was for the AIFLD Social Projects Division, which provides technical assistance for unions to establish housing organizations, credit unions, and similar activities, to provide the institutions and mechanisms for social progress. The nature of the work of the social projects division is such that the funding of this part of the AIFLD program is not put on a contributing basis.

Business and labor contributed to the AIFLD program far in excess of the dollar figures they reported. Labor leaders and businessmen provided substantial amounts of training time and facilities for the AIFLD's Latin American trainees, without regard to cost.

Since the AIFLD has had a year in which to demonstrate its capabilities, it is anticipated that the business and labor groups will be increasing their contributions, and that the AID participation required will not be as great. By the end of calendar year 1963, labor and business are expected to have contributed $250,000 each this year. For fiscal year 1964, AID has programed $850,000.

Mr. GARY. That is all, Mr. Chairman.

CONTRIBUTIONS TO SOCIAL PROGRESS TRUST FUND

Mr. PASSMAN. We think of a multilateral program as a program where more than two put money into it; is that correct?

Mr. MOSCOSO. It all depends on the program.

Mr. PASSMAN. So far as the Social Progress Trust Fund is concerned, there have been no other contributions of any kind, shape, form, or fashion made into this Fund by other countries?

Mr. MOSCOSO. No, sir.

CHILEAN TAX MEASURES

Mr. PASSMAN. What is the publication, Parade?

Mr. MOSCOSO. It is one of the inserts in the Washington Post and other newspapers.

Mr. ROONEY. It is an insert in many newspapers.

Mr. MOSCOSO. It is syndicated by some group in New York.

Mr. FORD. A national weekly magazine to which the Washington Post subscribes and sends to its own subscribers.

Mr. PASSMAN. Parade indicated in that article that in Chile in the past it has been the practice that when people would become delinquent in their taxes and roll up substantial funds owing to the Government, they would pass legislation forgiving them for the obligation. Did you read that statement?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. There has actually been no law passed in Chile recently assessing new taxes or increasing taxes. They are merely debating the possibility of having a tax increase.

All we are doing presently is trying to help them enforce the present laws and get more revenue in, is that correct? Helping them do a better job of administering laws presently on the books?

Mr. MOSCOSO. May I answer?

Mr. PASSMAN. Certainly.

Mr. MOSCOSO. We are helping them to increase their tax revenues under their present laws.

Mr. PASSMAN. Is that not what I said?

Mr. MOSCOSO. In bettering their administrative capabilities. That is what this article is about. The Chileans are considering a new tax revenue measure, and it has been approved by the lower House. It is now before the Senate.

Mr. PASSMAN. There is no such thing as a lower House in this country. However, I do not know about Chile.

For any new tax laws, they are now debating the issue in the Chilean Senate?

Mr. MOSCOSO. The House of Representatives approved the measure, and it is now before the Senate.

Mr. PASSMAN. Is that the same law they were debating in one body when we passed this law in 1961, continued to debate it last year, and now they are debating it this year?

Mr. MOSCOSO. I was not here in 1961.

Mr. PASSMAN. They have two legislative bodies?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. It is now being debated in the Senate?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. In Chile we had hoped for, and we predicted, in 1961 that the revenue from the Chilean people would be $773 million; is that correct? That is the dollar equivalent.

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. If we go to the 1964 justifications, it indicates the actual collections were $569 million; is that correct?

Mr. MOSCOSO. That is right.

Mr. STERNFELD. Could I indicate that here again the difference is on conversion of the exchange rate, what was done in the 1964 book was to convert all 3 years at the current exchange rate, which is 1.4, to make all 3 years comparable.

Mr. PASSMAN. Next year it could reverse and be the opposite?

Mr. STERNFELD. At that time the conversion rate was current at that time.

Mr. PASSMAN. Chile has had a tremendous amount of inflation.

Mr. STERNFELD. We have had inflation.

Mr. PASSMAN. On page 53 it says it is also converted to the 3 years.

Mr. STERNFELD. At a lower rate.

Mr. PASSMAN. Gentlemen, what are we going to consider if we do not use your statistics? When converted for 3 years, you use dollar equivalents, you project what it will be, you use the same formula. When you come down this year, instead of the estimate being what you thought—I imagine these were conservative—it is substantially lower. What we are trying to do is establish the facts so we can actually move in and help you with this program. You used the same conversion on both 3-year periods and so stated, did you not?

Mr. STERNFELD. We used a conversion factor.

Mr. PASSMAN. Nevertheless, instead of the revenue being $773 million it was $569 million.

Mr. STERNFELD. Twelve percent increase in revenue for 1961 over 1960.

Mr. PASSMAN. We are talking about these two figures, the only thing you can compare, because next year you will say it is either an estimate or——

Mr. STERNFELD. No, sir. What I am comparing is 1960 with 1961. You have a 12-percent increase in revenue, $506 to $569 million.

Mr. PASSMAN. I take your projection of last year when you told us what you expected based upon this Alliance for Progress program. You said Chile would get $773 million, but in reality it was only $569 million. I am trying to help you make your own case. If you stop being suspicious about what I am trying to do, you may get some help.

Mr. FORD. Will the chairman yield?

Mr. PASSMAN. Certainly.

Mr. FORD. I cannot agree with what I thought was your point because you had the increase in 1961 to $569 million over 1960 of $506 million. Certainly, the Alliance for Progress was not in effect at that time.

Mr. MOSCOSO. No.

Mr. FORD. Any progress made there was made regardless of the Alliance for Progress.

Mr. MOSCOSO. What I am trying to say and what Mr. Sternfeld is trying to say is the Latin Americans are making efforts aside from the Alliance, although not enough. We are trying to help them to increase their capability, but they are making efforts in collecting more taxes.

Mr. FORD. Just so we have the record clear that the Alliance for Progress was not responsible for this increase because it was not in being.

Mr. MOSCOSO. There are so many other factors. For instance, the price of copper goes down 1 cent in Chile, which may mean $100 million. I do not know if it is 1 cent, but something like this can signify as much reduction in revenue as that. Obviously, it cannot be that one single thing that will do it.

Mr. ROONEY. We have also miscalculated revenues in this country; have we not?

Mr. PASSMAN. Yes, we have.

Mr. FORD. I cannot understand the rationale of the figures you submitted last year on total domestic revenues and what you are submitting this year. I do not think you have satisfactorily answered the questions that the chairman raised.

Mr. MOSCOSO. Just to answer the question specifically in connection with Chile. There is an international agreement with Chile. A certain amount of surplus on current account of the national budget is required, or else loans are not disbursed. In other words, they have to have that amount of tax money on hand or else reduce their expenses, which is very difficult, as you know in Congress, or else we do not disburse.

Mr. FORD. We would do better if we had the cooperation from the Executive.

Mr. MOSCOSO. So that is the way we are trying to get them to do better in connection with tax collections and with changing their revenue laws.

Mr. FORD. Put this in the record some place. The chairman asked two, three, four, or five times why there is this apparent discrepancy.

Mr. MOSCOSO. That is right.

Mr. FORD. Maybe it is inflation. If it is——

Mr. MOSCOSO. It may be inflation. In some instances it is a dropoff of the basic commodity from which they get the bulk of taxes, for instance, as happened in Venezuela 2 years ago. It can be a reduction in the price of coffee, as happened in Brazil and Colombia 2 years ago and up to today.

Mr. PASSMAN. If it is inflation, then you would get more dollars in, would you not, ordinarily, more millions if the dollar is inflated?

Mr. MOSCOSO. More of the local currency.

ARGENTINA'S DOMESTIC REVENUES

Mr. PASSMAN. Consider Argentina. You told us last year you expected domestic revenues to be $1,753 million.

Mr. STERNFELD. 84 pesos per dollar.

Mr. PASSMAN. You used the million-dollar equivalent last year. You told us that your estimate was then $1,753 million. Just tell us whether or not that is correct.

Mr. STERNFELD. That is in the book.

Mr. PASSMAN. You did put it in the book and I am reading from the book.

Mr. STERNFELD. Correct.

Mr. PASSMAN. When we look at it this year, we find out, regardless of what brought the situation about, it indicates $880 million.

Mr. MOSCOSO. Right; revenues will change.

Mr. PASSMAN. It is just a question that you cannot make 2 and 3 add up to 9, regardless of how much you argue. There is a lot to be done.

Mr. MOSCOSO. Yes.

Mr. PASSMAN. You come in with your optimism that these figures are going to be accomplished. Then when you deal with realities a year later, you are off a hundred percent in many instances. Why do you not let us work with you and use your own statistics, and if you will do that, together we might help solve this problem.

Mr. MOSCOSO. All right.

Mr. PASSMAN. Mr. Montoya?

LOAN OPERATIONS OF INTER-AMERICAN DEVELOPMENT BANK

Mr. MONTOYA. Mr. Moscoso, how many "windows" do you have in the Inter-American Bank?

Mr. MOSCOSO. Three.

Mr. MONTOYA. Will you name them and then describe their operation and our part in each window.

Mr. MOSCOSO. The social progress trust fund is one of the windows. You have heard that described this morning. We are the sole providers to that fund. The amount you also know.

The ordinary capital window, $813 million. Then the fund for special operation, which is $146 million.

Mr. MONTOYA. That is the grant fund?

Mr. MOSCOSO. No; that is for lending, the fund for special operation is for lending on softer terms and special projects. We participate in two-thirds there of the fund for special operations and Latin Americans one-third. In the case of the regular capital fund, the one I mentioned with $813 million, there we participate with 41.82 percent.

Mr. MONTOYA. The loans have to be approved on the basis of the contribution; each country has a vote representing its contribution into the fund?

Mr. MOSCOSO. That is right, except in the case of the social progress trust fund, the fund for special operations, a two-thirds vote is required. We have a veto because we have 41 percent.

Mr. MONTOYA. As to the social progress trust fund, do we have complete dominion over the disbursement of this particular fund?

Mr. MOSCOSO. Yes; in the sense that if we do not go along, a project cannot be approved.

Mr. MONTOYA. Who actually receives the application under this fund and who actually approves it?

Mr. MOSCOSO. The applications are received by the Bank officials.

Mr. MONTOYA. Mr. Herrera is President of the Bank?

Mr. MOSCOSO. That is right. Depending on the application, they go to a loan committee.

Mr. MONTOYA. Just as in a regular bank?
Mr. MOSCOSO. That is right.

CONDITIONS PRECEDENT TO IDB LENDING

Mr. MONTOYA. The loans in the three windows are processed or are supposed to be processed in conformity with the original understanding that all these countries had with respect to the establishment of the Inter-American Bank; is that correct?

Mr. MOSCOSO. Yes; there is a well worked out, detailed criterion for lending.

Mr. MONTOYA. You, of course, understand that when the Bank was established, the Congress was led to believe that pursuant to the original international conferences, no loans would be made to any country unless that particular country had initiated the type of reforms contemplated in the original trust agreement drafts which were presented to the Congress?

Mr. MOSCOSO. Mr. Congressman, that is not the understanding that I had. If these countries had been capable of making these reforms, they probably would not need any help from us. One of the reasons why we are trying to assist these countries or we want to assist these countries is precisely because they need assistance in getting these reforms made.

Mr. MONTOYA. This is the point I want to make, and I want to call this to your attention. Mr. Dillon, who came before our committee to justify U.S. participation in the Inter-American Bank, assured us, and we in turn assured the House, that these funds on a loan basis would not be made and these loans would not be disbursed unless and until these countries initiated tax reforms and agrarian reforms and further that the loans would be made for purposes designed to help the people in the hinterlands of the country rather than loans being made direct to governments for disbursements at the discretion of the government. That is your understanding of the program, is it not?

Mr. MOSCOSO. No, sir.

Mr. MONTOYA. What is your understanding?

Mr. MONOCOSO. As I understand the program, the loans are to be made in accordance with, first, the requirements of the county, the disposition of the country to undertake these reforms, but I have never understood that it was necessary to terminate the reforms and then, after they are finished, to come to the Bank and to get loans approved. I thought this was an operation in which the country, as they showed their disposition and went along and took the many steps that had to be taken in order to get reforms made——

Mr. MONTOYA. Would you refresh your memory by reading the testimony of Mr. Dillon when he testified originally before this committee?

Mr. MOSCOSO. I will, Mr. Congressman.

Mr. MONTOYA. In the draft of the trust agreement, which is attached hereto, there is mention made about the different obligations which must be satisfied as a condition precedent to disbursement of the funds because these funds were placed in trust with the Bank and certain conditions were to be fulfilled preliminary to their disbursement. Those are the conditions which I mentioned, the most prominent of which are agrarian reform and fiscal or tax reform.

I notice the listing here of the particular loans which you have made through the Bank, starting on page 99. I notice that you have made quite a few loans to private and perhaps government-organized corporations in the different countries. Also that disbursements have been made under these loan agreements.

PUBLICITY FOR U.S. PARTICIPATION IN SPTF

What measures are being undertaken either by our Government or by the Inter-American Bank to apprise the recipients of these moneys at the ultimate level that our country is participating to the extent that it is in furnishing these moneys for these purposes?

Mr. Moscoso. In the majority of the cases the projects bear a sign outside of the projects, if it is a housing development or a water project, indicating that these funds were made available by the United States through the Inter-American Development Bank.

We have actual photographs, Mr. Congressman, which I would be happy to bring next time, showing these several signs that are put up in front of every project.

Mr. MONTOYA. Also publicity when the projects are initiated?

Mr. Moscoso. Yes, I will bring the photographs and also press releases announcing loans in which mention is made of the fact that these funds are being made available from the Social Progress Trust Fund.

Mr. MONTOYA. Is there a good and adequate dissemination of news reflecting our participation in these projects?

Mr. Moscoso. I wish it were better.

Mr. MONTOYA. Or is it just the original announcement and then hoping that the sign in front will convey the idea?

Mr. Moscoso. We try to do a job through the U.S. Information Agency.

Mr. MONTOYA. I am not satisfied with what the U.S. Information Agency has been doing.

Another thing that I would like to call your attention to is this: Is it possible that on every loan agreement entered, say with the ultimate borrower, that some kind of literature can be devised whereby that borrower knows just exactly what contribution the United States has made into that loan? Have you ever thought about this?

Mr. Moscoso. I believe that in the loan document there is some mention of this. I would like to defer to my colleague here, the U.S. Director for the Inter-American Bank, because he perhaps knows of a clause in the loan agreement.

Mr. KILLEFER. It is more difficult in that the Social Progress Trust Fund loans are made normally only to governments and to government agencies. The kind of thing you are thinking of, I think, has been done successfully by the Eximbank by having letters go out to the ultimate supplier so that they know where the money is originally coming from. This may be a very good idea that the Bank could pick up itself without relying on USIS and do it through our own public information service.

Mr. MONTOYA. What I am afraid of in connection with all our disbursements in Latin America, is that the people do not know when they get the benefits of it that we, the American people, are providing

these things. I think that is a very important part in trying to build up the good will we are trying to build with our tax dollars.

Mr. KILLEFER. I agree.

Mr. MOSCOSO. I agree.

TAX AND AGRARIAN REFORM AS PREREQUISITES TO ASSISTANCE

Mr. MONTOYA. I beg to differ with you, Mr. Moscoso, that there was no intent to impose a condition precedent with respect to tax reform and agrarian reform before any disbursements were made under the program of the Inter-American Development Bank. So going upon that premise—until you have indicated to me that Mr. Dillon testified otherwise, and I will certainly look up the record again—what particular reforms were initiated by the recipient countries listed here under the loan agreement section—namely, Colombia, Venezuela, Brazil, Chile, Uruguay, Paraguay, Guatemala, Peru, Argentina, Mexico, Nicaragua, and El Salvador—that is about all I can see here.

Mr. MOSCOSO. Let us start with El Salvador.

Mr. MONTOYA. As far as Mexico is concerned, I am satisfied that Mexico has about the most advanced agrarian reform and fiscal structure among the Latin American nations. I know they are trying to bring their collection system up to a par with what we have here in the United States. But let us go into the other countries just briefly and please state what particular steps have they taken to satisfy the original purposes of this trust agreement, namely, tax reform and agrarian reform.

Mr. MOSCOSO. There is a very heavy tome here, but I will use the summary extracted from this tome.

Mr. MONTOYA. In order to save time, would you list these countries represented by these loan agreements, one by one, and state in concise and brief language what particular laws have been passed to insure the launching of agrarian reform and tax reform, and when you come to tax reform, specify whether there has been an increase in the tax structure because of these new tax laws which have been passed.

Mr. MOSCOSO. We will do that.

Mr. MONTOYA. And indicate what that might represent in increased revenue with respect to each country.

Mr. PASSMAN. Will the gentleman yield?

Mr. MONTOYA. Yes.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. May we supplement that information with the chairman of the Foreign Affairs Committee's assurances to the Congress about how this program would be handled and also insert that statement?

(The information follows:)

[From the Congressional Record, Aug. 31, 1961, p. 17360]

Mr. MORGAN. Any requests submitted to the next Congress would be based on a carefully worked out program and would only be for such amounts as may be fully justified.

* * * * * * *

Both the authorizing committees and the appropriation committees will have a look at the program next year, and, as I just said, every project must be justified.

* * * * * * *

These programs of social development have not yet been worked out. Before the United States appropriates funds to assist in these programs, our representatives have told the Latin American governments that it will be necessary to have specific programs worked out and justified in detail, and, even more important, that these programs will have to be accompanied by basic legislation and institutional reforms in such matters as tax structure, land tenure, and legal procedure in order that new facilities provided under these programs may produce the benefits which are intended.

* * * * * * *

I think we have a responsibility. I can assure the gentlemen that next year, if the Democrats are in the majority and I head the Committee on Foreign Affairs, a detailed program for Latin America will have to be justified.

* * * * * * *

It is an overall long-range program. I can assure the gentleman that the $500 million will not be spent for several years. As I said previously, every dollar will have to be justified.

SUMMARY OF LAND AND TAX REFORMS

Mr. Moscoso. Answering your question, on page 96——

Mr. Montoya. I have looked at that information. That is too general.

In fact, it is more general than a five-star general because you have listed under Chile various tax reforms. That does not mean anything to me. I indicated a while ago I wanted the particular tax reform legislation which has been passed, not what is pending, and I wanted the projection of additional revenue which would be the result of the tax reform.

Mr. Moscoso. If Mr. Rooney will be kind enough to lend Congressman Montoya the book he is reading, let's open it to page 174 to see if this is given in sufficient detail here.

Mr. Rooney. I was just reading the one on Chile. There seems to be quite a lot of detail on it.

Mr. Moscoso. This is the case of Chile.

Mr. Montoya. I know it, Mr. Moscoso. I want it in the record so the Members on the floor can read it. That is why I wanted it pinpointed so that it would reflect a country-by-country basis.

Mr. Moscoso. All right, sir. We will do that.

(The information supplied follows:)

SUMMARY OF LAND REFORM LEGISLATION IN LATIN AMERICA

(In general, all of the laws cited below are intended to foster equitable land distribution through procedures which avoid excessive fractioning of holdings, to encourage settlement in unpopulated arable areas, and to provide credit and technical assistance to small- and medium-size agricultural holdings. All laws in which expropriation is a feature, provide for indemnization.)

A. Pre-Alliance for Progress

1. Argentina: Decree law No. 2964/58 of 1958: Authorized expropriation of lands which were not rationally exploited.

2. Bolivia: Decree law No. 3464 of 1953: Expropriates uncultivated land and holdings of uneconomically exploited latifundios.

3. Mexico: Series of numerous laws and executive actions especially since 1924 which expropriate and distribute lands, guarantee rights of ejidos (traditional community Indian holdings), extend credit, and technical assistance, etc.

4. Venezuela: Decree No. 371 of 1958: Provides for distribution of public lands, and those private holdings which do not meet various productivity standards. Also, colonization, agricultural credit, and technical assistance.

B. Post Alliance

1. Colombia: Law No. 135 of 1961: Purpose to prevent the inequitable concentration of rural lands or its uneconomic fractioning, to stimulate exploitation of

uncultivated holdings, increase agricultural production, and the standards of living of rural population. Expropriates uncultivated or underutilized lands, particularly holdings in excess of 2,000 hectares. Emphasizes distribution to family units.

2. Costa Rica: Decree No. 2825 of 1961: Intended to clear titles, and to give assistance to small- or medium-size rural holdings, discourage "minifundios" and encourage the formation of cooperatives. The law contemplates the expropriation of inefficiently exploited or excessively large latifundios. A progressive tax on uncultivated land was also enacted in 1961 (law 2825).

3. Chile: Law No. 15020 of 1962: Purpose to increase productivity and to conserve natural resources. Provides for expropriation of abandoned or underutilized holdings, the rationalizing of "minifundio" holdings, colonization, and the extension of credit and assistance.

4. Dominican Republic: Law No. 5879 of 1962: Objectives to distribute large private and public holdings, promote efficient land use while discouraging fractioning, and to raise the rural standard of living. Encourages formation of cooperatives, technical assistance and credit programs, rural population, and land census.

5. Guatemala: Law No. 1551 of 1962: Purpose to establish mechanism for planning, developing, and implementing programs leading to efficient cultivation of uncultivated or underutilized lands. Provides for the distribution of public holdings or expropriated or voluntarily donated private holdings.

6. Honduras: Decree No. 2 of 1962: Purpose to change the structure of the agricultural sector by eliminating latifundios and minifundios. Provides for distribution of public lands and expropriated private holdings.

7. Nicaragua: Decree of April 3, 1963: Provides for expropriation of latifundios, system of distribution, technical assistance, housing, and credit. Also progressively taxes uncultivated large holdings.

8. Panama: Law 37 of 1962: Purpose to abolish monopolization of uncultivated idle lands for speculative purposes, and to insure equitable distribution and rational utilization. Will distribute public lands as well as expropriated private holdings. A law enacted December 31, 1961, imposes a progressive property tax on landholdings.

9. Paraguay: Laws 622 and 662 of 1961: Purpose of laws to legitimize title for numerous squatters' holdings on public or private lands.

10. Peru: Decree law 14575 of 1963: Creates a National Office of Agrarian Reform and Promotion which assumes all functions of preexisting land reform organs. Law states land reform is highest priority, and contemplates vigorous effort. President of Republic active member of the board of directors of the new office. Some 200,000 acres were expropriated with the consent of the owners, and upon promise of due compensation, in August 1963.

Estimated revenue increases, 1962 over 1961 attributable to selected tax reforms in selected countries[1]

	Millions of U.S. dollars (estimated)
Argentina: Tax penalty amnesty, increased taxpayer registration, administrative reorganization	200.0
Bolivia: Improved customs and income tax administration	8.5
Brazil: Income tax administrative reform	10.0
Chile: Improved sales and income tax administration	25.0
Costa Rica: Improved administration, consumption taxes and tax on profits of central bank	8.0
Dominican Republic: First effects of new income tax, elimination of special exemptions to Trujillo interests	13.0
El Salvador: Amended income tax	3.0
Honduras: Improved customs, income, and sales tax administration	2.0
Mexico: Amended income tax and administrative reforms	65.0
Nicaragua: New taxes and amendments	1.5
Panama: New taxes and administrative measures	6.0
Uruguay: Improved administration and new income tax	8.0
Venezuela: Improved administration, income tax rate increases and withholding	100.0
Total	450.0

[1] Estimates of revenue increases are not available for every country or for all individual measures in most countries.

Tax Laws Passed by Countries Receiving Aid

The following legislative summary is based upon information available August 1, 1963. Where available, revenue estimates are included. Where basic administrative reforms have been undertaken, these are noted also.

ARGENTINA

A. Legislation

1. Decree 9744 of 1960: Legislative grant of increased autonomy to National Tax Agency. Authorizes, and provides statutory basis for subsequent administrative reorganization and reform.
2. Decree 6723 of 1960: Approves new text to income tax law. Technical improvements.
3. Decree 6393 of 1960: Approves new text to capital gains provision. Technical improvements.
4. Decree 6872 of 1960: Provides regulations to Decree 6393 of 1960.
5. Decree 6394 of 1960: Approves new text for excess profits tax. Technical improvements.
6. Decree 9878 of 1960: Provides regulations for Decree 6394 of 1960.
7. Decree 9749 of 1960: Approves new text for the substitute gift tax. Technical improvement.
8. Decree 6392 of 1960: Approves new text for the sales tax. Technical improvements.
9. Decree 9879 of 1960: Provides regulations for the sales tax.
10. Decree 4780 of 1961: Provides new text for stamp tax. Technical improvements.
11. Decree 5806 of 1961: Regulations to Decree 4780 of 1961.
12. Decree 4595 of 1961: Approves new text for gift tax.
13. Decree 4778 of 1961: Provides new regulations for the income tax.
14. Decree 15798 of 1961: Provides increased penalties for evasion and changes collections procedures in income, sales, and stamp taxes.
15. Decree 6480 of 1962: Requires a declaration of capital. Initiates a tax on extraordinary increases in wealth, with rates from 5 to 10 percent. Initiates tax penalty amnesty (which resulted in some $160 million in additional collections).
16. Decree 11452 of 1962: Amends the income, sales, and capital gains tax. Imposes for period 1962–64 a 20 percent surcharge on the income tax. Introduces a tax on the sale of securities at 0.5 percent first year and 1 percent in subsequent years. Income tax for dividends and distributed profits subjected to withholding. Sales tax rates increased from 0.8 to 10 percent for most goods, and to 13 percent for luxuries. Reduced for essential goods to 3 percent or 1.25 percent. Many new items brought into tax base.

"Economic recuperation" taxes for 1962–64 introduced including: 5 percent surcharge on selected imports; 5 percent tax on production of cereals, oil seeds, wool, certain cattle; and additional 5 percent sales tax on various lubricants; an additional 50 percent tax on sales or transfers of automobiles; and M$N5000 tax on passports.

New provisions imposing a 10 percent tax on capital gains from land development.

17. Decree 7344 of 1962: Revises various incentive laws. Eliminates some unproven incentives and provides special inventives for agriculture and cattle.
18. Decrees 6790 and 6966 of 1962: Exempts potatoes and seed potatoes from import duties.
19. Decree 13110 of 1962: New tariff for consular fees promulgated.
20. Decree 134231 of 1962: Extends import surcharges for luxuries.
21. Decree —— of 1963: Temporary tax of US$5 per ton of wheat adopted.
22. Decree —— of 1963: Surcharges of from 100 to 400 on excessive imports of automotive industry enacted.
23. Decree —— of 1963: Temporary tax of M$N1 per liter on gasoline adopted.
24. Decree 2227 of 1963: Revises tax on tires and changes base from weight to ad valorem.
25. Decree —— of 1963: Requires taxpayers provide certificate of compliance with income tax before engaging in various business or personal transactions; e.g. obtaining bank credit, transferring title to automobile, etc.

B. Administration

Decree 9744 of 1960: Provided statutory basis for far-reaching reform of the National Tax Administration. Organization has been decentralized along lines

similar to U.S. Internal Revenue Service. Large increase in tax rolls, particularly as a result of drive based upon:

Decree 6480 of 1962: Tax penalty temporary amnesty for delinquent taxpayers.

BOLIVIA

A. Legislation

1. Decree 5508 of 1960: Amends the complementary income tax. Adjusts rates and exemptions.

2. Law of December 31, 1960: New investment law providing tax incentives to new investments.

3. Law of July 1961: New customs code based upon Brussels Convention customs nomenclature. Coupled with improved administration resulted in 35 percent increase in collections (about $8.5 million increase in 1962 over 1959 figure).

4. Supreme Decree 6252 of 1962: Establishes a Commission to study administrative reforms.

5. Supreme Decree 6250: Exempts profits from global complementary tax.

B. Administration

1. Decree 6252 of 1962: Results of this and prior administrative efforts appear to be urban property tax collections up 200 percent for first 5 months of 1963 compared to same period 1962. Expected 10- to 15-percent general rise in collections 1963 as result of installation of data processing equipment sales and income taxes. Also, new customs facilities under construction together with reorganization of procedures. Anticipated substantial resulting revenue increases.

BRAZIL

1. Law No. 3807 of 1960: Levies a 5-percent social security tax on excess profits.

2. Law No. 3850 of 1960: Excess profits tax and extra 3-percent tax on business profits extended 5 years.

3. Decree —— of December 20, 1961: First reductions in import duties for Latin American free trade area agreement promulgated.

4. Law No. 3995 of 1961: Supplemented by Decree 1166 of June 8, 1962. This law is intended to encourage economic development in northeast Brazil through granting exemptions to new industries in the region.

5. Law No. 4154 of 1962: Raises rates of the complementary progressive income tax, broadens the use of withholding, raises taxes on bearer share income, and increases certain consumption tax rates. Also, this law provides authority for a reorganization of the entire tax system.

It is estimated that the law will increase revenues by approximately Cr$120 billion (or US$200 million) in 1963.

CHILE

A. Legislation

1. Decree 190 of 1960: Organic law for the reorganization of tax administration.

2. Decrees 14171 of 1960, Decrees 14597, 14603, 14634, 14636, 14688 of 1961, and Supreme Decree 14458: All amend the income tax, by making technical improvements adjusting exemption levels, small rate changes, etc.

3. Decree 4216 of 1962: Increases surcharges on transportation taxes.

4. Decree —— of November 16, 1962: Amends land tax law. Provides new assessment basis and procedures. Initiates far-reaching land tax program with completion date 1964. Estimated 1963 revenues 16 million escudos.

5. Decree —— of 1963: Additional taxes on automotive manufacturers in free zone increased up to maximum of 100 percent.

6. July–August 1963: Approval in House Chamber and now pending passage are enactment of basically amended income, inheritance and stamp taxes.

B. Administration

1. Decree 190 of 1960: Provided basis for reorganizaton of national tax agency. To date complete reorganization, establishment of training school and strengthened audit, collection and investigation functions. Overall proficiency of organization dramatically improved as reflected in considerably increased collections estimated in 1962 at 30 million escudos.

2. Decree —— of November 16, 1962: Provides basis for national land cadaster and assessment program. Mapping, assessment and administrative organization programs now well underway with target completion date in 1964.

3. Establishment in 1963 of working group to plan and execute modernization and reorganization of customs agency.

COLOMBIA

A. Legislation

1. Decree 1691 of 1960: Tax incentives are granted to basic industries.

2. Law No. 81 of 1960: Consolidated and rationalized into comprehensive code numerous and scattered income, excess profits, and wealth tax provisions. Modified rate structure, strengthened taxes, and made numerous technical improvements.

3. Decrees 439, 1651, 138 of 1961: Issue regulations for the income tax.

4. 146 of 1961: Reduces export taxes largely to adjust for falling coffee prices.

5. Decree 1393 of 1961: Issues regulations to tax incentives provisions for basic industries.

6. Decree 1394 of 1961: Issues regulations for income tax exemptions for selected exports.

7. Decree 0437 of 1961: Imposes special 6-percent surcharge on corporate income tax for housing.

8. Decree of February 1963: Increases selected excises on beer, cigarettes, etc.

9. Decree of March 1963: Exempts selected raw materials for domestic export industry from import duties.

10. July 1963: Executive requests extraordinary legislative authority to—

(*a*) Modify and strengthen real property taxes,

(*b*) Levy a 20-percent surcharge on the income tax,

(*c*) Introduce a general sales tax, and

(*d*) Thoroughly reorganize the tax administration.

B. Administration

1. Law 81 of 1960: Various organizational reforms in 1960 to adapt administration to new law. Continuing efforts, including gradual installation of electronic data processing equipment, to improve collections and audits. In June–July 1963 request for comprehensive AID tax administration assistance program on basis of IRS survey of preceding months.

COSTA RICA

1. Law 3020 of 1962: State banks with the exception of the central bank are subjected to income tax.

2. Law 3063 of 1962: Several provisions of the income tax law are rationalized, including advancing the payment date and requiring anticipated payments on estimated income.

3. Decree of 1963: Withholding provisions of income tax regulations are rationalized.

4. Law 3026 of 1962: Land tax law is amended requiring the filing of a sworn statement of landholdings and values thereof.

5. Law 3042 of 1962: Tax on uncultivated land was amended.

6. Decree 3 of 1960: Regulations for tax incentives law were enacted.

7. Decree 2 of 1961: Regulations for tax incentives law were amended.

8. Law 3048 of 1962: Tax incentives law was amended.

9. Law 2973 of 1961: Tax on land area and location was enacted with maximum rates of 100 colones per hectare for rural and 5 colones per meter for urban land.

10. Law 2825 of 1961: Tax on uncultivated land with progressive rates from 0.25 percent on first 250 hectares to 2.5 percent to excess over 5,000 hectares was enacted. Purpose of law to stimulate more intensive land use.

11. 2837 of 1961: Inheritance and gift tax rates for Costa Rica University increased.

12. Law 2890 of 1961: Tax incentive law for cement industries amended.

13. Law 2808 of 1961: Capitation taxes on foreigners residing in the country were increased.

14. Law 2802 of 1961: A 10-percent exchange surcharge was fixed for local currency acquired by foreign banana companies for their local operations.

15. Law 2981 of 1961: An additional 0.05 colón consumption tax per bottle of beer was enacted.

16. Law 3021 of 1962: All consumption taxes on beer were consolidated with a rate of 0.55 colón per bottle.

17. Law 2547 of 1960: Consumption tax on cigarettes was increased to 0.20 colón, 0.26 colón, 0.43 colón and 0.25 colón per package.

DOMINICAN REPUBLIC

A. Legislation

1. In second half of 1961 subsequent to termination of Trujillo dictatorship numerous onerous or unfair tax laws were abolished, resulting in a $34 million decline in revenues in 1962.

2. Decree 5911 of 1962: Effective July 1, 1963, and amended by Decree 5990 of 1962 and Decree 6173 of 1963, introduced a new income tax which has yielded $12.1 million in the first 5 months of 1963. Estimated yield $30 million.

3. Decree of May 1962: Taxes of 10 percent on all travel tickets and 1 percent on all imports were introduced. Gasoline tax increased. Estimated yield of these taxes $1.9 million.

4. Decree 5961 of May 15, 1962: Imposes taxes on imported and domestically produced cigarettes.

5. Law No. 23 of May 10, 1963: Introduced new sugar and molasses taxes. Estimated combined revenues $24 million.

6. Law No. 32 of June 5, 1963: Increased consumption taxes on various imports ranging from 5- to 60-percent ad valorem.

B. Administration

The rapidly brightening revenue picture in 1963 attributable in large part to successful administrative reorganization during fiscal year 1962 and first half 1963.

HONDURAS

A. Legislation

1. Law of June 6, 1963: Provides a 20-percent surcharge on income tax for all incomes in excess of $10,000, effective July 1, 1963. Estimated revenue increase 1963 $600,000.

B. Administration

1962: Establishment of Office of Special Audits and Collections Control. General tightening of administration has resulted in 1962 revenue increases of 25 percent income tax; 7 percent sales tax and 30 percent export tax.

ECUADOR

A. Legislation

1. Decree law of November 14, 1961: Modifies basic customs law by introducing Brussels Convention nomenclature.

2. Decree law of 1961: Consolidates taxes on tobacco products.

3. Decree law of December 15, 1961: Enacts a new inheritance tax with increased rates and improved enforcement procedures.

4. Decree law 31 of 1962: Grants incentives to banana exports by exempting profits on exports in excess of 1961 average.

5. Decree of July 18, 1962: Creates Commission on Administrative and Fiscal Reforms.

6. Decree law 39 of 1962: Enacts a new income tax with rates from 20 to 40 percent on corporate income. Schedular personal income tax rates from 6 to 23 percent and progressive global rates from 10 to 43 percent.

7. Decree law 47 of 1962: A new tax incentive law for industry enacted.

8. Budget law of 1962: Introduces new taxes on imports, corporate paid in capital, a professional license tax, and a tax on notorizations.

B. Administration

1. August 1963: In conjunction with AID assistance ambitious tax administration reform in planning stages.

EL SALVADOR

A. Legislation

1. Decree No. 154, June 1961: Introduced a tax on the export of shrimp. Estimated revenues $500,000.

2. Decree No. 300, September 1961: Raised personal exemptions for children dependents and rates for higher bracket taxpayers. Revised and increased

corporate rates and rationalized the personal and business income taxes in a number of important respects. Estimated that these reforms—specifically intended to comply with Alliance for Progress criteria—increased revenues of income tax by 30 percent in 1962.

3. Decree 433, December 6, 1961: Reduced the excise on sugar but broadened the base. Estimated increase in revenues attributable to change, $400,000.

4. June 1963: A number of new measures increasing rates under the excise, import, and consumption taxes (wheat, tobacco, beer, radios, TV, etc.). Estimated revenue increases 1963, $4 to $5 million.

GUATEMALA

1. Decree law 1559 of 1963: Introduced the first personal income tax in Guatemalan history. No firm estimates of revenue yield.

2. Decree law 60 of 1963: Introduced an export tax on cotton, now Guatemala's second most important export. Estimated revenues $750,000. Also introduced an export tax on essential oils (citronella and lemon grass). Estimated revenues $100,000. Amended real estate taxes by increasing valuations, across the board by 300 percent. Estimated revenues $600,000. Increased stamp and stamped paper taxes by doubling the value of stamps which must be affixed to bills and receipts. Estimated revenues $5,500,000.

3. Decree law 58 of 1963: Introduced a new tax of 5 cents per gallon on gasoline.

MEXICO

1. Decrees of 1961: Structure of customs taxes amended. Tax on cigarettes increased. Tax on automobile ownership enacted. New surcharges on imports of nonessential goods enacted.

2. Decree of December 28, 1961: Amended income tax law by: Introducing of withholding on salaries, simplifying accounting for small enterprises, establishing capital gains tax for real property transfers, introducing new higher tax rates for income from real property leases. Introduces a complementary progressive personal income tax for higher bracket incomes. Estimated yield $40 million.

3. Decree of January 2, 1963: Introduces a 1-percent payroll and self-employment tax earmarked for educational expenditures.

NICARAGUA

1. Decree 551 and decree 5 of 1960: Enacts consumption tax of 39 percent on domestically manufactured cigarettes.

2. Decree 483 of 1960: Enacts consumption tax on soft drinks.

3. Decree 496 of 1960: Enacts tax on insurance premiums.

4. Decree 550 of 1960: Imposes 10-percent tax on lottery winnings in excess of C$5,000.

5. Decree 552 of 1960: Increases taxes on automotive vehicles.

6. Decree 494 of 1960: Authorizes executive to promulgate general sales tax.

7. Decree 541 of 1961: Enacts export tax of C$0.0125 per kilo on cattle.

8. Decree 567 of 1961: Increases rates for alcoholic beverage production taxes. Increased again in decree 641 of 1961. Regulations decree No. 11 of 1961.

9. Decree 568 of 1961: Imposes US$25 registration tax for foreign pharmaceutical houses.

10. Decree 559 of 1961: Increases business license taxes. Base broadened by decree 597 of 1961.

11. Decree 557 of 1961: Enacts tax on fishing activities.

12. Decree 647 of 1962: Enacts tax of 10 percent on wholesale price of sugar for domestic consumption.

13. Decree 29 or 1962: Enacts consumption tax of C$0.60 per pound on detergents.

14. Decree 722 of 1962: Amends stamp taxes by simplifying tariff. Amended decree 741 of 1962.

15. Decree 703 of 1962: Enacts consumption tax on locally produced cement.

16. Decree 713 of 1962: Strengthens taxes on real property, personal property, and gifts of real property. Intended to strengthen direct taxes. Revenue increase in 1962, estimated 26.8 percent of direct taxes.

17. Decree 725 of 1962: Enacts new inheritance tax effective October 1, 1962.

18. Decree 711 of 1962: Enacts 1 percent tax on movable assets, as amended, decree 761 of 1962.

19. Decree 712 of 1962: Enacts 1 percent tax on immovable assets, as amended, decree 763 of 1962.

20. Decree 726 of 1962: Income tax law amended and progressive rates increased. Decree repealed by decree 762 of 1962.

21. Decree of March 7, 1963: Introduces new customs duties and consumer taxes effective April 1963. Estimated revenue increase $1.1 million.

PERU

1. Supreme decree 8 of 1960: Income tax withholding put into effect with promulgation of regulations.

2. Law 13311 of 1960: Enacts pay-as-you-go for self-employed as amended law 13513 of 1961.

3. Supreme decree 2 of 1960: Requires subsidiaries and branches of foreign mining companies to pay tax in their national currencies.

4. Law 13512 of 1961: Establishes 30 percent rate for bearer shares.

5. Law 13526 of 1961: Establishes increased rate on stamp tax on sales.

6. Law 13528 of 1961; Subjects income of real estate holding companies to income tax.

7. Law 13527 of 1961: Imposes a special 10-percent tax on corporate capitalized profits.

8. Law 13825 of 1962: Subjects profits of shipbuilding industries to withholding.

9. Law 13784 of 1962: Establishes special tax regime for petroleum companies.

10. Law 14181 of 1962: Provides tax amnesty for tax delinquents who pay arrears. Amnesty extended, law 14246 of 1962.

11. Law 14186 of 1962: Increases penalties for tax evasion.

12. Law 14235 of 1962: Provides for installation of automatic data-processing procedures in the tax administration.

13. Law 14262 of 1962: Increases income tax rates for income from commercial and industrial activity.

14. Law 14265 of 1962: Imposes a tax on anchovies.

15. Law 14341 of 1962: Increases stamp tax on sales to 4 percent.

16. Law 14414 of 1963: Repeals tax on anchovies and imposes new tax on fish flour.

17. Law 14439 of 1963: Several taxes amended. Stamp tax reduced from 4 to 3.5 percent. Capitalized profits subject to 10 percent. Income on domestic credit operations by foreign companies subject to 16-percent tax. Dividends from registered shares subject to bearer share rates if paid to national holding companies.

PANAMA

A. Legislative

1. Law 110 of 1960: Private houses not exceeding B/5,000 exempted from the real property tax. New rates for this tax established.

2. Law 111 of 1960: Rates doubled for stamped paper and stamp tax tariff amended.

3. Law 112 of 1960: Income tax rates increased. Various administrative measures introduced. Estimated revenues $2 million.

4. Law 63 of 1961: Interest included as a deductible expense in calculation of taxable income. Also exempts newly constructed buildings from the real property tax.

5. Law 65 of 1961: Definition of various infractions constituting tax evasion provided. Stamp tax tariffs amended.

6. Law 8 of 1961: Provides 10-percent discount for prompt payment of real property tax.

7. Law 81 of 1961: Amends stamp tax tariff, increases tax on beer, alcoholic beverages, and liquor.

8. Law 92 of 1961: Income tax surcharges on income from capital increased from 20 to 40 percent. Also a surcharge of 10 percent added to income tax on earned income.

9. Law of December 31, 1961: Inclusion of interest and dividends in personal income tax base. Five-percent withholding on dividends and interest. Establishes a "Land Control Ownership" tax with graduated rates increasing depending upon size of holding.

10. Law 3 of 1962: Amends evaluation rules for inheritance and gift taxes, and stamp tax tariffs. Strengthens income tax penalties.

11. Law 5 of 1962: Empowers land tax Cadastral Commission to impose fines.

B. Administration

June 1961: Internal Revenue Service incorporated into the career civil service.
February 1962: Tax audit staff doubled in size and procedures improved.
March 1962: National Cadaster initiated.
June 1963: Government requests AID–IRS assistance in audit procedures.

URUGUAY

1. Law 13032 of 1961: Enacts country's first income tax. Amends sales tax. Imposes 25-percent tax on sales of automobiles (luxury). Enacts new progressive inheritance and gift taxes. Taxes transfers of real property. Imposes annual tax on corporate capital. Subjects large real estate holdings to progressive tax based on value. Amends and increases rates on tobacco tax.
2. Law 12804 of 1962: Makes technical amendments and revisions of law 13032 of 1961.
3. Decree of July 27, 1962: Imposes additional surcharges on imports of autos.
4. Law of March 1963: Tax penalty amnesty for payment of taxes in arrears.
5. Decree of April 14, 1963: Reduces import surcharges to 20 percent with exception of luxury imports taxed at 60, 100, 150, and 200 percent rates.
6. Decree of May 24, 1963: Increases taxes on leather, oilseeds, and meats.

PARAGUAY

A. Legislation

1. Decree No. 236, January 11, 1960: Raised upper bracket income tax rates.
2. Decree No. 349, March 29, 1963: Modifies the income tax by: broadening the corporate tax base to include salaries of directors (there is no personal income tax), raising presumptions of profits equal to 8 percent of value on occasional exports, 6 percent on construction activities, and 8 percent on imports for agents of foreign companies.

B. Administration

1962: Adoption of improved customs procedures and controls resulting in substantially increased collections (average monthly increase was 35 percent). Other administrative tightening up credited with raising collections of other taxes by 22 percent. Combination of increased rates and administration credited with 20 to 25 percent rise in income tax in 1962.

VENEZUELA

A. Legislation

1. Law of February 13, 1961: Increases income tax rates; introduces withholding on interests and royalties to nonresidents and mining and mineral companies.
2. Law of June 29, 1961: "Law of Urgent Economic Measures" raised income tax rates, while authorizing Executive to promulgate further increases. Extended pay as you go to commercial and industrial enterprises.
3. Decree 581 of 1961: Increased inheritance and gift tax rates.

B. Administration

Administrative improvement in the income tax is credited with increasing 30 percent in personal income tax revenues in 1962.

IDB OBLIGATIONS AND DISBURSEMENT

Mr. MONTOYA. Mr. Moscoso, it was indicated a few minutes ago that only $55 million had been disbursed under these loan agreements; is that correct?

Mr. MOSCOSO. That is correct.

Mr. MONTOYA. And is that $55 million representative of all the disbursements, all the loan disbursements made by the Inter-American Bank?

Mr. MOSCOSO. No. That is from the Social Progress Trust Fund.

Mr. MONTOYA. That is only the Social Progress Trust Fund?

Mr. MOSCOSO. That is right.

Mr. MONTOYA. What is the balance of the present funding in that fund?

Mr. MOSCOSO. $37 million is not obligated.

Mr. MONTOYA. And the fact that $55 million has been disbursed does not necessarily mean that loan commitments and agreements have not been entered into which might require almost immediate and continuous disbursement; is that right?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Would the gentleman yield?

Mr. MONTOYA. Yes.

Mr. PASSMAN. We have no legal commitment to obligate one dime beyond that amount.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. So you have incurred no legal obligation for a dime beyond the amount that is presently on hand; is that correct?

Mr. MOSCOSO. Yes; that is correct.

Mr. MONTOYA. So, in effect, you have unobligated $37 million?

Mr. MOSCOSO. We have unobligated $37 million.

Mr. MONTOYA. How much do you have obligated then?

Mr. MOSCOSO. The balance—$348 million.

Mr. MONTOYA. You have a total funding of $394 million?

Mr. MOSCOSO. That is right.

Mr. MONTOYA. Of which $357 million has been obligated?

Mr. MOSCOSO. That is right.

Mr. MONTOYA. Of which sum only $55 million has been disbursed?

Mr. MOSCOSO. That is right.

Mr. MONTOYA. That is what I wanted to get clear.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. MONTOYA. It was indicated here, previously, that by December 31, 1963, it is anticipated that there shall be a total disbursement, including the $55 million to date, of $100 million?

Mr. MOSCOSO. That is right. At least $100 million. That is right.

Mr. MONTOYA. That is all.

Mr. PASSMAN. Mr. Rhodes?

TYPES OF LOANS AND GRANTS MADE

Mr. RHODES. Mr. Chairman. Mr. Moscoso, in going through the list of loans made on pages 99 through 106 of your presentation book, I find that most of the loans fall in these categories: One, housing, urban; two, housing, rural; three, various types of loans to farmers; four, community sanitation facilities; and five, water development. I think those would be the main categories in which loans have been made.

Mr. MOSCOSO. That is right.

Mr. RHODES. These categories are loans made by the Social Progress Trust Fund. Tell me what other types of loans or grants are made by the whole Alliance for Progress. In other words, I am trying to paint, with a broad brush, a mosaic of where the Social Progress Trust Fund fits into the Alliance for Progress.

Mr. MOSCOSO. As you know, the Alliance for Progress comprises the operations of many agencies; let's take the Export-Import Bank.

Mr. RHODES. I do not think you understand me. What I am trying to do is functionalize the Alliance for Progress. What other types of activities do you get into with the rest of the Alliance for Progress?

Mr. MOSCOSO. Transportation, including road construction, airport and port development, industrial lending for industrial purposes such as funding of private investment banks, funding of supervised agricultural credit agencies, higher education, and other agricultural improvements; education, especially university training. We participate in power and irrigation, labor training, public safety, and public administration improvement. That about covers it.

Mr. RHODES. Do you have a table to break down the requested appropriation along the lines that I have mentioned?

Mr. STERNFELD. On a functional basis; yes, sir.

Mr. RHODES. I would like the table to show not only the amount to be obligated, by function, but also whether it is by grant or loan.

Mr. STERNFELD. Yes, sir. We have that, too.

Mr. RHODES. If that could be submitted for the record.

Mr. STERNFELD. We will submit it.

(The information follows:)

AID assistance to Latin America, estimated by fields of activity

[Development grants and loans in millions of dollars]

	Fiscal year 1963		Fiscal year 1964	
	Loans	Grants	Loans	Grants
Agriculture	71	19.0	145–170	16
Industry and mining	48	5.0	120–150	6
Transportation	71	9.0	140–165	4
Labor		4.0		2
Health and sanitation	15	18.0	15–20	10
Education	8	24.0	70–75	27
Public administration	4	8.0	8	8
Public safety		5.0		5
Housing and community and urban development	88	3.0	75–85	2
Power and communication	17		20–40	
Technical support		[1] 21.5		[1] 20
General and miscellaneous	[2] 21	5.0	9	5
Total	343	121.5	602–722	105

[1] Includes nonregional technical support activities.
[2] Includes $20 million of the program assistance loan to Colombia for which field of activity not yet available.

ASSISTANCE TO PRIVATE SECTOR

Mr. RHODES. How much of the funds requested for obligation in fiscal year 1964 will go into the private sector and how much in the public sector?

Mr. MOSCOSO. An increasing amount will go into the private sector. In most instances, where a loan appears to have been made to a Government agency, like, let's say the Government of Columbia or the Government of Mexico to take two instances, you will find that the ultimate users of these funds are private individuals. In the case of Mexico, a $20 million loan was made to the Nacional Financiera. Most of the commercial banks of Mexico participate in this system of supervised agricultural credit. They make loans directly to small farmers. When you look at the records, you will notice a government-to-government loan here, but the ultimate user is a private individual—in this case farmers. In the case of Columbia, we made a $30 million loan to the Government and the Bank of the Republic administers it through the private banking system. In this

instance the money goes for loans for small and medium-sized industries in Colombia. This would appear in the statistics as a government-to-government operation, and it is a loan which will ultimately be utilized by private individuals.

Mr. RHODES. Do you have any studies which would indicate either the amounts or percentages which would be either (1) private; (2) public; (3) quasi-private, or (4) quasi-public?

Mr. MOSCOSO. We have those figures.

Mr. STERNFELD. We do not have them here.

Mr. MOSCOSO. We will be glad to supply them.

(The information supplied follows:)

FISCAL YEAR 1964 LENDING PROGRAM

The fiscal year 1964 proposed development lending program can be divided among (1) basically public projects (roads, education, airports, utilities, power, resource studies, irrigation, etc.); (2) intermediate institutions, public or quasi-public in nature, which reach immediately the private farmer, small businessman, and homeowner (industrial banks, agricultural credit banks, savings and loan and other housing banks, cooperative credit organizations); and (3) private enterprises. The rough percentages follow:

	Percent
(1) Public	50
(2) Intermediate	38
(3) Private	12

SPTF LOANS TO GOVERNMENTS AND GOVERNMENT AGENCIES

Mr. RHODES. I note on page 102 that on March 22, 1962, the Social Progress Trust Fund made a loan to the Government of Argentina for the purpose of advanced education, teaching and research equipment for eight national universities.

Mr. MOSCOSO. Yes.

Mr. RHODES. I call attention to this only because it appears to be the only Government loan made by the Social Progress Trust Fund. Why was this one loan made and what is the policy of the Social Progress Trust Fund in that regard?

Mr. MOSCOSO. Mr. Congressman, many of these entities that you see here, like on page 102, Banco Obrero, is a housing agency of the Government of Venezuela. The Institute of El Salvador is the housing agency of the Government of El Salvador, et cetera. In other words, these are public corporations of the respective governments.

Mr. RHODES. I understand that, but in this instance you did not make it to a public corporation or to a private corporation. You made it to the Government. This is the only instance I see in which that was done.

Mr. MOSCOSO. Because these are national universities.

Mr. RHODES. I see. Is this completely for equipment?

Mr. MOSCOSO. Equipment, yes; research and teaching equipment.

Mr. RHODES. And it is in the amount of $10 million.

Mr. STERNFELD. Of which the Social Trust Fund is only putting in $5 million.

Mr. RHODES. That is right.

The Social Progress Trust Fund I note on page 98 has loaned a total of $320,562,000 and that the total equivalent cost of all these is $780 million.

Mr. MOSCOSO. What page is that?

Mr. RHODES. Page 98.

Mr. KILLEFER. That is as of the end of the year.

Mr. RHODES. That is as of December 31, 1962.

Mr. MOSCOSO. That is right, sir.

Mr. RHODES. Can you bring this figure up to date and furnish it for the record?

Mr. MOSCOSO. We are already furnishing an up-to-date list.

LOCAL CONTRIBUTIONS TO PROJECTS FINANCED BY SPTF

Mr. RHODES. Is it possible to have an analysis of the type of contributions which were made by either the local governments or by the corporations?

Mr. MOSCOSO. Yes.

Mr. RHODES. In other words, as to whether it was made in services or land or currency, and what kind of currency?

Mr. MOSCOSO. In the case of the Social Progress Trust Fund?

Mr. RHODES. Yes.

Mr. MOSCOSO. On page 99 you will see percentage of total cost provided by local resources.

Mr. RHODES. I see that, but I was wondering——

Mr. MOSCOSO. Right next to it, participation of local resources. It does not give it. You are right. We will have to furnish that.

Mr. STERNFELD. It gives some.

Mr. MOSCOSO. We will bring this up to date.

Mr. RHODES. I would appreciate it.

(The information supplied follows:)

Local contribution to housing projects financed with SPTF loans (June 19, 1961, to June 30, 1963)

Date authorized	Borrower	Total cost of project	Percent of total cost provided by SPTF	Participation of local resources	Percent
Aug. 3, 1961	Instituto de Vivienda y Urbanismo de Panamá; Guarantor, Government of Panamá.	$10,444,917	73.0	From IVU's resources, in balboas	11.0
				Purchasers savings, in balboas	6.0
				Downpayment, in balboas	10.0
				Total, in balboas	27.0
Do	Banco Obrero de Venezuela for use of Division de Vivienda Rural del Ministerio de Sanidad y Asistencia Social; Guarantor, Government of Venezuela.	45,950,000	26.0	Government's yearly budget, in bolívares	53.0
				Self-help labor	21.0
				Total	74.0
Aug. 10, 1961	Instituto Nacional de Vivienda y Urbanismo de Costa Rica.	16,000,000	22.0	INVU, value of improved lands	46.0
				Savings of beneficiaries	20.0
				Recovery on the investments during the 2d and subsequent years	12.0
				Total	78.0
Oct. 19, 1961	Republic of Perú for use of the Instituto de la Vivienda	48,700,000	47.0	From the institution's resources, in soles	34.0
				Labor of beneficiaries	9.0
				Total	43.0
Nov. 16, 1961	Republic of Colombia, for the use of Instituto de Crédito Territorial; Guarantor, Government of Colombia.	29,340,000	51.0	From ICT's resources, in Colombian pesos	10
				Contribution of companies under the tripartite system, in pesos	11 0
				Contribution of beneficiaries in savings and downpayments	20
				Estimated labor of the participants in self-help projects	8.0
				Total	49.0
Feb. 28, 1962	Banco Ecuatoriano de la Vivienda; Guarantor, Government of Ecuador.	16,400,000	62.0	From BEV's own resources, in sucres	23.0
				From beneficiaries in the form of savings, self-help labor or downpayment	15.0
				Total	38.0

NOTE.—Recently renegotiated.

Mar. 15, 1962	Asociación Mutual de Crédito para la Vivsenda "El Pueblo" Perú; Guarantor, Government of Perú.	2,069,200	48.3	Loan from the Peruvian National Housing fund, in soles	10.8
				Total member deposits available for lending, in soles	20.9
				Labor of borrowers	20.0
				Total	51.7
Mar. 29, 1962	Instituto Nicaragüense de la Vivienda (INVI), Nicaragua; Guarantor, Government of Nicaragua.	7,789,000	67.0	Government of Nicaragua, in córdobas	11.0
				INVI, in córdobas	8.7
				Beneficiaries participation consisting of self-help and down payments, in córdobas	13.3
				Total	33.0
Do	Instituto de Vivienda Urbana (IVU) El Salvador; Guarantor, Government of El Salvador.	11,300,000	54.0	Government budgetary contribution, in colones	21.0
				IVU, in córdobas	14.0
				Beneficiaries contribution in self-help and downpayments	11.0
				Total	46.0
Do	Banco Obrero, Venezuela: Guarantor, Government of Venezuela. (Note: The Government of Venezuela will also provide schools, community centers, etc., costing, $2,200,000.)	15,000,000	66.7	From Banco Obrero's resources, in bolívares	23.3
				From the beneficiaries in the form of downpayments	10.0
				Total	33.3
May 17, 1962	Caja Central de Ahorros y Préstamos de Chilé; Guarantor, Government of Chile.	7,697,000	65.0	From Caja Central's own resources, in escudos	25.0
				From beneficiaries in value of land and savings	10.0
				Total	35.0
				Considering the additional savings generated by the program, the local contribution can be estimated to increase up to	49.0
July 26, 1962	Sociedad Promotora de Viviendas Económicas Limitada (PROVIEN) de Chile; Guarantor, Corporación de Fomento de la Produción (CORFO).	7,642,857	26.0	(a) Loan from CORVI, in escudos, covering 63 percent of construction and public utility installation costs	50.0
				(b) Value of unimproved land	6.0
				(c) Savings from beneficiaries, in escudos	4.0
				(d) Self-help labor	14.0
				Total	74.0
Aug. 2, 1962	Banco de Guatemala	10,740,000	49.3	Government, in quetzales	30.3
				Beneficiaries (downpayment and self-help)	9.9
				Savings and loan associations, in quetzales	10.5
				Total	50.7
Aug. 16, 1962	Banco do Nordeste do Brasil, S.A	7,158,600	54.5	Self-help labor	13.7
				Prior savings of the beneficiaries, in cruzeiros	7.0
				Land and improvements	17.3
				Total	38.0

Local contribution to housing projects financed with SPTF loans (June 19, 1961, to June 30, 1963)—Continued

Date authorized	Borrower	Total cost of project	Percent of total cost provided by SPTF	Participation of local resources	Percent
Sept. 20, 1962	Republica Oriental del Uruguay	$15,300,000	52.3	From Instituto de Viviendas Económicas, in land and Uruguayan pesos	19.0
				From municipality of Montevideo, in land and cash	8.0
				From municipality of Soriano, in land and cash	4.0
				Banco Hipotecario	16.7
				Total	47.7
Nov. 29, 1962	Banco Hipotecario de Argentina	60,000,000	50.0	(a) Provincial and municipal housing institutions, in Argentinian pesos	5.0
				(b) Cooperatives and trade unions, in pesos	12.5
				(c) Private companies, in pesos	3.3
				(d) Beneficiaries' cash and self-help	12.0
				(e) Banco Hipotecario Nacional, in pesos	17.2
				Total	50.0
Dec. 6, 1962	Instituto de la Vivienda de Honduras; Guarantor, Government of Honduras.	1,469,000	68.0	From INV's resources, in lémpiras	21.0
				From beneficiaries, in self-help, labor, and downpayments	11.0
				Total	32.0
Dec. 28, 1962	Government of the Dominican Republic	6,375,000	55.0	From government budgetary appropriations to Instituto Nacional de Vivienda, in Dominican pesos	21.5
				From beneficiaries, in the form of self-help, savings, and downpayments	23.5
				Total	45.0
Mar. 21, 1963	Corporación Boliviana de Fomento; Guarantor, Banco Central de Bolivia.	5,429,000	73.7	(a) Corporación's contributions, in bolivianos	8.4
				(b) Beneficiaries savings, lands, and/or downpayments	17.9
				Total	26.3

Local contribution to water and sewerage projects financed with SPTF funds (June 19, 1961, to June 30, 1963)

Date authorized	Borrower	Total cost of project	Percent of total cost provided by SPTF	Participation of local resources	
					Percent
Aug. 10, 1961	Banco Central de Reserva de El Salvador for use of Administración Nacional de Acueductos y Alcantarillado (ANDA).	US$1,400,000	60.0	Central Government, in colones	40.0
Oct. 12, 1961	Banco Central de Reserva de El Salvador for ANDA	3,830,000	71.0	Central Government and ANDA, in colones	29.0
Oct. 26, 1961	Establecimiento Pôblico Empresas Municipales de Cali, Colombia.	4,780,000	51.0	Borrower, in pesos	49.0
Nov. 22, 1961	Empresas Municipales de Cucuta, Colombia	9,161,000	56.0	Borrower, in pesos	34.0
				Consumers, advanced cash payments in pesos	10.0
Nov. 22, 1961	Republic of Chile for use of Dirección de Obras Sanitarias.	6,054,000	[1] 41	Municipalities, in escudos	3.0
				Central Government, in escudos	39.0
Nov. 30, 1961	Superintendencia de Aguas e Esgotos do Roncavo, Salvador, State of Bahia, Brazil.	8,127,000	50.7	State government, in cruzeiros	32.1
				SUDENE, in cruzeiros	9.9
				Sanitation funds	6.3
				Operations surplus, in cruzeiros	1.0
Dec. 7, 1961	Republic of Venezuela for use of the División de Acueductos Rurales de Ministerio de Sanidad y Asistencia Social.	20,000,000	50.0	Central and Regional Government, in bolivares	50.0
Do	Department of Montevideo, Uruguay	12,000,000	19.5	Bond proceeds, in pesos	78.3
				Municipal government, in pesos	2.2
Dec. 14, 1961	Instituto Nacional de Obras Sanitarias (INOS) Venezuela.	21,000,000	48.0	Central Government and INOS, in bolivares	52.0
Feb. 28, 1962	Municipalidad de Quito, Ecuador	3,925,000	76.0	Municipalidad de Quito, in sucres	24.0
Mar. 8, 1962	Banco de Guatemala	5,150,000	67.0	Bond proceeds, in quetzales Central Government, in quetzales	29.0
Mar. 13, 1962	Banco do Estado da Guanabara, S.A., Brazil, for use of SURSAN.	22,473,000	48.9	State government and SURSAN, in cruzeiros	48.0
Do	Banco do Estado da Guanabara, S.A., Brazil, for use of SURSAN.	53,537,000	[2] 23.3	State government and SURSAN, in cruzeiros	52.1
Mar. 15, 1962	Nacional Financiera, S.A., Mexico	15,280,000	60.0	Central Government, in pesos and operational surplus	29.0
Apr. 5, 1962	Banco do Nordeste do Brazil	18,534,000	70.0	Central Government, Nordeste agencies and State government, in cruzeiros	26.0
May 31, 1962	Instituto de Acueductos y Alcantarillados Nacionales de Panamá.	3,835,000	72.0	Central government and IDAN, in balboas	28.0
July 12, 1962	Instituto Nacional de Fomento Municipal de Colombia	34,080,000	[3] 26.0	Central Government specific liquor tax and IFM, in pesos	58.0
Feb. 19, 1963	Government of Ecuador	6,224,000	88.4	Central and municipal governments, in sucres	11.6
Mar. 7, 1963	Servicio Autónomo Nacional de Acueductos y Alcantarillados, SANAA, Honduras.	2,700,000	79.6	Central Government and SANAA, in lempiras	20.4

[1] An additional 17 percent was financed with IDB ordinary capital.
[2] 21.5 percent was financed from IDB's own resources.
[3] An additional 16 percent was financed with IDB's own resources.

Local contribution to agricultural (settlement and improved land use) projects financed with SPTF loans (June 19, 1961, to June 30, 1963)

Date authorized	Borrower	Total cost of project or program in U.S. dollars or equivalent	Percent of total cost provided by SPTF	Participation of local resources	
					Percent
Aug. 3, 1961	Banco Central de Reserva de El Salvador for use of the Federación de Cajas de Créditos.	US$2,800,000	71.0	Government of El Salvador, in colones	29.0
Oct. 19, 1961	Cooperativa de Crédito Central del Perú	2,700,000	37.0	Accumulated savings in 248 credit cooperatives	63.0
Dec. 21, 1961	Corporación de Fomento de la Producción de Chile (CORFO) for the Caja de Colonización Agrícola de Chile.	[1] 16,350,000	[2] 7.0	Government of Chile:	
				Studies	6.0
				Land	43.0
				Total	49.0
Do	Corporación de Fomento de la Producción de Chile (CORFO).	21,770,000	46.0	Government of Chile, in escudos	54.0
April 12, 1962	Caixa Economica do Estado do Minas Gerais, Brazil	13,000,000	49.0	ACAR in, cruzeiros	34.0
				Caixa and Banco do Brazil, in cruzeiros	19.0
				Self-help	7.0
				Total	51.0
Apr. 19, 1962	Nacional Financiera, S.A. for use of Secretaría de Recursos Hidráulicos de México.	2,500,000	40.0	Government of México in pesos	26.0
				Benefited small farmers (labor and equipment)	34.0
June 14, 1962	Banco Nacional de Nicaragua (BNN)	4,033,000	62.0	BNN, in córdobas	34.6
				Self-help (housing)	3.4
				Total	38.0
Aug. 23, 1962	Banco Agrícola de la Republica Dominicana	5,790,000	52.0	Government loan to Banco Agrícola	35.0
				Technical Assistance, Ministry of Agriculture	12.0
				Self-help labor	0.5
				Technical assistance, BAGRICOLA	.5
				Total	48.0
Aug. 30, 1962	Banco Nacional de Fomento de Honduras	3,575,000	70.0	Central Government and BNG, in lêmpiras	30.0
Nov. 8, 1962	Instituto Agrario Nacional de Venezuela	83,700,000	[3] 12.0	Central Government, Bolívares	85.0
		4,448,000			
Dec. 20, 1962	Banco Nacional de Fomento de Paraguay (BNF)	4,338,000	66.9	BNF, in guarantees	21.6
				Central Government yearly contribution, in guarantees	2.3
				BNF new patrimony from Central Government, in guarantees	9.2
				Total	33.1

Dec. 28, 1962	Nacional Financiera, S.A. de México	6,000,000	50.0	Beneficiaries (self-help)	15.0
				Central Government, in pesos	35.0
				Total	50.0
Do	Corporación Boliviana de Fomento	21,450,000	[4] 30.3	Central Government, in bolivianos	.4
				Public lands	46.6
				Total	47.0
Jan. 24, 1963	Banco de Crédito Agrícola de Espírito Santo, S.A	3,420,800	58.5	State government, in cruzeiros	15.0
				BCAES, in cruzeiros	6.3
				Rediscounts at the Banco do Brasil and Instituto Brasileño del Café	9.0
				Asociación de Crédito y Asistencia Rural del Estado de Espirito Santo (ACARES) and Secretaría de Agricultura (technical assistance)	11.2
				Total	41.5
Jan. 31, 1963	Cooperativa de Consumidores Unidos (UNICOOP) Santiago Ltda.	1,175,000	51.1	UNICOOP, in escudos	48.9
Do	Instituto Nacional de Colonización, Ecuador	5,516,000	34.1	Central Government, in sucres	27.2
				Beneficiaries (labor)	24.6
Do	Do	3,935,000	64.4	Central Government, in sucres	25.3
				Beneficiaries (labor)	10.3
				Total	35.6
Feb. 14, 1963	Government of Guatemala	3,500,000	71.4	Central Government, in quetzales	28.6
June 20, 1963	Nacional Financiera, S.A. México	62,400,000	[5] 8.0	Central Government, in pesos	48.0
				Beneficiaries (labor)	4.0
				Total	52.0

[1] Part of a total project.
[2] An additional 44 percent to be financed with IDB's fund for special operations.
[3] An additional 3 percent is financed with IDB's funds for special operations.
[4] In addition, 12 percent of total cost will be financed with IDB special operations fund and 10.7 percent with other foreign aid.
[5] An additional 40 percent is financed with IDB's own resources.

Local contribution to higher education and advanced training projects financed with SPTF loans (June 19, 1961, to June 30, 1963)

Date authorized	Borrower	Total cost of project or program in U.S. dollars or equivalent	Percent of total cost provided by SPTF	Participation of local resources	
					Percent
Mar. 22 1962	Republic of Argentina (for the National Universities of Argentina).	US$10,000,000	50.0	Borrower, in pesos	50.0
Apr. 19 1962	Mexican Institute of Technological Research	400,000	100.0	In addition, 3 commercial banking institutions will provide $500,000 in cash.	
Nov. 15, 1962	University of Chile	6,847,000	[1] 34.0	Borrower and other local institutions, in land and escudos	36.0
				Borrower, in escudos	21.0
Do	National University of San Marcos (Perú)	3,002,000	[2] 50.0	Borrower, in soles	21.0
Dec. 20, 1962	Central American countries (for the Universities of Costa Rica, Guatemala, El Salvador, Honduras, and Nicaragua).	10,833,000	[3] 27.0	Borrowers, in local currencies	27.0
Apr. 18, 1963	University of Oriente (Venezuela)	2,400,000	[4] 41.6	Borrower, in bolivares	45.9

[1] The Ford Foundation will contribute 9 percent.
[2] 29 percent expected to come from other external sources.
[3] 46 percent expected to come from other external sources.
[4] The Ford Foundation will contribute 12.5 percent.

That is all, Mr. Chairman.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

MONDAY, AUGUST 5, 1963.

Mr. PASSMAN. The committee will come to order.

Mr. GARY. Before we get started, may I ask one or two questions on a subject we were discussing when we adjourned at the last meeting?

Mr. PASSMAN. Yes.

ESTIMATED REVENUE OF ARGENTINA

Mr. GARY. Mr. Moscosco, when we last met, we were discussing some figures with reference to the Argentine and Chile on their estimated revenue and the actual income. For what years were those figures?

Mr. Moscoso. If I recall the problem, Mr. Congressman, the figures were for 1961 revenue, calendar year 1961. These estimates come to us around the beginning of the following calendar year. We got the 1961 figures around February of 1962, in order to prepare the presentation book. These figures are, quite frankly, estimates that the countries make.

In the case of Argentina specifically, the fact of the matter is that, in view of the oncoming presidential elections in Argentina, I can well imagine that probably President Frondizi or his ministers were optimistic for obvious political reasons in the preparation of these estimates.

Unfortunately, those are the estimates with which we have to work. On top of that, of course, is the fact that statistics in Latin America, generally speaking, are not exactly as good as we all would like to see them.

The point I would like to make in connection with Argentina is that there was a very substantial or real shortfall of about 28 percent from the previous year's estimate.

Mr. GARY. How do the actual collections for that year compare with the actual collections of the previous year?

Mr. Moscoso. To start with, in 1960 the collections were $641 million. In 1961 they were $880 million. Then the estimate for 1962 is $1,292 million. You should bear in mind that the proportion of the domestic revenue as a percentage of GNP is a very important figure in this, because it shows the effect of the country in trying to increase its tax base.

In 1960, this was 9.9 percent. In 1961, it was 11.4 percent. In 1962, it was 14.8 percent.

Mr. GARY. Of the national product?

Mr. Moscoso. Of the national product. So, you see, there has been a small increase in the tax collection as a percentage of the GNP.

Another figure we are now looking very closely into is the percentage change in revenues, and then the percentage change in the cost of living, because that gives you a better indication of the true increase. If your percentage increase in revenue is greater than the percentage increase in the cost of living, then you have really gotten an absolute increase in revenue.

In 1961, the percentage increase in revenue was 36.4 percent, and the percentage change in the cost of living was 13.6. You can see there was an increase. In 1962, it is estimated that the percentage change in revenue is 46.8, and the percentage change in the cost of living is 27.8 percent. Again, there has been this increase in revenue which is larger than the change in the cost of living.

This is not the case in all countries.

CHILE'S REVENUES

Mr. GARY. How about Chile? We were discussing specifically, when we recessed, Argentina and Chile. Can you give us similar figures for Chile?

Mr. MOSCOSO. Yes, sir. In 1960, the dollar equivalent of domestic revenue was $506 million, and in 1961, $569 million. The estimate for 1962 is $657 million.

The domestic revenue as a percentage of the gross national product did not go up as high as it did in Argentina. It went up from 15.3 to 16.2 in 1961, and then in 1962, to 16.8.

Mr. GARY. When did they have the earthquake down there?

Mr. MOSCOSO. 1960.

Mr. GARY. Would that have affected their increase in revenue?

Mr. MOSCOSO. It could have. It is said that the rehabilitation work apparently accelerated some of the economic activities of the country, and apparently it was not felt as much.

The percentage change in revenues in 1961 was 12.4 percent, and the percentage change in the cost of living was 7.7 percent. So, there was really an actual effective increase in revenue. In 1962, it is estimated that the percentage increase in revenue will be 15.4 percent, and the percentage change in the cost of living, 10.7 percent. So, there was an actual increase in revenue.

Again I want to repeat, however, Mr. Chairman and Congressmen, this is not the situation in every country. In some countries they have not done so well. As a matter of fact, in some countries there has been an actual reduction.

What we are trying to do right now is to get the countries to focus on how to increase their tax income in order to finance their programs.

NEED FOR EQUITABLE TAX LAWS

Mr. GARY. What I want to see is more equitable tax laws in those countries so these people who have been exploiting the others and getting rich off the country and not contributing anything to its development, will make their proper contribution to the development of the country. I am not one of those who want to level fortunes, but I do want to see the people who are able to pay do their part to provide the government that the people need.

We are told they need a great deal in certain countries of Latin America in the way of education, housing, and things of that kind. Certainly, unless the people who can afford to contribute those funds in Latin America do so, I personally am not willing to require the taxpayers of the United States to do it. That is the way I feel about it, and I just wanted to get that information in the record.

Mr. PASSMAN. Thank you, Mr. Gary.

REVENUE ESTIMATES

The distinguished gentleman from Virginia has always cooperated in every way possible to work out a reasonable and sensible program.

As the distinguished gentleman pointed out, since we do have to take the information which you give us by which to mark our bill and make our recommendations, it is only natural that we sit here with the justifications of last year, along with the justifications for this year, and compare one with the other. If we look at the 1963 hearings, we note that you estimated for fiscal year 1961 in Argentina, domestic revenues would be $1,753 million. But when we get down to the realities, we find that the actual collections were only $880 million, which is about 50 percent of the original estimate.

Both of the figures are based on dollar equivalents. We do not know where to discount when we see an estimate falling off 50 percent.

TAX LAWS IN LATIN AMERICA

Here is an article from this morning's paper, by Dan Kurzman. I read from it:

For it is one thing to pass enlightened income tax laws, and quite another to enforce them. Income tax revenue * * *.

In some cases, no doubt, governments have enacted attractive tax laws merely as window dressing—to offer the appearance of satisfying Alliance requirements in order to qualify for economic aid.

The justifications indicate that this kind of thing is what is happening.

Now let us go a bit further:

But whatever the intentions of most ruling groups, they are inevitably influenced by the fact that enforcement would hit them hardest, because these groups usually consist of economically powerful figures.

Tax officials, being very poorly paid, often make deals with taxpayers * * *.

Poor pay and the lack of modern civil service systems have resulted in a low level of professional competence among tax agents * * *.

Tax offices lack organization, usually separating collection responsibility from other aspects of tax administration.

The taxpayer sees little good yielded in his contribution * * *.

Would you not agree with me, sir——

Mr. Moscoso. I do agree with you.

VALUE OF U.S. DOLLAR

Mr. PASSMAN. Let us stop kidding ourselves. We are in serious trouble in this country.

Constantine Brown has written an article entitled, "The Trouble With the U.S. Dollar," and I quote from it:

Lack of belt tightening by Government and sagging citizen confidence cited.

The question of the vitality of the dollars in contrast with the strong European currencies backed by substantial quantities of gold—kept at their disposal in America—has been worrying Europe's bankers for a long time. They have wholeheartedly cooperated in the past with Washington in pegging the dollar at its present unrealistic value. But they have not failed to warn our Government that nothing short of a drastic fiscal policy can revitalize our dollar.

Privately they did not mince words. "Drastic measures" would consist of a substantial curtailment of America's expenditures at home and abroad with the view of eventually achieving either a balanced budget or at least one which shows a definite tendency toward balance. The national budget tends to mount stratospherically and so does the national debt.

It may be strange for the average American to hear that these nations which have achieved their present unbelievable prosperity and financial stability, thanks to the American bonanza, are now wondering why the U.S. Government still insists on spending billions on foreign aid. The explanation that it is needed to the tune of $4 billion a year in order to prevent the "further advance of communism," especially in the underdeveloped nations of Asia and Africa, is ridiculed in Western European financial circles.

* * * * * * *

By and large, the American investor would do much better either purchasing American stocks and bonds or enjoying a 3½- or 4-percent yield from U.S. building associations. Also, he can withdraw his deposits at a moment's notice.

Why then, it is asked here, do so many Americans prefer to submit themselves to banking regulations far more stringent than at home? Why do so many Americans prefer a lower income from their investments? The inevitable answer is lack of confidence in the fiscal probity of the Government; fear that someday, somehow, their investments at home might become jeopardized by some strange measures suggested by the financial whiz kids in Washington.

A leading Swiss banker regarding the gold outflow has pointed out that while some 5 years ago only Americans of substantial wealth brought part of their capital to Switzerland, there are now tens of thousands of accounts opened in Geneva and Basel from "little capitalists." That is, those who possess only small surplus sums between $10,000 and $50,000. They seem quite satisfied with the 1½-percent yield and neither do they object to the ban on withdrawals without 9 months' notice.

(Off the record.)

Mr. PASSMAN. I will also put something in the record from page 12 of U.S. News & World Report, August 12, 1963, "Washington Whispers":

Hints are heard that the Russians will soon be looking for a big loan from the United States to help them out of their troubles.

(Off the record.)

AID GIVEN BY NON-COMMUNIST COUNTRIES

Mr. PASSMAN. Here is another item. This is from a press release:

Twelve non-Communist countries paid out $8.4 billion in long-term aid to developing nations in 1963, the Organization of Economic Cooperation and Development stated last night.

Is that our organization of which Mr. Rubin is director?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Of course, we gave more than all of them, and the rest of them, no doubt, are hard loans with a high rate of interest.

Mr. MOSCOSO. May I comment on that?

Mr. PASSMAN. Surely.

Mr. MOSCOSO. I understand in the case of France, they do give more aid than we do on a per capita basis, and most of their aid is grants instead of loans.

Mr. PASSMAN. It is to their present and/or former colonies and possessions, where they have profitable trade agreements. That fact has been stated for the record.

FREE WORLD SHIPPING TO CUBA

I read another news report:

Allied ships to Cuba outnumber those of Russia.

Allied ships sailing to Cuba outnumber Russian freights in Cuban trade, according to Representative Paul Rogers, Democrat, of Florida. He told the House yesterday that 44 allied ships went to Cuba in May, compared to 38

Russian vessels. Tentative June figures show 39 allied and 31 Russian, and incomplete July reports show 16 free world vessels and 14 Soviet freights, he said.

I think the distinguished gentleman from Arizona has asked for some specific information on this matter. You might take that item and make a check on those figures.

Mr. MOSCOSO. I think we have here the gentleman, Mr. Cottrell, who has the information.

Mr. RHODES. The information I have requested is being prepared. It came from Department of Commerce Circular No. 12, listing the various ships.

(Information supplied follows:)

FREE WORLD SHIPPING TO CUBA

The table below shows arrivals of free world and Soviet bloc ships in Cuba during the first half of 1963. Cuban-flag vessels are not included in either category. Although the number of free world ship arrivals exceeded the number of Soviet bloc ships in April and in June, most of the free world ships were performing under contracts of charter entered into before the enactment of section 107 of the fiscal year 1963 Appropriations Act, and arrived in ballast to pick up sugar or molasses. All of the Soviet bloc ships shown in the table carried cargoes to Cuba. There were thus fewer free world ships than Soviet bloc ships which carried cargoes to Cuba. In addition, free world ship arrivals during the first 6 months of 1963 decreased approximately 70 percent compared to the same period in 1962. Since 1959, Cuban imports from the free world have declined more than 75 percent.

Ship arrivals in Cuba during first half of 1963

	January	February	March	April	May	June
Soviet bloc ships	41	38	35	34	47	34
Free world ships	12	19	28	37	44	[--------]
In ballast	0	3	10	23	26	[--------]
With cargoes	12	16	18	14	18	[--------]

U.S. LOAN TO RUSSIA

Mr. GARY. I do not believe any responsible person in the United States is going to advocate a loan to Russia. I cannot imagine it. If they do, they have to come before the Congress, and I, for one, and I am certain about 534 other people in the Congress, will be against it. It will never be granted.

Mr. PASSMAN. I always identify these articles when they go in the record.

Mr. ROONEY. Why do you not follow this up with a question, "Is this true?" and give them a chance to answer.

Mr. PASSMAN. Have you read this article?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Take it with you downtown, please, and get us a brief report concerning it.

Mr. SCHEINMAN. We shall be happy to go to the Secretary of State on this matter, to obtain information on this for the committee. May I say one other thing, Mr. Chairman?

EUROPEAN ASSISTANCE TO LATIN AMERICA

It is interesting that you referred to the assistance by the European countries previously. The information we have put together indicates that with respect to Latin America, countries such as Belgium, Canada, Germany, Italy, Japan, United Kingdom, and France have all been providing economic assistance to Latin America, and yet there are no colonies to which they have been providing.

Mr. PASSMAN. You will have a chance later to answer every one of those questions, country by country.

EXPENSES OF IDB MEETING

I have never observed, I think, more squandering of the taxpayers' money than I did in checking an expense account of the Board of Governors of the Inter-American Bank. They gave us the list last year, and I think it was a week's meeting in Rio. Here were some of the items: Travel of directors, $93,698; local services, $19,638; printing, $6,859; transportation of records, documents, and equipment, $2,644; rental of interpretation and other equipment, $1,560; representation allowance, generally understood to be whisky, and so forth $17,745; contingencies, $2,214. For this one meeting, when they had not yet received a nickel back in interest, the cost was $143,358.

Has the 1962 annual meeting been held?

Mr. MOSCOSO. The 1962 meeting was held in Buenos Aires in April.

Mr. PASSMAN. Do you have a breakdown of the expenses of the 1962 meeting?

Mr. MOSCOSO. No; but I can get it for you.

I have the actual expenses here, Mr. Chairman. The total was $207,000.

Mr. PASSMAN. Will you itemize it?

Travel of directors, how much?

Mr. MOSCOSO. $133,220.

Mr. PASSMAN. Local services?

Mr. MOSCOSO. $27,685.

Mr. PASSMAN. Printing?

Mr. MOSCOSO. $6,711.

Mr. PASSMAN. Transportation of records, documents, and equipment?

Mr. MOSCOSO. $8,263.

Mr. PASSMAN. Rental of interpretation and other equipment?

Mr. MOSCOSO. $6,960.

Mr. PASSMAN. Representation?

Mr. MOSCOSO. $10,899.

Mr. PASSMAN. Sundry expenses?

Mr. MOSCOSO. $13,764.

Mr. PASSMAN. Contingencies?

Mr. MOSCOSO. None. This is the actual expenses.

Mr. PASSMAN. You have contingencies in this budget.

Mr. MOSCOSO. Yes. That was an estimate. The total is $207,501.

Mr. PASSMAN. How about sundry expenses?

Mr. MOSCOSO. We have the alternate U.S. Director of the Bank here.

Mr. PASSMAN. Let him tell us what it is. What was the amount of sundry expenses?

Mr. MOSCOSO. $13,764.

Mr. PASSMAN. That means the cost was about $64,000 more than the meeting the previous year.

How about the costs of the meeting for calendar 1963?

Mr. MOSCOSO. We have the estimate.

Mr. PASSMAN. What is the estimate?

Mr. ROSENSON. We do not have the actual yet.

Mr. PASSMAN. It was held in April of this year?

Mr. ROSENSON. Yes. I meant to say I do not have them with me. We have them.

Mr. PASSMAN. What is the estimate?

Mr. MOSCOSO. I have it here, sir. $112,000 for travel.

Mr. PASSMAN. Give us the total.

Mr. MOSCOSO. $222,000 total.

Mr. PASSMAN. So, it is going up every year, is it not? Bring us a breakdown, if you will. We want a list of the sundry expenses for all 3 years, because that item could cover a multitude of things. I do not see how you could spend that much money for such a meeting, but they say these things are the tools of the trade.

DIVERSION OF BARTER GRAIN TO AUSTRIA

Gentlemen, I am getting a lot of letters wanting to know about the disappearance of a certain amount of feed grain that was intended for Austria. I suppose you people are receiving inquiries, too. It is not a matter that this committee should go into, other than we asked for information, and it was forthcoming, with an attachment. It would appear several Austrian importers have been arrested. I do not know whether they have been tried.

Since this is a Department of State release from the Agency for International Development, I shall insert it in the record. Will you identify this release as being your publication?

Mr. SCHEINMAN. Yes, sir. We provided that for the information of yourself and the committee. We thank you for inserting it, sir. If you or the gentleman from Florida wish any other information on the subject, we will be happy to provide it.

The interesting thing about that transaction was that the United States received payment in full.

Mr. PASSMAN. I want to put your complete answer in the record. I think it is only fair to you that it should go in the record because the United States, according to this statement, has not been a loser on this deal.

(The press release referred to follows:)

DEPARTMENT OF STATE, AGENCY FOR INTERNATIONAL DEVELOPMENT—DIVERSION OF BARTER GRAIN TO UNAUTHORIZED SOURCES FROM AUSTRIA

In January 1962, an audit survey by FAS of barter grains shipped to Austria under title 3, Public Law 480, uncovered a discrepancy between the amount shipped from the United States and the amount received in Austria. Informal inquiries, both here and in Austria, substantiated the data which showed far less grain imported under the barter program than had been shipped from the United States.

A joint investigation was launched by the Offices of Inspector General in both State and Agriculture.

This investigation, conducted with the cooperation of the Austrian economic police and West German agricultural officials, has established that:

1. During fiscal years 1960 and 1961, the United States exported a total of 732,766 metric tons of barter feed grains (largely corn and barley) to Austria.

2. Austria imported 279,456 metric tons of these barter feed grains during this period.

3. Some 453,310 metric tons of barter feed grains were either diverted to other countries or entered Austria under other designation than barter feed grains.

4. Earlier this year, the Austrian authorities, acting on evidence developed in the cooperative investigation, arrested a number of Austrian importers. The charges fell into two categories: Either the firm had imported U.S. barter grain under false papers as grain from other countries in order to obtain higher prices, or they had diverted the grain to West Germany.

(*a*) One Austrian firm admitted they had acted as a dummy for a West German firm in order to obtain the grain under barter arrangements for subsequent sale in West Germany. Thus far these firms have admitted diverting 193,280 tons of the barter grain shipped during 1961 and 1962. Examination of records is going forward to establish whether the balance, some 260,000 tons, also was diverted in this manner by the same firms or by others.

(*b*) No evidence has been uncovered to indicate the diverted barter feed grains wound up in East bloc countries.

(*c*) There is no evidence at this time to indicate collusive action on the part of U.S. export firms.

5. During fiscal year 1963, some 200,000 tons of barter feed grains were shipped to Austria. Although there is no evidence currently that this grain also has been diverted, an investigation is being conducted to establish its final destination.

6. All the barter feed grain was exchanged for strategic materials. A review of the records in the General Services Administration has established that the total quantity of stratgeic materials for the bartered grain has been received as agreed in the contracts.

Once the investigation had clearly established that barter grain was being diverted, the U.S. Department of Agriculture suspended all barter contract shipments to Austria pending the resolution of this case. In addition, a review of all barter agreements has been launched, and procedural changes have been made in barter contract agreements to require importers to supply the USDA with copies of official import certificates from the receiving country.

FREE WORLD SHIPPING TO CUBA

Mr. GARY. Do I understand you also asked for a statement on this Rogers statement to go in the record?

Mr. PASSMAN. Such a statement was volunteered.

Mr. SCHEINMAN. Certainly, sir.

Mr. PASSMAN. What I asked for was verification of the number of ships, Russian and allied.

Mr. GARY. That is what I want. I want to see that in the record. I want the actual facts.

Mr. PASSMAN. Did I not request that information?

Mr. GARY. I am not disputing Mr. Rogers' figures, but I would like to see what figures they have on it.

Mr. PASSMAN. Did I request such information or not?

Mr. SCHEINMAN. I do not remember, Mr. Chairman.

Mr. PASSMAN. I think I asked you to give the committee a report as to the accuracy of the figures.

Mr. SCHEINMAN. With the committee's permission, may we also provide for your information a discussion of the nature of the shipping which is being discussed?

Mr. PASSMAN. You have full material on that matter coming to Mr. Rhodes. We are going to involve ourselves at this time only with the accuracy of the numbers of Russian ships and allied ships.

(Off the record.)

Mr. PASSMAN. As I say, gentlemen, it is serious business.

RESTRICTIONS ON U.S. ASSISTANCE TO THE ALLIANCE FOR PROGRESS

Will you comment concerning the desire of the Latin American countries for less strings on Alliance for Progress funds?

Mr. MOSCOSO. I would comment, Mr. Chairman, that it would be a natural desire on the part of anyone who is trying to get loans to see that the conditions are as lenient as possible, and against that vice you counterpose the virtue of not giving. That is what we continuously do in our negotiations.

Mr. PASSMAN. What is the administration's view on this matter?

Mr. MOSCOSO. There are very substantial strings, Mr. Chairman. To give you an instance, the ——— case is a good one in point, where we have established that in order for us to disburse on our loan to ——— they must show on a quarterly basis—and we have to look into the books to see that their figures are correct—a current account surplus on Government revenues, to be sure that the funds are going to be available to finance the proportion of the cost of development that they have indicated they would have available. We go through this exercise every quarter, checking on the amounts they have agreed to. Through the last quarter, they estimated 155 million———

Mr. PASSMAN. Do you mean their income?

Mr. MOSCOSO. That is right.

ASSISTANCE TO ARGENTINA

Mr. PASSMAN. How much money did you give Argentina in 1963?

Mr. MOSCOSO. Grant or loans?

Mr. PASSMAN. Total, but keep the Export-Import Bank out at this point. The rest of it is a giveaway, including Public Law 480, of course.

Mr. MOSCOSO. From all sources?

Mr. PASSMAN. Yes, sir; with the exception of the Export-Import Bank.

Mr. MOSCOSO. You want all of the assistance up to now, or in the year 1963?

Mr. PASSMAN. Give it to us up to now, total.

Mr. MOSCOSO. $703.9 million.

Mr. PASSMAN. How much was the aid for fiscal 1963?

Mr. MOSCOSO. For fiscal 1963, this has the Export-Import Bank component. Let me take it out. One hundred and eight million dollars.

Mr. PASSMAN. You asked for $103.8 million, but you gave them $108 million. It just shows you, even if the actual collections are only 50 percent of the estimates, it does not mean we make any downward adjustment in the foreign aid.

Mr. MOSCOSO. The $108 million includes $30 million from the Social Progress Trust Funds.

Mr. PASSMAN. It is still American money, is it not?

Mr. Moscoso. Yes, sir, but it was not included in the estimate that we gave you last year.

Mr. PASSMAN. This thing is scattered everywhere.

PENDING LOAN APPLICATIONS FROM LATIN AMERICA

Could you insert for the record a list of loan applications pending for Latin America as of July 1, 1963?

Mr. Moscoso. We have it, Mr. Chairman, and will be glad to put it in the record.

(The information requested may be found in the appendix, p. 2728.)

ALLIANCE FOR PROGRESS OBLIGATIONS AND UNOBLIGATED BALANCES, 1963

Mr. PASSMAN. How much money did you obligate for development credits in fiscal year 1963 for the Alliance for Progress applications?

Mr. Moscoso. $333 million.

Mr. PASSMAN. We have established that the total amount on hand is close to $2 billion for all phases of Latin American aid. How much did you have on June 30 unobligated from previous years, the Alliance for Progress devlopment credits?

Mr. Moscoso. $90,850,000, total.

Mr. PASSMAN. Unobligated as of June 30, 1963?

Mr. Moscoso. That's right.

Mr. PASSMAN. How much have you disbursed out of the total funds through June 30, fiscal year 1963?

Mr. Moscoso. $166,046,000. That is fiscal year 1963.

Mr. PASSMAN. That is when you received your first appropriation for the Alliance of Progress?

Mr. Moscoso. That's right.

Mr. PASSMAN. What was that total?

Mr. Moscoso. $166,046,000.

Mr. PASSMAN. That is the total, is that correct?

Mr. Moscoso. That's right.

Mr. PASSMAN. Is that the total grants and credits?

Mr. Moscoso. This is the credits.

Mr. PASSMAN. How about the outright grants?

Mr. Moscoso. $85,632,000.

Mr. PASSMAN. Then the total amount unliquidated, undisbursed in the Alliance for Progress at June 30?

Mr. Moscoso. $498,814,000. That is the credits part of it; $119,-789,000 in grants.

Mr. PASSMAN. How could you ever get about $800 million out of $525 million?

Mr. Moscoso. This includes loans which were made before the Alliance for Progress.

Mr. PASSMAN. I asked specifically about the Alliance for Progress. Now let us go back and do it all over again.

Mr. Moscoso. We have the obligations, but we don't have the expenditures made against those specific funds that were appropriated for the Alliance for Progress.

Mr. PASSMAN. You have a lot of books downtown. The comptroller is present. Can you help us out of this, Mr. Tennant? How much did you have allocated to the Alliance for Progress Fund last year? Was it $525 million?

Mr. TENNANT. We had appropriated development loans, $425 million. There was a transfer out of that—do you want the total obligated against that?

Mr. PASSMAN. We want the total amount appropriated to the Alliance for Progress during fiscal year 1963.

Mr. TENNANT. If we include loans, grants——

Mr. PASSMAN. Alliance for Progress, regardless of what it is for.

Mr. TENNANT. There was some supporting assistance money; there was some carryover——

Mr. PASSMAN. We do not care what it is for. The Alliance for Progress came in under an entirely new caption, a new name, last year; did it not?

Mr. TENNANT. If you are just talking about those two items, sir, it is $420,665,000.

Mr. PASSMAN. Is that the amount that you asked for last year?

Mr. MOSCOSO. We asked for $600 million, but we got $525 million.

Mr. PASSMAN. You asked for $600 million?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. You received $525 million?

Mr. MOSCOSO. $525 million. $425 million for credits and $100——

Mr. PASSMAN. You asked for $600 million and received $525 million? What amount do you have unobligated as of June 30 for the Alliance for Progress?

Mr. MOSCOSO. $95 million.

Mr. PASSMAN. You got $75 million less than you requested?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. You had $95 million unobligated as of June 30.

How much have you disbursed out of your fiscal year 1963 allocation?

Mr. MOSCOSO. We will be glad to supply it for the record, Mr. Chairman.

Mr. PASSMAN. Have you disbursed any money out of your fiscal year 1963 allocations?

Mr. MOSCOSO. We have, but we haven't the figure here.

Mr. PASSMAN. Would you call downtown and get that information?

This $95 million that is unobligated, we would like to have that item broken down showing what would be for development credits and outright grants.

(The information requested follows:)

Fiscal year 1963 disbursements against fiscal year 1963 funds for the Alliance for Progress were:

Loans	$53, 514, 264
Grants	30, 588, 024
Total	84, 102, 288

The unobligated balance as of June 30, 1963, for the Alliance for Progress was:

Loans	$90, 815, 000
Grants	4, 245, 398
Total	95, 060, 398

Mr. PASSMAN. Even after cutting the request last year, we still left you very, very much overfunded, and that fact is holding true in practically every account we examine this year.

Do not forget those expense accounts. We want to know a little bit more about sundry expenses.

Mr. MOSCOSO. Yes, sir.

Mr. FORD. Mr. Chairman, could I take a minute or two to follow up on the line of questioning you were just pursuing about the Alliance for Progress?

Mr. PASSMAN. Certainly.

FISCAL YEAR 1963 BUDGET REQUEST COMPARED WITH ACTUAL LOAN OBLIGATIONS

Mr. FORD. Turn to page 11, if you would, please, Mr. Secretary, in the grey book. Under the "Alliance for Progress," the loan request this year for fiscal year 1963, is how much? How much are you asking for?

Mr. MOSCOSO. $550 million is a new appropriation and $52 million is from last year's unobligated funds.

Mr. FORD. You are asking for the reappropriation of $50 million?

Mr. MOSCOSO. A total of $602 million.

Mr. PASSMAN. It is $52 million in reappropriations.

Mr. MOSCOSO. That's right; carryover.

Mr. FORD. Let's go back to 1963. In 1963, what was the amount you requested in new obligational authority in this category?

Mr. MOSCOSO. We requested $500 million.

Mr. PASSMAN. It was $600 million.

Mr. MOSCOSO. $600 million, but $100 million was grants.

Mr. FORD. I am only asking for those figures under the column there, "Alliance for Progress—Loans." What did you request?

Mr. MOSCOSO. $500 million.

Mr. FORD. That was at the time of the authorization?

Mr. MOSCOSO. At the time of the authorization.

Mr. FORD. What did the authorizing committee give you?

Mr. MOSCOSO. They authorized $500 million.

Mr. FORD. What was appropriated?

Mr. MOSCOSO. $425 million.

Mr. FORD. Did you get any reappropriation of fiscal year 1963?

Mr. MOSCOSO. No.

Mr. FORD. So you had $425 million made available in new obligational authority in fiscal year 1963?

Mr. MOSCOSO. That's right.

Mr. FORD. What did you actually obligate in fiscal year 1963?

Mr. MOSCOSO. $333 million.

Mr. FORD. We are limiting it to this account. What was the figure again?

Mr. MOSCOSO. $333.8 million.

Mr. FORD. And you have unobligated how much?

Mr. MOSCOSO. $90.85 million.

Mr. FORD. Whatever the accurate figure is, put it in the record.

Mr. MOSCOSO. It is $90.815 million.

Mr. FORD. You ended up carrying out a program of $333.8 million, against an initial request of $500 million?

Mr. MOSCOSO. That's right.

Mr. FORD. You were cut in the appropriation by $75 million. Even with that reduction, you didn't reach the figure that was actually

made available. Now, how valid was your request last year, and how much validity is there to your request this year? If you go on the basis of last year's record, we ought to reduce this program substantially.

Mr. Moscoso. The validity of the request depends on the assessment we made at that time of what the political situation was going to be which was going to permit us to make all of the loans that we estimated we could make. Unfortunately man proposes and God disposes. In the case of Brazil, for instance, we were not able to reach the stage of political stability and particularly financial stability which would permit all of the lending that we estimated could be fruitfully made in Brazil in order to assist them in their economic development.

Mr. FORD. Don't get me wrong. I don't want you to make these loans unless they are valid. But I am interested in why we should have any more faith this year than last?

FACTORS INVOLVED IN PROGRAM LEVELS

Mr. Moscoso. Mr. Congressman, I am presenting the best possible estimate that I can make to you. There are so many factors involved. On the other hand, I would hate to be unable to take the opportunity of assisting a country in its development program if and when it reached a point of stabilization and the degree of political maturity which would permit us then to make the necessary loans.

Another thing that has happened, Mr. Congressman, is that we have held back in some of our loans because the reforms have not been made. I think it would have been somewhat more difficult to attain some of those reforms if the funds had not been available. I must say, we did not get the reforms in every instance, but if the reforms had been made, we should have had the money available in order to make the funds available to these countries.

Mr. FORD. You barely executed three-fifths of the program you said you were going to execute.

Mr. Moscoso. That's right, sir.

Mr. FORD. It would be about 60 percent.

Mr. Moscoso. A little bit more than 60 percent, but in the commencement of a program of this kind, you must agree with me that you take some time to gain a certain degree of momentum. Another thing is that there was a certain amount of incredulousness on the part of the Latin American countries as to whether or not these funds were going to be available, and therefore not sufficient planning on project development had gone on.

Mr. FORD. Do you think you represented a good program last year?

Mr. Moscoso. I think we did.

Mr. FORD. You had the right criteria?

Mr. Moscoso. Yes. We perhaps were a little tougher—obviously tougher than the Latin Americans would want it.

Mr. FORD. Not tougher than the Americans wanted you to be.

Mr. Moscoso. I think we could have gotten support of American opinion on it that we were holding the Latin Americans——

Mr. FORD. You are not going to change your forecast for fiscal year 1963, not a bit.

Mr. Moscoso. It is hard for me, as a beginner, to understand that if we exercise the utmost degree of proper prudency and perhaps go over on the side of being a little conservative in applying those criteria, that we shouldn't be trusted in doing the same thing in the next year. I would much rather come here and say to the chairman and to the members of the committee, "We haven't been able to obligate these funds because these people have not performed and because they don't merit it, than to reach a point in which a country gets some political and economic stability and we are able to help them and then we must say, "Well, we can't do anything because we don't have the funds."

DEVELOPMENT LENDING PROGRAM TO BRAZIL TIED TO PERFORMANCE

May I add one item here, Mr. Chairman and Mr. Congressman? We have estimated that we could fruitfully lend in Brazil this coming year, if we get the funds, from $——— to $———. In other words, Brazil with all of the funds it will get from other sources, and this kind of development lending, would be able to reach a point of growth which could be called halfway satisfactory. Now, if Brazil does not perform, we may probably wind up this year not with the $———, but with an amount not too far away from the $37 million of development lending we did this past year.

Mr. Ford. From what I read in the papers over this past weekend, the likelihood is that you are not going to go through with this plan. Certainly there is no evidence or there is barely evidence that they are going to carry through with the program that was worked out for fiscal responsibility.

Mr. Moscoso. I am very happy that the item in the newspapers appeared, even though it isn't exactly correct, because there is no other information to the effect that some of the things they indicate would be done and that we hoped would be done are being done and further self-help is planned. The new Minister of Finance, Mr. Carvalho Pinto, is just as good an administrator and just as good a fiscal man as Mr. Dantas. Therefore, if we did not have the funds ready to be able to do the development at the appropriate time in the case of Brazil we would be losing a very fine opportunity: first, to get Brazil moving on a real development program; and, secondly, to assure ourselves of Brazil's remaining a close friend and ally of the United States, and not having some disruptive forces take over in that country.

You are all aware of the difficulties that the political picture of Brazil is beset with. And you are also aware of the fact that substantial subversion can very easily gain a foothold there. I don't know whether you saw the television program last night on the North East situation, but it is really explosive. I think we have to be ready to deal with situations like that at the appropriate time, but I think that this record, in fiscal year 1963, should assure you that we are going to be prudent in this lending and we are not going to put our money into Brazil unless it is going to do Brazil and ourselves some good.

Mr. Ford. I agree that you are—your actions of the past year would indicate prudence, but I am sure there have been pressures on you because of the availability of this obligational authority which

might have clouded your judgment, and I don't want you to be put to that kind of temptation.

Mr. MOSCOSO. I can resist that temptation anytime.

PYRAMIDING OF UNLIQUIDATED FUNDS

Mr. PASSMAN. There has been a tendency in recent years to pyramid unobligated funds, and Latin America would go something like this: June 30, 1962, you had unliquidated, $503 million. That was the estimate you gave us last year. Now, if we move to fiscal year 1963, 1 year later, you had unliquidated $1,148,466,000.

Mr. FORD. These are unexpended funds?

Mr. PASSMAN. Yes. Now, if we take the aggregate, all totals—let me be fair, there is one small item included in the grand total of local currencies contributed to, I think, the Inter-American Bank—here is what we run into: We are dealing with Latin America. In fiscal year 1963, as of June 30, 1962, the grand total unliquidated was $1,378,250,000, but on June 30, 1963, that figure had gone up to $2,063,266,000. So if you will take the unliquidated money under this one year and the other, and then take the total amount, it looks to me as if you are pyramiding funds.

ROCAP FISCAL YEAR 1963 OBLIGATIONS COMPARED WITH REQUEST

At page 12 of the justifications, you indicated you programed $6,100,000 for development grants and $4 million in development credits to the regional office of Central American and Panama, ROCAP, in fiscal year 1963. How much did you request of Congress, and justify for this purpose last year?

Mr. MOSCOSO. $4.5 million in grants, sir.

Mr. PASSMAN. But you obligated $10.1 million, did you not?

Mr. MOSCOSO. Yes, but you will recall——

Mr. PASSMAN. Did you obligate $10.1 million?

Mr. MOSCOSO. $6.1 million we obligated.

Mr. PASSMAN. Is that the sum in credits?

Mr. MOSCOSO. No, this is grants, Mr. Chairman.

Mr. PASSMAN. What was the total?

Mr. MOSCOSO. We obligated $6.1 in grants and $4 million in credits.

Mr. PASSMAN. That is $10,100,000. What was the total amount you requested in fiscal year 1963?

Mr. MOSCOSO. We requested $4.5 million in grants——

Mr. PASSMAN. The total, please?

Mr. MOSCOSO. This was worked out in a footnote which says "Development lending contemplated: Projects will be considered." We had an asterisk to indicate——

Mr. PASSMAN. You obligated more than you justified to the committee. We recognize this is an illustrative program. You have the right to do it. We are just showing what the facts are.

How much assistance have the European nations extended on a grant and loan basis to Latin America since the Act of Bogotá. Do you have the total?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. How much, please, sir?

Mr. Moscoso. For 1960——

Mr. PASSMAN. The total, please?

Mr. Moscoso. $139——

Mr. PASSMAN. Will you give us the total?

Mr. Moscoso. $139.9 million.

For 1961 and 1962; $219.2 million and $285.7 million, respectively.

Mr. PASSMAN. I will ask the question again: Will you give the total since the enactment of the Act of Bogotá?

Mr. Moscoso. We will try to get it for the record, but I doubt if we can get it, Mr. Chairman——

Mr. PASSMAN. If those figures you just gave us are accurate, all you have to do is start adding.

Mr. Moscoso. We can do it very quickly; $645 million.

Mr. PASSMAN. What are the terms on these loans?

Mr. Moscoso. We have the information on some of the loans.

Mr. PASSMAN. Mr. Comptroller, can you get us a recapitulation sheet on these loans, by country, the amount and the terms and interest?

Mr. Moscoso. We can give it to you.

Mr. PASSMAN. Do you have it available, now?

Canada has 7- to 14-year loans at 6 percent. You have another one, 15 years, 6-percent interest. This is worldwide you are giving us here. You have Belgium. This is total to Algeria by France—this won't get the job done.

This is to India.

Mr. Moscoso. May we verify the accuracy of the information, sir?

Mr. PASSMAN. They are your figures.

Mr. Moscoso. I have the Latin America figures here.

This is assistance to Latin America by Development Assistance Committee (DAC) countries.

Mr. PASSMAN. This does not give us the information.

Can you, Mr. Comptroller, give us a spread on the consortium, or the equivalent, the same as you have on India, Pakistan, and the others? Is it available for Latin America?

Mr. TENNANT. This is on the basis of——

Mr. PASSMAN. You were giving us worldwide figures before, were you not?

Mr. Moscoso. You will note on the first page it is Latin America. There are some interest rates.

Mr. PASSMAN. Let us just take up the first one on here, if we may. Then, if you will, try to give us as comprehensive a sheet as you can.

Let us take France. On March 28, France to Mexico, $150 million credit, primarily for the petrochemical industry.

On March 28, 1960, it was announced France agreed to provide Mexico a $150 million credit as follows:

Fifty million dollars for use outside France.

Thirty million dollars for government-to-government loans at 3 percent.

Twenty million dollars in supply credits; and $100 million for use only in France in the form of export credit guarantees.

Credit for 12 years at market rates of interest.

The French-Mengan Commission will soon begin a series of meetings to determine the projects to be supported.

This is nothing unusual, at all. You know that European nations have been making these kinds of loans. This should not be used to try to justify what we are doing.

Mr. Moscoso. There is $15 million——

Mr. PASSMAN. It is at 3 percent, but there is $30 million for government-to-government loans; $20 million will be spent outside France $100 million in the form of export credit guarantees only in France. There is no concession there.

Mr. Moscoso. We do not include that figure on the first page.

Mr. PASSMAN. I do not know what you include. You have given us this information as something official.

We made Mexico one credit signed June 30, 1963: $20 million dollars, 40 years, no interest, three-quarters of 1 percent service charge.

Mr. Moscoso. This was for the——

Mr. PASSMAN. It does not make any difference what it is for. I am contrasting the difference between the way wealthy France is doing business and the way our Government is doing business.

Mr. Moscoso. We have made innumerable loans, much more than France has, on those supplier credit terms.

Mr. PASSMAN. Data on assistance by countries other than the United States is quite limited.

The countries frequently conflict in their information. They indicate lending commitments showing 1- to 5-year loans.

If this information is not reliable, should it go in the record?

M. Moscoso. That is the best we have.

Mr. PASSMAN. But it is limited, and incomplete?

Mr. Moscoso. That's right.

Mr. PASSMAN. Thank you.

Mr. Moscoso. I suggest it is important for what purpose a loan is made. If you are making a loan for machinery and equipment for an industrial purpose, the payout period is a very short one, whereas when you are dealing with such a thing as an agricultural credit——

Mr. PASSMAN. That is about the only kind France and Germany are making. We are in with the giveaway part and they are in with the good loans.

Mr. Moscoso. They are starting to make some soft loans. I think that a 3-percent loan is coming close to——

Mr. PASSMAN. We hope it materializes. It has not done so yet. It would be the exception if it does.

(Information subsequently supplied follows:)

TERMS OF DAC COUNTRY ASSISTANCE TO LATIN AMERICA

Official assistance disbursements to Latin America by DAC countries other than the United States amounted to more than $270 million in calendar year 1962. Nearly 50 percent of this amount represented grant disbursements. Information on these loans is incomplete. Some of the loans were for 1–5 years made at interest rates as high as 7½ percent. Others have maturities of up to 15 years at interest rates of from 4 to 6 percent. In a few cases, loans were made at 3-percent interest with a maturity of 25 years.

In 1961 the Federal Republic of Germany made a 10-year loan at $2 million to the Bolivian nationalized mines (COMIBOL) at 4-percent interest with 3 years grace. This loan was part of the first phase of the "Triangular Operation" of the United States, the Federal Republic of Germany, and the Inter-American Development Bank to put the operation of the mines on a profitable basis. It is anticipated that the terms of the German loan of $4.6 million made in 1963 as part of the second phase of the "Triangular Operation" will be the same as those for the second-phase IDB loan—15 years, 3 years grace, and 4-percent interest.

On March 28, 1963, it was officially announced that France had agreed to provide Mexico with a $150 million credit as follows: (1) $50 million for use outside France—$30 million for a government-to-government loan at 3-percent interest and $20 million in suppliers credits; and (2) $100 million for use only in France in the form of export credit guarantees—credit for 12 years at market rate of interest. It is expected that the majority of credits will go to PEMEX in support of the petrochemical industry.

AMERICAN UNIVERSITIES IN LATIN AMERICAN TECHNICAL ASSISTANCE PROGRAM

Mr. PASSMAN. What are the names of the 24 major universities, and what is the amount of the contract for each, which are providing technical assistance under the grant program in this area, Mr. Administrator?

Mr. Moscoso. The universities that are assisting us in Latin America and the universities that they are in turn assisting——

Mr. PASSMAN. If you will just answer my question, that is all I want.

Mr. Moscoso. Columbia University, University of Chicago, Stanford, Penn. State, Texas A. & M., Cal. Tech, Bucknell, Southern California, Michigan State, California, University of Michigan, Purdue, University of Wisconsin, Ohio State.

Chicago has two contracts.

Colorado State, Louisiana State.

Mr. PASSMAN. I asked for information on 24 of them. Put the remainder in the record, please.

Give us the amount of each contract. Can you do that?

Mr. Moscoso. I can give this for the record, Mr. Chairman. This has the amounts of the contract and all the information.

Mr. PASSMAN. All we want is the tabulation.

(The information supplied follows:)

UNIVERSITY CONTRACTS IN LATIN AMERICA

The listing of university contracts which follows includes those in operation as of July 31, 1963.

Current university contracts

	Obligation	Period	Activity
Argentina:			
Columbia University	364,000	November 1960 to September 1963.	Business administration.
University of Chicago	446,000	July 1962 to March 1965	Economics.
Bucknell University	220,000	July 1963 to June 1965	Engineering.
Brazil:			
Southern California	1,663,000	November 1959 to May 1965	Public administration.
Michigan State	1,278,000	November 1954 to September 1964.	Business administration.
Do	1,522,000	June 1953 to August 1964	Do.
University of California	445,000	February 1962 to January 1965.	Community development.
University of Michigan	477,000	December 1962 to December 1964.	Engineering.
Do	233,000	May 1958 to August 1963	Do.
Michigan State	535,000	August 1960 to July 1964	Education.
Purdue	2,003,000	July 1958 to June 1965	Agriculture.
Chile:			
University of Chicago	801,000	March 1956 to June 1964	Economics.
University of Pittsburgh	699,000	July 1959 to July 1964	Engineering.
Cornell University	313,000	October 1959 to June 1964	Industrial relations.
Colombia:			
Syracuse University	206,000	February 1962 to December 1964.	Business administration.
University of Minnesota	281,000	June 1963 to July 1966	Economics.
Tulane University	409,000	December 1955 to September 1963.	Medicine.
Catholic University of America.	105,000	August 1962 to August 1965	Nursing.
Costa Rica: Louisiana State University.	295,000	do	Medicine.
Dominican Republic: University of Michigan.	325,000	June 1963 to November 1965	Economics.
Ecuador:			
University of Houston	728,000	September 1960 to April 1965	Engineering, science, economics.
University of Pittsburgh	1,071,000	February 1963 to December 1965.	Reorganization and improvement of a major part of central university.
St. Louis University	398,000	do	Education—science and mathematics.
Guatemala: Michigan State	610,000	May 1962 to June 1965	Education.
Panama: University of Tennessee.	1,256,000	September 1955 to July 1965	Public administration, agriculture, engineering.
Paraguay: University of Buffalo.	592,000	November 1956 to March 1965.	Medicine and nursing.
Peru:			
North Carolina State	1,666,000	January 1961 to June 1965	Agriculture.
Iowa State	790,000	October 1962 to August 1965	Do.
Stanford University	549,000	May 1962 to July 1966	Business administration.
Stanford Research Institute.	854,000	May 1963 to December 1965	Industrial development in southern Peru.
Teachers College of Columbia University.	1,187,000	April 1963 to March 1966	Overall educational reform (country wide).
Uruguay: Iowa State	1,055,000	November 1962 to September 1965.	Agriculture.
Latin American regional:			
University of Puerto Rico	275,000	August 1962 to August 1965	Public administration training.
Do	863,000	June 1954 to June 1965	Medical training.
Massachusetts Institute of Technology.	500,000	May 1963 to May 1965	Engineering and education.
Harvard University	207,000	June 1963 to June 1965	Business leadership training (Central America).
Johns Hopkins University	53,000	December 1962 to December 1964.	Public health.
Monterrey Institute of Technology.	634,000	July 1959 to June 1964	Multidisciplinary training.
Geneseo, N.Y.	232,000	July 1959 to June 1964	Educational training.
Pennsylvania State	374,000	September 1962 to September 1964.	Do.
Akron University	90,000	October 1962 to September 1964.	Do.
University of Wisconsin	186,000	September 1962 to June 1965	Do.
Do	1,250,000	May 1962 to May 1965	Agriculture.

CONTINUANCE OF AID PROGRAMS AFTER OVERTHROW OF GOVERNMENT

The purpose of the program is to bring stability, help the individual as well as the governments. How many countries have had political upheaval since the Act of Bogotá, in Latin America; assassinated leaders or overthrown governments?

Mr. Moscoso. Argentina, Peru, Ecuador, Guatemala.

Mr. PASSMAN. Are they just playing in the Dominican Republic?

Mr. Moscoso. The Dominican Republic. That's right. This was after the Act of Bogotá.

Mr. PASSMAN. How many of these countries have we discontinued aid to since Bogotá?

Do you have an AID program in each of these countries?

Mr. Moscoso. In each one of these countries we have an AID program.

Mr. PASSMAN. Presently going on?

Mr. Moscoso. Presently going; yes, sir.

In the case of Argentina, Peru, and Ecuador, the amount of lending has been minimal.

Mr. PASSMAN. You still have an AID program going, and you are receiving applications from them presently for fiscal year 1964, are you not?

Mr. Moscoso. That's right.

Mr. PASSMAN. Overthrowing a government and killing a president does not stop the aid program. It may suspend it for a few hours.

Mr. Moscoso. The amount of lending is substantially less than we had programed in most of these countries, and in the case of Peru, for instance, we did not make any loans.

Mr. PASSSMAN. The AID programs are going and you have applications pending for the program in fiscal year 1963?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. How do you reconcile the last paragraph on page 16, which justifies a request for funds, with the President's reduction of the estimate by $50 million? I stated earlier the Congress reduced the appropriation last year by $1,032,400,000. We were subjected to much criticism. Yet you finished the year with $515 million unobligated, including the revolving fund, and I suppose there is about $100 million there.

On page 16 it says:

> It is vital that funds in the amount requested be made available.

And yet in this one category, there has been a $50 million reduction.

ESTIMATED FISCAL YEAR 1964 CASH TRANSACTIONS FOR LATIN AMERICA

Page 31 of the project book indicates you are requesting $11 million for cash transactions in your area.

What countries are programed to receive this type of financial aid?

Mr. Moscoso. Of the $11 million $——— is for Bolivia and $——— for the Dominican Republic.

Mr. PASSMAN. That money is actually budgetary support, is it not?

Mr. Moscoso. Yes, sir.

PROPOSED PROGRAM FOR BOLIVIA

Mr. PASSMAN. You figure from $——— to $——— in the development credit category in Bolivia. On top of that amount, you want budgetary support. With all the aid we put into Bolivia their budget deficit for fiscal year 1962 dropped $1.1 million.

I believe the Export-Import Bank said that they would not consider Bolivia a good credit risk, based upon their record with Bolivia. We are pouring it in through this disguised grant business. It could go up to $———.

Mr. MOSCOSO. I think in the case of the Export-Import Bank, the chances of a change in policy toward Bolivia is very good.

Mr. PASSMAN. I hope the Export-Import Bank does not get to the point that it is as liberal in this operation as the others.

Mr. MOSCOSO. In the case of the World Bank they are at the moment considering favorably a major undertaking in Bolivia.

PROPOSED PROGRAM FOR DOMINICAN REPUBLIC

Mr. PASSMAN. Let us consider the Dominican Republic. They have a favorable trade balance of $35 million. Their gold reserves are climbing. Ours are still declining. Yet we are giving them budgetary support.

Mr. MOSCOSO. The picture for the next year in the case of the Dominican Republic does not look so good.

Mr. PASSMAN. Did I state that correctly—they have a favorable trade balance and their gold reserves are increasing?

Anyway, are you going to have another look at the situation to see if they need budgetary support?

Mr. MOSCOSO. We will look at it. We believe that the sugar picture is going to change considerably the picture in the Dominican Republic in the next year.

NUMBER OF TECHNICIANS PROPOSED FOR LATIN AMERICA

Mr. PASSMAN. Page 31 of the justifications indicates you propose a drop of 162 in the number of U.S. technicians as compared to your 1962 program. However, I note that your contract technicians are increasing from 167 in fiscal year 1962 to 592 in fiscal year 1964. Since we have had testimony from other area directors who have stated the contract technicians usually are more expensive than U.S. technicians, will you explain why you are increasing the number?

Mr. MOSCOSO. I do not exactly agree that the contract technicians necessarily have to be more expensive than the direct-hire technicians, particularly when you look at it over a period of time.

One of the advantages of the contract technicians——

Mr. PASSMAN. Off the record.

(Off the record.)

Mr. PASSMAN. Thank you.

Page 12 of the justifications indicates that your fiscal year 1963 development credit program was estimated to be $400 million. However, page 33 of the project book indicates that through February 28 you had approved only $208.7 million in development credit projects. Is that correct?

Mr. Moscoso. That is right.

Mr. PASSMAN. Would you furnish for the record a list of the development credits that you have made since February 28 through June 30, 1963, by country, including the purpose of the credit and credit terms?

Mr. Moscoso. We will do that.

(The information follows:)

AID development loans to Latin America (Feb. 28–June 30, 1963)

Country	Amount authorized, millions	Purpose	Terms		
			Interest rate, percent	Duration, years	Grace period, years
Argentina	$3.0	Feasibility studies	¾	40	10
	21.7	Farm/country elevator grain storage.	¾ (5¾)	40(15)	10(5)
	2.0	Self-held housing	¾ (2)	40(30)	10(2)
Bolivia	7.2	Improvement of construction of access roads.	¾	40	10
	3.9	La Paz-El Alto Highway	¾	40	10
	2.2	Customs warehouse	¾	40	10
Brazil	15.5	Santa Cruz thermal power	¾ (5¾)	40(20)	10(3)
	11.0	Combined highway program	¾	40	10
	1.5	Highway feasibility studies	¾	40	10
Colombia	4.0	Feasibility studies	¾	40	10
	7.5	Self-help housing	¾	40	10
	10.0	Supervised agricultural credit	¾ (2)	40(25)	10(10)
	3.7	Cali sewerage	¾ (3½)	40(30)	10(5)
	2.0	Minerals survey	¾	40	10
Costa Rica	5.0	Supervised agricultural credit	¾ (3¼)	40(20)	10
	2.0	INVU slum clearance	¾	40	10
	1.5	ICE-Cachi hydroelectric	¾	40	
	2.1	IBRD/AID highway	¾	40	
El Salvador	8.9	Agricultural loan program	¾	40	10
	2.4	School construction	¾	40	
	4.5	INSAFI Development Bank	¾	40	10
Nicaragua	1.0	Managua Airport	¾	40	10
Central American Bank for Economic Integration.	2.5	Feasibility studies	¾	40	10
Total	125.1				

IAPSP Loans

Country	Amount authorized, millions	Purpose	Terms		
			Interest rate, percent	Duration, years	Grace period
Ecuador	$1.6	Administrative and fiscal reforms.	¾	40	(1)
Guatemala	.7	American school	¾(2)	40(30)	10
Honduras	1.05	Rural water supply	¾	40	(2)
Jamaica	1.7	Low-cost housing	[3] 2	30	
Total	5.1				
Total IAPSP and AID funds.	130.2				

[1] Amortization shall be at the reduced rate of $16,000 per annum during a period of not to exceed 10 years from date of first disbursement.
[2] Amortization shall be at the reduced rate of $1,000 per annum during the 5-year period following the date of first disbursement and $9,000 per annum during the next 5 years.
[3] Amortization shall be at the reduced rate of 1 percent of the principal per annum during a period of not to exceed 10 years after date of first disbursement.

Mr. PASSMAN. Gentlemen, before we get into the country-by-country justifications, beginning with Argentina, do you have any more general questions?

Mr. GARY. I think it has been covered very, very fully.

IMPROVEMENTS IN LATIN AMERICA RESULTING FROM THE ALLIANCE

Mr. NATCHER. Mr. Ambassador, generally speaking, is there improvement in Latin America as a result of this program?

Mr. MOSCOSO. I think that we are starting to notice some improvement, Mr. Congressman. In the past year, two countries have gotten back to a representative form of government, a constitutional form of government—Argentina and Peru. Even in those countries where a military junta has taken over, like in the case of Guatamala and Ecuador, we have been assured that elections will be held shortly.

I believe that politically there has been a substantial betterment. The Alliance for Progress is beginning to take hold in the minds of most of the Latin American people. We have evidence from polls which are taken periodically by private firms. It is extremely interesting to notice how more people are understanding what the Alliance is all about, that it is not a U.S. aid program, that it is a multilateral effort in which the countries themselves have to provide the bulk of the effort. There is more dialog taking place in the public press about the Alliance. Elections are being run on the basis of backing or not backing the Alliance. In the recent election in Peru, the three candidates were in favor of the Alliance for Progress. I believe that undoubtedly it is an indication of some progress being made.

Of course, against that we have to weigh the fact that the Latin American countries are still primarily single commodity export countries. In some instances, they may export two commodities, or three at the most, and that is a great weakness in their economic armor.

The whole Alliance program revolves around the central fact we should assist the Latin Americans in redressing that situation, for many reasons, some of long standing and others because they are some of our best trading partners, and it behooves us to assist them in every possible way in redressing this weakness in their economies.

SELF-EXAMINATION OF WEAKNESSES BY LATIN AMERICANS

In the case of the group as a whole, we recently had meetings of three of the six committees of the Inter-American Economic and Social Council—and the three other committees will be meeting shortly—in San Jose, Costa Rica, to review past performance, and it is extremely enlightening to see the zeal of criticism of the countries with regard to their performance. They ask how many have done their homework insofar as tax reforms are concerned and land reform. They are particularly critical with regard to land reforms. Unfortunately, the other day I only had the Spanish versions. I wish we had the English versions so we could spell out some of the specific criticisms they make of each other with regard to tax and land reforms.

These committees examine the record and admit in many instances some of these programs have only been in operation for a very few months and have not had a chance really to get going and it takes quite a while for legislation to be approved and for legislation, after approval, to be implemented.

BUDGETARY SUPPORT TO LATIN AMERICAN COUNTRIES

Mr. GARY. I have here a release dated Tuesday, July 2, 1963, which says "Honduras Receives Budget Support Loan."

It seems a $2 million aid loan is being used chiefly to assist the Honduras Government in expanding educational services and for promoting agricultural and industrial development.

Now, can you tell me how many Latin American countries are receiving budget support loans?

Mr. MOSCOSO. As I mentioned, the Dominican Republic, Haiti, Ecuador, and Honduras are those receiving this type of support.

HONDURAS

In the case of Honduras that you mentioned, it is interesting to note the following:

We actually got the Hondurans to do something with regard to agrarian reform and their fiscal situation by telling them that unless they increased taxes it would be impossible for us to consider helping them.

Their agrarian reform law did not provide for judicial review and this would have made it impossible for some U.S. private firms to continue investments there.

As the chairman pointed out the other day, there is no use substituting Government money when private money is available to do the developmental job, and we wanted them to amend their law in order to make it possible to achieve judicial review so that private companies would feel secure in making the investment there. The investment would be from $20 to $40 million, which in a small country like Honduras will have quite an impact on their economy. They did

approve an amendment to the agrarian act to provide for judicial review. They approved an income tax reform which in a period of 3 or 4 years will supply them with funds pretty much equal to those we made available to them for budget support.

Mr. GARY. Do I understand when you say "budget support loan," you mean it is to help them take care of those particular items in their budget?

Mr. MOSCOSO. In their budget.

Mr. GARY. We are not trying to help these countries balance their budget?

Mr. MOSCOSO. We are helping them to take care of these particular items.

Mr. GARY. I cannot understand how we would go into any country trying to help them balance their budget when we have only balanced ours six times in the last 25 years.

How many countries do you say we are in like that?

Mr. MOSCOSO. Four countries.

Mr. GARY. In each case, was the budget support loan for a particular item in their budget?

Mr. MOSCOSO. For specific items—specific projects.

Mr. GARY. In their budget?

Mr. MOSCOSO. Except in the case of Bolivia and Ecuador, which are cases where we simply assist them in supporting their budget.

Mr. GARY. Why do we do that?

BOLIVIA

Mr. MOSCOSO. As you know, Mr. Chairman, this is a very old situation that we are dealing with in the case of Bolivia. These people had a revolution in the year 1952. Back in 1953 or so we agreed to assist these people with the problems they had. Their problems were brought about by the nationalization of their mines, by the very drastic agrarian reform they instituted. The people whose properties were nationalized were, as we would describe it today, oligarchs who paid no attention to the economic and social development of their country, who lived primarily in Europe out of the earnings of these miners, who had no feeling of social responsibility toward their workers. When the Bolivians took the properties away from them we agreed, back in 1952, to assist the Bolivians in rehabilitating their economy. This has been a long-drawn-out process.

I am not saying all of the things that have been done in the past years have been wise. I do not think all the things we are doing today are wise, but we are making a brave attempt to try to help the Bolivians "pull themselves up by their bootstraps" and get themselves on a self-supporting basis.

Mr. GARY. I suggest when you begin to help other nations balance their budget, we take a look at our own budget before we grant the loans.

Mr. PASSMAN. Bolivia is a country where we tried to create a show window about 11 years ago, to show what the aid could do? Was it not intended to be sort of a show window?

Mr. MOSCOSO. I am afraid I was not around.

Mr. PASSMAN. Let us get someone who can answer that question.

Is that your understanding, this was a show window of what the aid program could do?

Mr. STERNFELD. Yes, sir. It was felt the Government of Bolivia had just undergone a social revolution, and had had these major upheavals and it was an attempt to show that the actions the Government of Bolivia undertook could be successful.

Mr. PASSMAN. It was to be a show window to show what sufficient aid could do if properly utilized by a country?

Mr. STERNFELD. Correct.

Mr. PASSMAN. Our progress so far has been just about nil, or zero, has it not?

Mr. STERNFELD. No, sir. It has not been nil.

Mr. PASSMAN. The more aid you give them, the larger their deficit. They have gone from 1959, $15.6 million to $31 million in 1961, and it is $29.9 million in 1962, and we do not have the 1963 estimate. It certainly looks as if there has been very little progress made.

BUDGETARY SUPPORT AS CONTRIBUTING TO BALANCED BUDGETS

We have a deficit in our own budget and have had for practically the past 32 years with the exception of 5, and the more money that comes into the budget, regardless of the purpose, the smaller the deficit; do you agree to that?

Mr. STERNFELD. Yes.

Mr. PASSMAN. So it does not make any difference what you give a country budget more money for, it could be for firecrackers, it simply means the deficit would be greater without the budget grant or credit?

Mr. MOSCOSO. Or they would not undertake——

Mr. PASSMAN. If they have programs they are going to carry out, the more money we can put directly into their budget, regardless of the purpose, it should lower their budget deficit, would it not?

Mr. MOSCOSO. The effective result will be that.

Mr. PASSMAN. So it could just as easily be a contribution toward helping them balance their budget, could it not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. We are helping people balance their budgets, and in about five instances around the world we have succeeded in making contributions and they have wound up with a balanced budget, putting our budget more out of balance.

Mr. MOSCOSO. We have wound up with a nation still democratic and still on our side.

PUBLIC INFORMATION ON ALLIANCE PROGRAM

Mr. PASSMAN. Would you consider that enlightened individuals are running the governments in Latin America, and that they are knowledgeable, sufficiently educated in the field of government so they recognize what we are trying to do?

Mr. MOSCOSO. In some instances, yes; in others, no.

Mr. PASSMAN. Thank you.

In those instances where they do know, do they realize the importance of making known to the people in the country what we are trying to do with this aid program, and what they are trying to do?

Mr. Moscoso. Even when they recognize it, sometimes they decide for political reasons they may not want to be associated too much with the fact the United States is giving them assistance.

Mr. Passman. We recognize that as being the situation. Are we now making available a substantial amount of funds to create a propaganda program in their countries, to familiarize them with the fact we are doing these things?

Mr. Moscoso. We are helping the countries to set up these committees——

Mr. Passman. We are putting out information as to what we hope to do and are doing. Would this activity fall in the category of propaganda?

Mr. Moscoso. Yes, sir.

Mr. Passman. I think the ambassador to the OAS, Mr. Morrison, went to the President last year and the President made them a special grant for this propaganda.

Mr. Moscoso. Yes.

Mr. Passman. Is it not disappointing to you to recognize that the leaders, the elected officials, are reluctant to acknowledge to the people where this aid was coming from? How do they feel about this program of information we are starting?

Mr. Moscoso. This informational program is undertaken by a multilateral agency, the Organization of American States.

Mr. Passman. Are we financing this program?

Mr. Moscoso. Partly so.

Mr. Passman. How much are the other countries financing?

Mr. Moscoso. Each one of the countries sets up the alliance committees and the countries themselves, or the members of the committees, are supposed to mobilize some of the local funds in order to participate in the program. We try to get them to match the funds that are made available.

Mr. Passman. Some of the leaders are without adequate knowledge, others have the knowledge to run the governments and get this information to the people but are reluctant to do so for political reasons. Are they willing to associate themselves with this program if we are willing to give the money out?

Mr. Moscoso. Most of these committees are citizens' committees.

Mr. Passman. Not working through the Government?

Mr. Moscoso. Not working through the Government.

Mr. Passman. Has any program of this nature ever succeeded until the elected officials make themselves a party to it?

Mr. Moscoso. The program will not succeed if the public officials do not back the program, but they do back the program.

What has happened is, they have not provided sufficient information to the public with regard to the program. I remember reading during Marshall plan days it was necessary to run a program costing close to $20 million for informational purposes in Europe at that time to let the Europeans know what we were doing.

Mr. Passman. You said earlier that some of the leaders in the country are without sufficient knowledge as to how to run their governments. Then you said that where they had knowledgeable people, they were reluctant to associate themselves with this plan for political reasons. They did not want the people to know where the aid was coming from and in what amounts.

How could a program such as this succeed if the leaders would not cooperate in letting the people know where the aid was coming from?

Mr. MOSCOSO. I agree. The program has to be supported locally.

Mr. PASSMAN. I am talking about the heads of governments.

You have agreed that until such time as the heads of the governments are willing to come forth and endorse the program, it cannot succeed.

Mr. MOSCOSO. Unfortunately, in many instances, where the heads of the governments or some of the members of the government may not be as desirous as we to publicize the program, we may still be in great need of pushing for the success.

SOCIAL PROGRESS FUNDS FOR PUBLICITY PURPOSES

Mr. PASSMAN. Could you tell us how much the President allocated to Ambassador Morrison for this propaganda program last year?

Mr. MOSCOSO. The grant was made in the amount of $1.6 million.

Mr. PASSMAN. Could you give us the total from other sources—you have press releases, mailings, radio, television. Could you at this point in the record sum up the total additional money that we are spending in Latin America on these propaganda programs from all sources for fiscal year 1963 and what you plan to spend in 1964?

Mr. MOSCOSO. I will be glad to.

(NOTE: See additional testimony on pp. 2111 and 2555.)

Mr. GARY. Cover the whole thing.

Mr. MOSCOSCO. This is all used in Latin America.

Mr. PASSMAN. We are talking about Latin America.

Mr. Rooney?

Mr. ROONEY. While we are at this point, Mr. Ambassador, out of what appropriation was that $1.6 million used, and in what year—was that 1962?

Mr. MOSCOSCO. This grant was made out of the social progress moneys.

Mr. ROONEY. In what fiscal year?

Mr. MOSCOSCO. This was made available to the Pan-American Union out of the Inter-American program for social progress; $100 million was made available to us, together with the $400 million for the social progress trust fund and $100 million for the Chilean reconstruction. This grant was made on December 4, 1962.

Mr. ROONEY. Was any part of that $1.6 million justified before appropriation committees of either the House or Senate at the time?

Mr. MOSCOSO. No, it was not.

Mr. ROONEY. This was something developed after the Congress went along and appropriated the huge sum of money that was thought up by Ambassador Morrison and others?

Mr. MOSCOSO. This was after the appropriation had been made.

INFORMATION PROGRAMS FINANCED FROM OTHER SOURCES

Mr. ROONEY. And at a time when we were spending many, many millions of dollars of the American taxpayers' money for the Voice of America and an information program in every country in the Alliance for Progress program; is that right?

Mr. MOSCOSO. That is right.

Mr. ROONEY. How much, if anything, is in this budget now before this committee for this same purpose?

Mr. MOSCOSO. There is not any.

Mr. ROONEY. Where will they get the money to carry on?

Mr. MOSCOSO. We are hopeful we will be able to get the Latin American countries and the committees that have been set up of distinguished citizens——

Mr. ROONEY. Will there be any American taxpayers' money used in competition with the U.S. Information Agency in the area of the Alliance for Progress?

Mr. MOSCOSO. It is not contemplated this coming year funds will be used in that way.

Mr. ROONEY. What assurance have we that there will not be funds used for this purpose and that the same thing will not happen again that happened with regard to the $1.6 million?

Mr. MOSCOSO. The only assurance I could give you this would not happen would be my own personal assurance. As long as I am there, we are not going to undertake another program like this.

Mr. ROONEY. You probably would have given us that assurance last year had you been asked the question. You were not then asked the question because it never dawned upon anyone that this program was going to be embarked on; is that a fair statement?

Mr. MOSCOSO. At that time it was not.

Mr. ROONEY. It was not what—contemplated?

Mr. MOSCOSO. Contemplated.

Mr. ROONEY. And in a number of these countries in the Alliance for Progress area, you already have information officers and setups with staffs financed by the United Nations; is that a fact?

Mr. MOSCOSO. I do not know of that.

Mr. ROONEY. You know there is a United Nations Information Office in Buenos Aires, do you not?

Mr. MOSCOSO. I am now advised there are those offices in certain countries.

Mr. ROONEY. Of course there are, and the American taxpayers pay what—the lion's share of the cost of those information offices?

Mr. MOSCOSO. The U.N. offices?

Mr. ROONEY. Yes.

Mr. MOSCOSO. I suppose that is part of their participation.

Mr. ROONEY. That is a fair statement?

Mr. GARY. Were any of these funds spent through the regular U.S. information program?

Mr. MOSCOSO. No. This was all spent through the Pan-American Union.

Mr. GARY. This is supplemental and in addition to the amount that we are spending for U.S. information programs, the Voice of America and other programs?

Mr. MOSCOSO. That is right.

Mr. ROONEY. The facts in regard to this were developed in the course of the hearings before the State-Justice Appropriations subcommitte when Ambassador Morrison volunteered from the back row that the activities of Director Murrow and the Information Agency and the Voice of America were not worth a damn in this area, and as a result of that, they obtained this $1.6 million. Am I recounting historical facts, Mr. Ambassador?

Mr. Moscoso. Yes.

Mr. ROONEY. A fair statement, yes? And then Ambassador Morrison had his hide tanned a bit for making such statements before that subcommittee, did he not?

Mr. Moscoso. I suppose so.

Mr. ROONEY. And the Secretary of State was called upon to sign a letter, Mr. Cottrell, was he not, saying in effect that Ambassador Morrison did not know what he was talking about?

Mr. COTTRELL. I am not aware of the letter.

Mr. ROONEY. Will you please produce the letter tomorrow morning? There certainly was such a letter written. Let me ask Mr. Cottrell a question or two.

RESIGNATION OF AMBASSADOR TO PANAMA

In the press of the last few days we read of the recent resignation of our Ambassador to Panama, Mr. Farland. Some of the accounts say he made some wild statements on the basis of his becoming a candidate for the Governor of a certain State. I think this committee ought to know the facts behind his resignation and exactly what he had to say in regard thereto.

In these newspaper accounts there were some vague generalities with regard to his dissatisfaction with the handling of the Alliance for Progress program. Is that so?

Mr. COTTRELL. Correct.

Mr. ROONEY. What are the facts in that regard?

Mr. COTTRELL. We checked through our records to find out where there were any glaring defects in the aid program, and the only facts we could ascertain on the record, the usual interested Ambassador interested in getting an aid program done effectively and on time without some of the legal restrictions on processing aid.

Mr. ROONEY. Are you saying that this Ambassador, like so many ambassadors, became so imbued with the interests of the people in the country to which he was accredited that he felt that we were not spending enough of the American taxpayers' money on their projects?

Mr. COTTRELL. No, not that.

I think the legal restrictions on processing aid loans sometimes leads to delays in getting the thing through. I think ambassadors are interested in furthering the aid program and sometimes have reservations about these legal restrictions.

This is all I could ascertain when I asked this question myself.

Mr. ROONEY. Have you had any differences with him, Mr. Ambassador.

Mr. Moscoso. With Ambassador Farland—yes, we have had a discussion with the Ambassador in connection with a road in Panama.

The Ambassador felt that section 611 was too restrictive, that this was a minor road which in his State would probably be built by having someone take a bulldozer and scrape off the topsoil and bring in some crushed stone and tamp it down and get a roadbed. We told him we were not in a position to deviate from the statutory requirements of section 611.

Mr. ROONEY. The requirement being that feasibility be proven first?

Mr. MOSCOSO. Yes, and estimates of costs and so forth be made. That is the difference I have had with him.

Mr. ROONEY. And the only difference?

Mr. MOSCOSO. That is right.

Mr. FORD. How long a road is this? What kind of a road? From where to where?

Mr. MOSCOSO. One of the problems we had with the road was precisely knowing how long the road is going to be. The terrain is pretty well unknown. It has not been surveyed, or anything like that.

I tried to be as practical as I could about this road. I said, "Look, this may sound very simple, but supposing you took that bulldozer and started to take the jungle away and all of a sudden the bulldozer sinks in muck because the subsoil is no good. Then you will have to start some other way around to get away from the mudhole, or maybe the muck will be rather extensive, and you will have to go around it in a very long way, or you may have to put in piling, and then you will be faced with perhaps some money already spent and no way of getting across this muck except by an expensive way."

I said, "Much as it hurts me to spend that amount of money on a feasibility study—$200,000—I still think this ought to be done."

His primary desire was to get the thing done quickly. Sometimes you can get these things done quickly and repent thereafter.

Mr. RHODES. That is not the reason he resigned; because of the road?

Mr. MOSCOSO. No.

Mr. ROONEY. Maybe he is planning to run for Governor of some State and wanted to go out with a flourish.

Mr. RHODES. What State?

Mr. ROONEY. West Virginia.

Mr. RHODES. What party is he?

Mr. COTTRELL. A Republican.

Mr. RHODES. We wish him well.

EXPROPRIATIONS OF U.S. PROPERTY IN LATIN AMERICA

Mr. Ambassador, would you furnish us a list, or a table similar to the ones you furnished last year as to expropriations in your area?

Mr. MOSCOSO. Yes, sir.

Mr. RHODES. You furnished for the record last year a list of the countries in which expropriations had occurred and the actions which had been taken and I think that should be brought up to date.

Mr. MOSCOSO. We will.

(The information supplied follows:)

EXPROPRIATION IN LATIN AMERICA

There have been no new expropriations in Latin America of property belonging to U.S. nationals since the hearings of last year.

On July 31, 1962, the Acting Governor of the State of Espirito Santo issued a decree expropriating the properties of AMFORP in Vietoria, Espirito Santo. This action was taken without the approval of the Federal Government, which is required by Brazilian law. The company instituted legal measures to have the action nullified and the Federal Government, in an effort to be helpful in the case, had the action transferred to the Federal courts. On April 29, 1963, the company's properties were returned to them following a favorable decision by the Federal Supreme Court.

In the case of the I.T. & T. expropriation of 1962, on February 1, 1963, I.T. & T. issued a press release stating the company had reached a satisfactory interim arrangement for payment of its expropriated properties in the State of Rio Grande do Sul, Brazil.

Mr. RHODES. Do you have any new cases of expropriation which are important enough to mention at this time?

Mr. MOSCOSO. We do not have any.

Mr. RHODES. No new ones?

Mr. MOSCOSO. That is right.

Mr. RHODES. Your policy with regard to expropriation is the same as it was last year?

Mr. MOSCOSO. It is statutory. It is a statutory policy.

Mr. RHODES. Last year as I recall, you expressed personal agreement with the policy and that you intended to pursue it vigorously.

Mr. MOSCOSO. That is right, and it has been pursued.

RELATIONSHIP OF OAS TO THE ALLIANCE FOR PROGRESS

Mr. RHODES. What primarily is the OAS's function in the Alliance for Progress? What does it do?

Mr. MOSCOSO. In the first place, the Alliance for Progress starts within the framework of the OAS. The Charter of Punta del Este was approved by one of the organs of the OAS, the Economic and Social Council. You can say it is within this framework of the OAS that the Alliance for Progress was born.

The OAS also is the mother agency of the wise men who, as a group, review the national development plans and make recommendations with respect to them.

Mr. RHODES. Do the nine wise men function with relation to the Social Progress Trust Fund, or in another area of action?

Mr. MOSCOSO. The nine wise men could have some effect on the Social Progress Trust Fund, because if, in examining one of the country plans, they should find there are certain projects of a social nature to which attention should be devoted, they might make a recommendation to the effect that the country should try to obtain economic assistance to advance those social programs which they are behind. And perhaps some of the funds used might be Social Progress Trust Fund funds.

Mr. RHODES. I have heard so much about the nine wise men in a general way. Would it be possible to either tell now, or for the record, a general description of who they are, what they are, what they do, and where they fit into this whole picture.

Mr. MOSCOSO. We will furnish for the record that information.

Mr. RHODES. When you furnish that, will you furnish the names of the individuals?

Mr. MOSCOSO. The names of the individuals and their background.

Mr. RHODES. And everything else in addition to what they do.

Mr. MOSCOSO. I will.

(The information supplied follows:)

THE PANEL OF NINE OF THE OAS

The Panel of Nine Experts, working in cooperation with the OAS Secretary General and the Inter-American Economic and Social Council, was established in the Charter of Punta del Este to provide assistance in the formulation of development programs and to facilitate implementation of the Charter.

The panel has responsibility for establishing guidelines, procedures, and criteria for the presentation and evaluation of national development programs. Panel members have met with Latin American officials to discuss problems of promoting the Alliance, and have visited countries to observe the preparation of development programs. Reports have been published of the panel's recommendations on various general aspects of the Alliance.

Ad hoc committees, composed of three panel members and three others selected on an ad hoc basis, evaluate individual country development programs and prepare reports with recommendations to the governments of the countries concerned. The panel members are designated by agreement between the interested government and the Secretary General of the OAS.

The panel is composed of the following nine experts:

Hernando Agudelo Villa (Colombian).—Lawyer and economist, attended the University of Antioquia. Was a representative in the Colombian Legislature. Minister of Finance of Colombia under President Lleras Camargo (1958–61). Represented Columbia, Chile, and Venezuela as an Executive Director of the Inter-American Development Bank.

Ernesto Malaccorto (Argentine).—Economist, specializing in taxation and agricultural economics, attended the Faculty of Economics of the University of Buenos Aires. Under Secretary of Finance of Argentina (1942–43). Established and was first director of Argentina's income tax. Financial consultant to the U.N. (1952–55). Minister of Agriculture in Argentina under Frondizi. Was a consultant and director of the Central Bank of Argentina.

Manuel Noriega Morales (Guatemalan).—Economist, specializing in money and banking and public administration. Attended the Faculty of Economics of the University of San Carlos in Guatemala, and Harvard University. Minister of Economy and Labor of Guatemala (1945–46; 1950–51). Organizer and first president of the Bank of Guatemala, organizer and first vice president of the Guatemalan Social Security Institute. Member of the Directing Council of the Institute of Industrial Development (1947–54). Director of the Central American Institute of Research and Industrial Technology (1952–60). Was Director of Technical Assistance for the IDB.

Felipe Pazos (Cuban).—Lawyer and economist, attended University of Havana and Columbia University. Commercial counselor of the Cuban Embassy in Washington (1942–46). Director of Division of Latin American Affairs and Subdirector of Economic Studies of the IMF (1946–49), president of the National Bank of Cuba (1949–52, 1959), and was director of research of the Center for Latin American Monetary Studies (CEMLA) in Mexico. Was an economic counselor for the Puerto Rican Government Development Bank.

Harvey Perloff (United States).—Specialist in economic planning and development, graduate of the University of Pennsylvania, London School of Economics, and Harvard University (Ph. D.). Consultant to the government of Puerto Rico (1946–47, 1950–51), professor of social science (1947–55) and head of the school of planning (1951–55) at the University of Chicago. Consultant, Tennessee Valley Authority (1953–54). Director, program of regional studies, Resources for the Future, Inc. (1955–61). Author of several books on economics and planning.

Paul Rosenstein-Rodan (British).—Economist, attended and was assistant professor (1925) at the University of Vienna. At the University of London: Special lecturer in the department of political economy (1931–36), professor of the University College (1936–47), and director of the department of political economy (1939–47). Assistant director of the economics department and director of the board of advisers of the IBRD (1947–53). Director of economics at the Massachusetts Institute of Technology and director of projects on the economic and political development of Italy and India at MIT's Center for International Studies.

Raul Saez (Chilean).—Coordinator of the Panel—Engineer, specializing in problems of energy,, industrialization, and business administration. Attended the Liceo Janson de Sailly, Paris, and the University of Chile, where he was later a professor. Was director of the department of civil engineering and technical manager of the Chilean National Electric Co. (ENDESA), director of the department of studies and planning of the Chilean Development Corp. (CORFO), and engineer with the Compania de Acero (Steel) del Pacifico, and director of Industria Azucarera S.A. (sugar). Was general manager of ENDESA, in charge of Chile's electrification program before joining the Panel.

Jorge Grieve (Peruvian).—Civil engineer, graduated with honors in 1938 from the University of Chile's engineering school. Professor of machine design and technology at the National University of Engineering of Lima (1946–62), and dean of that university's faculty of mechanics and electricity (1955–60). Minister of Development and Public Works (1960–62). Was president of the Peruvian Electrical Engineering Association and the Peruvian Society of Engineers. Chief engineer, Enrique Ferreyros y Cia (1952–60). Adviser to Central Reserve Bank of Peru (1944–54). Member of the Peruvian delegations to the Bogotá and Punta del Este Conferences.

Romulo Almeida (Brazilian).—Economist, degree in law. Was director of the statistical department and member of the Council of Government of the Territory of Acre, organized economic department of the National Confederation of Manufacturers. Economic Adviser to the President of Brazil (1951–54), president and first organizer of the Banco do Nordeste do Brasil, Representative in the Federal Chamber (1955–59), Secretary of Treasury (1955–57) and of Development (1957–61) in the State of Bahia, while also member of the Council of SUDENE. Organized and was president of the Bahia State Planning Board, and of the economic institute of the university. Had been appointed in 1961 to a 3-year term as executive secretary of the Latin American Free Trade Association, which he left to join the Panel.

LOCAL CURRENCIES GENERATED

Mr. RHODES. Do we generate any counterpart funds in this area?

Mr. MOSCOSO. We do.

Mr. RHODES. Under Public Law 480, or otherwise?

Mr. MOSCOSO. Under Public Law 480, particularly in Brazil and in Bolivia under the grant supporting assistance program.

Mr. SCHEINMAN. Were you referring to U.S.-owned currencies, or currencies owned by the aid recipient country? The term "counterpart" generally refers to currencies owned by the aid recipient country and used after agreement with the United States. They are not generated by Public Law 480.

Mr. RHODES. I had in mind the latter category, the recipient owned. The recipient-owned currencies. That was my first question.

As I understand it now, that was answered by the Ambassador.

Let's go to the other type of generated foreign currency, the American-owned type, which is available for our use without reference to any other country.

Do we have any of that type of currency generated?

Mr. MOSCOSO. Public Law 480 funds.

Mr. PASSMAN. At this point, would you furnish a table showing the balance of this type of funds in your area?

Mr. MOSCOSO. Yes. We will give it for the record.

(The information supplied follows:)

Local currency holdings in Latin America acquired without payment of dollars, as of Dec. 31, 1962

[In thousands of dollar equivalents]

Country	U.S.-owned [1]				Country-owned counterpart funds [4]	Grand total
	Transferred to AID accounts [2]	State Department account	Treasury accounts [3]	Total		
Argentina	573.4	0.8	304.1	878.3		878.3
Bolivia	489.5	2.9	1,183.7	1,676.1	927.6	2,603.7
Brazil	66,509.7	54.1	14,068.9	80,632.7		80,632.7
Chile	4,887.4	2.1	1,547.3	6,436.8		6,436.8
Colombia	3,593.6	4.5	3,178.2	6,776.3		6,776.3
Costa Rica (trust fund)	41.8		3.5	45.3		45.3
Ecuador	1,023.2	4.9	624.0	1,652.1		1,652.1
El Salvador			1.6	1.6		1.6
Guatemala	282.7		20.3	303.0	361.7	664.7
Haiti					[5] 165.4	165.4
Honduras			229.5	229.5		229.5
Jamaica		.2	14.6	14.8		14.8
Mexico	338.0	3.5	2,498.4	2,839.9		2,839.9
Nicaragua			29.5	29.5		29.5
Paraguay	3,217.3		520.6	3,737.9		3,737.9
Peru	5,356.3	2.1	3,558.1	8,916.5	19.3	8,935.8
Uruguay	695.1	5.8	3,351.2	4,052.1		4,052.1
Venezuela			372.2	372.2		372.2
Total	87,008.0	80.9	31,505.7	118,594.6	1,474.0	120,068.6

[1] U.S.-owned currencies consist mostly of generations from Public Law 480 sales agreements and a small part of counterpart fu nds deposited for U.S. uses.
[2] Includes $7,691 thousand equivalent in trust funds held for the payment of foreign government obligations.
[3] Not yet sold or transferred without payment of dollars by Treasury.
[4] Includes sales proceeds under title II of Public Law 480.
[5] Balance of currencies deposited to a U.S. account by the participating country to pay the local expenses of agreed projects. This account has been fully expended as of Jan. 31, 1963.

COMMUNIST BLOC AID TO LATIN AMERICA

Mr. RHODES. Mr. Ambassador, are there any countries in your area, other than Cuba, which receive aid from the Communist bloc?

Mr. MOSCOSO. In 1962 bloc credits were offered to Bolivia, $1.6 million, and Brazil, $70 million.

Mr. RHODES. What nation, or nations, in the Communist bloc furnished aid to Bolivia?

Mr. MOSCOSO. In the case of Bolivia, Czechoslovakia, in the case of Brazil, it was primarily Poland.

Mr. RHODES. What does Bolivian aid consist of?

Mr. MOSCOSO. I do not recall, but this is probably machinery or trucks. I think there were some Czechoslovakian trucks, which I understand, by the way, have given the Czechoslovakian industry a bad name around Bolivia because the trucks are not made to operate at those heights. The quality of the material is very poor and they break down continuously, and they have become the butt of a lot of jokes.

Mr. RHODES. I see no reason why we should change that situation. What about the Brazilian aid?

Mr. MOSCOSO. That was to have been primarily oil.

Mr. RHODES. Do you know on what terms this aid is given? Is it grant aid or long-term loans?

Mr. MOSCOSO. This is primarily barter for coffee and perhaps some cocoa and sugar.

Mr. RHODES. How can you call that aid?

Can you give the terms on which the deal is made? I doubt if this is aid.

Mr. MOSCOSO. There must be some credit involved.

(The following information was subsequently supplied:)

BLOC AID TO LATIN AMERICA (OTHER THAN TO CUBA)

BRAZIL

Although agreements for medium-term credit with Czechoslovakia, Poland, Rumania, and Hungary had been negotiated in 1961, Brazil has not implemented these credits.

A $70 million credit agreement was signed with Poland on December 1, 1962. Of this total, $26 million were for an electric powerplant (terms of 7 years at 3 percent), $7.5 million for steel rails, and $36.5 million for a long shopping list which included an aluminum refinery and helicopters. However, Brazil has made no move to use these credits.

Brazil has no agreement with the U.S.S.R. for medium- or long-term credit, but it has a new trade agreement with the U.S.S.R. signed on April 20, 1963. The most important feature is that dealing with Soviet petroleum shipments over the next 3 years in exchange for Brazilian coffee, cotton, and rice.

BOLIVIA

In June 1962 a contract was signed with Czechoslovakia for the construction of an antimony smelter. However, the Bolivians asked for reconsideration of the contract in order to obtain greater concessions from the Czechs. As a result, a new contract was negotiated in March 1963, providing for a loan of US $1.6 million extending for 10½ years at 5 percent interest. In June 1963, this contract was modified to make available US $850,000 of additional credit to the Bolivians. Also at this time, the Czechs stated that the loan would be repayable in proceeds from production. No final action has occurred as the Czech representatives have returned to Prague for the time being.

JUSTIFICATION OF SOCIAL PROGRESS TRUST FUND

Mr. RHODES. I think it would be well for the record if you could furnish a statement concerning the Social Progress Trust Fund as to what it does and what it is intended to do, with particular reference as to why it is operated by the Inter-American Development Bank.

Would you make a statement now as to why we thought originally it was a good idea for the Bank to operate it and your feelings as to the wisdom of continuing it that way?

Mr. MOSCOSO. I remember reading Secretary Dillon's statements to that effect back in 1961. It was pretty clear what Mr. Dillon had in mind was to give the Latin Americans a feeling of participation and an active interest in the development of social progress projects which the Act of Bogotá indicated had been neglected.

I believe that was the general rationale for multilateral operation of that particular fund.

Mr. RHODES. Are those reasons as valid today as they were when they were uttered by Mr. Dillon?

Mr. MOSCOSO. Just as valid.

We would like to get the Latin Americans more and more involved. We do have a veto power, which we have managed not to exercise by giving them good advice as to the projects they should undertake.

Mr. RHODES. We have not exercised our veto?

Mr. MOSCOSO. We have not had to because we have been able to persuade them not to take actions that would require our veto.

(Information subsequently supplied, follows:)

SOCIAL PROGRESS TRUST FUND

The Social Progress Trust Fund is a vital element of U.S. participation in the Alliance for Progress. The Inter-American Development Bank is the administrator of the Fund under an agreement dated June 19, 1961, between the Government of the United States and the Bank (TIAS 4763). The Trust Fund originated at a meeting of special committee convoked by the Organization of American States, in the city of Bogotá, Colombia, in September 1960, to study the formulation of new measures for inter-American economic cooperation. At this meeting, the U.S. Government, based on the authorization received from the Congress in the act for the Inter-American Program for Social Progress (Public Law 86-735), declared its purpose to establish a Special Inter-American Fund for Social Development, and proposed that the Inter-American Development Bank be the primary mechanism for its administration.

Thereafter, these measures, which were designed to bring about a radical change in inter-American economic policy, as well as in the social policies of the Latin American countries, received more definitive orientaton through the Alliance for Progress formulated by President Kennedy. On March 13, 1961, in his White House speech, President Kennedy emphasized that social progress and economic development are complementary objectives, and that this social progress program is an effort to create a social framework within which all the people, including the least privileged classes of society, could share in the benefits of prosperity and look with hope to the future. The program took on new significance as the Alliance for Progress moved forward. It supported the faith that land reform, tax reform, better housing, and community facilities—all could be achieved within a cooperative, democratic framework, without violence.

On May 27, 1961, Congress, pursuant to the authorization of Public Law 86-735, appropriated, as part of the Alliance for Progress program, $500 million (Public Law 87-41), to create the Special Inter-American Fund for Social Development. Of this amount, $6 million was assigned to the Organization of American States for collaboration with the member countries in preparing national development plans; $100 million to the International Cooperation Administration (now Agency for International Development) for assistance in the fields of education, public health, and other technical assistance; and $394 million to the Social Progress Trust Fund to be administered by the Inter-American Development Bank to provide financial and technical assistance in the fields of land settlement and improved land use, housing for low-income groups, water supply and sanitation, and higher education and advanced training.

The decision of the United States to use the multilateral approach in attacking the problems of social development in Latin America had ample precedent in U.S. policy. The adherence of the United States to the Bretton Woods institutions (World Bank and International Monetary Fund), the use of intergovernmental committees in the Marshall plan, the creation of the International Development Association and of the Inter-American Development Bank itself are evidence of a deep conviction, born out of experience, of the value of the multilateral approach as an instrument of U.S. policy. The fact that the United States was willing to help Latin Americans at the grassroots level through Latin American multilateral organizations brought an enthusiastic response throughout the hemisphere—except from Fidel Castro, who derided the Alliance and the Trust Fund and questioned the U.S. detremination to aid Latin American development.

In administering the Trust Fund the Bank has relied on its basic organization and staff, supplemented only by such special personnel as are required by the additional responsibilities involved. The processing of loan applications for financing from the Trust Fund has been governed by the same careful criteria as are applied to the ordinary operations of the Bank.

The Social Progress Trust Fund has proved to be a well-suited instrument for achieving the goals of the Alliance. Although funded by the United States, it is administered by an international institution in which all Alliance countries are represented. Its loans are made on the basis of a two-thirds vote of the Board of Executive Directors. The United States has 41 percent of the voting strength.

The Inter-American Development Bank has been diligent and responsible in emphasizing self-help measures consistent with the goals of the Alliance. This multilateral influence for reform, combined with the willingness to say no to projects of low priority, has given an impetus to sound planning and project preparation in the countries of Latin America.

Between the signing of the Trust Fund agreement in June 1961 and July 1963, 64 loans had been made from the Social Progress Trust Fund for a total of $347.9 million on projects having a total cost equivalent to $876.7 million.

The local share of these projects was 52.4 percent, the Social Progress Trust Fund share was 39.7 prcent, and that of other external sources was 7.9 percent. In addition, the host countries were often allocating additional resources to similar projects.

Nearly 45 percent of the lending, or $156.7 million, has gone to low-cost housing; 32 percent to waterworks and sanitary facilities ($111.5 million), 19 percent to land settlement and improved land use ($66.6 million) and 4 percent to advanced education ($13.1 million). These projects are important in economic terms but their primary significance is social. They directly benefit low income groups. Through the administration of this program by the IDB, the influence and prestige of the inter-American system is brought to full support of needed reforms and wider opportunity for the underprivileged.

In compliance with the terms of its trust and in accordance with what it conceives to be the spirit of the Alliance for Progress, the Bank has adopted certain guiding principles for its administration of the resources of the Trust Fund.

1. Since a major purpose of the Fund is to stimulate the Latin American countries to mobilize their own resources for social development, each borrowing entity is required to contribute from domestic sources an appropriate share of the total cost of the project. The definition of "appropriate share" in each case will depend on such factors as the capacity of the country concerned to undertake additional fiscal commitments, and the scale of its existing efforts in the field of social investment. On the average, local sources supply about 53 percent of the cost of the projects assisted by the Trust Fund.

2. The Bank requires that the final beneficiaries of the projects pay for benefits received and do not obtain them gratis. Thus, for example, when the Bank makes a loan to an autonomous agency for a water system, it insists on a rate schedule which will produce sufficient revenue to cover operating and maintenance expenses and, wherever possible, amortization of the loan and reserves for future expansion. Similarly, persons acquiring houses (or apartments) are required to pay for them, though of course, on long repayment terms. The purposes of the Bank in requiring adequate user charges are first, to prevent the wasteful use of resources and, secondly, to avoid the need for continuing subsidies on the part of the local government.

3. The Bank encourages private ownership. Thus it requires that housing units be sold to the occupants; it has not made loans for rental housing. Similarly, when loans are made for land settlement projects the Bank requires that titles be delivered to the new settlers within a stated period of time. This policy is based on the assumption that secure ownership not only makes for greater social stability but encourages the improvement and proper maintenance of property.

4. Wherever feasible, the Bank uses the Trust Fund to strengthen the cooperative movement and free trade unions. Assistance to such organizations has been incorporated in loans for housing and rural credit in Peru, Chile, Argentina, and El Salvador, among others. The Bank has also stimulated, by loans and/or technical assistance, the formation of savings and loan systems in several countries.

5. The Bank encourages its member countries to plan their social development expenditures. The social needs of Latin America are so enormous that the Bank has been flooded with applications for all sorts of projects, not only from national entities but also from State and local agencies. The Bank has had to make it clear to the national authorities that in view of the very limited resources at the disposal of the Trust Fund, assistance would be given only to projects with the highest priority.

6. Of central importance to the success of any program assisted by the Trust Fund is the competence of the executing agency in the borrowing country. Many of the agencies which the Bank has had to deal were found to be in financial difficulties, inadequately organized, or overburdened with a variety of unrelated

responsibilities. Wherever such conditions are encountered, reorganization of the agency to the satisfaction of the Bank is made a precondition of any disbursement. The Bank is generally prepared to provide technical assistance in the adoption of the necessary corrective measures.

The need for social progress and social reforms is vital in the evolution of Latin America, and if the forward movement already achieved is to be maintained and increased, the Trust Fund must be replenished. In considering whether the administration of the Trust Fund should continue to be vested in the Inter-American Bank, the following additional points appear relevant:

1. The placing of these funds with the Inter-American Bank, with their use subject to the analysis, judgment, and administration of an inter-American body—but with an effective veto by the United States—represents a basic policy decision of both Republican and Democratic administrations as to the most effective way of obtaining practical results in the field of social change and reform, without incurring the individual misunderstandings, sometimes serious, resulting from direct bilateral negotiations between the United States and individual Latin American countries.

2. The administration of the Social Progress Trust Fund by the Inter-American Bank in the past 2 years has been enthusiastically supported in Latin America and the United States as both efficient and effective, and as one of the best examples of joint Latin American-United States cooperation in the development field. For example, the administration's request for additional Social Progress Trust Funds to be administered by the Inter-American Development Bank is one of the few foreign aid requests to be supported in its totality by the U.S. Chamber of Commerce.

3. Any significant reversal of the present policy by the United States would be widely interpreted both in Latin America and the United States as failure to support a program and institution which have been integral parts of the Alliance for Progress, and would have serious repercussions on United States-Latin American relationships.

SOCIAL DEVELOPMENT PROJECTS NOT UNDER SPTF

Mr. RHODES. Do we do anything in the way of projects within the Alliance for Progress which could be called social development other than through the Social Progress Trust Fund?

Mr. MOSCOSO. Yes, we do.

Of course the definition of social and economic is so fine sometimes we cannot draw the line very accurately.

We do have educational projects which can be social or economic. We also give substantial amounts of technical assistance in our grant programs which in many instances are of a social nature.

Mr. RHODES. I do not think it would be too difficult to establish a line of demarcation between your social progress projects and your economic projects.

I should think that a social progress project would be something which is desirable politically, but yet is not necessary to the furthering of the economy whereas the other type of project would be something which you do primarily to put the economy in a position for development.

Mr. MOSCOSO. Well, the truth is, most of the social projects on a long-run basis will eventually be justified from an economic standpoint.

For instance, if the health of the people in a country is better because we eliminate malaria, the man-hours lost would be important if these people had jobs. At the moment a substantial number are not able to get jobs, therefore the economic impact is not as great. Hopefully, when the economies of these countries develop, if the people are healthy, and if they have eliminated some of these endemic dis-

eases, then they will be able to get more productivity out of their labor.

DIFFERENCE BETWEEN SPTF PROJECTS AND ALLIANCE FOR PROGRESS PROJECTS

Mr. RHODES. How do you go about deciding whether a project in any country is to be done under the Social Progress Trust Fund, or whether it is to be done under the Alliance for Progress?

Mr. MOSCOSO. Under the Trust Fund, those projects are pretty well defined in the trust fund agreement. It was agreed the funds would be devoted primarily to housing and water, potable water, and sewerage; agrarian reform and settlement, particularly insofar as facilitating the reform is concerned; and special training and higher education. Where AID has done anything in those fields which approximates what the Social Progress Trust Fund is supposed to do, it has been because the IDB funds are not available, or else because a certain country had already used too much proportionately of the Social Progress Trust Fund. Nevertheless, they still needed more funds for that particular type of activity in that particular field.

TECHNICAL ASSISTANCE UNDER SPTF

Mr. RHODES. Now, the Social Progress Trust Fund also has provision for grants for technical assistance in a certain amount?

Mr. MOSCOSO. They have a small amount for technical assistance.

Mr. RHODES. Has that amount been exhausted?

Mr. MOSCOSO. Yes, on the projects done so far.

Mr. RHODES. Will you furnish for the record a statement of the condition of the Social Progress Trust Fund as it pertains to the technical assistance grant?

Mr. MOSCOSO. We will.

They usually tie it to the loan. They made a loan for housing, and then usually a small amount of money was made available to bring technicians in.

(The information supplied follows:)

TECHNICAL ASSISTANCE GRANTS UNDER THE SOCIAL PROGRESS TRUST FUND

The trust fund agreement between the United States and the Inter-American Development Bank provides that the Bank may utilize the resources of the fund to extend technical assistance (hereafter called TA) "on a loan, grant, or reimbursable basis * * *" (sec. 4.03). No specific limitation is placed on the amount of TA that can thus be provided.

The amount of TA grants extended by the Bank is determined by a budget fixed annually by the management and approved by the Board of Directors. Since the inception of the fund the amounts made available for TA grants were as follows:

Calendar year 1961	$1,110,500
Calendar year 1962	1,047,000
Calendar year 1963 (up to June 30)	435,000
Total	2,592,500

In the same 2½-year period, the total amount of TA extended on a reimbursable basis was $2,340,000.

Approximately one-half of all TA grants and the preponderant share of reimbursable TA have been directly related to projects financed by loans from the trust fund. In such cases the TA has been extended for such purposes as assuring adequate expert guidance, assistance in the reorganization of borrowing agencies, training local personnel to carry on projects after their completion and, in general, helping to assure that any preconditions for disbursements or for the successful execution of the projects concerned are fulfilled.

Examples of TA grants not directly related to trust fund loans are: (1) for the study and distribution of information on methods on improving tax collection in Latin America (jointly with Harvard University and the Economic Commission of Latin America); (2) preparation of an agrarian reform law for Honduras; (3) assistance in financing training courses in agrarian reform (in cooperation with the Organization of America States and FAO); (4) training of technicians to supervise aided self-help housing (at Inter-American Housing Center, Bogotá, Colombia).

Mr. RHODES. You do not set up a savings and loan system under the Social Progress Trust Fund?

Mr. MOSCOSO. We usually do it ourselves. There have been other types of technical assistance, primarily in the case of water and sewerage development authorities, helping them set up the water and sewerage authorities. They have given them technical assistance in housing in the kind of loans they have made for housing.

Mr. PASSMAN. I thought it was a part of the social progress program to set up these savings banks, building and loan associations.

Mr. MOSCOSO. The housing co-op.

Mr. PASSMAN. You do set them up. You set up the savings associations and building and loan associations. Many of these people go in and say, "I would rather wait until I can get the money from you rather than to move into one of these public housing projects."

Am I making a statement of fact?

Mr. MOSCOSO. You are right.

FISCAL YEAR 1964 REQUEST FOR ALLIANCE DEVELOPMENT GRANTS

Mr. FORD. Mr. Ambassador, let's turn to page 11 of the justification book.

How much was originally requested for fiscal year 1964 by the President in the grant category?

Mr. MOSCOSO. $100 million.

Mr. FORD. How much do we now have before us as a recommendation?

Mr. MOSCOSO. The same amount.

Mr. FORD. Are you requesting reappropriation of anything?

Mr. MOSCOSO. We anticipate deobligation of $2 million, and we are asking for authority to utilize these funds again.

Mr. STERNFELD. If you add the $93,823,000——

Mr. MOSCOSO. Plus $11.2 million——

Mr. FORD. Where do I see the $11.2 million on this chart?

Mr. MOSCOSO. It is the double star down on the bottom of the page.

Mr. FORD. So it is a total of 11——

Mr. MOSCOSO. It amounts to $105 million.

FISCAL YEAR 1963 DEVELOPMENT GRANT REQUEST AND OBLIGATIONS

Mr. FORD. Last year when you were here in this category, what did you request?

Mr. Moscoso. We requested $100 million for the same category plus carryover.

Mr. Ford. Was there a deobligation and a reappropriation?

Mr. Moscoso. We had unobligated, $32 million.

Mr. Ford. You requested that that be reappropriated? Was it reappropriated?

Mr. Moscoso. This was no-year money.

Mr. Ford. So, it was carried over?

Mr. Moscoso. It was carried over into fiscal 1963.

Mr. Ford. What did you execute in fiscal 1963? How much did you obligate?

Mr. Moscoso. Of the grant moneys?

Mr. Ford. We are talking about the grant moneys.

Mr. Moscoso. $121.5 million.

Mr. Ford. What did you have unobligated at the end of fiscal 1963?

Mr. Moscoso. A million and a half dollars.

Mr. Ford. What happened between the $121.5 million you obligated and the $1.5 million which is unobligated?

LOANS MADE FROM GRANT FUNDS

Mr. Moscoso. $9 million of these funds were made available in the form of loans instead of grants.

Mr. Ford. Do you have that authority?

Mr. Moscoso. Yes, we do have.

Mr. Ford. Were those loans justified at the time of the hearings?

Mr. Moscoso. No, we did not justify them. They were included in the 1962 hearing. They were justified insofar as making them is concerned. We felt it was a desirable thing.

For instance, a loan was made to Jamaica for housing. Jamaica is not a member of the Inter-American Development Bank. The funds we had which we thought we should use for this were the IAPSP funds, on a loan basis instead of a grant basis, because it was to be a social progress activity.

Mr. Ford. Would you put in the record the loans that were made and the countries to which the loans were made? Do you have that information here?

Mr. Moscoso. Yes, sir, we have it.

Jamaica, low-cost housing, $2,800,000. Jamaica, water supply, $2,200,000. Honduras, small water supply system, $1,050,000. Honduras, aided self-help schools, $600,000. Guatemala, school, $700,000. Ecuador, administrative and fiscal reforms, $1,600,000. This is a rather unique case. These funds are to be used in technical assistance and are made available to us on the basis of a loan.

Mr. Ford. Does that come to $9 million?

Mr. Moscoso. $9,490,000.

Mr. Ford. In your program you have before us today, do you anticiapte making similar loans?

Mr. Moscoso. We are not anticipating now making any loans. However, Mr. Congressman, in some instances if we can get the countries to accept as loans, funds which otherwise would be granted, I think it would be desirable thing if we did that.

Mr. FORD. Are the ones you made in fiscal 1963 repayable in dollars or in local currency?

Mr. MOSCOSO. They are repayable in dollars—U.S. currency.

SUPPORTING ASSISTANCE

Mr. FORD. Let us turn to the next column, "Supporting assistance." How much are you asking for supporting assistance?

Mr. MOSCOSO. $17.7 million.

Mr. FORD. This is for fiscal 1964?

Mr. MOSCOSO. That is right.

Mr. FORD. What did you ask for in fiscal 1963?

Mr. MOSCOSO. $15 million.

Mr. FORD. What was made available by the Congress?

Mr. MOSCOSO. This comes out of the worldwide supporting assistance funds.

Mr. FORD. Were those worldwide funds reduced last year by the Congress?

Mr. TENNANT. The appropriation was $395 million. Our authorization request was $481.5 million. The authorization act was $415 million.

Mr. FORD. A total reduction of $86.5 million between the authorization request and the appropriation.

Mr. TENNANT. That is correct, sir.

Mr. FORD. In this area of the world for fiscal 1963, you justified $15 million.

Mr. MOSCOSO. $15 million.

Mr. FORD. What was made available to you?

CONTINGENCY FUNDS USED FOR SUPPORTING ASSISTANCE IN FISCAL YEAR 1963

Mr. MOSCOSO. Including contingency fund uses, $104 million.

Mr. FORD. You mean you justified to us $15 million and you had in total for supporting assistance in fiscal 1963, how much?

Mr. MOSCOSO. $10,458,000.

Mr. FORD. How much of that came out of the contingency fund?

Mr. CONTE. While he is looking for that, will you yield for a moment, Mr. Ford?

Why the $89 million increase over what you justified? Was there a disaster?

Mr. MOSCOSO. We had the emergency problems in Brazil, the Dominican Republic, Argentina, Ecuador—we already had justified Ecuador—Honduras and Trinidad.

Mr. CONTE. Can you explain the emergency problems?

Mr. MOSCOSO. We discussed just a while ago the Honduras case, project assistance in maintaining the school program. In the case of Argentina, $20 million was made available in order to participate in a package loan which was made by the Treasury Department, the IMF, and ourselves, in order to assist in their balance-of-payments problem up to the election and the day on which the new administration would take over in October, in the hope that the stabilization of the currency would take place. By the way, that has happened. Their

currency has been stabilized pretty well. The development program would then be initiated.

Mr. CONTE. What is the rest?

Mr. MOSCOSO. In the case of Brazil, the $25.5 million was part of AID's participation in the package that was made available, $84 million, at the initiation of the agreement, based on Brazil's previous performance. As you know, Brazil had already performed a certain number of things which they had agreed to, and in view of that, these funds were made available to Brazil. The package was a joint one of the Export-Import Bank, AID, and U.S. Treasury, in support of their stabilization program.

Mr. CONTE. Every one of these so far has been a budgetary support item.

Mr. MOSCOSO. Balance of payments, primarily.

Mr. CONTE. It was a contribution to their budgets.

Mr. MOSCOSO. In the case of each of these countries, the primary need was basically balance of payments, except in the case of Honduras.

Mr. CONTE. Were any of them caused by an act of God—a hurricane, tornado, or any natural disaster?

Mr. MOSCOSO. The fact that the Argentines lost a President obviously was something no one could anticipate.

(Off the record.)

Mr. MOSCOSO. Some small amounts of money were used from the contingency fund in the October Cuban crisis. Quite a number of the countries asked us to give them some assistance in the way of small arms, ammunition, and so forth, because they expected internal difficulty.

Mr. FORD. Really, then, in fiscal 1963, you asked for $15 million, and you ended up in the supporting assistance program with $104 million. It is accurate to say you got your $15 million out of the supporting assistance worldwide fund?

Mr. MOSCOSO. Yes, sir.

Mr. FORD. Is that factual?

Mr. MOSCOSO. That is a fact.

Mr. FORD. You did not get any more, you did not get any less?

Mr. TENNANT. We got a little more: $81.7 million was programed out of the contingency. There is a slight slippage in the program figures. The balance would be out of supporting assistance.

SUPPORTING ASSISTANCE FOR BRAZIL

Mr. FORD. I am looking at this list of contingency fund obligations in fiscal 1963. There is one here, May 2, to Brazil, for $25,500,000. Is that the one you were mentioning earlier?

Mr. MOSCOSO. That is right.

Mr. FORD. That was a gratuity based on past performance, is that right?

Mr. MOSCOSO. That is right, and on the expectation that there would be a stabilization program.

Mr. FORD. But now, at least, the prospect of stabilization has not materialized.

Mr. MOSCOSO. They have done certain of the things, but not sufficient yet to warrant that we go ahead with the rest of the package.

BALANCE-OF-PAYMENTS LOAN TO ARGENTINA

Mr. FORD. On June 12, to Argentina, $20 million. What was the justification of that?

Mr. MOSCOSO. That was a balance-of-payments loan in which we participated with the Export-Import Bank, Treasury, and IMF.

Mr. FORD. This is budgetary support?

Mr. MOSCOSO. No. This is balance of payments.

Mr. FORD. Was this a loan or a grant?

Mr. MOSCOSO. This is a loan.

Mr. FORD. To be repaid in dollars or in foreign currency?

Mr. MOSCOSO. Repayable in dollars, 3½ percent, 15 years.

DIFFERENCE BETWEEN BALANCE-OF-PAYMENT SUPPORT AND BUDGETARY SUPPORT

Mr. CONTE. I asked you if those were all budgetary support items, and you said, no, balance of payments. What is the difference?

Mr. MOSCOSO. The necessity for the loan was obviously a need for assisting them in their balance-of-payments problem.

Mr. CONTE. But there is no difference. You are splitting hairs.

Mr. PASSMAN. It goes into the budget, does it not?

Mr. CONTE. Let us try to clarify it. We give that $25 million loan to Brazil, and does that not go into the Brazilian treasury?

Mr. MOSCOSO. Yes.

Mr. CONTE. It is a budgetary item.

(Off the record.)

Mr. MOSCOSO. When we begin the loan, as we did in the case of Ecuador, specifically for budgetary support, we consider that to be a budgetary support loan. On the other hand, it does have an effect on the balance of payments. The balance-of-payments loan may or may not have an effect on the budget. We try to tie the funds generated, the local currency generated, to projects when we make a balance-of-payments loan.

(Off the record.)

Mr. SCHEINMAN. If you are focusing your attention on the foreign exchange requirements of the country, you are talking about balance-of-payments support. If you are focusing your attention on the domestic local currency necessary related to the budget and your interest is in generating local currency, or if you are making a cash grant, just turning the money over, as we have done in one or two cases around the world——

Mr. CONTE. It is only because you call it that.

Mr. SCHEINMAN. I think we establish that the balance of payments in effect can relieve the budget requirements.

Mr. PASSMAN. It is a contribution, is it not, to the Government, to the budget? Even though it is for specific commodities, it still goes to the budget, does it not?

Mr. SCHEINMAN. It does not go to the budget, sir. It may relieve the requirements of the country for certain kinds of revenue.

Mr. PASSMAN. I think Mr. Conte had it pretty well sized up when he said you are splitting hairs. We have crossed this bridge over and back for days in previous testimony.

TERMS OF BALANCE-OF-PAYMENTS LOAN TO ARGENTINA

Mr. FORD. To return to the Argentine loan of June 12, 1963, for $20 million, it is to be repaid in hard dollars. What are the terms?

Mr. MOSCOSO. 3½ percent, 15 years, U.S. currency.

Mr. FORD. When this money is returned to the U.S. Treasury, where does it go?

Mr. MOSCOSO. It goes back to the Treasury.

Mr. FORD. It does not go into your Development Loan Fund?

Mr. MOSCOSO. No; it does not go into the Development Loan Fund.

Mr. FORD. Let us verify this. You can verify it for the record.

Mr. MOSCOSO. I think the repayment of a supporting assistance loan goes back to the Treasury and not the Development Loan Fund.

Mr. TENNANT. That is correct.

EXECUTIVE BRANCH POSITION ON SECTION 107 OF APPROPRIATION ACT

Mr. FORD. Mr. Moscoso, in the committee print for the foreign aid and related agencies appropriation bill for fiscal year 1964, there is a copy of section 107 (a) and (b) of the fiscal 1963 act, and in the committee print there is the recommendation that section 107 (a) and (b) be not included in the appropriation bill for fiscal 1964.

Is this the official position of the Department of State?

Mr. COTTRELL. I do not know.

Mr. FORD. Are you familiar with section 107 (a) and (b)?

Mr. COTTRELL. Yes; I am familiar with those sections, but I am not aware of the background of the recommendation that it not be included in the legislation for 1964.

Mr. FORD. This is the subcommittee print, which I presume is submitted by the Bureau of the Budget on behalf of the executive branch of the Government. Is this correct?

Mr. TENNANT. That is correct.

Mr. SCHEINMAN. Yes.

Mr. FORD. In other words, this document is the official recommendation of the executive branch of the Government. Is that correct?

Mr. COTTRELL. Yes.

Mr. FORD. It does indicate here that section 107 (a) and (b) of the fiscal 1963 appropriation bill be deleted, not reenacted; is that correct?

Mr. SCHEINMAN. That is correct.

Mr. FORD. What is the justification for that?

Mr. COTTRELL. This I do not know.

Mr. SCHEINMAN. I would like to provide a detailed justification of the executive position for the committee. Just with respect to 107(a), it is in fact, except for a few minor matters, merely a restatement of the Battle Act and its applicability. I believe that is one of the reasons, and that it is not to be deleted in application.

Mr. FORD. Is the executive branch of the Government implementing section 107 (a) and (b)? Did they in fiscal 1963?

Mr. COTTRELL. Yes, we did. There were no violations under either one of the two sections, but we used this section in policing it with respect to shipping to Cuba.

Mr. FORD. Were any foreign aid funds denied any country because of any shipping of such a country used in carrying cargo to Cuba?

Mr. COTTRELL. No, because we found no violations of either section (a) or (b).

(Off the record.)

Mr. FORD. Does the executive branch of the Government approve or disapprove of proposed legislation which would force the discontinuance of aid to a country that trades with Cuba?

Mr. COTTRELL. We are in favor of the legislation as it is on the books. Would you repeat that last phrase?

Mr. FORD. Wait a minute. You are in favor of the legislation which is on the books, but you are not in favor, according to what I have before me, of its being reenacted. Is that correct?

Mr. COTTRELL. I do not know the rationale on this.

Mr. RHODES. Of course, this is the only law that has any bearing on Cuba, because the administration has not seen fit to invoke the Battle Act against Cuba as yet. Is that not right, Mr. Scheinman?

Mr. SCHEINMAN. It has been determined that no event has occurred in which such procedure would be appropriate.

Mr. RHODES. I will accept your nomenclature, but my statement is correct, they have not seen fit to invoke the Battle Act?

Mr. SCHEINMAN. It has not been invoked.

Mr. RHODES. Thank you very much. I always like to deal with lawyers.

Mr. FORD. Do you have a copy of section 107 (a) and (b)?

Mr. COTTRELL. Yes, I have it here.

Mr. FORD. Is the Department of State in favor of the intent of this legislation that was on the statute books in fiscal 1963?

Mr. COTTRELL. Yes.

Mr. FORD. Why are they requesting that it be deleted?

Mr. COTTRELL. This I do not know, again.

Mr. SCHEINMAN. With respect to the application of 107(a), I have already responded. I would like to check before I respond with respect to 107(b), which relates to economic assistance. I am not prepared to answer that question.

Mr. FORD. According to the document we have before us on this side of the table, the executive branch of the Government has recommended the deletion of these provisions.

Mr. SCHEINMAN. That is correct.

Mr. FORD. I do not understand their attitude, either in substance or in form, but this is what the facts are.

That is all, Mr. Chairman.

NOTE: Additional testimony may be found beginning on p. 2320.)

PROBLEMS CONNECTED WITH LAND REFORM

Mr. CONTE. Mr. Ambassador, you were involved in the Bootstrap operation in Puerto Rico, were you not?

Mr. MOSCOSO. Yes, sir.

Mr. CONTE. From all I have read and from every indication, that was a very successful undertaking.

Mr. MOSCOSO. I think it is generally accepted that it was.

Mr. CONTE. The thing I cannot understand when I read about this in periodicals and newspapers, is that the Alliance for Progress has failed miserably in Latin America because of the lack of agrarian reform. Why have you not been able to work with these countries in Latin America to implement some type of agrarian reform?

Mr. Moscoso. In the recent meeting in San José, of the Inter-American Economic and Social Council Committee appointed specifically to review land reform legislation and performance under legislation, the difficulties we have been faced with in Puerto Rico have come out. That is, people tend to generalize about land reform and conceive of it merely as the breaking up of large estates and dividing it up among the landless peasants.

The desirability of something like that being done is quite obvious from the social point of view, but then the realities of economics start to emerge, and you find it is not as easily done as it is said. In the first place, you must be careful of the land-tenure problems and relate them to the type of agriculture with which you are dealing.

In the case of sugar—which is what we have primarily in Puerto Rico and what we are faced with in places like the northeast of Brazil and in other countries of Latin America—sugarcane is an agricultural commodity that requires extensive tracts of land and a very heavy investment in equipment and machinery if you are to be competitive. Unless you have a highly trained farmer group with the capacity to absorb a substantial amount of credit, it is deluding these poor people to think in terms exclusively of breaking up the parcels of land. If a man in northeastern Brazil were given 10 or 15 acres of sugarcane to cultivate, he would not be able to make a living. He probably would be worse off than he is today.

In a case like that, what has to be done is to try to obtain land which is situated as close to a sugar area as possible, which is capable of producing other products, so these people can cultivate for their own consumption or for the market such things as yams, potatoes, beans, rice, corn, et cetera, and allow the larger tracts of land to be operated as large units in order to be competitive.

In the case of coffee, a different type of problem emerges. There, through the development of different varieties of coffee, through the development of dwarf varieties with much larger yields per acre, which will permit all of the family to participate in the collection and cultivation of coffee, you may be able to achieve a decent standard of living for a farm family with maybe 10 or 15 acres of coffee.

So, in each particular case you have to tailor your agrarian reform to the type of cultivation that you are dealing with. We have found that basically the agrarian reform problem involves a lot more than simply land tenure. It involves technology; that is, agricultural research and agricultural extension so people will know how to apply the research. It involves supervised agricultural credit. It means that you must have good farm-to-market roads. You must have a good marketing system, preferably through co-ops, because otherwise the farmers will not be able to get what they should for their crops, because middlemen will intervene, et cetera.

Now, we are trying to attack that problem on all of those fronts and that is why it takes quite a bit of time and that is what this report implies. Some progress has been made, but not as much as we would like, because of the great complexity of the problem.

PRIVATE LAND REFORM PROGRAMS

Mr. CONTE. United Fruit has done a marvelous job there in land reform in Latin America. I saw a television picture where they divided up the land and contracted for the products.

Mr. MOSCOSO. This has taken the wind out of the sails of a lot of Communist propaganda. Now we are having a reaction in some of the countries in Latin America where this contract procedure has been installed. In other words, extremists are going around saying that this contractual system of agricultural development is bad for the workers, et cetera. Obviously, that is not the case. This is a very good way of putting the land in the hands of the worker and then getting a large company like United Fruit or Standard Fruit to guarantee prices and to buy from them the produce they are able to cultivate.

Mr. CONTE. Mr. Ambassador, you are familiar, are you not, with the land reforms of the Catholic Church in Chile?

Mr. MOSCOSO. Yes, sir.

Mr. CONTE. I have an article here from the Register saying this took place over a 2-year period and it is highly successful in land reform.

Mr. MOSCOSO. They are doing very well. The experiment is with a small group. I wish we could get a broader experience before we say that it is as exactly as successful as it has been in the case of the church. Again, this is a case where you have a special group which not only has the incentive of owning their own land, to motivate them, but also the desire to collaborate with an activity of the Catholic Church, of which most of these farmers are members.

We are watching that very closely. We are watching the program the church will initiate, hopefully, soon, in Ecuador. We are happy about the fact that the church has manifested itself in pastoral letters backing land reform in Peru, Paraguay, Brazil, and in Chile.

AGRARIAN REFORM IN CHILE

Mr. CONTE. Has this had any effect on some of the large landowners in Latin America?

Mr. MOSCOSO. It has had. For instance, over the weekend—and I am sure the chairman will say, well, this isn't exactly land reform, all you are getting is a law—but over the weekend, the Chilean Congress approved finally the constitutional amendment which will permit the Government of Chile to make a small downpayment for taking over these large farms and pay the rest over a period of years with long-term bonds.

Now the Constitution of Chile did not permit this to happen. Obviously the agrarian reform law was meaningless until this constitutional amendment was obtained and that was approved by the Chilean Government. Now it has to go through the procedures of final approval by the two Houses of Congress, but the initial approval has been given. So another step in this very tedious and prolonged fight to get agrarian reform in Chile has been taken.

AMERICAN UNIVERSITY CONTRACTS IN LATIN AMERICA

Mr. CONTE. Mr. Ambassador, you mentioned the college program that you had in your Alliance for Progress program in Latin America. I recently read where Columbia University is down there working with the Peruvian Ministry of Education.

Mr. MOSCOSO. That's right.

Mr. CONTE. That this was the first project for Columbia University of this type in Latin America. Could you elaborate on that?

Mr. MOSCOSO. There is a 2-year, $1,187,500 contract to assist the Peruvian Ministry of Education in performing a comprehensive improvement program in education. This is taking the whole field of education, similar to what we have done in the case of Ecuador, with the University of Pittsburgh.

Mr. CONTE. Similar to this?

Mr. MOSCOSO. Similar to this and done before this one.

Mr. CONTE. How are they working out?

Mr. MOSCOSO. In many instances we are just barely starting. In other instances we are starting to get some results.

Mr. CONTE. When you put that in the record, I would appreciate it if you would also put in the dates those contracts were let and when they began actually working.

Mr. MOSCOSO. That will be included.

(The information supplied may be found on p. 2151.)

COMMENTS ON REPORT OF SPECIAL STUDY MISSION TO LATIN AMERICA

Mr. RHODES. Mr. Moscoso, have you yet had an opportunity to comment on the recommendations made in the Special Study Mission to Latin America, made under the chairmanship of the gentleman from Alabama, Mr. Selden?

Mr. MOSCOSO. Yes, sir.

Mr. RHODES. You have commented on his recommendations?

Mr. MOSCOSO. I haven't commented, but we have acted on some of his recommendations.

Mr. RHODES. There are several pages, from 45 through 49 of rather specific recommendations. Could you take each topic and prepare comments for each one so that we can have it for the record? And if you have taken action in response to any of these, we would like to have that, too.

(The information requested follows:)

COMMENTS ON LATIN AMERICAN STUDY MISSION REPORT

The Latin American Bureau was requested to comment on several recommendations of the Selden committee, at pages 45 and 46 of the report of the Special Study Mission to Latin America (Peru, Ecuador, Colombia, Panama, Costa Rica) of the Committee on Foreign Affairs, April 23, 1963, H.R. 223. The committee recommended:

1. "The question of 'bailout' assistance should be carefully reviewed"

The Bureau agrees with the committee's disapproval of bailout assistance which permits Latin American countries to postpone essential self-help and reform efforts to which they have already committed themselves under the Charter of Punta del Este. Hence, it has made every effort in recent months to insure that whatever essential emergency assistance is required be carefully geared to self-help and development efforts of the countries and that such as-

sistance support, rather than substitute for, these essential country efforts. Thus in the case of Argentina, emergency assistance was coordinated with essential country programs. And in the cases, for example, of Ecuador and Brazil, disbursement of assistance designed to relieve temporary emergency pressures was carefully conditioned on and timed with country efforts in such matters as budget discipline and inflation control. The Bureau agrees that, as the Selden committee pointed out, aid should in no case amount to "a reward for fiscal mismanagement."

2. *"In the future, the Executive in its request for grants-in-aid should not imply economic justification when the true basis is political consideration"*

The Bureau agrees that where assistancee is provided for political reasons, it should be justified to the Congress on this basis. However, it must be noted that in many instances the purpose and effect of assistance is mixed. Thus, the best designed forms of assistance for purposes of economic development should have a favorable political impact in the country while, at the same time, assistance geared to political developments, such as elections, ought as well to lay a groundwork for economic development.

3. *"The agencies responsible for the disbursement of Alliance for Progress funds should adhere to strict accounting procedures and exercise keen vigilance over the use of these funds"*

The Bureau is making every effort to improve its accounting procedures and fund control. In this respect, it cooperates fully with the developing programs in this area by the Inspector General's office and the General Accounting Office. Thus, for example, in cases of capital assistance projects no disbursement is made except on the basis of a certification that expenses have been legitimately incurred by the borrower for actual work performed on the project and this certification is performed by a contractor who: (a) has a reputation for firm integrity in the profession; (b) is approved by the agency; (c) is totally independent of the borrower.

4. *"Publicity programs for the Alliance for Progress should place more emphasis on acquainting the Latin American people with their own responsibilities under the Charter of Punta del Este"*

Two years' experience under the Alliance has clearly demonstrated that the ultimate responsibility for its success rests with the people of Latin America, and by the same token, it is essential to create a consensus within Latin America in support of the essential self-help and reform efforts of the Latin American countries set forth in the Charter of Punta del Este. Thus, major efforts have been made to tailor the information service of the United States to this purpose. In addition, however, because of the desirability of having such an information program flow from a source more identified with Latin America, the Organization of American States has instituted a major effort of public information on the Alliance goals, and the United States has supported this by a grant of some $1.6 million. This OAS program concentrates on the self-help and reform principles of the charter, the experience and record of the various Latin American countries in meeting their commitments and the essentiality of self-help and reform to economic and social development.

5. *Greater effort should be made to assure coordination among the various United States and international lending agencies*

Effective coordination of all capital assistance programs is essential to the success of the Alliance, as the committee pointed out. It was recognized some time ago that the efforts toward coordination in the early months of the Alliance were not adequate. For this reason, a small special office has been created in the Department of State, working with not only the U.S. Coordinator of the Alliance for Progress but as well the American Republics Affairs Bureau of the State Department and the Treasury Department, to maintain day-to-day liaison and coordination with the World Bank, the Export-Import Bank and the Inter-American Development Bank. The early results of the work of this new office are encouraging. Coordination of U.S. efforts through the National Advisory Council has also been effective.

6. *"Private enterprise should be encouraged."*

Here, too, the experience of the first 2 years has demonstrated that special efforts must be concentrated in private enterprise. Efforts are being made in two major areas. The Inter-American Economic and Social Council, both

at its plenary meetings and at the meetings of the Special Committee No. 4 on Industralization and Private Enterprise, has urged greater participation of the private sector in country development programs and investment. At the same time, the Bureau has intensified programs in the areas of investment surveys and investment guaranties. In addition to the $260 million of guaranties issued for Latin America through fiscal year 1963, over $2.7 billion in guaranties were pending at the end of June. A special office of private investment is being established in the Latin American Bureau to concentrate exclusively on improving the role of private enterprise in the development effort. A substantial portion of the loans made by AID under the Alliance have gone to intermediate credit institutions which aid the small private homeowner, businessman, and farmer.

In a Vision special report on Latin America, it was said that the "awakening is at hand. Governments * * * have come to the conclusion that public money * * * is nowhere near enough to do the job. Most of it must be done by local entrepreneurs and financiers, men whose collective efforts account for roughly 60 percent of gross annual investment in Brazil and Mexico and 70 percent in Argentina and Colombia."

"The manufacturing industry has set a fast pace," says Vision, "particularly in Mexico, Brazil, and Argentina. In 1961, manufacturing output increased twice as fast as total product. Fastest growing of all are the mechanical industries" (transportation equipment, appliances, spare parts, electrical equipment, etc.), "which registered a cumulative annual gain of 12 percent during 1957–61."

United States and other foreign investment too has been drawn more into the development process. Vision points out that there is a trend away from investment in those industries subject to expropriation and discriminatory taxation (such as mining and utilities) and into manufacturing. "U.S. investments now account for from 20 to 25 percent of total manufacturing output today, and the proportion is rising steadily in many countries." Many U.S. investors, whose activities are not widely publicized, have been expanding Latin American activities, despite apparent political obstacles. West Germany, "Europe's fastest moving contender in the quest for Latin American markets," had direct private investment in Latin America totaling $300 million by the end of last year. EEC and Japanese private enterprise participation is also increasing.

7. "*Encouragement of credit facilities should be given serious consideration in U.S. aid programing*"

Improvement of credit facilities has received increased attention by the Bureau within the last year. Thus, the Bureau has placed special emphasis on the development of industrial and other development banks in the various countries in Latin America and has made a number of loans for this purpose. It recognizes, however, that U.S. aid is obviously inadequate to the total need for development credit in Latin America and as a result has concerned itself with the efforts of the Latin American countries in generation of investment capital. For example, Venezuela has recently announced the formation of a large industrial development bank, to be owned 15 percent by the Government and 85 percent by private companies, and capitalized in the amount of $9 million to make loans and purchase equity securities in new industries essential to Venezuela's development.

Mr. RHODES. That is all, Mr. Chairman.

Mr. PASSMAN. Thank you very much, Mr. Rhodes.

Mr. Administrator, I find that when people are underprivileged, maybe underclothed, underfed, having to exist on a very low standard of living, that many times they are resentful if they have those around them who are living, as we say, "high on the hog." Do you concur that they feel that way?

Mr. MOSCOSO. That's right, sir.

EXPENSES OF IDB MEETINGS

Mr. PASSMAN. How are we able to cover up the types of clambakes you have when this Development Bank meets and maybe will dissi-

pate—even before they collected a dime or received any interest—$18,000 for whisky; the next year, up to $207,000 for their meeting, and then the next year $226,000?

How do the people who are observing these carryings-on and spending this money take it?

Mr. Moscoso. The last one I attended was in Venezuela and President Betancourt, who is well known as a liberal and a man of the people and has the backing of the peasants and of the workers and so forth, attended every session. He was present——

Mr. PASSMAN. I am talking about the people, not the ruling body. How do the people outside, without shoes on their feet and without clothes on their backs, without shelter over their heads, feel when you have a meeting there that lasts a week and you spend $226,000, and doubtlessly $25,000 of it for refreshments?

Mr. Moscoso. Mr. Chairman, in the first place, I must indicate that this is a regular yearly meeting of the Inter-American Development Bank——

Mr. PASSMAN. It started as soon as you created the Alliance for Progress and the Inter-American Development Bank. First they spent $18,900 for a representation allowance before they had disbursed one dime out of the fund; is that not correct?

Mr. Moscoso. Yes, because——

Mr. PASSMAN. And again before they disbursed one dime I think three of these gentlemen made a little trip to Europe—let us say they were gone 3 or 4 weeks—and they spent $12,600. I say that is actually living just a little high, especially when it is coming out of a fund that was created to alleviate poverty.

Mr. Moscoso. If you mean——

Mr. PASSMAN. Yes; I know they got one country to commit themselves to one small loan.

Mr. Moscoso. No; what I mean to say was that nothing was spent from the social progress trust fund for the meeting.

Mr. PASSMAN. It came out of the other fund, in the Inter-American Development Bank and the United States contributed it. It was all intended to help our friends in Latin America. Is that correct?

Mr. Moscoso. That's right, sir.

Mr. PASSMAN. How much do you have in the aid program for representation allowance?

Mr. TENNANT. $184,900.

Mr. PASSMAN. So the amount for this 1-week clambake in Latin America——

Mr. ROONEY. What do they serve? What is the menu? How could it run up this high? Do you have any such information?

Mr. Moscoso. We have a breakdown on it.

Mr. PASSMAN. I am going to get down into it——

Mr. ROONEY. I mean a real breakdown. A real breakdown.

Mr. PASSMAN. We have even asked for sundry items.

Mr. TENNANT. There is $184,900 representation allowance. There is a small item of entertainment, which is $25,000, if I remember correctly.

Mr. ROONEY. $25,000 here in the United States?

Mr. PASSMAN. To entertain dignitaries around the world, it is what amount?

Mr. TENNANT. $184,900.

Mr. PASSMAN. That is representation allowance for all aid programs, worldwide for 1 year? Not the United States?

Mr. TENNANT. Not the United States; that is correct. Overseas.

Mr. PASSMAN. There is one little representation allowance part of this $143,000 expense account that amounted to 10 percent in 1 week. The total amount in the entire aid program for all the world for 1 year. Is that correct.

Mr. FORD. What was that, Mr. Chairman?

Mr. PASSMAN. Your allowance for the first clambake they had in this Inter-American Development Bank outfit was $143,358 for a week. The representation allowance, of what they actually spent, was $17,745. That is almost 10 percent of the total amount of the representation allowance for the entire aid program, worldwide for 1 year, for fiscal year 1963; is that correct?

Mr. TENNANT. That is correct.

Mr. PASSMAN. Now we have another little item, here: "Sundry expense." They are going to itemize that account for us. We complained so much last year about the representation allowance we find that the representation account for fiscal year 1963 drops substantially, but the sundry account went up in about the same proportion. Is that right?

Mr. TENNANT. That is approximately correct, sir.

Mr. PASSMAN. We found the representation account went down, but the sundry account went up about the same amount. We are going to look at that sundry account.

Mr. ROONEY. When you get this information, Mr. Chairman, I wonder if we could have it itemized, showing how many dinners at how much a setting and how many cocktail parties at how much per head?

Mr. PASSMAN. We have been trying to get into this thing. We do want that information.

(The information supplied follows:)

INTER-AMERICAN DEVELOPMENT BANK

Special report of expenses—1961, 1962, 1963 Board of Governors

	Rio de Janeiro 1961 expenses	Buenos Aires 1962 expenses	Caracas 1963 estimated final expenses
1. Travel	$92,698	$133,220	$115,000
2. Representation	17,745	10,899	15,617
3. Local personnel	19,638	27,685	41,586
4. Printing	6,859	6,711	8,099
5. Rental of equipment	1,560	6,960	8,622
6. Hotel deposits			700
7. Contingencies and miscellaneous expenses [1]	4,858	22,026	12,000
Total	143,358	207,501	201,624

[1] See attached schedule:

	Rio de Janeiro 1961 expenses	Buenos Aires 1962 expenses	Caracas 1963 estimated final expenses
Listing of expenses charged to item 7—Contingencies and miscellaneous expenses:			
A. Transportation of records and documents	$2,644	$8,262	$4,200
B. Sundry expenses:			
1. Construction of exhibit		3,647	1,500
2. Other construction		494	
3. Film of meeting and photographs		1,353	2,253
4. Travel of local personnel to Washington, D.C., and return		3,975	
5. Refreshment stand (coffee and cokes)		150	530
6. Local travel		350	185
7. Installation of equipment and signs		1,481	1,000
8. Various other supplies and services		2,314	2,332
9. Travel of Bank Governor for consultation in Washington, D.C.	2,214		
Total, sundry expenses	2,214	13,764	7,800

Mr. PASSMAN. The first country in your area, Mr. Administrator, for which you are requesting $———, is Argentina; is that correct?

Mr. MOSCOSO. That's right, sir.

Mr. PASSMAN. We shall start on that examination tomorrow afternoon beginning our session at 1 o'clock.

TUESDAY, AUGUST 6, 1963.

Mr. PASSMAN. The committee will come to order.

Yesterday we had finished with the general questions and stated that we would begin examining concerning the program for each nation in your area.

ARGENTINA

The first country in the Latin America area is Argentina, for which you are requesting $——— to be obligated in fiscal year 1964.

How much did you request of the Congress for Argentina for fiscal year 1963?

Mr. MOSCOSO. $103,800,000.

Mr. PASSMAN. How much did you obligate?

Mr. MOSCOSO. $78 million.

Mr. PASSMAN. Yesterday you told us, I believe, $108 million.

Mr. MOSCOSO. I am sorry. We had the wrong sheet before us.

Mr. PASSMAN. Please get the right sheet. What amount did you request last year?

Mr. MOSCOSO. That we had correct. It is $103,800,000.

Mr. PASSMAN. What amount did you obligate?

Mr. MOSCOSO. We obligated $78 million.

Mr. PASSMAN. Let us have another look. You have given us three figures now. Yesterday you told us it was $108 million.

Mr. MOSCOSO. Yesterday we added $30 million of the Social Progress Trust Fund, the Inter-American Development Bank figure, which is not included in the request we made last year.

Mr. PASSMAN. You did, however, obligate $108 million to Argentina out of the AID program for fiscal year 1963.

Mr. MOSCOSO. $78 million out of the AID program and $30 million out of the Social Progress Trust Fund.

Mr. PASSMAN. Who puts up the Social Progress Trust Fund?

Mr. MOSCOSO. The United States.

Mr. PASSMAN. The taxpayers?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. It is still aid, is it not? You people come in here with this thing scattered all over the waterfront and it is like pulling a tooth without novocaine to figure out what you have done. Actually you obligated $108 million to Argentina.

Mr. MOSCOSO. That's right.

UNLIQUIDATED BALANCE

Mr. PASSMAN. What sum do you have on hand, unliquidated for Argentina from the 16 spigots of foreign aid?

Mr. MOSCOSO. $81,602,000.

Mr. PASSMAN. Is that all spigots, Public Law 480 and what have you? If you will, put it all together.

Mr. TENNANT. The figure of $81,602,000 includes the mutual security program and Public Law 480. The figure of $81,602,000.

Mr. PASSMAN. Does it include military aid?

Mr. TENNANT. It does include military.

Mr. PASSMAN. $81,602,000?

Mr. TENNANT. That is correct.

Mr. PASSMAN. You really have, based upon your fiscal year 1964 request, more than a year's supply of funds on hand; is that correct?

Mr. TENNANT. That is correct.

TOTAL AID TO ARGENTINA

Mr. PASSMAN. What has been the total amount given to Argentina since the inception of the program?

Mr. MOSCOSO. $703,900,000.

DOMESTIC REVENUES

Mr. PASSMAN. That is a sizable sum. I believe this is the country which in the fiscal 1963 justification you predicted that the total domestic revenues would be $1,537 million. That was an estimate, of

course. The actual collections amounted to only $880 million, so the collections are only about 50 percent of the stated estimate. Then, by the same token, as the aid gets bigger, it would appear that their budget position gets worse, because they had a $141 million deficit in 1960 and in 1961 it went up to $150 million. In 1962 it went up to $500 million. They are copying one thing we do and that is increasing the budget deficit each year.

RENEGOTIATION OF ARGENTINIAN DEBT TO EUROPEAN NATIONS

Page 17 of the justification indicates that Argentina is arranging to reopen debt negotiations with European creditors and that the United States has some interest in this matter in order to avoid the possibility of diversion of U.S. assistance to the payment of Argentina's European obligations. Is that the reason we have an interest?

Mr. Moscoso. Yes.

Mr. PASSMAN. I think the distinguished Secretary of the Treasury, on a direct exchange across the table, said that if we provide credits or dollars to a nation they can use that money to pay for their imports and that leaves to them the dollars they earn to do with whatever they want to do; for example, to buy gold or to speculate.

So if we want to be realistic about this matter, to follow that reasoning, if we are pouring aid into Argentina and they take the aid we have given them to actually pay for their imports—speaking of the Government now—and to finance things they would normally finance themselves, that lets them do what they care to with the revenues from their exports. They can buy gold, for example—I believe it was $116 million in 4 years there. Or else they can take the money and pay debts. As we have no direct control over their internal affairs, there is no way that you can keep them from reshuffling their budget so as to, if not directly, take aid dollars and pay European debts.

Mr. Moscoso. That could happen, Mr. Chairman——

BALANCE-OF-PAYMENTS SUPPORT

Mr. PASSMAN. As you do not have any internal control over their affairs and if the pressures become great enough from the European creditors, in all probability it would happen. How much budgetary support have we given Argentina in this program; that is, what we call cash payments?

Mr. Moscoso. For budgetary support we have not given them any.

Mr. PASSMAN. Let us get it for balance-of-payments purposes, for export commodities, or for cash support. It is all the same thing under different names. It can be used for the same purpose.

Tell us the total amount.

Mr. Moscoso. We have given them for balance-of-payments purposes, $24,750,000 in 1959 and $20 million in 1962.

Mr. PASSMAN. What years did you state?

Mr. Moscoso. 1959.

Mr. PASSMAN. 1959 calendar year?

Mr. Moscoso. March 1959.

Mr. PASSMAN. That was to help their balance-of-payments situation?

Mr. Moscoso. Balance of payments; yes, sir.

Mr. PASSMAN. That year we had a deficit in our U.S. balance of payments of $3,700 million.

What was the next year?

Mr. MOSCOSO. The next year is 1962.

Mr. PASSMAN. What did you give in 1962?

Mr. MOSCOSO. $20 million.

Mr. PASSMAN. That year we had a balance-of-payments deficit of $2,200 million, and it would have been close to $5 billion in all probability if we had not done a lot of outside maneuvering.

Mr. MOSCOSO. Excuse me, Mr. Chairman. There is also a loan made in June 1963, also for $20 million, for balance of payments.

Mr. PASSMAN. In 1963—calendar year?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. It is now estimated that we are going to run a balance-of-payments deficit of around $4 billion this year.

Mr. MOSCOSO. In the case of Argentina they had a very substantial trade deficit with us. A very substantial one.

Mr. PASSMAN. You know, Mr. Administrator, we have tried to influence those people not to take dollar credits they had in the United States—they had dollar credits earning a nice rate of interest—and use them otherwise, but like most of the nations they seem to be losing faith in our ability to manage successfully our monetary situation.

EXPANSION OF SPECIFIC RISK GUARANTEE AGREEMENT

On page 19 of the justifications it is indicated that you were seeking to conclude and expand a specific risk agreement with Argentina. Has this agreement been signed?

Mr. MOSCOSO. It has been signed.

CATEGORIES OF FISCAL YEAR 1964 PROPOSED DEVELOPMENT LENDING

Mr. PASSMAN. Page 19 of the justifications indicates, by categories, the purposes for which you propose to approve development credits. On what basis have you been able to allocate, specifically, your proposed development credit program, by categories?

Mr. MOSCOSO. This has been based on the country program submitted by our mission. This is the best estimate of our technicians and the Embassy, working with Argentine Government officials as to their credit requirements.

Mr. PASSMAN. I thought the governments themselves were supposed to submit these applications and not the country team. Are we actually in there running their business?

Mr. MOSCOSO. The countries present the applications, but we, in turn, have to assist——

Mr. PASSMAN. To whom do they present the applications?

Mr. MOSCOSO. They present the applications to the AID mission.

Mr. PASSMAN. We were told last year you did not even let the countries know we planned a program until you got the money.

Mr. MOSCOSO. We don't discuss our specific programs.

Mr. PASSMAN. How can you work up a program without letting the government in on it? You work them up and then you let the government know what you worked up?

Mr. Moscoso. We work on sectoral programs to develop the information in order to be able to have an idea of what may be possible.

Mr. PASSMAN. Do you meet with the people prior to the time you get the money?

Mr. Moscoso. We do not meet.

Mr. PASSMAN. The AID mission knows the projects and about the level?

Mr. Moscoso. More or less the projects which may be presented.

Mr. PASSMAN. Did I make a statement of fact, that you work it up and then when you get the money, you discuss the plan with the country?

Mr. Moscoso. No, sir, we don't.

Mr. PASSMAN. That is, I think, what you said.

Mr. Moscoso. The country comes to us with a request for credit.

Mr. PASSMAN. You said you did not let the people in the country know anything about it until you got the money.

Mr. Moscoso. That's right. They don't know what level we are——

Mr. PASSMAN. And they do not know what projects or programs are being considered?

Mr. Moscoso. No.

Mr. PASSMAN. You said it again.

I just wanted to confirm it twice, instead of one time.

LIVESTOCK IMPROVEMENT PROJECT

How much did you request and justify for the livestock improvement project, at page 37, last year?

Mr. Moscoso. $1 million.

Mr. PASSMAN. That is the sum you requested last year?

Mr. STERNFELD. At page 47 of last year's book.

Mr. PASSMAN. How much did you obligate to the project in fiscal year 1963?

Mr. Moscoso. $1 million.

NORTHERN REGIONAL DEVELOPMENT PROJECT

Mr. PASSMAN. I notice that you are proposing to initiate a new project which is entitled "Regional Development," at a cost of $200,000. Is that correct?

Mr. Moscoso. That is correct, "Northern Regional Development."

Mr. PASSMAN. What is the cost to complete this project?

Mr. Moscoso. The total cost is $200,000 for 1964.

Mr. PASSMAN. What is the total estimated cost to bring this project to completion?

INCREASED COST OF LIVESTOCK IMPROVEMENT PROJECT

While you are trying to find it, tell me if I am correct about this: On this livestock improvement project, 501–AA–13–AA–6, we look in your 1961 project book, and the progress report, U.S. participation, fiscal year 1961, and you stated that you would need $60,000 for fiscal year 1962 and that you would need $40,000 for fiscal year 1963, making an amount of $100,000 and that this would phase out the project.

However, instead of phasing it out on those two figures, you now ask for $1 million for fiscal year 1964.

Mr. Moscoso. Mr. Chairman, I am sorry, but I am not able to follow you, because I don't have the same figures here.

Mr. TENNANT. You are reading from the fiscal year 1962 presentation book, sir?

Mr. PASSMAN. That is correct.

Mr. TENNANT. Mr. Moscoso has only the fiscal year 1963 presentation book, and the 1964.

Mr. PASSMAN. Let me say again that you wanted $60,000 for fiscal year 1962, $40,000 for fiscal year 1963, and that would phase the project out. Instead, however, of phasing it out with a total of $100,000, you have phased it up to an additional $1 million.

Mr. Moscoso. I can see where that could happen, Mr. Chairman——

Mr. PASSMAN. It has happened. You increased it 900 percent, on a project you were going to phase out. You phased it up instead of phasing it down.

How much are you requesting for fiscal year 1964?

Mr. Moscoso. $475,000.

Mr. PASSMAN. How much do you have on hand, unliquidated?

Mr. Moscoso. $760,000.

Mr. PASSMAN. The amount on hand is 700 percent of the amount that you originally said would phase out the project.

Why did this thing catch fire and skyrocket on us?

Mr. Moscoso. It became evident, Mr. Chairman, this was going to require more funds and time than originally estimated——

Mr. PASSMAN. Ten times more, I believe. In 1963 you allocated 10 times the amount of funds you had allocated in the 2 previous fiscal years, 1961 and 1962. It simply means that in all probability they did not know what they were doing to start with.

Is raising livestock a new enterprise in Argentina?

Mr. Moscoso. No. It is one of the——

Mr. PASSMAN. We bring some of their experts to this country to help us, do we not?

Mr. Moscoso. We are sending them experts.

Mr. PASSMAN. They are sending people to help us, and they are quite successful in that field, are they not?

Mr. Moscoso. I think they have shown a need for assistance.

Mr. PASSMAN. That is one of their specialities, beef and livestock production is it not in Argentina?

Mr. Moscoso. That's right. Sugar is the principal industry in Cuba and Hawaii is a much more efficient producer than Cuba.

Mr. PASSMAN. At page 386 of your justifications, the right-hand side, paragraph 2:

> The original estimate for 3 years * * *—

let us get down to the end. You said:

> is estimated on the following basis: fiscal year 1962, $60,000; fiscal year 1963, $40,000.

It says here that a partial implementation will probably require U.S. participation until the end of fiscal year 1963. Then we used the two figures of 1962 and 1963 for a total of $100,000 and then you jump it up to $1 million. Now you have $760,000 on hand and you

are asking for $475,000. The most permanent thing in the AID Agency is a temporary project.

Mr. Moscoso. I am sorry, I was not at that time in the Agency, Mr. Chairman, and I had nothing to do——

Mr. PASSMAN. It is still not too late to deobligate that money and withdraw this request. If they meant what they said in the prior year justification——

Mr. Moscoso. I can see, Mr. Chairman, in the commencement of a program, a person, no matter how well qualified, without full knowledge of the country, long-term needs, may not be aware of the total of the effort required.

Mr. PASSMAN. Why do you want to start a project then and come before the committee and say, "This is it. Give us $60,000 this year, $40,000 next year, and we will wash it out."

But then you come in and ask for a 1,000-percent increase in funds.

This is a blank check, and we have no control over it. You get the money and you do whatever you please with it. You have that right under the law and if you want to triple a project you have a right to do that. If you want to continue it indefinitely you have a right to do that. We have no way to stop it.

To completion, what will be the cost?

Mr. Moscoso. We are trying to get the information for you so we can give it to you this same afternoon.

Mr. PASSMAN. Thank you, sir.

Mr. Moscoso. I grant you, Mr. Chairman, that it is a pretty difficult thing to do, except in the case of certain projects.

Mr. PASSMAN. We have two standards, one for America and one for foreign nations. This is no indictment of you, sir, but the law gives you that exception. This double standard has gotten us so fouled up that it does not seem we will ever be able to straighten it out. You have a dual standard, one for America and one for foreign projects.

NORTHERN REGIONAL DEVELOPMENT PROJECT

Now, on this $200,000, did you ever find that information for us?

Mr. Moscoso. We don't have the information, Mr. Chairman.

Mr. PASSMAN. How do you expect us to recommend the money?

Mr. Moscoso. We can get it for the record, Mr. Chairman.

Mr. PASSMAN. Some of you are bound to have this information. You are starting a new project to be known as the Northern Regional Development at an intial cost of $200,000. Now, what is the Northern Regional Development Association?

Mr. Moscoso. This is a project to increase agricultural exports and production, which is the primary goal of the Argentinian program. This, region, which is relatively underdeveloped, offers the best chance for a rapid increase in production.

Mr. PASSMAN. If we switched sides at this table, could I talk you into giving me one dollar and a half for a new project which could wind up being 25 times that much?

Mr. Moscoso. I think so. If you asked me, yes.

Mr. PASSMAN. You would not do it on the basis of the information in this book, would you?

Mr. Moscoso. In the first place, I would say, knowing you, that the information that was presented here had been looked into, corroborated, and checked and you were asking me for the smallest possible amount to get the job done.

Mr. PASSMAN. If you ever get on this side of the table, do not give me money on that basis.

You are going to have to find out what it is going to cost us.

CIVIL AVIATION PROJECT

Why do you need $40,000 for contract services for the civil aviation project, at page 39?

Mr. Moscoso. By the way, Mr. Chairman, I think in the case of this project—I am sorry, sir.

Mr. PASSMAN. This is the third one on which you have no information. Do you want to pass this one up?

Mr. Moscoso. Yes.

(The information supplied later follows:)

CIVIL AVIATION

Argentina has presented several proposals for airport construction and navigational and electronic equipment loans. However, there appears to be several overlapping and conflicting aspects in some of these proposals. A private consulting organization will be engaged to render an independent study of existing and proposed airport facilities throughout Argentina to assist the Government of Argentina in rationalizing its civil aviation program. This survey will cost $40,000.

Mr. PASSMAN. What will it cost to complete this project, projecting it through fiscal year 1966?

Mr. Moscoso. We can give you those figures for the record. We are trying to get them for you on the phone, but we will be happy to give them for the record, Mr. Chairman.

Mr. PASSMAN. This is the third one in a row that you do not have any information on.

UNIVERSITY CONTRACTS FOR ASSISTANCE TO HIGHER EDUCATION—ARGENTINA

What new university contracts do you plan to initiate in fiscal year 1964 under the assistance to higher education project, on page 40?

LABOR-MANAGEMENT RELATIONS INSTITUTE PROJECT

Mr. Moscoso. We are considering Wayne State University and the University of Michigan for establishing a labor-management relations institution in Santa Fe.

Mr. PASSMAN. What will they do?

Mr. Moscoso. Primarily to develop a labor-management program which will permit better working relationships.

To provide instruction in modern techniques of labor relations, about which unfortunately the average Argentinian has very little knowledge. This has resulted in innumerable unnecessary strikes and has created difficulties for some of the American companies there, as well as retarding Argentina's development.

Mr. PASSMAN. Can you tell us whether this project is presently in effect?

Mr. MOSCOSO. Yes, it is.

Mr. PASSMAN. How much do you have on hand, unliquidated, to the credit of the project?

Mr. MOSCOSO. $630,000.

Mr. PASSMAN. Does this cover all of Argentina?

Mr. MOSCOSO. The operation is primarily in Sante Fe, but it is for all of Argentina.

Mr. PASSMAN. Will you project the cost of this item to completion?

Mr. MOSCOSO. We don't have it with us.

(The information requested follows:)

ASSISTANCE TO HIGHER EDUCATION IN ARGENTINA

The estimated cost to completion of this project is $3.6 million.

COMMITMENTS FOR CENTRAL HOUSING BANK

Mr. PASSMAN. Page 44 indicates that you have committed $12,500,000 as of July 31, 1962, for the Central Housing Bank. In view of the fact that the Government of Argentina has to take legal and organizational steps to set up savings and loan systems, why do you commit any funds for this credit until these steps have been effected? You cannot enter into a contract. You cannot disburse a nickel of this money, can you?

Mr. MOSCOSO. We signed this contract on June 3, 1963.

Mr. PASSMAN. When did you publish these justifications?

Mr. TENNANT. In February or March.

Mr. PASSMAN. In anticipation you would get this contract?

Mr. MOSCOSO. Yes; that the contract would be signed.

Mr. PASSMAN. You are always trying to get the cart ahead of the horse. You do not wait until you have something of reality. You just project that you are going to get these things and come in and ask for money.

Mr. MOSCOSO. The loan application was approved July 31, 1962.

Mr. PASSMAN. Was that almost a year prior to the time you had legislation?

Mr. MOSCOSO. No; to the signing of the application.

Mr. PASSMAN. All right, sir, what is wrong with my statement? It is either correct or it is not correct; that you approved a $12,500,000 loan 11 months in advance of the signing of the contract—the legislation that made it possible—did you not?

Mr. MOSCOSO. Not the legislation.

Mr. PASSMAN. The Government of Argentina has to take legal commitments and organizational steps to set up a savings and loan system in Argentina, but you approved a $12.5 million loan 11 months prior to the agreement, which was in June of 1963.

Mr. SCHEINMAN. Mr. Chairman, the sheets which are contained in that book with respect to development loans are not specific requests for funds this year. They indicate in this particular case a reservation of development loan funds.

Mr. PASSMAN. Did you obligate the funds last year?

LOAN RESERVATIONS AND OBLIGATIONS

Mr. TENNANT. Technically the funds were obligated. This amount was included in the figure we gave you for obligations and reservations; the figures we give you generally at the end of the year.

Mr. PASSMAN. With reference to the $515 million, did you have the $12.5 million in that account, or in another category? You had $515 million unobligated as of June 30, 1963.

Mr. TENNANT. It was not in that unobligated figure that you are referring to, sir.

Mr. PASSMAN. The figure you gave us on unobligated funds was $515 million-plus, including the revolving fund. Is that figure correct?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. Technically you say this money was not obligated. How much of this kind of thing do we have that could be added to the $515 million?

Mr. TENNANT. With respect to the Argentine loan of $12.5 million in the presentation book, it was "reserved" when the book went to press. However, it was obligated before June 30, 1963.

Coming back to what Mr. Scheinman was saying on loans—this will take me a minute to say.

Mr. PASSMAN. Credits?

Mr. TENNANT. Under the development loan program as stated in the act.

When the loan is approved, we put it in an obligated or reserve status. We treat the terms synonomous. Any time I give you an obligated figure, it includes those loan reservations.

In this case that loan was not in the unobligated——

COMMITMENT IN ADVANCE OF LEGISLATIVE ACTION

Mr. PASSMAN. So far as the Congress is concerned, and the American taxpayers, you had actually obligated $12,500,000 for the purpose indicated in the books, prior to the time the Argentine Government had enacted legislation and set up the organization to create these building and loan associations?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Now, elaborate all you want to.

Mr. MOSCOSO. The elaboration is as follows: We made a condition precedent to any disbursement that the Government of Argentina take all of these legal and organizational steps which would set up the savings and loan system.

Mr. ANDREWS. Did they do that?

Mr. MOSCOSO. They have, yes.

Mr. PASSMAN. Gentleman, do you think possibly that is one reason we have created a monstrosity, an uncontrolled and uncontrollable program? You were so anxious to get these funds in some kind of an obligation status that you obligated $12.5 million for the purpose indicated here prior to the time the Government of Argentina had enacted legislation and set up an organization for this purpose. Is that not actually getting off to too fast a start? What harm would have been done if we had waited until they had passed legislation making

it possible to do these things? Would they not have had a little more respect for us? You could not obligate $12.5 million for an Argentine savings and loan system without those people knowing about it. Should we not tighten up on some of these things?

Mr. SCHEINMAN. Mr. Chairman, in my legal experience I have found many banking institutions make loans with conditions requiring a reorganization of companies——

Mr. PASSMAN. No law in Argentina would permit them to do that and it required an act of the Argentine Legislature before they could form this system. You would not think of doing such a thing in this country, but here you are obligating $12.5 million when you actually did not know whether or not the Argentine Government would ever pass the appropriate legislation.

Let them pass the laws first. These people know you have set the money aside before they passed the law.

Mr. MOSCOSO. The loan was made to the Central Housing Bank, which has existed in Argentina for some time but it does not operate a savings and loan system. We wanted to help the Argentinians to create such a system.

Mr. PASSMAN. Why did you not wait until they enacted the legislation and then made the obligation? You have said it required an act of the Legislature of Argentina.

How many hundreds of millions of dollars around the world do we have that we call obligated when it is not obligated but carried as an obligation waiting for some legislature to act or for some assurance of government that they will implement the program by passing legislation?

You get into a lot of complications on a program of this type. I would think it would require some very astute legal opinions to keep these entanglements straight. Would you agree to that statement?

Mr. MOSCOSO. That is correct.

GENERAL COUNSEL OF AID

Mr. PASSMAN. Who is the General Counsel of AID?

Mr. MOSCOSO. John Wilkins.

Mr. PASSMAN. Is he any kin to Roy Wilkins, the president of NAACP?

Mr. SCHEINMAN. I do not know. We will be happy to check it for you. Mr. Wilkins just received an award.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. SCHEINMAN. On the record, Mr. Wilkins just received an award as one of the outstanding public servants of the United States.

Mr. PASSMAN. Who gave that award to him?

Mr. SCHEINMAN. The President of the United States.

It was the Arthur Flemming Award.

Mr. PASSMAN. I am sure he is a competent attorney. I asked if it would not require some exceptional legal talent to keep these entanglements straight and you said it would, and I asked who your General Counsel is and you said John Wilkins, and he is the brother of the president of the NAACP, is he not?

Mr. ANDREWS. What is the basis of the award?

Mr. TENNANT. I believe the award was given by the Civil Service Commission and the Junior Chamber of Commerce of the District of Columbia. It is called the Arthur S. Flemming Award and honors the 10 outstanding young civil service people under age 40.

Mr. Wilkins was Mr. Rubin's assistant.

Mr. PASSMAN. Anyway, it takes a person with considerable legal knowledge to pass on these complicated contracts?

Mr. SCHEINMAN. It is a very difficult job.

Mr. PASSMAN. And I asked what the name of your General Counsel is and you said John Wilkins. I believe he is a graduate of Harvard. And I asked if he is related to Roy Wilkins, the president of NAACP.

Mr. MOSCOSO. I said I did not know.

Mr. PASSMAN. I believe he is the brother of Roy Wilkins, the president of NAACP.

Mr. SCHEINMAN. We will be happy to check that.

(Information subsequently supplied follows:)

Mr. John R. Wilkins, General Counsel, Agency for International Development, is not related to Mr. Roy Wilkins, executive secretary, NAACP.

PROJECT COMPLETION COSTS

Mr. MOSCOSO. Mr. Chairman, I have the figures on the cost of these two projects.

Mr. PASSMAN. There were three of them.

Mr. MOSCOSO. The livestock improvement project is estimated to cost $4,087,000 from its beginning to completion.

Mr. PASSMAN. The original estimate of the cost was $565,000 and in 1961 you indicated it would need an additional $100,000. Now you tell us it will cost $4,087,000. I believe that is a 700 percent increase over the original estimate.

Mr. MOSCOSO. The second project, the northern regional development project, is estimated to cost $1,160,000 to completion in 1968.

And the third project, civil aviation, it is estimated will have cost $1,616,000 from its beginning in 1958 to completion in 1966.

ORGANIZATION OF STAFF OF GENERAL COUNSEL'S OFFICE

Mr. ANDREWS. What is the size of your legal staff? In addition to the General Counsel, how many assistants are there?

Mr. SCHEINMAN. The General Counsel's Office of the Agency is organized with a central staff and then two or three attorneys are assigned to each of the four regions to assist the Assistant Administrator, such as Mr. Moscoso, in the particular problems relating to their area. I will be glad to provide the details.

Mr. ANDREWS. I would like to know the total number of lawyers.

Mr. SCHEINMAN. In legal positions?

Mr. ANDREWS. In legal positions.

Mr. SCHEINMAN. Many of us, like myself, are not in legal positions.

Mr. ANDREWS. Are you not in the General Counsel's Office?

Mr. SCHEINMAN. No; the Legislation Presentation Office is a part of the Program Coordination Staff of the Agency.

Mr. ANDREWS. I would like to know the number of attorneys doing legal work in your agency.

Mr. PASSMAN. If you will, supply a statement as to the total personnel under the General Counsel and then their positions, by category. Give us their civil service ratings and their salaries.

Mr. RHODES. And their names, of course.

Mr. PASSMAN. That will not be a difficult job, will it?

Mr. SCHEINMAN. No, sir.

Mr. PASSMAN. Give us the names of all personnel under the General Counsel, their position, their grade, and their salary, and on a separate page indicate those in the regional offices.

Mr. SCHEINMAN. We will be glad to supply that.

(The information supplied follows:)

Office of the General Counsel: Agency for International Development

Name and biographical data	Position	Grade	Salary
John R. Wilkins, B.A., 1944, University of Wisconsin; LL.B., 1947, Harvard Law School; editor, Harvard Law Review; teaching fellow, University of Chicago; attorney, Wilkins, Wilkins & Wilkins, Chicago; legal assistant, U.S. court of appeals; trial attorney, Department of Justice; attorney-adviser, FAO; regional legal adviser, ICA; Associate General Counsel, ICA; Deputy General Counsel, AID; winner, Arthur S. Flemming Award, 1962.	General Counsel	ES-18	$20,000
Leslie A. Grant; A.B., 1935 University of Minnesota; LL.B., 1937, University of Minnesota; Minnesota Law Review; attorney, Leonard, Street & Deinard, Minneapolis; counsel, Office of Price Administration; legal adviser, U.S. Department of Defense, Berlin; Associate General Counsel, ICA.	Deputy General Counsel.	GS-16	18,000
Norman R. Vander Clute; B.A., 1954, Amherst College; LL.B., 1957, Harvard Law School; Harvard Law Review; law clerk, First Circuit Court of Appeals, Boston; attorney, Standard-Vacuum Oil Co., White Plains, N.Y; attorney, American Airlines, New York.	Assistant General Counsel, Africa/Europe.	ES-15	16,485
Kermit G. Bailer; A.B., 1942 University of Michigan LL.B., 1949, Wayne State University; assistant prosecuting attorney for Wayne County; Chief, Housing Section, U.S. Commission on Civil Rights; special programs counsel, Urban Renewal Administration.	Attorney-adviser, Africa/Europe.	GS-15	14,565
Willis W. Jourdin, Jr.; A.B., 1948, Stanford University; LL.B., 1955, Stanford University; Stanford Futures Scholarship; J. W. Switzer, Scholarship; law clerk to William Healy, U.S. circuit judge, U.S. Court of Appeals, Ninth Circuit; attorney, Kaiser Aluminum & Chemical Corp., Oakland.	do	GS-14	12,845
Don Wallace; B.A., 1953, Yale College; LL.B., 1957, Harvard Law School; Phi Beta Kappa; attorney, Paul, Weiss, Rifkind, Wharton & Garrison, New York; attorney, Fleischmann, Jaeckle, Stokes & Hitchcock, New York.	do	GS-13	11,150
Francis D. Fisher; A.B., 1948, Harvard College; LL.B., 1951, Harvard Law School; associate attorney and partner, Tenney, Sherman, Bentley & Guthrie, Chicago.	Assistant General Counsel, Far East.	GS-15	15,045
Irwin A. Levy; A.B., 1953, University of Pennsylvania; LL.B., 1957, Yale Law School; Phi Beta Kappa; Yale Law Journal.	Attorney-adviser, Far East.	GS-14	12,845
Herbert E. Morris; B.A., 1950, Yale University; LL.B., 1953, Yale University Law School; Phi Beta Kappa; law clerk to U.S. District Judge J. Joseph Smith; teaching fellow, Boston University School of Law, Boston; teaching fellow, Stanford School of Law; attorney, Civil Appellate Section, Department of Justice.	do	GS-14	12,845
David Bronheim; A.B., 1953, University of Michigan; LL.B., 1956, Harvard Law School; attorney-adviser to Judge Arnold Raum, Tax Court of the United States; attorney, General Counsel's Office, World Bank.	Assistant General Counsel, Latin America.	GS-15	14,565
Thomas S. James; B.A., 1952, Harvard College; LL.B., 1958, Georgetown Law Center; editor, Law Journal; associate attorney, Mayer, Friedlich, Spiess, Tierney, Brown & Platt, Chicago.	Attorney-adviser, Latin America.	GS-13	11,515
Herbert E. Adelman; B.A., 1952, University of Pennsylvania; LL.B., 1958, Columbia University Law School; Columbia Law Review editor; merit scholarship; law clerk to Judge Stanley Fuld; attorney, Szold, Brandwen, Meyers & Blumberg, New York; attorney, Spear & Hill, New York.	do	GS-13	11,515
David M. Trubeck; B.A., 1957, University of Wisconsin; LL.B., 1961, Yale Law School; editor, Yale Law Journal; Order of the Coif; law clerk to Judge Charles Clark, New Haven.	do	GS-12	9,474

Office of the General Counsel: Agency for International Development—Continued

Name and biographical data	Position	Grade	Salary
James Patterson Drew; B.A., 1953, University of Notre Dame; LL.B., 1958, Columbia Law School; on staff of Dewey, Ballantine, Bushby, Palmer & Wood, New York.	Attorney-adviser, Near East/south Asia.	GS-13	$11,150
Harry F. Martin; A.B., 1955, Harvard College; LL.B., 1960, Harvard Law School; on staff of Mobil Oil Nigeria, Ltd., Nigeria; on staff of Clark, Carr & Ellis, New York.	do	GS-12	9,475
Jonathan Silverstone; A.B., 1949, Harvard College; LL.B., 1952, Yale Law School; law clerk to Harold Strauch, Hartford.	Assistant General Counsel, Contract Policy.	GS-15	15,045
George Rublee; A.B., 1948, Harvard College; LL.B., 1953, Havard Law School; associate, Covington & Burling, Washington; Counsel, Development Loan Fund.	Assistant General Counsel, Development Financing and Private Enterprise.	GS-15	15,045
Jerome J. Jacobson; B.A., Long Island University; LL.B., 1937, Brooklyn Law School; counsel, Textile Workers Union of America, New York; senior attorney, OPA; attorney, UNRRA, Washington; attorney, Jacobson, Yao & Duncan, Shanghai; General Counsel, American Joint Distribution Committee, Paris; attorney, International Law, Geneva.	Attorney-adviser, Investment Guarantees.	GS-15	15,045
Alan C. Swan; B.A., 1954, Albion College; J.D., 1957, University of Chicago Law School; Phi Beta Kappa; attorney, Milbank, Tweed, Hope & Hadley, New York.	Attorney-adviser, Legislation and Program Coordination.	GS-14	12,845
Charles Stephenson; B.S., 1955, University of Wisconsin; LL.B., 1959, Yale Law School; Ford Foundation scholarship; on staff of Kelley, Drye, Newhall & Maginnes, New York; on staff of Hawthorne, Ackerly & Dorrance, New Canaan.	do	GS-12	9,475
Walter E. Menke; 1920, Kaiser Friedrich Schule, Berlin; LL.B., 1923, Universities Heidelberg, Berlin; associate judge, circuit courts, Berlin; attorney, Berlin; president, holding corporation, Berlin; secretary-treasurer, New England Industries, Inc., New York; attorney, Legislation Division, OMGUS, HICOG, Nuremberg; Legal Adviser, FOA, Saigon.	Attorney-adviser, Litigation and Congressional Investigations.	R-3	16,110
Edna A. Boorady; B.S., 1951, Fordham University; LL.B., 1954; Cornell Law School; Executive Assistant to Chief of Mission, UNRRA.	Assistant General Counsel, Management and Personnel.	GS-15	14,565
Paul S. Turner; B.A., 1955, UCLA; LL.B., 1958, Harvard Law School; law clerk to Judge William Byrne, Southern District of California; on staff of Lehmann & Turner.	Attorney-adviser, Management and Personnel.	GS-13	11,150
Merwin W. Kaye; LL.B., 1949, University of Georgia; Phi Beta Kappa; attorney-adviser, USDA; legal adviser, ICA, Seoul.	Attorney-adviser, Material Resources.	R-3	15,665
Julius Kaplan; B.A., 1956, Wesleyan University; J.D., 1959, University of Chicago Law School; Master of Comparative Law, 1961, University of Chicago; editor, University of Chicago Law Review.	do	GS-12	9,475

ROAD PROGRAM

Mr. PASSMAN. Page 45 indicates that you are committed to $30,500,000 as a credit for the road program in Argentina on the same soft terms. Page 45 also indicates that additional financing for the same road is being done under the World Bank credit approved in June of 1961.

Why do they need to get a line of credit approved at both levels, the World Bank as well as the AID program?

Mr. Moscoso. This is a major program of the Argentine Government for which they have sought major external assistance. Eventually it is estimated it will cost close to $690 million. The $30.5 million is AID's participation with IBRD in the construction of a part of this program.

Mr. PASSMAN. What are the terms of the World Bank loan?

Mr. Moscoso. The World Bank is providing for this particular project $35 million.

Mr. PASSMAN. At what rate of interest?

Mr. Moscoso. The World Bank is 5½ percent. That is the usual rate.

Mr. PASSMAN. And what are the terms?

Mr. Moscoso. The general terms.

As long as 25 years.

Mr. PASSMAN. What are the terms on this loan?

Mr. Moscoso. We do not have it, Mr. Chairman.

Mr. PASSMAN. But it is at 5½ percent interest?

Mr. Moscoso. That is the usual rate.

Mr. PASSMAN. And the general terms are 40 years, no interest, and a 10-year grace period under the AID program?

Mr. Moscoso. That is right.

Mr. ANDREWS. Mr. Ambassador, I notice you have a 10-year road program which is estimated to involve a total expenditure of $690 million?

Mr. Moscoso. That is right.

Mr. ANDREWS. How much of that amount do you anticipate AID will furnish under these soft-term loans?

Mr. Moscoso. We have not made an estimate of our further participation in this program.

Mr. ANDREWS. You will have to participate, will you not, in the future if the program is to be completed?

Mr. Moscoso. If the program is fully developed and if they meet our criteria, yes, we may participate. Argentina will provide $160 million of financing for projects included in this program. In other words, they are also providing substantial sums in participation.

Mr. ANDREWS. But this $690 million figure I mentioned is being considered by AID and the World Bank?

Mr. Moscoso. This is a total for the 10-year Argentine program. We are not committing ourselves to this 10-year program.

Mr. ANDREWS. Could Argentina support a $690 million road program over a 10-year period without U.S. assistance?

Mr. Moscoso. If they got all the foreign exchange assistance they needed from the World Bank, they would not need it, but I doubt they can get it.

Mr. ANDREWS. If they are to spend $690 million in the next 10 years on roads in this program you outline on page 45, they will have to look to AID and the World Bank for financing?

Mr. Moscoso. The World Bank and/or AID.

FINANCING OF 10-YEAR ROAD PROGRAM

Mr. ANDREWS. And we are told this program will last 10 more years; therefore we can look forward to financing most if not all of the $690 million road program over the next 10 years?

Mr. Moscoso. No, sir. I have said repeatedly we are the lenders of last resort. It will have to be proven they cannot get the financing from some other sources.

Mr. ANDREWS. At the moment they are getting $30.5 million from AID and $35 million from the World Bank so at present it is almost 50–50?

Mr. Moscoso. But they are putting in $160 million in that program.

Mr. PASSMAN. Who is putting in $160 million?

Mr. Moscoso. Argentina.

Mr. ANDREWS. But as I understand it, it is a $690 million program contemplated over the next 10 years, $30.5 million of which is put up by AID and $35 million by the World Bank?

Mr. MOSCOSO. That is part of the $690 million, as is the Argentine's current input.

Mr. ANDREWS. All right.

Mr. PASSMAN. Where is this road to be built, in what country?

Mr. MOSCOSO. In Argentina.

Mr. PASSMAN. Out of a $690 million program you had to say Argentina will provide the equivalent of $160 million for financing other road projects, including the 10-year highway program. It could mean labor or crushed rock or anything?

Mr. MOSCOSO. That is right; they can contribute such things to this program.

Mr. PASSMAN. But they are the recipients of the aid and all they have to do is knock the rocks down and they might not be contributing anything but rocks and labor. Does it deal with this specific road project?

Mr. MOSCOSO. That is right. But it does deal with this project.

The $690 million, Mr. Chairman, includes not only the World Bank and any other participation but also Argentine participation.

Mr. PASSMAN. But they are the recipients. They are doing something for themselves.

Mr. MOSCOSO. Yes.

Mr. PASSMAN. They are the beneficiaries of what they do for themselves out of their own economy. In 1961, when the World Bank approved this $35 million loan at 5½ percent did they think Argentina could carry on its own road program?

Mr. MOSCOSO. I beg your pardon?

Mr. PASSMAN. In 1961 the World Bank felt they could afford to approve this high interest rate loan and this loan would enable Argentina to carry on their $690 million road project?

Mr. MOSCOSO. Part of it.

Mr. PASSMAN. You did not have any Alliance for Progress then?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. So when the World Bank approved the loan in 1961 it was based on the fact that Argentina had a strong enough economy so they could carry out this road project?

Mr. MOSCOSO. Yes; this part.

Mr. PASSMAN. But when you got the Alliance for Progress they had to go in for one of these long-term grant credits?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. You answered my question in the affirmative that the World Bank evaluated the financial condition of Argentina and said, in effect, "With this you will be able to carry out the road program."

Mr. MOSCOSO. Since then there has been a deterioration.

Mr. PASSMAN. How do you know they will not deteriorate more? There are peaks and valleys in the economy of this and other countries. This is one case where the World Bank had evaluated the project and thought with this loan they could build the road, and then when they had an economic decline, they came to us for American dollars to bail them out. The economy of Argentina must have been reasonably good in 1961 when the World Bank approved this loan.

Mr. MOSCOSO. May I comment, Mr. Chairman?

Mr. PASSMAN. Certainly.

Mr. MOSCOSO. On the fact that if you add up our aid, the World Bank's participation, and the Argentine Government's participation in this program you will see that we are participating in about 15 percent of the cost of the present program. I do not think that is a very large proportion.

Mr. PASSMAN. You did not have any Alliance for Progress when the World Bank went in and said, "This is what you need to carry out the project." But at a later date they had a slump in their economy and required aid.

Mr. RHODES?

Mr. RHODES. Thank you, Mr. Chairman.

RESCHEDULING OF DEBT REPAYMENTS TO EUROPEAN CREDITORS

Mr. MOSCOSO, on page 17 of your justifications, toward the bottom of the page in the left-hand column are these words:

> Argentina is arranging to reopen debt negotiation with European creditors. The United States will press the Europeans to provide significant debt rescheduling relief to Argentina and to view these debt payments in the context of the total Argentina balance-of-payments problem, in order to avoid the possibility of diversion of U.S. assistance to the payment of European obligations.

What is the status of that?

Mr. MOSCOSO. The Europeans have rescheduled the debts. All the renegotiations of the debts were finished on July 15, just a few days ago.

Mr. RHODES. What effect will that have on the Argentine balance-of-payments situation?

Mr. MOSCOSO. This will take care of it until October. This was also handled through the good offices of the International Monetary Fund.

Mr. RHODES. What European nations are involved in this?

Mr. MOSCOSO. Germany, England, Italy, and France.

Mr. RHODES. No Communist bloc nation?

Mr. MOSCOSO. No.

TRADE WITH COMMUNIST BLOC COUNTRIES

Mr. RHODES. What is the status of the balance of payments between Argentina and the Communist bloc nations?

Mr. MOSCOSO. Argentina exported to the bloc in 1961 $56.9 million and imported $47.7 million.

Mr. RHODES. Is that the last year you have?

Mr. MOSCOSO. We have 6 months of 1962.

Mr. RHODES. Very well.

Mr. MOSCOSO. The exports were $34.3 million and the imports for those 6 months were $10.5 million.

Mr. RHODES. What products are mainly exported from Argentina to the Communist bloc?

Mr. MOSCOSO. I do not have the information but I presume it is wheat.

Mr. RHODES. Will you provide it for the record?

Mr. MOSCOSO. We will provide it for the record.

(The information supplied follows:)

Argentina's Trade With the Sino-Soviet Bloc, 1961–62

Exports to Sino-Soviet bloc countries and Yugoslavia, January–December 1962

[Quantity in metric tons, except as indicated; value all exports in U.S. dollars]

Commodity	Total to Sino-Soviet bloc		Bulgaria		Czechoslovakia		Soviet zone of East Germany		Hungary		Poland	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
(1)	765,126,506	82,396,217	10,996,542	684,573	36,021,604	13,751,488	9,876,759	2,739,603	27,235,242	6,953,279	40,343,795	11,976,142

Commodity	Rumania		U.S.S.R.		China		Albania		Yugoslavia	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
(1)	11,716,553	3,550,647	26,277,582	9,242,899	579,960,449	25,848,819	250	168	22,697,730	7,648,599

[1] Commodity detail now being compiled by Commerce Department. Preliminary review indicates imports heaviest in manufactured goods, chemicals, iron products, and spare parts. Exports heaviest in hides, wool, and undressed skins.

Imports from Sino-Soviet bloc countries and Yugoslavia, January–December 1962

[Quantity in metric tons, except as indicated; value all exports in U.S. dollars]

Commodity	Total from Sino-Soviet bloc		Bulgaria		Czechoslovakia		Soviet zone of East Germany		Hungary		Poland	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
(1)	156,908,904	25,518,268	4,515,510	183,088	5,679,103	4,403,936	4,729,107	622,236	4,258,885	3,945,900	98,968,267	2,705,615

Commodity	Rumania		U.S.S.R.		China		Albania		Yugoslavia	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
(1)	22,335,509	3,083,551	19,510,831	10,191,714	432,319	167,550	(2)	(2)	1,589,373	214,678

[1] Commodity detail now being compiled by Commerce Department. Preliminary review indicates imports heaviest in manufactured goods, chemicals, iron products, and spare parts. Exports heaviest in hides, wool, and undressed skins.

[2] Negative.

Exports to Sino-Soviet bloc countries and Cuba, January–December 1961

[Quantity in metric tons, except as indicated; value in thousands of U.S. dollars]

Commodity	Total to Sino-Soviet bloc		Albania		Bulgaria		Czechoslovakia		Soviet Zone of Germany	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Exports, total	----------	[1] [2] 56,852	----------	453	----------	317	----------	12,887	----------	1,453
Food:										
Sheep for breeding	36	71	–	–	–	–	–	–	–	–
Beef, chilled	800	285	–	–	–	–	800	285	–	–
Beef, frozen	3,334	1,281	–	–	–	–	3,393	1,280	–	–
Corn	43,406	2,056	9,971	453	–	–	–	–	–	–
Sunflower seed flour	3,666	204	–	–	–	–	–	–	–	–
Food, other	955	72	–	–	–	–	59	24	400	15
Crude materials inedible, except fuels:										
Cattle hides, salted ... thousands	4,147	34,456	–	–	29	252	1,043	8,827	53	495
Cattle hides, dried ... do	37	177	–	–	–	–	19	107	–	–
Goatskins and kidskins ... do	154	237	–	–	–	–	–	–	–	–
Lambskins, undressed ... number	31,991	79	–	–	–	–	–	–	–	–
Linseed	2,498	280	–	–	–	–	–	–	499	51
Peanut flour	13,565	345	–	–	–	–	–	–	–	–
Wool, greasy	8,625	8,355	–	–	–	–	2,091	1,748	886	823
Wool, washed	154	246	–	–	–	–	154	246	–	–
Wool, combed	257	523	–	–	–	–	–	–	–	–
Wool mill waste	145	112	–	–	–	–	–	–	–	–
Zinc ore	3,295	127	–	–	–	–	–	–	–	–
Crude materials inedible, except fuels, other	413	50	–	–	–	–	209	32	–	–
Animal and vegetable oils and fats:										
Tallow, inedible	1,017	144	–	–	–	–	465	65	–	–
Linseed oil	22,892	5,780	–	–	–	–	193	53	–	–
Chemicals:										
Quebracho extract	15,402	1,626	–	–	590	64	2,066	216	692	69
Wheat gluten	618	242	–	–	–	–	–	–	–	–
Parcel post	89	99	(3)	(4)	2	1	5	3	(3)	(4)
Other merchandise	----------	5	–	–	–	–	----------	1	–	–

Commodity	Hungary		Poland		Rumania		U.S.S.R.		China	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Exports, total		8,542		13,504		2,788		12,735		4,173
Food:										
Sheep for breeding	—	—	—	—	—	—	36	71	—	—
Beef, chilled	—	—	—	—	—	—	—	—	—	—
Beef, frozen	—	—	—	—	—	—	—	—	1	1
Corn	—	—	—	—	—	—	—	—	33,435	1,603
Sunflower seed flour	3,666	204	—	—	—	—	—	—	—	—
Food, other	496	33	(3)	(4)	—	—	—	—	—	—
Crude materials, inedible, except fuels:										
Cattle hides, salted ... thousands	953	7,298	947	7,647	294	2,467	827	7,463	1	7
Cattle hides, dried ... do	16	54	2	16	—	—	—	—	—	—
Goatskins and kidskins ... do	67	113	87	124	—	—	—	—	—	—
Lambskins, undressed ... number	13,573	23	220	1	18,198	55	—	—	—	—
Linseed	—	—	1,999	229	—	—	—	—	—	—
Peanut flour	13,565	345	—	—	—	—	—	—	—	—
Wool, greasy	—	—	4,143	4,242	—	—	4	4	1,501	1,538
Wool, washed	—	—	—	—	—	—	—	—	—	—
Wool, combed	—	—	—	—	—	—	—	—	257	523
Wool mill waste	—	—	145	112	—	—	—	—	—	—
Zinc ore	—	—	3,295	127	—	—	—	—	—	—
Crude materials, inedible, except fuels, other	198	17	—	—	—	—	6	1	—	—
Animal and vegetable oils and fats:										
Tallow, inedible	—	—	552	79	—	—	—	—	—	—
Linseed oil	290	77	1,909	533	—	—	20,500	5,117	—	—
Chemicals:										
Quebracho extract	3,835	376	3,783	384	2,267	260	—	—	2,169	257
Wheat gluten	—	—	—	—	—	—	—	—	618	242
Parcel post	8	2	20	9	9	6	45	78	(3)	(4)
Other merchandise	—	—		1	—	—		1		2

[1] Exports to North Korea, North Vietnam, and Outer Mongolia, if any, are not reported in the source.

[2] Exports to Cuba are not included in the total to Sino-Soviet bloc column. Exports to Cuba in January-June 1961 were valued at $300,000, but complete data for 1961 are not available.

[3] Less than one-half the unit.

[4] Less than $500.

— indicates none.

NOTE.—Commodities are listed in the order of the "United Nations Standard International Trade Classification, Revised." Exports include domestic and nationalized merchandise and are valued f.o.b. Dollar values are as reported in the source. The total value of Argentine exports for 1961 is $964,100,000, of which 5.9 percent was exported to the Sino-Soviet bloc.

Source: Unpublished official trade data.

Imports from Sino-Soviet bloc countries and Cuba, January–December 1961

[Quantity in metric tons, except as indicated; value in thousands of U.S. dollars]

Commodity	Total from Sino-Soviet bloc		Bulgaria		Czechoslovakia		Soviet Zone of Germany		Hungary		Poland		Rumania		U.S.S.R.		China	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Imports, total	------	[1] 47,693	------	129	------	9,281	------	1,449	------	10,230	------	11,608	------	3,086	------	11,861	------	49
Tobacco, unmanufactured	144	60	144	60	–	–	–	–	–	–	–	–	–	–	–	–	–	–
CRUDE MATERIALS INEDIBLE, EXCEPT FUELS																		
Agave fibers	1,068	308	–	–	–	–	–	–	–	–	–	–	–	–	1,068	308	–	–
Crude materials inedible, except fuels, other	------	82	------	2	------	32	------	27	–	–	------	21	–	–	–	–	–	–
Coal	602	10,219	–	–	–	–	–	–	–	–	602	10,219	–	–	–	–	–	–
CHEMICALS																		
Caustic soda	844	68	–	–	–	–	–	–	–	–	332	28	512	40	–	–	–	–
Soda ash	17,641	592	–	–	–	–	–	–	–	–	5,003	185	12,638	407	–	–	–	–
Inorganic chemicals, other	------	197	------	7	–	–	------	51	–	–	------	128	–	–	------	6	------	5
Naphthalene	193	76	–	–	–	–	–	–	–	–	188	73	–	–	5	3	–	–
Resin pitch	370	103	160	39	–	–	–	–	–	–	210	64	–	–	–	–	–	–
Chemicals, other	------	306	------	6	------	41	------	14	------	23	------	142	------	4	------	71	------	5
MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL																		
Newsprint	3,792	550	–	–	2,152	308	–	–	–	–	999	147	–	–	641	95	–	–
Glassware	156	131	–	–	153	125	1	5	–	–	(2)	(2)	–	–	–	–	2	1
Sheet iron, unworked	2,908	317	–	–	–	–	447	39	–	–	2,461	278	–	–	–	–	–	–
Iron ingots	42,970	3,734	–	–	–	–	–	–	1,677	147	–	–	17,598	1,536	23,695	2,051	–	–
Steel bars, sheets, and plates, unworked	672	197	–	–	672	197	–	–	–	–	–	–	–	–	–	–	–	–
Iron tie rods	688	70	–	–	224	24	–	–	211	21	253	25	–	–	–	–	–	–
Iron profiles	1,187	120	–	–	137	14	–	–	836	84	214	22	–	–	–	–	–	–
Railway rails	2,000	275	–	–	–	–	–	–	–	–	–	–	–	–	2,000	275	–	–
Iron pipe	7,366	1,860	–	–	7,320	1,837	–	–	26	13	–	–	–	–	–	–	20	10
Metal manufactures, other	------	498	–	–	------	250	------	15	------	85	------	1	–	–	------	144	------	3
Manufactured goods classified chiefly by material, other	------	141	–	–	------	88	------	3	------	8	------	3	–	–	------	28	------	11

MACHINERY AND TRANSPORT EQUIPMENT																		
Motor parts for road motor vehicles	24	85	—	—	4	19	8	41	(2)	1	—	—	—	—	12	24	—	—
Diesel and semidiesel engines, between 10 and 50 horsepower	87	135	—	—	87	135	—	—	—	—	—	—	—	—	—	—	—	—
Diesel and semidiesel engines, between 100 and 300 horsepower ... number	73	145	—	—	73	145	—	—	—	—	—	—	—	—	—	—	—	—
Diesel and semidiesel engines, over 300 horsepower ... number	3	68	—	—	—	—	—	—	3	68	—	—	—	—	—	—	—	—
Internal combustion, diesel and semidiesel engines, other, except aircraft ... number	1,140	71	—	—	990	64	—	—	150	7	—	—	—	—	—	—	—	—
Parts for diesel and semidiesel engines	36	115	—	—	36	115	—	—	—	—	—	—	—	—	—	—	—	—
Tractors ... number	6	121	—	—	—	—	—	—	—	—	—	—	—	—	6	121	—	—
Accounting machines	-------	239	—	—	—	—	-------	239	—	—	—	—	—	—	—	—	—	—
Office machines, other	-------	72	—	—	-------	4	-------	62	—	—	-------	(3)	—	—	-------	6	—	—
Machine tools, metalworking	-------	2,659	—	—	-------	1,506	-------	31	-------	850	-------	105	—	—	-------	167	—	—
Parts for metalworking machine tools	23	263	—	—	6	146	5	8	12	109	—	—	—	—	—	—	—	—
Metalworking machinery, except machine tools ... number	91	529	—	—	50	406	2	8	27	39	9	55	—	—	3	21	—	—
Knitting machines	-------	62	—	—	-------	9	-------	53	—	—	—	—	—	—	—	—	—	—
Textile machinery, other	-------	75	—	—	-------	7	-------	60	—	—	-------	8	—	—	—	—	—	—
Papermill and pulpmill machinery	1,308	649	—	—	1,226	592	74	51	—	—	8	6	—	—	—	—	—	—
Printing and bookbinding machinery	-------	481	—	—	-------	16	-------	465	—	—	—	—	—	—	—	—	—	—
Excavators and well-drilling machinery ... number	19	444	—	—	4	99	—	—	—	—	1	40	—	—	14	305	—	—
Oil-well drilling machinery and apparatus ... number	1	98	—	—	—	—	—	—	—	—	—	—	—	—	1	98	—	—
Parts for oil-well drilling machinery and apparatus	1,955	3,542	—	—	3	9	—	—	—	—	—	—	272	115	1,680	3,418	—	—
Construction and mining machinery, other	-------	138	—	—	-------	37	—	—	—	—	-------	22	—	—	-------	79	—	—
Air-conditioning and refrigerating equipment	278	349	—	—	278	349	—	—	—	—	—	—	—	—	—	—	—	—
Pumps for liquids	5,660	3,964	—	—	229	235	—	—	—	—	(3)	(3)	1,891	982	3,540	2,747	—	—
Cranes and other hoisting machinery	-------	360	—	—	-------	38	—	—	—	—	—	—	—	—	-------	322	—	—
Ball bearings	197	335	—	—	118	195	2	9	—	—	1	2	—	—	76	129	—	—
Iron valves	82	54	—	—	—	—	—	—	—	—	—	—	—	—	82	54	—	—
Nonelectric machinery, other	-------	286	—	—	-------	112	-------	51	-------	40	-------	1	—	—	-------	82	—	—
Generator sets, electric ... number	2	59	—	—	2	59	—	—	—	—	—	—	—	—	—	—	—	—
Parts for electric generator sets	1,709	1,159	—	—	1,709	1,159	—	—	—	—	—	—	—	—	—	—	—	—
Parts and accessories for radio and television	36	116	—	—	36	116	—	—	—	—	—	—	—	—	—	—	—	—
Switchboard equipment and parts	82	328	—	—	(3)	2	—	—	82	326	—	—	—	—	—	—	—	—
Electric safety and signal equipment	103	91	—	—	—	—	—	—	103	91	—	—	—	—	—	—	—	—
Electric machinery and parts, other	-------	389	—	—	-------	48	-------	9	-------	315	-------	2	—	—	-------	15	—	—
Power generating machinery, including electric, unspecified	-------	101	—	—	-------	9	—	—	—	—	—	—	—	—	-------	92	—	—
Electric and nonelectric machinery, unspecified	-------	205	—	—	-------	119	-------	33	—	—	—	—	—	—	12	53	—	—
Diesel locomotives ... number	13	1,540	—	—	—	—	—	—	13	1,540	—	—	—	—	—	—	—	—

Footnotes on next page

Imports from Sino-Soviet bloc countries and Cuba, January–December 1961—Continued

[Quantity in metric tons, except as indicated; value in thousands of U.S. dollars]

Commodity	Total from Sino-Soviet bloc		Bulgaria		Czechoslovakia		Soviet Zone of Germany		Hungary		Poland		Rumania		U.S.S.R.		China	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
MACHINERY AND TRANSPORT EQUIP.—cont.																		
Railway coaches, passenger ... do	45	4,331	—	—	—	—	—	—	45	4,331	—	—	—	—	—	—	—	—
Railway cars, freight ... do	16	1,050	—	—	—	—	—	—	16	1,050	—	—	—	—	—	—	—	—
Parts for diesel locomotives	22	110	—	—	—	—	—	—	22	110	—	—	—	—	—	—	—	—
Buses ... number	45	522	—	—	—	—	—	—	—	—	—	—	—	—	45	522	—	—
Trucks, over 8 tons ... do	21	190	—	—	13	84	—	—	—	—	—	—	—	—	8	106	—	—
Bus chassis	25	135	—	—	25	135	—	—	—	—	—	—	—	—	—	—	—	—
Automobile steering and transmission parts	21	65	—	—	3	7	4	26	—	—	—	—	—	—	14	32	—	—
Airplanes ... number	1	56	—	—	1	56	—	—	—	—	—	—	—	—	—	—	—	—
Transport equipment, other	------	1,124	—	—	------	69	------	(3)	------	916	------	1	—	—	------	138	—	—
MISCELLANEOUS MANUFACTURED ARTICLES																		
Geophysical exploration instrument	14	279	—	—	—	—	5	7	3	2	—	—	—	—	6	270	—	—
Scientific, optical, measuring and controlling instruments and apparatus, other	------	92	------	2	------	49	------	5	------	5	------	5	—	—	------	26	—	—
Motion-picture film, unexposed	21	85	—	—	(2)	3	17	68	—	—	4	14	—	—	—	—	—	—
Imitation jewelry	85	77	—	—	15	77	—	—	—	—	—	—	—	—	—	—	—	—
Miscellaneous manufactured articles, other	------	179	------	(3)	------	79	------	53	------	37	------	5	—	—	------	3	------	2
Other merchandise	------	167	------	13	------	56	------	16	------	12	------	6	------	2	------	50	------	12

[1] Imports, if any, from Albania, North Korea, North Vietnam, Outer Mongolia, and Cuba, are not reported in the source.
[2] Less than one-half the unit.
[3] Less than $500.
(—) Indicates none.

NOTE.—Commodities are listed as far as possible in the order of the United Nations Standard International Trade Classification, Revised. Imports are for consumption and are valued c.i.f. Dollar values are reported in the source. Total imports of Argentina for 1961 were valued at $1,459,900,000, of which 3.3 percent was imported from the Sino-Soviet bloc.

Source: Unpublished official trade data.

DECLINE OF GROSS NATIONAL PRODUCT

Mr. RHODES. On page 18 of your justifications you have a table which sets forth the gross national product for various years, and I note in 1959, the average gross national product was 503, in 1960 it was 517, in 1961 it was 536, and in 1962 it fell to 496. What happened in 1962 to cause this sudden decline in the average gross national product?

Mr. MOSCOSO. They had major political difficulties, including the elimination of the elected President from the Presidency and the fall of several Cabinets in succession, with a consequent deterioration and reduction in export volumes. As a result of the economic difficulties quite a few industries closed down and unemployment increased. That, I think, is the major causative factor of this reduction.

Mr. RHODES. I think that is all, Mr. Chairman.

Mr. ANDREWS. Mr. Chairman, I have a question.

Mr. PASSMAN. I yield to Mr. Andrews.

LOAN FOR HIGHWAY IMPROVEMENT PROJECT

Mr. ANDREWS. On page 46 you describe a highway loan for the purpose of improving routes 18 and 126. The amount of the loan is $6 million.

Mr. MOSCOSO. Yes, sir.

Mr. ANDREWS. For a period of 20 years at 3½ percent interest. Is that correct?

Mr. MOSCOSO. Yes, sir.

Mr. ANDREWS. You state on page 46, and I quote:

> Disbursements have lagged. Construction work lagged during the first several months, partly due to failure to receive equipment on time and partly due to the general political and economic conditions. When work fell more than 15 percent behind, the Argentines were told that no disbursements could be made until work was brought up to schedule. AID is now making disbursements on that basis.

Is their production on that basis now?

Mr. MOSCOSO. No.

Mr. ANDREWS. Why is construction work lagging?

Mr. MOSCOSO. For a number of reasons. One of the reasons is the fact there were so many cabinet changes brought about by the fall of the Frondizi government and his imprisonment, and for days on end it was not known who the ministers of government were.

Mr. ANDREWS. You know of no opposition to the road?

Mr. MOSCOSO. It is not a question of opposition to the road. It is a question of the inability of the government to function normally because of political instability.

Mr. ANDREWS. We undertook a road program in Afghanistan and moved the materials for the construction of the road to the border of Afghanistan in Pakistan and the Afghanistan Government refused to open the border and take the material inside the country and the material is still in Pakistan under 24-hour guard, if I recall that situation correctly.

Mr. MOSCOSO. We have no such situation here, Mr. Andrews.

Mr. ANDREWS. There is no opposition to the road program?

Mr. MOSCOSO. No, sir. It is just the political difficulties Argentina has suffered and which, hopefully, will be terminated as soon as the legally elected government takes over in October.

Mr. ANDREWS. That is all, Mr. Chairman.

DECLINE OF U.S. GOLD HOLDINGS

Mr. PASSMAN. On December 31, 1952, we had gold holdings amounting to $23.252 billion.

Gold holdings of all other free nations of the world on December 31, 1952, were $13.028 billion.

On December 31, 1962, the other countries, which 10 years previously owned $13.028 billion of gold, had increased their holdings to $24.658 billion. Uncle Sam, who owned $23.252 billion on December 31, 1952, 10 years later had lost gold to the point that he owned only $16.057 billion.

Not only did the other free nations purchase $7.95 billion of our gold, but they also purchased newly mined gold from elsewhere, which increased their holdings by $11.630 billion, bringing their total holdings on December 31, 1962, to $24.658 billion.

On December 31, 1952, we expressed some alarm over "free world" foreign-held short-term dollar credits amounting to $10,546,100,000. However, "free world" foreigners now have short-term dollar credits for which they could demand gold totaling $24.984 billion, as of last December 31. What do we have to pay them with? About $3 billion. And if we give them the $12 billion required to support our own monetary system we would still be short about $10 billion in gold to meet the claims.

Beginning with 1950 and continuing through 1962, 13 years, our international balance-of-payments position, the net deficit was $24.290 billion, and we had only one credit in the 13 years.

I do not care what Mr. Bell or anybody else says, the foreign aid program has been largely responsible for getting us into this position.

But this year, we will probably have the largest balance-of-payments deficit in the history of America, and you cannot change the situation substantially unless you drastically reduce this giveaway program.

Mr. SCHEINMAN. Mr. Chairman, I think it would be helpful to the committee, in view of your presentation, if the chairman would agree to permit us to supply Mr. Bell's letter to the New York Times for insertion in the record.

Mr. PASSMAN. I have Mr. Bell's letter. If Mr. Bell wants to dispute the figures I have placed in the record, let him come down and dispute them. My statement was factual.

(Discussion off the record.)

BRAZIL

Mr. PASSMAN. The next country in this area is Brazil. For fiscal 1964 the estimate is $———.

How much do you have unliquidated to the credit of Brazil as of June 30 out of the 16 spigots?

Mr. TENNANT. Our estimates were based on a larger program than actually occurred.

Mr. PASSMAN. For the fiscal 1964 program the estimate is $———. What was the total amount of funds on hand as of June 30, unliquidated, to the credit of Brazil out of the 16 spigots?

Mr. MOSCOSO. $171,481,000.

Mr. PASSMAN. Is that from all spigots?

Mr. MOSCOSO. Including Public Law 480, yes.

Mr. PASSMAN. Including military too?

Mr. TENNANT. Yes.

TOTAL AID SINCE INCEPTION OF AID PROGRAM

Mr. PASSMAN. What has been the total amount of aid to Brazil since the inception of the program?

Mr. MOSCOSO. Including the military, $2,123,100,000.

Mr. PASSMAN. What amount did you actually obligate to Brazil through all spigots in fiscal 1963?

Mr. MOSCOSO. From AID, $86,800,000.

Mr. PASSMAN. Is that the amount from all spigots?

Mr. TENNANT. $168.1 million would include AID, Social Progress, and Eximbank.

Mr. PASSMAN. Is not the Social Progress Trust Fund just as much AID as anything else?

Mr. TENNANT. Yes.

Mr. PASSMAN. It is another AID spigot, is it not?

Mr. TENNANT. Yes. The problem is, we were going to give you comparable figures.

Mr. PASSMAN. Is the $——— for fiscal 1964 above that figure? Is not the Social Progress program foreign aid just as much as the Alliance for Progress?

Mr. MOSCOSO. Except that the agency that handles that spigot is not AID.

Mr. PASSMAN. Again, what is the total?

Mr. STERNFELD. Do you wish to include the Export-Import Bank?

Mr. PASSMAN. No. We agreed earlier we would show the Export-Import Bank separately.

Mr. MOSCOSO. $168.1 million for fiscal year 1963.

Mr. PASSMAN. That is the amount you had in fiscal 1963?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Was that your largest aid program in Brazil since the inception of the program?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. It was the largest total?

Mr. TENNANT. The Export-Import Bank is on that sheet, Mr. Chairman.

Mr. PASSMAN. Would this $168 million be the largest aid program for Brazil, if you exclude the Export-Import Bank?

Mr. STERNFELD. 1962 would be larger.

Mr. MOSCOSO. If we exclude the Export-Import Bank, 1962 would be the largest?

Mr. PASSMAN. And 1963 was the next largest?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. On page 25 it is indicated that in 1960 Brazil had a balance-of-payments deficit of $374 million.

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Then in 1961, with the aid program increasing, the deficit increased to $736 million; and in 1962, when you had the largest program, the deficit went up to $1.196 billion. Is that right?

Mr. MOSCOSO. That is right.

As you know, there was a very substantial drop in the price of coffee which had an effect on that.

Mr. PASSMAN. Was that the first time the price of coffee had dropped in Brazil?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. I note, on page 25, that U.S. aid is to be used in removing obstacles to Brazilian development. What are these obstacles, sir?

Mr. MOSCOSO. One of the principal obstacles to Brazilian development now is the lack of currency stability, inflationary changes.

Mr. PASSMAN. Who created that situation?

Mr. MOSCOSO. That situation has been created partly through fiscal problems, but partly through the fact the principal product of Brazil, coffee, has dropped substantially in price.

Mr. PASSMAN. We agreed that kind of situation has gone on for many years and probably will go on in the future.

Mr. MOSCOSO. I think in these short-term situations it is rather expected that a friendly nation will help a friend and ally.

Mr. PASSMAN. Page 25 indicates that our aid is to help alleviate the Brazilian balance-of-payments problem. Is that right?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. I read in the paper an article which indicated our balance-of-payments deficit is now estimated to be in the $400 million bracket for the second quarter of 1963, and if that be true we will have the largest balance-of-payments deficit this year that we have had since we have been running this deficit for 13 years continuously.

However, now we are taking our money and giving it to Brazil to alleviate their balance-of-payments situation.

Mr. MOSCOSO. We are giving them commodities, we are giving them machinery and equipment which they have bought here——

Mr. PASSMAN. It takes appropriated dollars to get these things, does it not, Mr. Moscoso?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. How much budgetary support have we given to Brazil, or balance-of-payments support, take it either way because it is the same thing. Give it to us beginning with 1960.

Mr. MOSCOSO. We do not have 1960. In 1961, $50 million.

Mr. PASSMAN. This is for budgetary support?

Mr. MOSCOSO. Balance of payments.

Mr. PASSMAN. That year we had a deficit of $2.4 billion, which is a substantial deficit, in the U.S. Treasury.

What about 1962, how much balance-of-payments help did you give them?

Mr. MOSCOSO. $24.5 million.

Mr. PASSMAN. That year we had a balance-of-payments deficit of $2.2 billion.

How about 1963?

Mr. MOSCOSO. $20 million.

Mr. PASSMAN. I think in 1963 our balance-of-payments deficit was over $2 billion.

Mr. MOSCOSO. I beg your pardon, in 1963 it was $25.5 million.

Mr. PASSMAN. Does it make sense for us to have a serious balance-of-payments deficit ourselves and still help other countries by making ours worse?

Mr. MOSCOSO. Yes, sir, it does.

Mr. PASSMAN. It does to you. It does not to me.

Is Brazil delinquent on any loan repayments to the United States?

Mr. MOSCOSO. We have no information of any delinquent loans.

FISCAL YEAR 1963 ESTIMATE FOR DEVELOPMENT LOANS

Mr. PASSMAN. What was the amount of your estimate for development credits for this country last year?

Mr. MOSCOSO. $24 million.

WORLD BANK POLICY TOWARD BRAZIL

Mr. PASSMAN. What is the present policy of the World Bank toward Brazil?

Mr. MOSCOSO. As of this moment the World Bank is not making loans to Brazil but it has sent a mission there with a view to seeing if it can reestablish the operations there.

Mr. PASSMAN. The World Bank does not look upon Brazil as a good credit risk—and it is not making any loans to Brazil?

Mr. MOSCOSO. It is not making any loans at this moment.

Mr. PASSMAN. And they do not consider them a good credit risk at this time?

Mr. MOSCOSO. I presume that is correct.

Mr. PASSMAN. You people put this in the gray matter and I do not know why. But it says that by request, the World Bank will look over the situation?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. The financial condition in Brazil has not improved in recent weeks and months, has it, Mr. Administrator?

Mr. MOSCOSO. I would say it is stagnant as of this moment, Mr. Chairman.

Mr. PASSMAN. If the World Bank is what I think it is, they will turn them down again.

Are you disbursing any recent credits to Brazil?

Mr. MOSCOSO. Yes, sir.

PROJECTS NOT PRESENTED TO COMMITTEE IN FISCAL YEAR 1963

Mr. PASSMAN. The project book seems to include at least 20 projects that you initiated in fiscal 1963 at a cost of $14,318,000. How many of these projects did you justify last year and in what amounts?

Mr. MOSCOSO. I assume, Mr. Chairman, you are right. I do not have it added up here.

Mr. PASSMAN. Let the Controller add it up.

Mr. MOSCOSO. These new projects were not contained in the congressional presentation book for 1963.

ESTIMATED PROJECT COMPLETION COSTS

Mr. PASSMAN. Would you project the cost to completion of all of these 20 projects, Mr. Controller?

Mr. TENNANT. I am sorry, I do not have that information. I yield to Mr. Passett.

(NOTE.—See additional testimony beginning on p. 2220.)

Mr. PASSMAN. Project each of the figures and give us the total on these 20 new projects for which you did not request funds but which you started anyway.

AGRICULTURAL EDUCATION PROJECT

Why do you need $977,000 for contract services for the agricultural education project, on page 77?

Mr. MOSCOSO. This is for University of Purdue contract. This is the cost of the 1-year contract at the University of Purdue.

Mr. PASSMAN. You have a 2-year supply of funds on hand at this time do you not? You have not liquidated $1,910,000.

Mr. MOSCOSO. This is a 2-year contract but we replenish the expenditures——

Mr. PASSMAN. In effect, you will have a 3-year supply of funds with this money, will you not?

Mr. MOSCOSO. No; because we will be spending——

Mr. PASSMAN. If things worked out as they should have worked out, if you had gotten your authorization, we might have been through, you would have started in the new fiscal year, if you got what you asked for, with a 2-year supply of money in the pipeline and one new year's supply of money on July 1, which would give you the equivalent of 3 years in the pipeline, would it not, including the new year's appropriation?

Mr. MOSCOSO. The carryover of the unliquidated funds will be required to finance the 2-year contract.

Mr. PASSMAN. It cost you $977,000 per year. Had this bill moved out on time and started a new fiscal year on July 1, with your carryover and your new request you would have had over 3 years' supply of money on hand, would you not?

Take $1,910,000 and $977,000. Divide that total by three.

Mr. MOSCOSO. That is about it; yes.

Mr. PASSMAN. Is that correct?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Thank you, gentlemen. You have about a 3-year supply of money, if you make it retroactive.

I notice at the bottom of page 77 that it started without justification in the amount of $2,144,000. Now it appears there are 25 Peace Corps men to serve as resident instructors in the agricultural school.

They just cannot keep these people from duplicating what others are doing.

LIVESTOCK PLANNING PROJECT

With an unexpended balance of more than $2 million under the livestock planning project, shown on page 78, why do you need an additional $1,733,000, Mr. Administrator?

Mr. MOSCOSO. These funds will be needed to finance the contracts, one for a fertilizer feasibility study——

Mr. PASSMAN. You are spending that kind of money for a feasibility study?

Mr. MOSCOSO. Many other things—designs for vaccine plants, seeding laboratories, processing facilities, and other related, marketing-related industries.

Mr. PASSMAN. Get over to page 78. To me this is big money.

This is another project you started and you funded an amount of $3,433,000. You did not justify this project to Congress, did you?

Mr. MOSCOSO. It was not justified. It was justified under the food and agriculture section of our Brazilian presentation last year.

Mr. PASSMAN. You say it was not justified, then you say it was justified somewhere else. Let us pin it down.

Mr. STERNFELD. If you look at page 78, where the numbers are 5–12–AF–13, those three numbers show it was justified under those three headings in the 1963 book.

Mr. PASSMAN. On page 78, 1963 obligations, zero. Unliquidated funds, zero. It is a new project.

Where is the unobligated money from previous years, if these were merged?

(Discussion held off the record.)

Mr. STERNFELD. They were new projects in 1963.

Mr. PASSMAN. You did not justify them and they were new projects in fiscal 1963.

CONSOLIDATION OF PREVIOUSLY JUSTIFIED PROJECTS

Mr. MOSCOSO. As I understand it, these were justified as separate projects in 1963.

Mr. PASSMAN. I want to say again that you did not justify these projects under this caption.

Mr. STERNFELD. Mr. Chairman, you are perfectly correct. It was not justified under that caption.

It was justified under general captions called food and agriculture, agricultural advisory services——

Mr. PASSMAN. Give us the page numbers.

Mr. STERNFELD. Page 106 of last year's submission. What happened here was the combined agricultural advisory services on page 106, the project on page 107, agricultural cooperative service——

Mr. PASSMAN. You are dealing wth different numbers altogether.

Mr. STERNFELD. That is correct.

Mr. PASSMAN. You say you have consolidated the projects. Yet you go to the numbers and they are not the same numbers you are giving us.

Mr. STERNFELD. You are correct, they are not the same numbers. What we did was this: We recognized the agricultural program. We did not continue the agricultural advisory services or the agricultural cooperative service or the research development project.

We combined that into this project called livestock planning, production and marketing, which has a different coding system for the numbers.

Mr. PASSMAN. And not a number you have given us corresponds with the number on this page. Is that correct?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. If you take these projects you referred to the amount would be only $2,700,000 and you obligated $2,033,000. Is that correct?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. So there is no corresponding number on previous years for what you have on page 78. You have no corresponding numbers on deobligated projects listed on page 78?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. Would the committee have any way of evaluating this item other than to say it is a new project?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. Thank you. If we did, we should go back to the other projects which you may have plowed in somewhere else, under this new name, the total of the projects you indicated is not listed but which amounts to $2,700,000. Yet you obligated $2,033,000. You ask for $1,733,000.

Mr. STERNFELD. That is correct.

ESTIMATED PROJECT COMPLETION COST

Mr. PASSMAN. Let us project this item to completion. What does it cost?

Mr. MOSCOSO. $13,565,000.

Mr. PASSMAN. For this one project?

Mr. MOSCOSO. Including everything from inception.

Mr. PASSMAN. All this started without any congressional authorization or justification. The law is on your side, but this is an unbusinesslike way to do business.

CONTRACT SERVICES FOR FEASIBILITY STUDIES

You have contract services, $884,000. Is that item with one university or with several of them? This is all on page 78.

Mr. MOSCOSO. This is for several contracts to finance the feasibility study, the design of the vaccine plant——

Mr. PASSMAN. You are not saying all of this $13 million will be in the field of feasibility studies and investigations?

Mr. MOSCOSO. No, contract services.

Mr. PASSMAN. What will you have in this account other than just issuing checks and people traveling and advising? Is any work going to be done?

Mr. MOSCOSO. Yes, indeed.

Mr. PASSMAN. What kind of work, for instance?

Mr. MOSCOSO. We are going to——

Mr. PASSMAN. Are you going to buy commodities?

Mr. MOSCOSO. Reduce losses in livestock products an estimated 10 to 25 percent of the marketing process; improve the quality of the products, increase the use of fertilizer.

Mr. PASSMAN. We wish you would try to get more information on this item for us and put it in the record, if you can find anything else.

(Additional information supplied follows:)

COST BREAKDOWN: LIVESTOCK PLANNING, PRODUCTION AND MARKETING, PROJECT No. 512-AF-13-AA-6, AF-14-AB-6, AF-13-AC-5

Meat production in Brazil is currently insufficient to provide adequate supplies to the growing population and for exporting. The quality of Brazilian meat is lower than that of Uruguay and Argentina. In order to assist Brazil in improving this situation AID has agreed to carry out a comprehensive livestock planning, production, and marketing project. It began in fiscal year 1963 and is expected to terminate in fiscal year 1970, and has the following specific goals: (1) To double the annual production of meat and other livestock products by 1970 from present 4 billion pounds to 8 billion pounds, (2) to increase meat export revenues to about $250 million per annum by 1970, and (3) to reduce processing and marketing losses from the present 25 to 30 percent to about 10 percent through better grading, inland transport, control of disease, and methods of marketing.

Initially, the project will be carried out by stimulating increased feed and forage production through research on basic production and management problems and by increasing the supply and quality of seeds and fertilizer. Furthermore, steps will be taken to improve credit and marketing facilities, to reduce losses in the value of livestock during the marketing process, improve livestock quality, increase the availability at the farm level of essential farm supplies, expand the availability of agricultural credit, and improve methods to control disease.

In order to begin these tasks, $884,000 have been obligated in fiscal year 1963 to enter into contracts with the U.S. Department of Agriculture, American universities, and private contractors.

One proposed contract with a suitable organization (probably a U.S. land-grant college) will provide the Brazilian Ministry of Agriculture with the following services:

(*a*) Evaluate the present livestock production estimates and forecast service of the Ministry of Agriculture, and assist the Ministry in organizing more effective planning in these fields.

(*b*) Provide on-the-job training to Ministry employees in work methods, processing of data, economic analysis, and preparation of reports that will be of current benefit to Brazilian agriculture generally.

(*c*) Conduct seminars on technical subjects for Ministry employees.

(*d*) Assist in arranging programs to train Ministry employees in the United States or third countries (estimated cost about $180,000).

A second contract will be with a U.S. university, or a regional or national organization of farmer cooperatives for furnishing advisory services to Brazilian agricultural cooperatives. The contractor is expected to evaluate the status of farmer cooperatives in Brazil, their role in the agricultural economy, the conditions under which they operate, and factors bearing on the general effectiveness of co-op operations (credit, production problems, management, marketing, etc.). He also is expected to advise the Ministry of Agriculture regarding research on agricultural cooperative programs and related problems (estimated cost about $374,000).

A proposed third contract will be either with a university or the U.S. Department of Agriculture for the purpose of evaluating the present status of the agricultural marketing systems and organizations in Brazil for the marketing of livestock and livestock products, identifying causes of unduly high marketing costs and losses in terms of produce; deficiencies that can be remedied by adjustments in marketing procedures or by improvements in the marketing infrastructure. The contractor would be expected to develop specific engineering plans, indicating existing facilities that should be expanded or required new installations, including location, capacity, technical characteristics, operational requirements, and needs for training operating personnel (estimated cost about $330,000).

COLONIZATION PROJECT

Why do you need $250,000 for contract services for the colonization project, on page 80?

Incidentally, did all these figures you have been giving us include local currency, too?

Mr. Moscoso. These are dollar costs.

Mr. PASSMAN. The contract we just gave you had local currency, too.

While you are looking up that information, did you ever come up with those figures, Mr. Passett?

COMPLETION COST OF PROJECTS NOT JUSTIFIED IN 1963 PRESENTATION

Mr. PASSETT. Yes, sir. Cost of completion of all those projects which were not justified in the fiscal 1963 presentation is $17,165,000.

In addition the total cost to completion of all the projects in the Northeast which were justified under one heading in the 1963 book will be $25,980,000.

Mr. PASSMAN. So actually again the trend is to take several projects, bring them in under a new heading, and call them one project. Is that correct?

Mr. PASSETT. No, sir; it works just the opposite in the Northeast program.

Mr. PASSMAN. Right here you put about four or five of them together and said this is a new project, but here are other projects of previous years and you gave numbers which could not be identified.

Mr. PASSETT. That was not in the northeast, sir.

Mr. PASSMAN. How about the southwest? How about it, gentlemen? Do you have that information?

COLONIZATION AND RESETTLEMENT PROJECT

Mr. MOSCOSO. The $250,000 for contract services for eight U.S. personnel, contract personnel.

Mr. PASSMAN. To do what?

Mr. MOSCOSO. Two will assist in the development of this colonization and resettlement effort.

Mr. PASSMAN. Specifically what will they do other than cash paychecks? Give us a little detail.

Mr. MOSCOSO. Train Brazilians in managing——

Mr. PASSMAN. Managing what?

Mr. MOSCOSO. The settlement centers. These are settlement centers.

Mr. PASSMAN. Have the settlements been created yet?

Mr. MOSCOSO. They will help in the creation of those settlement centers. These are centers where the——

Mr. PASSMAN. Do you have ICEM active in your area? This is the Intergovernmental Committee on European Migration.

Mr. MOSCOSO. They don't participate in this program. This is a program to resettle the people from the arid northeast to the wetter areas of the Amazon Valley. This is an effort to resolve the problem of subsistence farming.

There is a complete change of the type of soil and new crops will have to be grown by them. There will have to be instruction given to them on the use of seed and fertilizer, how to market their product, et cetera. Also there will be a need for setting up an agricultural credit system, and all the various things that have to be done to settle people

in the new site. I think we have had some experience in this country with that when we had to resettle some of our farmers during the depression.

Mr. PASSMAN. In this $250,000 item, can you tell us what it may cost to complete this project?

Mr. MOSCOSO. $1.6 million.

FISHERIES PROJECT

Mr. PASSMAN. On page 85 you indicate you obligated $325,000 for the fisheries project in fiscal year 1963. What is the unliquidated balance as of June 30?

Mr. MOSCOSO. $235,000.

CONTRACT SERVICES FOR RESOURCES INVENTORY PROJECT

Mr. PASSMAN. Why do you need $1 million for contract services, described on page 88?

Mr. MOSCOSO. Mapping and resource survey contract.

Mr. PASSMAN. That is contract services again?

Mr. MOSCOSO. That is right, contract services.

Mr. PASSMAN. This thing is getting very heavy with contract services. We see contract services so often. That means some kind of a contract given to a trade school, a college, a university, and so on? Is that right?

Mr. MOSCOSO. This is the U.S. Geological Survey.

This is a U.S. agency.

Mr. PASSMAN. How many contract technicians do you have in the $1 million involved here to be paid out?

Mr. MOSCOSO. Eleven U.S. contract technicians, geologists.

Mr. PASSMAN. What types of commodities do you plan to procure at a cost of $200,000 against this appropriation?

Mr. MOSCOSO. This will be primarily laboratory equipment and materials used in mapping and water surveys, soil surveys.

Mr. PASSMAN. Are you also making an allocation of $2.5 million of local currencies to the project?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. That sum would have to be added to the cash part of it to get the total?

Mr. MOSCOSO. That is right, to the local currency.

Mr. PASSMAN. On page 89——

Mr. MOSCOSO. May I suggest, Mr. Chairman, that the Government of Brazil will participate.

Mr. PASSMAN. They are the recipient country. They participate in some manner in all their own programs.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. They did the participating before we got in, did they not? They are the recipients.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Is this unusual, to contribute in their own country?

Mr. MOSCOSO. On the contrary, that is what they should do.

Mr. PASSMAN. I always wonder what you prove when you say you have given these people, say, $2 billion and you say they are doing something themselves, too, maybe contributing $200,000.

ESTABLISHMENT OF INDUSTRIAL DEVELOPMENT BANKS

Would you comment on the statement, carried on page 89, with reference to the $20 million in credits which you propose for fiscal 1964 for the purpose of establishing industrial banks in the northeast area?

Mr. MOSCOSO. The purpose of this project is to create industrial banks in the depressed northeast.

Mr. PASSMAN. What is an industrial bank? Will you describe it?

Mr. MOSCOSO. An industrial development bank. It is a bank which will lend funds to local investors on longer term than the usual commercial terms.

Mr. PASSMAN. Is this teaching them how to establish banks or is this capital?

Mr. MOSCOSO. No; this is not all capital.

Mr. PASSMAN. This $20 million is just a training course?

Mr. MOSCOSO. The grant money is to conduct studies to investigate the economic and technical feasibility for new industries.

Mr. PASSMAN. The $20 million is for that purpose and there is no capital provided. Is that correct?

Mr. MOSCOSO. No capital is provided under the project on page 89.

Mr. PASSMAN. How much will it take to capitalize these banks if you are going to spend $20 million teaching them how to create the banks?

Mr. MOSCOSO. The project as described here is the technical assistance necessary to assist the Brazilians in setting up these industrial development banks in the northeast.

Mr. PASSMAN. But it does not provide the capital?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. This is a lot of money, $20 million.

Mr. MOSCOSO. I am not expressing myself correctly. The amount indicated here of the estimated obligations for 1964, $300,000, is for giving technical assistance to set up the industrial development banks which in turn will be funded with what we estimate will be approximately $20 million in seed capital.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

LOAN APPLICATIONS FOR INDUSTRIAL BANKS

Mr. PASSMAN. Do you have any loan applications pending for this $20 million?

Mr. MOSCOSO. We have had an application for a program to provide capital for relending to small- and medium-sized industries.

Mr. PASSMAN. When did you get this application?

Mr. MOSCOSO. A Brazilian agency in the northeast.

Mr. PASSMAN. How much money do they want and for what purpose is the application?

Mr. MOSCOSO. $20 million. We have not evaluated that application as yet.

Mr. PASSMAN. When was this application submitted?

Mr. MOSCOSO. We haven't the date.

Mr. PASSMAN. You seem to indicate these people already have been let in on this matter.

Mr. MOSCOSO. They don't even know whether we will approve the application.

Mr. PASSMAN. We want to find out why you are starting the project and why you are getting applications when you told us earlier that you did not let these people in on any projects you plan until you get the money.

Now you have said that you received an application for $20 million for a project when you do not even have the money for it. There is no assurance you will get it.

Mr. MOSCOSO. There is nothing that can prevent a country or one of its agencies from sending us an application even if we have no money.

Mr. PASSMAN. What did you start the project for, then?

It has been testified that these people did not know anything about projects that you planned or projects you had in mind until you got the money.

However, here is a project for which you are asking $20 million for fiscal 1964, and you have a tentative application for the $20 million, so they had to get the information somewhere.

Mr. Ford?

Mr. FORD. How many other projects of a similar nature would you envisage?

Mr. MOSCOSO. In the case of the northeast region?

Mr. FORD. Which would relate to this original $20 million expenditure for training, education and the like?

TECHNICAL ASSISTANCE FOR ESTABLISHMENT OF INDUSTRIAL BANKS

Mr. MOSCOSO. $20 million is not for training. You see, Mr. Ford, there is a confusion here which I have been trying to clarify. The description of this $300,000 project is for technical assistance in helping to set up these industrial banks to develop industry in the northeastern part of Brazil where, as you know, a poor agricultural economy must be developed into a more industrialized economy. We are trying to do it through the private sector. We are helping Brazilians to set up these industrial banks.

Mr. FORD. How many such banks do you envisage?

Mr. MOSCOSO. We are making nine studies. We hope to make nine studies to be used by industrial banks. We don't know how many there will be.

Mr. FORD. I would think you would have some idea how many banks you are talking about.

Mr. MOSCOSO. Two banks.

Mr. FORD. We are spending $20 million to give technical assistance for the future establishment of two banks?

Mr. MOSCOSO. No, sir.

Mr. FORD. How many banks?

Mr. MOSCOSO. Two banks but the amount is $300,000.

Mr. FORD. What will you spend the rest of the $19,700,000 for?

Mr. MOSCOSO. This is for capital, Mr. Congressman, if and when the funds are available and if and when we approve their application.

Mr. FORD. So you will have $19,700,000 available for capital?

Mr. Moscoso. $20 million for capital and $300,000 for technical assistance.

Mr. Ford. You say these are banks in the private sector?

Mr. Moscoso. The banks are not yet set up.

Mr. Ford. With capital supplied by the United States.

Mr. Moscoso. The Brazilians will have to supply a substantial amount of their own capital.

Mr. Ford. What ratio?

Mr. Moscoso. The ratio can be 4 to 1.

Mr. Ford. Do you have any applications for that?

Mr. Moscoso. We have an application from a Brazilian unit.

Mr. Ford. Is this a country or an organization?

Mr. Moscoso. It is a government institution in Brazil. They are the promoters of these banks and they will expect the private sector to participate.

Mr. Passman. To start with, we asked whether there was any capital involved in the $20 million. You assured us three times there was not.

Then we got further into the matter and you said you were mistaken, that you have an application from a branch of the Brazilian Government for the $20 million.

Then the reminder came that you and other witnesses had said you do not even let the recipient countries know a project is planned until you get the money.

Yet you had this project started last year in planning, and these people found out there would be $20 million requested of this Government.

You had said you did not let them know there was even a plan for the project until you got the money.

In this instance you are requesting the money. Yet a branch of the Brazilian Government already has filed tentative application for the $20 million.

OBLIGATION OF FUNDS WITHOUT SPECIFIC REQUEST OF CONGRESS FOR PROJECT APPROVAL

In fiscal year 1963 you started this project. You obligated $320,000. Is that correct?

Mr. Moscoso. That is right.

Mr. Passman. Did you request that money of the Congress last year?

Mr. Moscoso. That was not specifically.

Mr. Passman. You did not request it of the Congress?

Mr. Moscoso. This was part of the——

Mr. Passman. I am talking about specific programs. You did not request $320,000 for the industrial development banks, northeast, last year?

Mr. Moscoso. It was part of the entire northeast program.

Mr. Passman. You did not request $320,000 specifically for this purpose?

Mr. Moscoso. That is right.

Mr. Passman. But you did obligate $320,000 and you disbursed $80,000?

Mr. Moscoso. That is right.

Mr. Passman. For what purpose?

Mr. Moscoso. I imagine the first $80,000 was used in order to start making the studies or seminars described on page 89.

Mr. PASSMAN. You do not know?

Mr. Moscoso. I would have to investigate.

(The information subsequently supplied follows:)

DISBURSEMENTS FOR STUDIES OF INDUSTRIAL DEVELOPMENT BANKS, NORTHEAST DURING FISCAL YEAR 1963

The reported $320,000 obligation which is part of the overall program for the encouragement of industrial development banks, is specifically for funding a contract with the University of California at Los Angeles to undertake feasibility studies for new industries, and to finance seminars and participants. The $80,000 expenditures during fiscal year 1963 enabled a group of professors and graduate students from UCLA to proceed to the State of Ceara (NE) to prepare, in conjunction with professors and students of the University of Ceara, five economic and technical feasibility studies for specific new industries in that State using indigenous raw materials (corn processing, cement, pressed wood, small machinery, and ceramics). The American group has also conducted six seminars at the University of Ceara to discuss improved management practices and industrial engineering techniques and is providing technical assistance to five pilot-industrial plants. It is anticipated that effective progress on the foregoing and other private industrial ventures will necessitate the early establishment of an industrial development bank to provide the necessary resources.

Mr. PASSMAN. This leads to a request for $20 million in the fiscal 1964 program. Is that correct?

Mr. Moscoso. Yes.

Mr. PASSMAN. What is the ultimate cost?

Mr. Moscoso. The ultimate cost of this—you see, Mr. Chairman, where the confusion apparently lies——

Mr. PASSMAN. You started the project without making any specific request. You allocated $320,000 for an industrial development bank up in the northeast. You spent $80,000 and you are uncertain what you spent it for.

You have on hand, unliquidated in that category, $240,000, but you are asking for an additional $300,000, on top of the $240,000, which will give your $540,000 to make feasibility surveys, I would assume.

AMOUNT REQUESTED FOR FUNDING INDUSTRIAL BANK LOAN APPLICATIONS

You are a long way off from needing the $20 million. Yet you indicated you would request the $20 million for capital for the banks through the Government for fiscal 1964.

Mr. Moscoso. We did not request it. The Government of Brazil has made the tentative application. The application has not yet been passed on.

Mr. PASSMAN. $20 million in loans are proposed for fiscal 1964 for the purpose of establishing industrial banks in the northeast area.

Is this something you put in here for Brazil or is that your own request? Did you request it or did Brazil request it? If they requested this money how did they get the books?

Mr. Moscoso. They didn't get this information. We are requesting $20 million——

Mr. PASSMAN. Mr. Administrator, are you requesting an appropriation for $20 million to be used in fiscal 1964 for capital, directly or indirectly, for these banks?

Mr. Moscoso. We hope to be able out of the total appropriation, if the appropriation is made available to us, to consider loan applications which will assist us in funding these banks in the northeast in order to promote——

Mr. Passman. Are you requesting in the total appropriation $20 million to be used for this purpose in fiscal 1964?

Mr. Moscoso. I don't think in the first place the Brazilians know what funds are available or will be made available to us or them in fiscal 1964.

They have made an estimate and we have also made estimates of the amount of industrial credit which will be needed in order to set up these institutions in Brazil which in turn will help to industrialize that part of the country which has been continuously depressed and subject to intense subversive activity.

We asked $300,000 to be added to the funds we got last year in order to terminate a study and the feasibility surveys necessary to assist in setting up these banks.

Mr. Passman. Are you requesting $20 million in the overall request for fiscal 1964 for these projects?

Mr. Moscoso. We are requesting ———.

Mr. Passman. I am talking about these banks. Will you please go to page 89?

Mr. Moscoso. I have it here.

Mr. Scheinman. Mr. Chairman?

Mr. Passman. Wait a minute, please, Mr. Scheinman.

In the overall request to the Congress for the program, worldwide, including Latin America, are you asking the Congress to include in the appropriation $20 million which could be used for the funding of these industrial banks?

Mr. Moscoso. We are asking for a development range between $——— and $——— which, if the funds are appropriated and if these loan proposals which have been sent in to us are acceptable and meet our criteria, will be approved.

Mr. Passman. Mr. Scheinman, getting to you now, in your understanding of this legislation and the total request by the administration for funds to run the worldwide program, including Latin America, do you interpret the justifications as indicating that you hope to get an appropriation in the total amount of $20 million to finance these industrial banks?

Mr. Scheinman. The request for Development Loan funds which is made to this committee is based on——

Mr. Passman. An estimate of $20 million for this purpose?

Mr. Scheinman. Sir, based on prospective applications which the Agency will consider, as does any banking institution.

The operative word is "could be."

Mr. Passman. Is it included in the total amount?

Mr. Scheinman. The 20 could be——

Mr. Passman. The Administrator does not know and you are dodging the question.

Let me ask you, Mr. Sternfeld. Would it be your interpretation that if you get the money request submitted to the Congress this year that in the total there will be $20 million which you could use to finance this bank, or these banks, in the northeast?

Mr. Sternfeld. Yes, we could.

Mr. PASSMAN. You are requesting the money. The money is in here.

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. I do not know why you want to dodge it.

Is it a coincidence that the Government, or a branch of the Government, an agency of the Government, has an application pending now for the same amount of money that you have listed on page 89?

Mr. STERNFELD. That is part of the basis for the request we make to the Congress.

Mr. PASSMAN. How does the Brazilian Government know you will request $20 million?

Mr. STERNFELD. They don't know.

Mr. PASSMAN. Then answer my question. Is it coincidental that the application for Brazil in the amount of $20 million happened to be the same amount you are requesting in this book?

Mr. STERNFIELD. Sir, we do not request Development Loan funds for specific projects.

Mr. PASSMAN. I am looking at your book.

Mr. STERNFELD. As a matter of fact——

Mr. PASSMAN. You say here that of the overall request made to the Congress, the budget request, there was $20 million in the total which you hoped you would get for this project, industrial development, northeast. Did you answer that question in the affirmative?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. Is it just coincidental that the application from Brazil corresponds with the language and the amount on page 89? Is that a fair question?

Mr. STERNFELD. Yes, sir; it is a fair question.

Mr. PASSMAN. Is it coincidental?

Mr. STERNFELD. If I may answer it more than using just that one word.

We based our calculations on the amount of funds necessary for development lending upon plans of the Brazilians themselves. We knew at the time that this agency in the northeast, Sudene, had in mind and was considering to fit into its total program, and it is developing a total program for the northeast, the requirement of funds for industrial development lending.

With that knowledge we have indicated, as you have well stated, in our presentation that if we get all the funds we have requested, and if the application meets our criteria——

Mr. PASSMAN. If you get all the funds you request, $20 million for this purpose is in those funds?

Mr. STERNFELD. It is included in our estimate of $——— and $———.

Mr. PASSMAN. It is included in the total?

Mr. STERNFELD. That is right.

Mr. PASSMAN. You told us earlier you did not let people in on what you were planning until you got the money.

Mr. STERNFELD. That is correct.

Mr. PASSMAN. Now we learn that the Brazilians planned for this activity and told you the amount and you put their amount in the justifications.

Mr. STERNFELD. They have told us many things, Mr. Chairman.

Mr. PASSMAN. This happened to be one of the things and it just happened the amount they requested and what you put in the budget request happened to be the same?

Mr. MOSCOSO. It so happens that——

Mr. PASSMAN. Page 89 shows that $320,00 was obligated last year for a project you did not justify to the Congress.

You spent $80,000; none of you know what for but you will try to find out.

Yet you are requesting $300,000 to be added to the original $320,000, making $620,000.

On the same page you state:

> Twenty million dollars in loans are proposed for fiscal 1964 for the purpose of establishing industrial banks in the northeast area.

Mr. SCHEINMAN. If the committee is receiving an insert for the record it will indicate over $——— worth of potential development loan applications——

Mr. PASSMAN. You started the project without justifying it. I read into the record what page 89 states.

You obligated $320,000 which you did not justify to the Congress. You spent $80,000, and you do not know what it was for. You will try to find out and tell us.

However, you are asking for $300,000 more to be added to the $240,000 on hand unliquidated, which will give you $540,000 to spend.

On the same page you state:

> Twenty million dollars in loans are proposed for fiscal 1964 for the purpose of establishing industrial banks in the northeast area.

Mr. MOSCOSO. May I reply to you?

Mr. PASSMAN. Surely.

Mr. MOSCOSO. In the first place, we state here what the project comprises. We are going to conduct studies to investigate the economic and technical feasibility for new industries in the northeast.

We will encourage establishment of these industrial development banks and assist in providing them with capital for loans to small- and medium-sized industries.

We will try to assist in improving management practices of Brazilian industrialists.

The fiscal 1964 funds will be used to continue to provide these services which have been provided up to now by U.S. technicians and approximately 15 contract consultants.

Mr. ANDREWS. This project you have been discussing has a number on it shown on page 89.

Mr. MOSCOSO. That is right.

Mr. ANDREWS. 512–AA–92–BE–6.

Mr. MOSCOSO. That is right, sir.

Mr. ANDREWS. As I understand it, in this column on the left-hand side of the page where you request $300,000 for 1964, it would indicate that this project is for the development of industrial bases and increased plant productivity in the northeast?

Mr. MOSCOSO. That is right.

Mr. ANDREWS. It would indicate that for that project you want $300,000 plus $240,000 unliquidated out of the 1963 program.

Mr. MOSCOSO. That is right.

Mr. ANDREWS. But when you read further, this project could——

Mr. MOSCOSO. Result in——

Mr. ANDREWS. Result in a $20 million loan.

Mr. MOSCOSO. That is correct.

Mr. ANDREWS. For banks?

Mr. MOSCOSO. That is correct.

Mr. ANDREWS. If you need $20,050,000 to finance the banks you would have to take it from some place other than this box showing that you are requesting only $540,000. Is that right?

Mr. MOSCOSO. That is right, sir. What we are proposing is that if the Congress agrees to the appropriation which we have requested, and if the applications from Brazil are considered acceptable and meet our criteria, then we will consider funding these banks, which in turn will have to obtain substantial amounts of local capital.

Mr. ANDREWS. We are getting right back to what we have been complaining about. You come up and establish a justification for one project, in this particular case for a survey, in the amount of $300,000, but it turns out to be a $20 million banking project.

Mr. PASSMAN. It was so stated.

Mr. SCHEINMAN. The loan would come from the Development Loan funds.

Mr. ANDREWS. Where will that show up in this book?

Mr. SCHEINMAN. The general range of requests proposed for each of the countries can be found on the front page.

Mr. PASSMAN. This $20 million is included in the total request?

Mr. MOSCOSO. It could be if we approve it.

Mr. ANDREWS. If you were to decide you wanted to put $20 million into Brazil banks you would have to deobligate or cancel out some of these other requests?

Mr. MOSCOSO. If we wanted to do it now?

Mr. ANDREWS. In 1964.

Mr. MOSCOSO. No.

Mr. ANDREWS. What about it, Mr. Tennant?

Mr. TENNANT. That particular book you are looking at has in it the grants, supporting assistance. The Alliance for Progress loans are in the light gray book, page 25.

Mr. ANDREWS. Where would the $20 million show in the gray book?

Mr. MOSCOSO. Third line.

Mr. ANDREWS. What page?

Mr. MOSCOSO. Page 11. There is a range of possible lending which we estimate in Brazil of $——— to $———.

Mr. ANDREWS. I see.

Mr. MOSCOSO. If the Congress in its wisdom appropriates the funds for this program we could consider this application favorably, consider $20 million for funding these banks in Brazil.

Mr. ANDREWS. Could you do it if Congress appropriated $——— which is the lesser figure?

Mr. MOSCOSO. That is the request.

Mr. ANDREWS. The request is from $——— to $———.

Mr. MOSCOSO. We would have to decide if the banks are more necessary in the development of this program than other things.

Mr. ANDREWS. I get right back to my point. This is nothing but a blank check to you. You can shift funds around, leave out project X

and pick up project Y and dispense this money in any way you see fit?

Mr. MOSCOSO. Except following criteria Congress established.

Mr. ANDREWS. What criteria? We merely give you a total amount. We don't say in the bill or the report where it shall be spent.

Mr. MOSCOSO. There has to be acceptable proof of repayment. There has to be a feasibility study made, and an estimate of cost.

Mr. PASSMAN. Do you propose to fund this project in the amount of $20 million out of fiscal 1964 funds if it meets the criteria?

Mr. MOSCOSO. First, if we have the funds and, second, if it meets the criteria. Third, if in the order of priority when we know what funds will be available——

Mr. PASSMAN. Everything is based on getting funds if it meets the criteria?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You then propose to finance this bank in the amount of $20 million in fiscal 1964, do you not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. I do not know why you did not answer affirmatively earlier. You say specifically that is what you propose to do.

Could the committee see the application from Brazil for the $20 million?

Mr. MOSCOSO. I haven't it with me.

Mr. PASSMAN. You had it there a moment ago.

Mr. MOSCOSO. Yes, but not the application itself.

Mr. PASSMAN. You have something listed there we may see?

Mr. MOSCOSO. This is a list——

Mr. PASSMAN. May we look at it? I am trying to understand the matter.

Mr. SCHEINMAN. A copy of that was requested as an insert and is being supplied.

Mr. PASSMAN. Let me see it now, if I may.

Mr. ANDREWS. If this application for funds to establish a bank or banks meets the criteria, and you received only a $20 million appropriation, you could still put the $20 million in that bank?

Mr. MOSCOSO. If in the list of all the many things which we feel——

Mr. ANDREWS. The point is that you can finance that bank if you want to and if it meets the criteria.

Mr. MOSCOSO. That is right.

Mr. ANDREWS. Even though you didn't have but $20 million you could put it all in that project if you felt it was a top priority item.

Mr. MOSCOSO. If we don't have the money we couldn't.

Mr. ANDREWS. I am assuming you had $20 million. In other words, you could finance the project if you wanted to, provided it met the criteria.

Mr. MOSCOSO. And provided you had the funds.

Mr. PASSMAN. If you got only $20 million out of the request for $———, if you wanted to could you use that $20 million, under the present language of the law, to finance this bank?

Mr. MOSCOSO. As I understand it we could, yes.

Mr. PASSMAN. Any way you take it, it is the same thing.

Mr. ANDREWS. We give them a blank check and you parcel out the funds according to your best judgment as to what projects should be funded on a priority basis.

Mr. Moscoso. Mr. Congressman, it is pretty much the same way as the Export-Import Bank will have to operate when they come before you and request their funds.

Like any other banking institution we can only give you an illustration of the way we will finance these projects and the kinds of projects.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

INDUSTRIAL PRODUCTIVITY PROJECT

Mr. PASSMAN. In view of your statement on page 90, in connection with the industrial productivity project, that this activity has not been found adequate to provide meaningful assistance, why are you requesting funds for 1964, then, Mr. Administrator?

Mr. Moscoso. As the only project in the country program providing for direct technical assistance to industry, this activity has not been found adequate to provide meaningful assistance to the most dynamic sector of Brazil's economy. Efficient methods of transfer to Brazil's rapidly developing industrial economy appropriate elements of U.S. industrial, financial, and managerial technology are under review.

Mr. PASSMAN. What is the average annual cost for the service—unless you want to comment on this matter?

Mr. Moscoso. Yes. There appears to be a typographical error here and this activity has been found adequate.

Mr. PASSMAN. Are you reading something that is not in the book?

Mr. Moscoso. I am trying to——

Mr. PASSMAN. Is that correct?

Mr. Moscoso. I am trying to——

Mr. PASSMAN. Did I read it into the record correctly?

Mr. Moscoso. You read it correctly from the book.

COST OF TECHNICIANS FOR ROADS PROJECT

Mr. PASSMAN. What is the average annual cost of the services of the twelve highway experts you propose to employ in fiscal 1964, shown on page 92?

Mr. Moscoso. Might I make a note of this first?

Mr. PASSMAN. Surely.

Mr. Moscoso. This is a 2-year program.

Mr. PASSMAN. What is the annual cost?

Mr. Moscoso. $25,416.

Mr. PASSMAN. Where can we find information, on page 92, which would indicate that that is a 6-month contract a 2-year contract, or a 4-year contract?

Mr. Moscoso. It is not on that page.

Mr. PASSMAN. Is this one of those "take it on faith" items? I believe contract services with Government agencies is on an annual basis?

Mr. TENNANT. As I recall the authority, we are not limited——

Mr. PASSMAN. I did not say limited. It is a practice where you are dealing with other Government agencies.

Mr. TENNANT. At one time.

Mr. PASSMAN. Is it still permissible under the law to have a 1-year contract, one Government agency to another?

Mr. MOSCOSO. It is permissible to have 2-year contracts.

Mr. PASSMAN. Is it being practiced in any instance?

Mr. MOSCOSO. It is.

Mr. PASSMAN. In a majority of instances?

Mr. MOSCOSO. The majority of instances.

Mr. PASSMAN. This agreement could be for 1 year, which would really bring the annual cost up to $51,000; is that correct?

Mr. MOSCOSO. It is a 2-year contract.

Mr. PASSMAN. How do we know it is a 2-year contract and where do you get your information?

Mr. MOSCOSO. I think, Mr. Chairman, that it is a failure in putting it into the——

Mr. PASSMAN. We noted last year that certain technicians cost $64,000 a year each. You do not know whether it is a 1-year or a 2-year contract, definitely, do you?

Mr. MOSCOSO. I do know that no highway experts of the U.S. Bureau of Public Works is going to cost twice the amount that this would indicate.

Mr. PASSMAN. You are positive this is a 2-year contract?

Mr. MOSCOSO. I would have to check.

Mr. PASSMAN. It could be a 1-year contract, then?

Mr. MOSCOSO. It could be.

As I said——

Mr. PASSMAN. Are these funds for continuing the services of these people?

Mr. MOSCOSO. These are new people.

Mr. PASSMAN. The book says "continuing." It might be a new group, but you are employing the same number of people, are you not?

Mr. TENNANT. That is correct.

Mr. PASSMAN. Last year you asked for $590,000 for these 12 people, did you not?

Mr. MOSCOSO. Is that for a 2-year contract?

Mr. STERNFELD. We will have to check to the actual contracts.

(The following information was subsequently supplied:)

AID CONTRACT WITH BUREAU OF PUBLIC ROADS

The contract with the Bureau of Public Roads is for 2 years. Twelve BPR technicians are involved, as part of the total project.

Mr. STERNFELD. We have been informed——

Mr. PASSMAN. You asked for $590,000 last year to fund these 12 technicians for 1 year, did you not?

Mr. STERNFELD. That is correct for the total cost of the project.

Mr. PASSMAN. You ask for $600,000 this year to fund them for either 1 or 2 years, and at this time you do not know; is that right?

Mr. STERNFELD. That's right.

Mr. PASSMAN. Thank you.

WATER SUPPLY AND SEWAGE PROJECT

What is the average annual cost of the three direct hire staff technicians you propose to employ in fiscal year 1964 for the water supply project, listed at page 94?

Mr. MOSCOSO. The division of the $132,000 by three gives you $44,000, which is obviously too high, and I would like permission to look up——

Mr. PASSMAN. It was about $50,000 each last year for the 12 highway technicians, as indicated by your own request and your own number and you are asking $20,000 more for fiscal year 1964 for the same number of people. I am afraid that you are going to find that it is $50,000 each and by the same mathematics, on page 94, you get that average as indicated.

Mr. MOSCOSO. I would like to check it.

Mr. PASSMAN. We wish you would check it.

(Information subsequently supplied follows:)

AVERAGE COST PER TECHNICIAN, WATER SUPPLY AND SEWAGE PROJECT

A technician for this project will cost an estimated $20,000 per year for salary, allowances, travel, and shipment of effects. Therefore, $60,000 was programed for three technicians. The remaining $72,000 was programed to cover short term U.S. Government consultants who will come from the U.S. Public Health Service and other agencies involved in water supply and sewage.

Mr. PASSMAN. Is there any U.S. owned local currency going into this apparently small project, on page 94?

Mr. MOSCOSO. $20 million through fiscal year 1964.

Mr. PASSMAN. Thank you.

Mr. FORD. These are U.S. owned foreign currencies which have been generated by previous programs?

Mr. MOSCOSO. Public Law 480; yes, sir.

Mr. PASSMAN. Generated from American dollars?

Mr. MOSCOSO. American wheat, sir.

Mr. PASSMAN. But it still takes American dollars to generate this currency. I believe you had for that project in fiscal year 1963 $5 million, did you not?

Mr. MOSCOSO. That's right; $5 million in loans.

Mr. PASSMAN. Could you project the cost of this project out to completion, as you are dealing with a $20 million project, dollar and local-owned currency?

Project it to completion, the amount of American-owned currency and dollars.

Mr. PASSETT. We have a dollar figure from its inception to completion of $3,900,000.

Mr. PASSMAN. We are trying to keep this from appearing that you are going to spend local currency in the same proportion. Can you supply that information?

Mr. PASSETT. We will have to supply that for the record.

(The information follows:)

This project, expected to cost $3.9 million by 1970, is to provide expert technical assistance over a period of 9 years to enable Brazil to complete the construction of 1,500 water systems and 1,000 sewer systems serving 40 million people by 1970.

During this 9-year period the United States will also make loans to Brazil amounting to an estimated $50 million for the construction of these 2,500 water and sewer systems. These will not be dollar loans; but will be made from the local currency proceeds derived by selling our surplus agricultural commodities to Brazil.

Mr. PASSMAN. You do have $20 million through fiscal year 1964?

Mr. PASSETT. That is correct.

Mr. PASSMAN. We put up $20 million plus the cash. This is a Brazilian project, is it not, for Brazil, the one we are talking about, on page 94?

It looks as if they have gotten kind of generous with themselves. It says the Government of Brazil has provided direct support to this project in the amount of $125,000, equivalent. Now, that could be in labor, rocks, gravel, or anything, could it not?

Mr. Moscoso. That's right, for the technical assistance project.

Mr. PASSMAN. Do you mean they are putting up $125,000 out of their so-called obligations as compared to ours in the amount of $20.5 million?

Mr. Moscoso. Not exactly——

ECONOMICS EDUCATION PROJECT

Mr. PASSMAN. How firm is your estimate for $420,000 for contract services for the economics education project, on page 100, sir?

Mr. Moscoso. This is an estimate, Mr. Chairman.

Mr. PASSMAN. It is bound to be based upon some feasibility study or some finding.

Go to page 100 and try to find an answer for us.

Mr. Moscoso. There are four U.S. professors for 2 years to assist in the organization and operation.

Mr. PASSMAN. I asked you how firm is the estimate?

Mr. Moscoso. It is an estimate, Mr. Passman; it says "should findings favor the establishment of a national graduate institute of economics." It is not firm. It is an estimate.

PILOT PROJECT FOR TV SCHOOLS

Mr. PASSMAN. I notice, on page 101, you propose to organize 1,000 TV schools during calendar year 1964. Since this is a pilot, experimental program, why do you have to establish 1,000 schools to determine whether they work out satisfactorily?

Mr. Moscoso. This is something which is planned by the Brazilians themselves in the northeast.

Mr. PASSMAN. Are you asking for money to fund a thousand of these things?

Mr. Moscoso. We are asking for funds to assist them with technical aid.

Mr. PASSMAN. In establishing 1,000 TV schools?

Mr. Moscoso. That's right.

Mr. PASSMAN. Who plans these projects, the Americans or the Brazilians?

Mr. Moscoso. It is jointly done by the SUDENE and the northeast mission.

Mr. PASSMAN. First you said we did not let them know what we were planning until you got the money, but you are asking for funds to finance all or part of 1,000 TV schools; is that correct?

Mr. Moscoso. This is a continuing technical assistance project, Mr. Chairman.

Mr. PASSMAN. I imagine it would be quite continuing, but we are trying to find out whether it is a statement of fact that you are asking for money to either fund partially or wholly through a cooperative program, 1,000 TV schools.

Mr. MOSCOSO. We are providing technical assistance to the Brazilians on this, sir.

They, the Brazilians, hope to establish 1,000 TV schools.

Mr. PASSMAN. If it is a pilot project, why do they have to start a thousand of them? If you should start 10 and it did not work, you would not be out too much money. If you start 100, maybe it would not be so bad, but to start 1,000——

Mr. FORD. May I ask a question, Mr. Chairman?

Mr. PASSMAN. Yes.

Mr. FORD. You say a TV school. How do you define one? What is a TV school in this context?

Mr. MOSCOSO. Of this program? It is a school which—instead of having the normal complement of teachers—will have perhaps one teacher who will be the housekeeper and the creator of the necessary discipline. Then from a central television education center, a program will be broadcast covering various fields of education. In this way the Brazilians hope to be able to save substantial amounts of money in the payment of teachers, money which they don't have. They don't have enough trained teachers.

Mr. FORD. Are you talking about the repair of television sets, or are you talking about the running of a television station?

Mr. MOSCOSO. No; the education of the students in primary and secondary subjects, adult education, using television as a means of education. This has been tried in quite a number of countries.

Mr. FORD. This is a school system for the education of people?

Mr. MOSCOSO. That's right.

Mr. FORD. You are going to start a thousand of them?

Mr. MOSCOSO. The Brazilians are doing it. We are just going to give them technical assistance.

Mr. PASSMAN. It is a pilot project.

Mr. FORD. It is a very substantial pilot project.

Mr. MOSCOSO. It is a large country.

Mr. PASSMAN. It may be expanded.

Mr. MOSCOSO. Possibly to 10,000.

I hope they are successful.

Mr. RHODES. Do you intend to buy the television sets?

Mr. MOSCOSO. No, this is a Brazilian project. We are only participating in the technical assistance to help them set this thing up.

Mr. RHODES. How much does the Brazilian Government propose to spend?

Mr. MOSCOSO. $7,890,000.

Mr. RHODES. $7 million in 1 year, or is that the total cost?

Mr. MOSCOSO. For the program as a whole.

Mr. RHODES. How long will the program last?

Mr. MOSCOSO. It is scheduled to end in 1967.

Mr. RHODES. This is the pilot phase?

Mr. MOSCOSO. Yes.

Mr. RHODES. Is there any idea how much the ultimate program might cost?

Mr. MOSCOSO. Do you have that?

Mr. PASSETT. Our total contribution in dollars will be $1,180,000 for technical assistance to the Brazilian project.

Mr. RHODES. That is for the pilot project?

Mr. PASSMAN. We have already obligated $1,335,000, if you include the dollar equivalent in U.S.-owned local currency. Through 1963 and 1964 it would be $1,200,000 in the local currency.

So it would then be $1,470,000.

Mr. RHODES. $1,335,000 through fiscal year 1963 and $345,000 more for fiscal year 1964?

Mr. MOSCOSO. That's right, including local currency.

Mr. RHODES. This is just for the pilot project. Now, my question was, do you have any figures as to any participation that we plan in the ultimate project? Assuming the pilot project is a success and Brazil goes into an expanded project, do we have any plans?

Mr. MOSCOSO. No, sir, we have no plans. This is their project.

I truly think this is a great program, quite frankly.

Mr. RHODES. What part of Brazil is this for?

Mr. MOSCOSO. They want to see if they can collapse the amount of time in order to give a basic education to these children and adults. The training of a teacher requires anywhere from 8 to 10 years. There is such a tremendous number of teachers needed, and having so few teachers at hand, they are really trying to collapse the time element by having one teacher at one central point provide the teaching to all of these children in these television schools.

Mr. RHODES. The only question I asked was what part of Brazil is this?

Mr. MOSCOSO. The northeast.

Mr. RHODES. How many students will be involved in this?

Mr. MOSCOSO. 2,650,000.

Mr. RHODES. This is a pilot project?

Mr. MOSCOSO. No. Ultimately, when the program hopefully is fulfilled. If it is successful, then there will be 18,500 schools and 2,650,000 students.

Mr. RHODES. How many will be in the pilot project?

Mr. MOSCOSO. There are 1,000 schools.

Mr. RHODES. That is how many students? Your arithmetic should not be too difficult. You knew how many schools would be in the ultimate program and how many students. Can't you interpret from that?

Mr. STERNFELD. About 250,000.

Mr. RHODES. This is all in the northeast part?

Mr. MOSCOSO. Yes, 250,000.

ELEMENTARY EDUCATION PROJECT

Mr. PASSMAN. What do you anticipate will be the total cost of the elementary project, on page 102, including both the dollar cost and the U.S.-owned local currency cost by the time this project is completed at the end of fiscal year 1969?

Mr. MOSCOSO. $3 million. This is the dollar cost of the project.

Mr. PASSMAN. I said as plainly as I could, gentlemen, the dollar cost and U.S.-owned currency.

Mr. MOSCOSO. $5 million in grants and $10 million in loans.

Mr. PASSMAN. What is the total?

Mr. MOSCOSO. This will be $30 million in local currency.

Mr. PASSMAN. $30 million, U.S.-owned local currency?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. That is only through 1964?
Mr. MOSCOSO. That's right.
Mr. PASSMAN. Let us project the dollar part of it.
Mr. MOSCOSO. $3 million.
Mr. PASSMAN. So it comes to a $33 million project, does it not?
Mr. MOSCOSO. Yes.
Mr. ANDREWS. $33 million?
Mr. MOSCOSO. Yes.
Mr. ANDREWS. How much of it are we going to pay?
Mr. PASSMAN. $33 million.
Mr. MOSCOSO. This is local currencies.
Mr. ANDREWS. I know; but it is our money.
Mr. PASSMAN. $33 million, Mr. Andrews.
Mr. ANDREWS. Then the program will cost us $33 million over a period of how many years?
Mr. PASSMAN. Through 1964 only.
Mr. MOSCOSO. And the $3 million to 1969. It will be $3 million, in dollars.
Mr. PASSMAN. But the other part of it, local currency, U.S. owned, is only through 1964 projects; is that correct?
Mr. MOSCOSO. That's right.
Mr. ANDREWS. Mr. Chairman, I would like to get on the record at this point the objectives of this activity, which as shown on page 102 include:
(1) Construction and equipment of 1,000 elementary school classrooms. Is that right?
Mr. MOSCOSO. That's right.
Mr. ANDREWS. (2) Teacher training centers. Is that right?
Mr. MOSCOSO. That's right.
Mr. ANDREWS. (3) Eight normal schools and 10 industrial workshops providing training for 3,000 lay teachers and basic training for 100,000 adults.
Mr. MOSCOSO. That's right.

BRAZILIAN GOVERNMENT'S CONTRIBUTION

Mr. Congressman, I would like to point out the fact that over 65 percent of the total estimated costs have already been agreed upon with the Government. That is, the Government of Brazil has already committed as its contribution over 65 percent of the total cost and the agency of the Government is budgeting $29,202,000 in support of this project.
Mr. ANDREWS. But our cost, or the cost to this Government, will be $33 million?
Mr. MOSCOSO. $33 million, yes. They are putting up $29 million.
Mr. PASSMAN. Who puts up $29 million?
Mr. MOSCOSO. The Government of Brazil.
Mr. PASSMAN. For their own projects, as we agreed earlier?
Mr. MOSCOSO. That's right.
Mr. ANDREWS. How you you consider $29 million to be 65 percent of the cost of the project?
Mr. MOSCOSO. Because the states are going to put up money, too. The states comprising the northeastern section. There are nine states in that group and they will also participate.

GEOLOGICAL EDUCATION PROJECT

Mr. PASSMAN. I notice you propose to initiate a new project entitled "Geological Education," on page 107, at a cost of $325,000 in fiscal year 1963. What is your present estimate to complete the project?

Mr. MOSCOSO. $650,000.

Mr. PASSMAN. In what year will you complete it?

Mr. MOSCOSO. This is a 2-year program.

Mr. PASSMAN. With the possibility of a 3-year extension on top of that?

Mr. MOSCOSO. A possibility.

Mr. PASSMAN. The figure you have given here is only for 2 years. It could go two and a half times that, could it not?

Mr. MOSCOSO. Yes.

TERMINATION OF UNIVERSITY CONTRACTS

Mr. PASSMAN. We change the names of projects and change the numbers. Do you know of any university with which we have ever terminated our contracts and let them get back on their own?

What universities did you start with 5 years ago that are not still in the AID program with contracts?

Mr. MOSCOSO. Colombia, South America.

Mr. PASSMAN. I am talking about universities. Do you know of any university we started giving contracts to, we will say 5 years ago, that is not presently in the program with some kind of a contract?

Mr. MOSCOSO. We have a contract for medical education in Colombia, with a university which is not going to be renewed.

Mr. PASSMAN. There is no relationship to what you are saying and my question. Do you know of any American university that started with an AID program, getting contracts——

Mr. MOSCOSO. That is one.

Mr. PASSMAN. Colombia University?

Mr. MOSCOSO. No, it is Tulane.

Mr. PASSMAN. You have no type of contract with Tulane?

Mr. MOSCOSO. Yes, we have one other small one.

Mr. PASSMAN. Do you know of any university in America that started 5 years ago with the AID agency in some type of a contract that is presently without any AID contract?

Mr. MOSCOSO. The university existing without any AID program?

Mr. PASSMAN. That is right. That started 5 years ago.

Mr. MOSCOSO. There are other regions in the agency which may have contracts with this university and I wouldn't know.

Mr. PASSMAN. I imagine that with most of them it is multiplying.

ENGINEERING EDUCATION PROJECT

Why do you need $1,178,000 for contract services for the engineering education project, on page 108?

Mr. MOSCOSO. For contract services, participant training——

Mr. PASSMAN. Thank you.

PUBLIC SAFETY PROJECT

How much did you request and justify before the Congress last year for the public safety project, page 111?

Mr. Moscoso. These funds include a 2-year contract for the University of Michigan. With the Institute of National Aeronautics. Now we are going to expand this to include six Brazilian universities.

Mr. PASSMAN. Are you expanding the University of Michigan contract or what are you expanding?

Mr. Moscoso. Participation of the University of Michigan in this university contract which will eventually include six Brazilian universities.

Mr. PASSMAN. It is further proposed that in 1964 an AID loan of $6 million will be made to the University of Brasilia to develop its libraries and laboratories over the next 8 years with emphasis on science and engineering.

Do the people down in Brazil get hold of the unclassified sections of the AID books?

Mr. Moscoso. They do not.

Mr. PASSMAN. You people say you do not let them in on what programs you plan for them until you get the money. And yet we see where you are projecting these things 6, 8, or 9 years.

How much did you request and justify before the Congress last year for the public safety project found on page 111?

Mr. Moscoso. $960,000.

Mr. PASSMAN. What amount did you obligate to the project?

Mr. Moscoso. $1.1 million.

Mr. PASSMAN. How much did you have unliquidated on June 30?

Mr. Moscoso. $900,000.

Mr. PASSMAN. So actually you have unliquidated $900,000?

Mr. Moscoso. Yes.

Mr. PASSMAN. Do you need $1.1 million?

Mr. Moscoso. This is the estimate that we have made of the funds required for 1964.

Mr. PASSMAN. What type of commodities do you plan to obtain for this project at a cost of $585,000?

Mr. Moscoso. Mostly police equipment.

Mr. PASSMAN. Half a million dollars for police equipment?

Mr. Moscoso. That is right.

Mr. PASSMAN. What type of commodities do you plan to obtain for the community development project, $155,000, on page 114?

Mr. Moscoso. Projectors and audiovisual equipment and materials for the technical training centers.

CONTRACT STUDIES FOR FOOD-FOR-PEACE PROJECT

Mr. PASSMAN. I notice that you are asking for $65,000 for contract studies for the food-for-peace project, on page 116. What are they going to do? What would be a contract study under the food-for-peace project?

Mr. Moscoso. This would include the school lunch program.

Mr. PASSMAN. What is a contract study?

Mr. Moscoso. This is a contract to support the U.S. technicians in feasibility studies to be undertaken for this project.

Mr. PASSMAN. It says on page 116 that additional funds are needed to support four U.S. technicians and to fund contract services for the feasibility and operational study to be undertaken by governmental and private agencies.

What kind of feasibility and operational study projects are these?

Mr. Moscoso. To see how we can expand the school lunch program we have operating in the northeast more efficiently.

Mr. FORD. Who pays for the school lunch program now in effect?

Mr. Moscoso. We pay for a part and Brazil participates.

Mr. FORD. How much of the total do we pay in the present program—10 percent, 50 percent, or what is the percentage?

Mr. Moscoso. It is the major portion that we pay but I do not have the exact proportion.

Mr. FORD. What does it cost us overall? What is the total cost to us overall for that program?

Mr. Moscoso. The estimate of the commodities which will be used is $5 million in 1963 and $6 million in 1964.

Mr. FORD. And that is the major part of the cost of the program?

Mr. Moscoso. That is right.

BRAZILIAN CONTRIBUTION TO EDUCATION PROGRAMS

Mr. ANDREWS. Could you tell me how much is spent in Brazil overall for their education programs including the school lunch program, construction, and so on, and then tell us what percentage of that total amount we are picking up the check for. If you cannot give that figure in a hurry supply it for the record.

Mr. STERNFELD. You want to know the education budget of the Central Government of Brazil?

Mr. ANDREWS. Right.

Mr. STERNFELD. And what we are putting into the field of education compared to what they are doing in the field of education.

Mr. ANDREWS. Yes.

Mr. STERNFELD. Yes, sir; we will supply that.

(The information follows:)

Education in Brazil: Brazilian and United States financing

[In millions of U.S. dollars]

	Federal Government of Brazil [1]	Estimated total Brazilian expenditures on education (Federal and state governments) [2]	U.S.-financed education projects in Brazil
Fiscal year 1962	130	260	3
Fiscal year 1963 (estimated)	150	300	34
Fiscal year 1964 (estimated)	150	300	——
Total	430	[2] 860	——

[1] Based on the budget of the Federal Government of Brazil.
[2] The state governments of Brazil contribute 50 percent of the total education expenditures.

TECHNICAL SUPPORT PROJECTS

Mr. PASSMAN. I note, on pages 121 and 122, that you obligated in fiscal year 1963, $2,450,000 for the technical support projects. How much did you justify for the technical support projects last year?

Mr. MOSCOSO. $1,150,000.

Mr. PASSMAN. Let us see how much in excess of the amount you requested that you obligated.

Mr. MOSCOSO. We obligated $1,335,000.

Mr. PASSMAN. You justified $1,150,000 but you obligated $2,450,000?

Mr. MOSCOSO. $185,000 more.

Mr. PASSMAN. You obligated a little more than double what you justified to the Congress.

Mr. STERNFELD. Mr. Chairman, I think the problem was——

Mr. PASSMAN. Answer my question, please?

Mr. STERNFELD. We justified a northeast development program last year of $6 million. At that point in time we could not submit to the committee the breakout of the $6 million. We called it all Northeast Region Development. When the book was prepared in February 1962 we had not yet worked out the details of the northeast development program.

Mr. PASSMAN. You asked for funds before you formulated a plan or program. Then you threw it into a big pot and later worked out the program?

Mr. STERNFELD. We informed the Congress we wanted to carry out a program in the northeast, but we did not have the details of how we would carry it out.

Mr. PASSMAN. What harm would have been done if you had waited until this year and carried it out in an orderly manner?

Mr. MOSCOSO. I am afraid we could vitiate the effort we are making if we waited until a crisis occurred.

Mr. PASSMAN. Do you realize you are asking for funds this year for 99 nations?

Mr. MOSCOSO. I do not know the number.

Mr. PASSMAN. It would appear the time has come to justify some of these programs, and I hope some day you people will recognize the wisdom of having Congress bring this thing under control. I do not think there is any question about the fact it is now uncontrolled and uncontrollable.

NEW PROJECTS UNDER $100,000

Are there any new projects included in your list of projects under the $100,000 category, on page 123?

Mr. MOSCOSO. There are none new, Mr. Chairman.

URBAN COMMUNITY DEVELOPMENT

Mr. PASSMAN. We shall consider just one, the Urban Community Development, $30,000. Let us see if you can project that cost to completion. Give us the starting date.

Mr. STERNFELD. The project started, Mr. Chairman, in fiscal year 1963.

Mr. PASSMAN. Did you justify it then or is that one of the new starts?

Mr. MOSCOSO. No.

Mr. PASSMAN. You did not justify it. You start it out at $30,000. Now let us project it to completion.

Mr. MOSCOSO. We do not have the figure. We can supply it for the record, Mr. Chairman.

Mr. PASSMAN. Did you start this project out of deobligated funds?

Mr. STERNFELD. No. We started it out of funds that were available. The cost of this project is $105,000, a 4-year project.

Mr. PASSMAN. Is that dollars?

Mr. STERNFELD. Yes.

Mr. PASSMAN. What about the local currency part?

Mr. STERNFELD. This is just the cost involved in a technician for supporting services.

Mr. PASSMAN. A technician?

Mr. STERNFELD. Yes.

Mr. PASSMAN. What is this technician going to do?

Mr. STERNFELD. This is a person on the staff of the U.S. AID mission in Brazil to concern himself with the problems which are created by the urban situation in Brazil to work with the Government organizations in dealing with slum problems.

Mr. PASSMAN. One individual happened to need a job and you assigned him to the Rio area for how long?

Mr. STERNFELD. This is the area in Rio.

Mr. PASSMAN. What is his salary per year?

Mr. STERNFELD. I would assume $18,000, salary including allowances.

Mr. PASSMAN. And he will solve the slum problem in Rio?

Mr. MOSCOSO. He will help them, hopefully.

Mr. PASSMAN. Is this man assigned to this project without assistance from the AID staff?

Mr. MOSCOSO. I am sure he will get substantial assistance from other people. He will not be working in a vacuum.

Mr. PASSMAN. Let us see how this project is progressing. Give us information on this individual and his background.

Mr. MOSCOSO. We will get it for you.

Mr. FORD. Is he an American recruited here and sent there?

Mr. STERNFELD. Yes.

Mr. FORD. How long has he been on the job?

Mr. STERNFELD. Inasmuch as there is only $15,000 for him he probably has not been there the whole year.

Mr. PASSMAN. Supply us the pertinent information.

Mr. STERNFELD. Yes.

(The information follows:)

URBAN COMMUNITY PROJECT AND BIOGRAPHIC INFORMATION ON THE U.S. TECHNICIAN ASSIGNED TO THE PROJECT

The urban community development project in Brazil started in fiscal year 1963 and is presently scheduled to end fiscal year 1967. The total dollar cost of this project to completion is estimated at $105,000. For fiscal year 1963 no separate project funding was required but one technician was assigned to this project. She was Mary C. Jennings. She received an A.B. degree from Marietta College in 1938 and undertook graduate study in social welfare at Fordham University in 1948 and at Catholic University from 1953 to 1955. She has served as a public school teacher, supervisor, and adviser on community relations in the United States. Her latest AID salary was $10,000 per annum. Her work in

Rio de Janeiro consists of training Brazilian social workers and home economists through regular seminars and special courses in sanitation, health education, and home nursing. These trained social workers will provide social services to slum clearance and urban community projects. Latest figure on the cost of the entire effort in fiscal year 1963 is $15,000.

At the present time the position is vacant. The cost of a new employee including allowances, travel, etc., plus some additional local expenses connected with seminars will require $30,000 in fiscal year 1964.

Mr. PASSMAN. Here is just one man assigned to the AID mission and it looks like a pretty big assignment because you had a similar project for which you needed $33 million.

Mr. Rooney?

BRASÍLIA

Mr. ROONEY. Has the AID program over the years contributed anything to the building of that place in the middle of nowhere known as the new capital, to wit, Brasília?

Mr. MOSCOSO. Not since I have been in the program.

Mr. ROONEY. Do you have any people in Brasília? Do you have an office in Brasília?

Mr. MOSCOSO. We have not had anybody in Brasília but we may have to establish an office there because the coordinator of the development programs on the Brazilian part has moved to Brasília and we may have to establish some contacts with him there.

Mr. ROONEY. Did you look at television last night and the film presented by the young man, Brinkley?

Mr. MOSCOSO. Yes, sir.

Mr. ROONEY. According to Brinkley, people only go up to Brasília on Tuesday and leave on Thursday. This reminds me of something they say about another institution in the United States of America. But he showed pictures of them arriving on Tuesday and leaving on Thursday. Our State Department had to put up what they call a staging building, which Mr. Brinkley did not bring to the attention of the viewers of television last night. We have people up there from USIA, and who will USIA propagandize from Tuesday to Thursday, I wonder? Now we find you may open an office up there. Your employees will all be covered with red clay in the first 10 minutes and want to get out of there, I can assure you. Nobody wants to do business in Brazil in any place except Rio.

Mr. FORD. We will provide rest and recreation for them to get out of Brasília.

Mr. ROONEY. I would think it would be rest and recreation for them unless they wanted to swim in the polluted waters at Rio rather than stay in the red clay in Brasília that covers you in 10 minutes.

HOUSING FOR AID PERSONNEL IN BRASÍLIA

Mr. PASSMAN. Did not AID take a substantial amount of money from the President's contingency fund and build housing projects for the AID personnel in Brasília?

Mr. TENNANT. That was about 2 years ago.

Mr. PASSMAN. Did not AID take substantial funds from the President's contingency account and build housing projects for the AID personnel in Brasília?

Mr. TENNANT. I know some of the contingency fund was used for housing, but whether it was in Brasília or Rio, I do not know.

Mr. PASSMAN. It was in Brasília.

Mr. MOSCOSO. That was before my time.

Mr. ROONEY. What was your impression after seeing this Brinkley television film last night?

Mr. MOSCOSO. The impression I got is that there is still a substantial amount of social and political activity to be generated in Brazil, but that it is a country full of energy, growing, and learning, and in many ways it resembles this country in our early days, our frontier days.

Mr. ROONEY. It merely verified my own impressions of when I was there a few years ago: that it is the greatest boondoggle of the century and the greatest waste of people's money ever perpetrated. There is no point to it.

Mr. FORD. You are talking about Brasília?

Mr. ROONEY. Yes.

Mr. PASSMAN. I would like to read this comment from page 7 of the report of fiscal 1962:

> An example of the use of this fund for nonemergency expenditures is the obligation of $446,000 for the purchase of 24 apartments in Brasília, Brazil, for U.S. employees. Pages 962, 963, and 964 of the printed hearings contain a list of projects initiated during 1961 by a very loose interpretation by the administration of the word "essential."

I am speaking about the President's contingency fund.

UNIVERSITY OF BRASILIA

Mr. ROONEY. Mr. Moscoso, a while ago you told us there were no funds in this budget in connection with Brasília. I now find at page 108 of this justification book that you propose in fiscal year 1964 an AID loan to the University of Brasília to develop its library and laboratories over the next 8 years, with emphasis on science and engineering.

Am I correct, and do you wish to change your answer?

Mr. MOSCOSO. No, I want to clarify it. The question was, "Are you proposing people or personnel in Brasília?"

Mr. ROONEY. No; I did not mention the words "people or personnel." You were asked if there were any funds for Brasília, and you said there were none. Now we find you have a proposed substantial loan to the University of Brasília. What is the justification for this loan in view of this Brinkley film last night? Who would go to the University of Brasília?

Mr. MOSCOSO. There are quite a number of people already living there, and it is obviously desirable for the final——

Mr. ROONEY. According to Brinkley, the situation is such that it compares with the situation when I was there, that there was nobody working in Brasília but the construction workers, and they had a honky-tonk town of their own. Are they the people who will go to the University of Brasília?

Mr. MOSCOSO. Obviously, any loans will be studied by us, and we will have to be certain there will be the students necessary to attend the university, and that there will be a continuing need for this institution.

Mr. ROONEY. How far has this project advanced?

Mr. MOSCOSO. It has not advanced.

Mr. ROONEY. It must have advanced to be in this budget.

Mr. MOSCOSO. The Ford Foundation is going down there to study the feasibility of financing activities of this university.

Mr. ROONEY. You mean you do not presently even have a university?

Mr. MOSCOSO. We have not heard from the Ford Foundation.

Mr. ROONEY. Is there presently a university in Brasília?

Mr. MOSCOSO. Yes, there is.

Mr. ROONEY. How many students do they have?

Mr. MOSCOSO. We do not have that, Mr. Rooney.

Mr. ROONEY. How many weeks would it take to find out?

Mr. MOSCOSO. We can find out tonight.

(Information supplied follows:)

UNIVERSITY OF BRASÍLIA

1. Four hundred and thirteen students are presently enrolled in the University of Brasília.

2. The University of Brasília was inaugurated in May 1962.

(Discussion off the record.)

POPULATION OF BRASÍLIA

Mr. PASSMAN. It is rather generally understood, I believe, that the then President, when they built this new capital, just about bankrupted the Brazilian Government with this novel idea of his.

Mr. ANDREWS. What is the population of Brasília?

Mr. MOSCOSO. I don't know.

Mr. ANDREWS. Could you find out and put it in the record?

Mr. MOSCOSO. Yes.

Mr. ANDREWS. I would like to have the figure, excluding the temporary residents there.

Mr. MOSCOSO. Excluding the floating population.

The population of Brasília is about 172,000. This figure includes a substantial number of construction workers, but neither the Brazilian Embassy nor any other source available has been able to determine how many of these workers are (or will be) "permanent" residents and how many are temporary.

UNIVERSITY OF BRASÍLIA

Mr. ANDREWS. When was the University of Brasília established?

Mr. MOSCOSO. I don't have that information.

Mr. ANDREWS. Do any of your staff members know?

Mr. MOSCOSO. We are trying to get the information and we will be able to give you the date and the number of students.

Mr. ANDREWS. Did I understand you to say they are planning an extension of the university?

Mr. MOSCOSO. An extension of the university?

Mr. ANDREWS. Who will finance that?

Mr. MOSCOSO. The Ford Foundation has been making studies to see whether this is desirable.

Mr. ANDREWS. If they conclude it is desirable to expand the physical property of the university who will finance it?

Mr. Moscoso. The Brazilians will have to put up part of the money, and if the program, or if their loan request, meets our criteria and we think it is justified within the country program and the priorities for the country, we may consider that loan.

Mr. Andrews. Then AID is at least considering financing an expansion of the University of Brasília?

Mr. Moscoso. Yes, sir.

Mr. Andrews. In addition to the substantial loan which you say you already have taken under consideration——

Mr. Moscoso. No.

Mr. Andrews. Didn't you tell Mr. Rooney you are planning a substantial AID loan in 1964 for the library?

Mr. Moscoso. That is right. This is the library and the laboratory over the next 8 years.

COST-OF-LIVING INDEX

Mr. Andrews. I notice that the cost of living is increasing very, very rapidly in Brazil.

Mr. Moscoso. That is right.

Mr. Andrews. In 1959 the cost-of-living index compared to 1958 was 147 percent. It was up 47 points over the previous year.

Mr. Moscoso. The final estimate was 52 percent.

Mr. Andrews. Then it jumped to 185 percent in 1960, and in 1961 it was 256 percent. The estimate for 1962 shows 387 percent.

Mr. Moscoso. That is right.

Mr. Andrews. Do you know whether or not our aid has contributed to this phenomenal increase in the cost-of-living index?

Mr. Moscoso. I don't think so. On the contrary, if anything, it has provided some of the important requirements which would have assisted in keeping the cost of living from rising as much as it has.

Mr. Andrews. It could not have risen much more, could it?

Mr. Moscoso. It could have gone a little higher. It has grown faster in some other countries, like Bolivia.

Mr. Andrews. To what do you attribute this tremendous increase in the cost of living index?

Mr. Moscoso. Primarily to the budgetary deficits.

Mr. Andrews. They are spending more than they are taking in?

Mr. Moscoso. They have printed money in order to cover budgetary deficits, due primarily to the fact that they have railroads which create substantial deficits every year, that some of the government-owned public utilities have not charged rates to recover their costs, and these funds have had to come out of the budget.

Mr. Andrews. In other words, the country has been spending more than they have taken in?

Mr. Moscoso. That is right.

Mr. Andrews. Just like our Government. We have been spending more money than we take in.

Mr. Moscoso. That is right.

Mr. Andrews. We have had a deficit for 26 years out of the last 30, I believe.

Mr. Moscoso. That is right.

Mr. Andrews. Who owns the railroads?

Mr. Moscoso. The Government of Brazil.

EXPROPRIATION OF AMERICAN-OWNED PROPERTIES

Mr. ANDREWS. Has the Government expropriated some U.S. companies' property in Brazil in the last few years?

Mr. MOSCOSO. They have.

Mr. ANDREWS. What effort is being made to collect from the Government the value of the properties seized by the Brazilian Government?

Mr. MOSCOSO. Very strenuous efforts are being made. As a matter of fact, a satisfactory agreement was reached between the International Telephone & Telegraph Co. with regard to the expropriation of the telephone companies. With American & Foreign Power, apparently satisfactory negotiations are taking place.

I know the concern of the Congress—and I can assure you it is also our concern—that the American companies be adequately compensated for the assets which have been taken from them.

Mr. ANDREWS. What companies have lost property down there through expropriation and have not been compensated for it?

Mr. MOSCOSO. So far as I know they have been compensated.

Mr. ANDREWS. All the companies which lost property?

Mr. MOSCOSO. That is right, except for those where the settlement is pending. That involves the two I just mentioned.

Mr. ANDREWS. Do you know the other companies?

Mr. MOSCOSO. I know of no others where settlement has not been made effective.

BRASÍLIA

Mr. ANDREWS. Have you been to Brasília lately?

Mr. MOSCOSO. I was there a little over a year ago.

Mr. ANDREWS. What was your impression of the city and its future possibility?

Mr. MOSCOSO. I think, Mr. Congressman, that the big mistake in connection with Brasília was trying to build it that fast. However, I really think there is need for decentralizing population away from the shoreline of Brazil.

As you know, most of the population of the country, most of the 75 million, are concentrated in a very thin coastal strip not more than 50 or 100 miles deep. As a way of projecting and attracting the attention of the Brazilians to the fact they have a tremendous amount of country which can be developed Mr. Kubitschek tried to construct this capital following the dictum of the constitution which states that a capital should be built——

Mr. ANDREWS. Do you know whether our Government encouraged the development of Brasília as a capital?

Mr. MOSCOSO. I don't know.

U.S. EXPENDITURES IN BRASÍLIA

Mr. ANDREWS. Could you tell us how much money our Government has put into the development of all projects in Brasília—State Department, AID, all branches of the Federal Government?

Mr. MOSCOSO. I don't know. I shall be happy to find out and submit it for the record.

(The information requested follows:)

U.S. GOVERNMENT EXPENDITURES IN BRASÍLIA

The sum of $1,721,914 has been spent for the purchase of land, apartments, and construction of an interim office building. The following is a breakdown of expenditures:

	State	AID
Interim Office Bldg	$694,499	
38 apartments in the Larangeiras Bldg	627,001	
12 apartments in the Gavea Bldg		$142,790
12 apartments in the Tijuca Bldg		212,756
Land	44,868	

In 1957 the Export-Import Bank authorized a $10 million credit to Brazil to be used for the purchase of equipment for the construction of Brasília.

An additional amount of $599,700 has been expended for the public safety program in Brasília during the fiscal years 1961 through 1963.

Mr. PASSMAN. In what year did Brazil make restitution to the telephone company for the expropriation of property?

Mr. MOSCOSO. I don't know whether or not restitution has yet been made.

Mr. PASSMAN. In what year did they reach an agreement on the dollar figure?

Mr. MOSCOSO. 1963.

FISCAL YEAR 1963 AID PROGRAM

Mr. PASSMAN. How much AID did we give Brazil in 1963, total?

Mr. MOSCOSO. $86.8 million.

Mr. PASSMAN. Give us the same figure that you did earlier.

Mr. MOSCOSO. Including everything it is $168.1 million.

Mr. PASSMAN. Was that about the largest AID year in the history of the program for Brazil?

Mr. MOSCOSO. It was next to the largest.

Mr. PASSMAN. The year 1962 was the largest. That is when they were negotiating a settlement. They finally reached a settlement during the year in which we had the largest AID program in Brazil.

TOTAL AID TO BRAZIL

What has been the total amount of aid to Brazil?

Mr. TENNANT. $2 billion.

EXPROPRIATION OF AMERICAN-OWNED PROPERTY

Mr. SCHEINMAN. Section 620(g) of the Foreign Assistance Act of 1961 specifically declares that no monetary assistance shall be made available under the act to any government, et cetera, which will be used to compensate owners for expropriated or nationalized property.

Mr. PASSMAN. Thank you, Mr. Scheinman.

If you give Brazil $163 million, they are not going to say specifically that they will take some of this money and pay I.T. & T., but would you not think it might be an incentive?

Mr. SCHEINMAN. Yes, sir. I can assure you we take the statute very seriously, sir.

Mr. PASSMAN. I know that you do, but you are not supervising the internal affairs of Brazil.

Mr. FLYNT. In addition to the International Telephone & Telegraph Co. and the American & Foreign Power Co., what other American companies have suffered expropriation of property by the Government of Brazil?

Mr. MOSCOSO. I do not have information on others but we are looking into the record and we have promised one of the Congressmen a list of all the expropriations which have taken place.

(Information supplied follows:)

EXPROPRIATIONS OF AMERICAN PROPERTY BY THE GOVERNMENT OF BRAZIL

With the exception of I.T. & T. and the expropriation of AMFORP in 1959, there have been no expropriations of property belonging to U.S. nationals by the Government of Brazil since World War II.

Mr. FLYNT. A great many other American companies have holdings in Brazil at the present time?

Mr. MOSCOSO. That is right.

Mr. FLYNT. In 1963 the total contribution under AID, Public Law 480, and other programs was in excess of $160 million?

Mr. MOSCOSO. That is right.

Mr. FLYNT. In 1962 the figure was even higher. Is that correct?

Mr. MOSCOSO. That is correct.

Mr. FLYNT. Over a period of the life of this program in excess of $2 billion has been used in the development of Brazil and the Brazilian economy?

Mr. MOSCOSO. That is right, and over $700 million has been paid back with $200 million on top of that for interest.

Mr. FLYNT. And additional investments have been made by U.S. companies in Brazil and in the economy of Brazil?

Mr. MOSCOSO. That is right.

Mr. FLYNT. Do you anticipate within the next 3 years any further expropriation of American properties located in Brazil?

Mr. MOSCOSO. I couldn't do that, sir. I wouldn't know.

Mr. FLYNT. If you can judge the future by what has taken place in the past, is not the amount of expropriation almost in direct ratio to the amount of aid we give to that country?

Mr. MOSCOSO. No, I don't think there is a direct relation between the amount of aid and the value of the properties which have been expropriated.

I think the question of the expropriation is perhaps a function of the political situation more than anything else.

The Brazilians are undergoing a period of extreme nationalism and nationalism can be destructive. In this case they have harmed themselves. They have harmed themselves by cutting down one spigot, which the chairman does not refer to, but which I consider more important than anything we can do insofar as this Government is concerned, and that is private investment.

Mr. FLYNT. It is true, is it not, that a Latin American country; namely Cuba, located between here and Brazil, has seized and expropriated every single item of American property located in that country?

Mr. MOSCOSO. Approximately $1 billion worth, yes.

Mr. FLYNT. I believe that includes the new building constructed to house the American Embassy?

Mr. MOSCOSO. That is right, sir.

Mr. FLYNT. To your knowledge is that the first time in the history of this country that a building housing the U.S. Embassy has ever been seized by a foreign country?

Mr. MOSCOSO. I would defer to my colleague here.

Mr. COTTRELL. I believe that is so.

Mr. ROONEY. That was widely stated in the press?

Mr. COTTRELL. I believe that is so.

Mr. FLYNT. If there are further——

Mr. ROONEY. Would you please ask him if these people were kicking about the telephone service in Brazil?

Mr. FLYNT. I will come back to that.

If there are further expropriations of American-owned properties by the Brazilian Government, would you classify this AID program to Brazil as a success or failure?

Mr. MOSCOSO. I would say there would not be any AID program if they do not compensate these companies.

STAGING BUILDING IN BRASÍLIA

Mr. FLYNT. What was the purpose of building the staging building in Brasília?

Mr. MOSCOSO. Perhaps Mr. Cottrell can answer that.

Mr. COTTRELL. I don't. I think Congressman Rooney knows more about this than anybody else.

Mr. FLYNT. I inquired the purpose of the staging building in Brasília.

Mr. ROONEY. I don't want to become the witness.

Mr. FLYNT. Can you supply that information for the record?

Mr. MOSCOSO. Yes, sir.

(The information requested follows:)

PURPOSE OF CONSTRUCTING THE STAGING BUILDING IN BRASÍLIA

The decision to move the capital of Brazil from Rio de Janeiro to Brasília was made in 1955 with actual construction beginning in 1957. On April 21, 1960, the new capital was formally inaugurated. Although all Federal Government offices and personnel have not yet transferred to Brasília, the President of Brazil maintains his official residence there; the Congress meets there; Cabinet ministers work and meet there and much of Brazil's official business is conducted in the new capital.

Therefore in order for our Ambassador and the Embassy staff to carry out their responsibility in keeping the Department of State, the Executive, and our Congress informed of political and economic developments in Brazil, it is essential that an adequate staff be maintained in Brasília.

The staging building was constructed to house personnel and provide office space until such time as permanent office and housing accommodations are completed.

Upon completion of permanent buildings the staging building will be converted to apartments or offices, depending on the needs of the U.S. Government at the time.

Mr. FLYNT. That particular item never was justified before this committee, is that correct?

Mr. ROONEY. It was not in this bill.

Mr. FLYNT. It is being used.

Mr. ROONEY. This is part of the "Foreign buildings office" appropriations of the State Department, Mr. Flynt.

Mr. FLYNT. Did any branch of the Government ever justify to the Appropriations Committee the $600,000 expenditure for the staging building in Brasília?

Mr. MOSCOSO. I wouldn't know. This is really a State Department appropriation. I wouldn't have that information.

Mr. FORD. Off the record.

(Discussion held off the record.)

Mr. FLYNT. How much has been spent out of the appropriations provided by this committee in the city of Brasìlia?

Mr. MOSCOSO. I said a moment ago I would supply that information for the record.

Mr. FORD. The years and the other items.

Mr. FLYNT. I have no further questions.

EXPORT-IMPORT BANK LOANS

Mr. PASSMAN. To keep the record straight, we agreed earlier, and I know you didn't do it intentionally because we reached an agreement, that if we included the hard Export-Import Bank loans that it would certainly reflect credit to this program to which the program is not entitled.

We said we would state the amount we gave away. When you include the Export-Import loans you are going back to the inception of the Export-Import loans.

We know that these countries, unless they are in an extremely difficult position, repay the Export-Import loans, but we wouldn't want to leave the record sticking out and showing that we gave them $2 billion and they have already repaid $700 million.

The $700 million basically is Export-Import loans. Is that right?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Is the majority of the $1,300 million a complete giveaway? Wasn't it grants and all types of aid?

Mr. MOSCOSO. No.

Mr. PASSMAN. How much of that sum represented Export-Import Bank loans?

Mr. MOSCOSO. As I understand it, Export-Import Bank has loaned $1,170 million.

Mr. PASSMAN. How much did they repay?

Mr. MOSCOSO. $723 million through the Export-Import Bank.

Mr. PASSMAN. That is the figure you used, the amount repaid. That is through the Export-Import Bank.

Mr. Rhodes?

UTILITY LOAN TO BRAZILIAN STATE OF MINAS GERAIS

Mr. RHODES. Under date of August 2 there was a release from the Alliance for Progress concerning aid to a Brazilian State, Minas Gerais.

Mr. MOSCOSO. That is right.

Mr. RHODES. This concerns a utility company which is to receive a loan of $5.3 million. Is its name CEMIG?

Mr. MOSCOSO. That is right.

Mr. RHODES. Is this a privately owned company?

Mr. MOSCOSO. A public corporation where the Government owns part and there is some private money.

Mr. RHODES. Has it always been a privately owned corporation?

Mr. MOSCOSO. A mixed company.

Mr. RHODES. This does not consist of expropriated property?

Mr. MOSCOSO. No, sir.

COMPENSATION FOR EXPROPRIATED PROPERTY

Mr. ROONEY. Is it improper for a sovereign nation to expropriate property as long as there is a fair and agreed upon compensation for the utility that it takes over?

Mr. MOSCOSO. No, it is a generally accepted international practice.

Mr. ROONEY. It is a generally accepted procedure. The point is whether they have made proper compensation upon taking it over.

Mr. MOSCOSO. That is right.

Mr. ROONEY. In the case of Brazil the figure agreed upon has been satisfactory, I am told, insofar as the I.T. & T. Co. is concerned?

Mr. MOSCOSO. That is right.

Mr. ROONEY Thank you, Mr. Rhodes.

Mr. RHODES. There have been expropriations of American & Foreign Power Co. properties, also.

Mr. MOSCOSO. Not precisely expropriation, but the same effect.

Mr. RHODES. All the properties in Brazil, or do they still have some?

Mr. MOSCOSO. I think this includes most properties.

Mr. RHODES. And there have been negotiations?

Mr. MOSCOSO. That is right.

Mr. RHODES. What is the status of the negotiations?

Mr. MOSCOSO. Apparently the negotiations reached a satisfactory point. Then came a change in ministers and they have had to continue negotiating with the new Minister of Finance.

One of the things that the Minister of Finance thinks should be done is that at least an appraisal should be made of the properties.

In the meantime the American & Foreign Power considers that in accordance with the initial negotiation with the original Ambassador the properties have been transferred to the Government of Brazil and they are running the properties for the Government of Brazil and they will be compensated for the operating expenses.

Mr. RHODES. The value of those properties must be pretty well known?

Mr. MOSCOSO. The value of the properties apparently has been questioned because there was no evaluation made by the people whom the new Minister of Finance would consider acceptable for the purpose of Brazilian law.

Mr. RHODES. In Brazil does not the government of either the State or the nation set rates for power?

Mr. MOSCOSO. Yes.

Mr. RHODES. As they do here in the United States?

Mr. MOSCOSO. There is a sort of public service commission which sets the rates.

Mr. RHODES. I would assume rates were set in accordance with the various criteria which we use here, including the value of the property and the expenses involved in the production of the power, and all the other criteria.

Why would anybody worry at this late date about establishing a value? This should have been done many times.

Mr. MOSCOSO. Apparently for ratemaking they use one base. In the case of acquisition of property they seem to believe it should be on another base. In other words, it should be reproduction cost, or original cost less depreciation, and I suppose that is what they are now negotiating, what should be basis for the evaluation.

Mr. RHODES. What part does the U.S. Government take in these negotiations?

Mr. MOSCOSO. We have been pressing very hard to get these settled as quickly as possible. I think we have communications from both American & Foreign Power and I.T. & T. thanking the Department for the active participation.

Mr. RHODES. I hope this will continue. It is a very silly thing for the United States to continue aiding a country which expropriates property without making a fair and prompt settlement.

I have no doubt about the legality of expropriation as long as fair and prompt settlement is made. Without that, there has been an unfriendly act committed and I don't believe in helping people who commit unfriendly acts on the international scene.

I certainly hope that not only the State Department but the AID Agency, as well, will press just as hard as necessary to settle all these matters promptly and fairly.

Mr. MOSCOSO. We keep on top of that continuously, sir.

AMOUNT OF SETTLEMENT IN I.T. & T. EXPROPRIATION

Mr. PASSMAN. Would you know the amount of the telephone company's settlement on their properties with Brazil?

Mr. MOSCOSO. I haven't the information with me.

Mr. PASSMAN. Have you any idea as to the total amount?

Mr. MOSCOSO. No.

Mr. PASSMAN. Can you get that information for us?

Mr. MOSCOSO. We shall try to get it for you.

Mr. PASSMAN. The amount that Brazil agreed to pay I.T. & T. for their property.

Mr. MOSCOSO. All right, sir.

I.T. & T. SETTLEMENT

On February 1, 1963, I.T. & T. issued a press release stating the company had reached a satisfactory interim arrangement for payment of its expropriated properties in the State of Rio Grande do Sul, Brazil.

The arrangement involved a loan from the Bank of Brazil in the amount of $7.3 million, pending the conclusion of the expropriation lawsuit or an agreement between the State of Rio Grande do Sul and the company. Under the terms of the loan the maturity dates of the amounts owed by the company were to be postponed automatically until the company receives such indemnity as is

due to it. The agreement further provides that $3,650,000 is to be repatriated and an equal amount is to be reinvested in Brazil.

Mr. PASSMAN. Mr. Ford?

AMOUNT REQUESTED AND OBLIGATED IN FISCAL YEAR 1963 FOR BRAZIL

Mr. FORD. What did you request or what did you justify last year at the time you were before the committee for Brazil? What was the amount of the grant request?

Mr. MOSCOSO. $24 million for grants, and the loan was between $140 million and $160 million.

Mr. FORD. So your total was a maximum of $190 million, or a minimum of $164 million?

Mr. MOSCOSO. $184 million or a minimum of $164 million.

Mr. FORD. What did you execute in fiscal 1963?

Mr. MOSCOSO. A total of——

Mr. FORD. First the grants.

Mr. MOSCOSO. $23.9 million, and in loans $37.4 million. There was supporting assistance loan as well, which is a total of $86.8 million.

Mr. FORD. In the figures you gave originally for the request did you include the supporting assistance amount?

Mr. MOSCOSO. No.

Mr. FORD. You did not?

Mr. MOSCOSO. No.

Mr. FORD. Why not?

Mr. MOSCOSO. It was not in the estimate at that time.

Mr. FORD. Then what was the total amount of the program which you executed including supporting assistance?

Mr. MOSCOSO. $86.8 million.

Mr. FORD. That includes grants, supporting assistance, and loans?

Mr. MOSCOSO. That is correct.

Mr. FORD. Which is substantially less than what you justified?

Mr. MOSCOSO. That is right.

Mr. FORD. What caused the difference? Was it Brazil's attitude, failure to match up or meet the criteria you established, or was it the fact that Congress gave you less money than you requested?

Mr. MOSCOSO. Failure to meet the criteria.

Mr. FORD. It had nothing to do with availability of funds from the United States?

Mr. MOSCOSO. No, sir.

Mr. FORD. It was purely and simply the failure of Brazil to meet the criteria you or AID established?

Mr. MOSCOSO. That is right.

Mr. FORD. I commend you for that attitude.

FISCAL YEAR 1964 FUND REQUEST

How much are you asking in fiscal 1964?

Mr. MOSCOSO. In loans ——— and $20 million in grants.

Mr. FORD. Are you asking for any money for supporting assistance?

Mr. MOSCOSO. No.

Mr. FORD. Do you have any reason for speculating you will have a demand for supporting assistance?

Mr. MOSCOSO. We do not contemplate it.

Mr. FORD. Do you expect to maintain the same criteria in fiscal year 1964 that you maintained so well in fiscal year 1963, as far as Brazil is concerned?

Mr. MOSCOSO. Yes.

Mr. FORD. You are not going to moderate or modify your attitude. You want results or you are not going to loan the money or grant the money?

Mr. MOSCOSO. That is right.

Mr. FORD. That is all, Mr. Chairman.

Mr. PASSMAN. Are the reasons the same things Secretary Dillon refers to as development credits and that you and I agreed are the soft-term loans, 40 years, three-quarters of 1 percent?

Mr. MOSCOSO. That's right.

BOLIVIA

Mr. PASSMAN. The next country in this area is Bolivia, for which the fiscal year 1964 estimate is $———; is that correct, sir?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. How much do you have to the credit of Bolivia, unliquidated, as of June 30, 1963?

Mr. MOSCOSO. $55,912,000.

Mr. PASSMAN. Is that total from all 16 of these foreign aid spigots?

Mr. TENNANT. It includes Public Law, 480, military and economic.

TOTAL AID TO BOLIVIA

Mr. PASSMAN. What has been the total amount of aid to Bolivia since the inception of the foreign aid program?

Mr. MOSCOSO. $328,200,000.

Mr. PASSMAN. From all spigots?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. Does this include the Export-Import Bank?

Mr. MOSCOSO. It does include Export-Import Bank.

Mr. PASSMAN. How much is Export-Import Bank?

Mr. MOSCOSO. Export-Import was $26.4 million. Therefore, the total is $301,800,000.

Mr. PASSMAN. The free part is $301,800,000?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. How much aid has the United States given to Bolivia since the revolution in 1952?

Do you have that information, gentlemen?

Mr. MOSCOSO. We will calculate it. We are doing it right now.

Two hundred ninety-seven million seven hundred thousand dollars.

Mr. PASSMAN. Is this a country we wanted to establish as a kind of a showcase as to what could be done with sufficient outside finances?

Mr. MOSCOSO. I hope I haven't used the word "showcase" in my testimony.

Mr. PASSMAN. I will accept that as being my definition of it.

This is the country where we wanted to set an example of what could be done with aid money? Is that a fair statement?

Mr. MOSCOSO. No. I think that what we are trying to do in Bolivia is to assist a small country which has undertaken a series of reforms——

Mr. PASSMAN. Was this not a country in which we were going to go all out to show what could be done?

Mr. STERNFELD. This was done by people who were in charge of the Latin American program prior to Mr. Moscoso's time in office. He is not aware of it, but I am.

Mr. PASSMAN. This was a kind of showcase, to show what could be done with the proper aid; is that right?

Mr. STERNFELD. The administration, during the Eisenhower administration, was quite concerned with making Bolivia an example of the ability of a country to have a social revolution—which is what this country had—and continue to exist and not go Communist.

SUCCESS OF AID PROGRAM

Mr. PASSMAN. It has cost us approximately $300 million. Has this program been as successful as we had hoped?

Mr. MOSCOSO. No, it hasn't been as successful as we had hoped.

Mr. PASSMAN. Has it been a failure?

Mr. MOSCOSO. I wouldn't call it a failure, no.

Mr. PASSMAN. Almost a failure?

Mr. MOSCOSO. No.

Mr. PASSMAN. Bordering on failure?

Mr. MOSCOSO. I think that we are now for the first time really embarking on a developmental program in Bolivia.

Mr. PASSMAN. But so far you could not say this program has been a success, even though it was an all-out effort?

Mr. MOSCOSO. Of course not.

Mr. FORD. Let me ask this question: Do you think there is a chance it is going to be successful?

Mr. MOSCOSO. I think it has a very good chance of becoming a success from the developmental point of view. I will say up until now it has proven itself from a political point of view. It has maintained a status as a democracy and has not gone Communist. I think the chances at one time were very great that Bolivia would go Communist.

MINERS STRIKE IN BOLIVIA

Mr. PASSMAN. Do you not imagine the Communists would give it back as soon as they took it when they find out what they are up against? How about the striking miners up in Bolivia right now?

Mr. MOSCOSO. They are out on strike and this is testing——

Mr. PASSMAN. It has been almost continuous since we started this aid program?

Mr. MOSCOSO. That's right, it is one of the problems we are facing.

Mr. PASSMAN. The fact is that there has been very little progress made. We are getting by presently on faith that something can be developed in the future.

Mr. MOSCOSO. The cold fact is that these miners are Communist-led and the Government of Bolivia is making a strenuous effort to cope with that situation and as of now it is facing the problem head on.

Mr. PASSMAN. This is the idea we have been dealing with—this is

the same trouble Bolivia has had ever since we went into their program. It has just been repeating itself?

Mr. Moscoso. I think that at this time the situation is probably——

Mr. Passman. Is the situation really worse than it was?

Mr. Moscoso. Well, the Government of Bolivia I believe is really making the kind of an effort that has to be made in order to deal with the situation.

Mr. Passman. These people are again out on strike, closing down the mines?

Mr. Moscoso. Yes, sir.

Mr. Passman. Is that the kind of thing that has kept this country almost in a condition of poverty for years?

Mr. Moscoso. No, there are other reasons for that.

Mr. Passman. Is that the main reason?

Mr. Moscoso. Well, no. If you look back at the tremendous amount of wealth that was taken out of that country by the tin barons and never reinvested in the country, I would say that is one of the reasons.

Mr. Passman. As Mr. Sternfeld says, this was supposed to be the showcase, to show what could be done with aid. What is the population of Bolivia?

Mr. Moscoso. Four million.

Mr. Passman. We have put in $300 million and actually we do not have anything to show for it other than we just hope they may be embarking now upon a program that might be more successful.

STABILITY OF BOLIVIAN GOVERNMENT

Mr. Moscoso. Well, there is a democratic government.

Mr. Ford. When did that government take over? How long has it been in existence?

Mr. Moscoso. In 1952. They had elections again in 1956. Then again the President elected in 1952 was reelected in 1960 and will continue until 1964.

Mr. Passman. Was there a government that came into being in 1952?

Mr. Moscoso. Yes, sir.

Mr. Passman. And we have contributed to the 4 million people $300 million?

Mr. Moscoso. That's right.

Mr. Passman. How do we know actually how the present elected officials feel about us, with this tremendous amount of aid going in, unless we sort of discuss their future without any aid commitments attached to it?

We are going to have to deal with this thing realistically.

Mr. Moscoso. With the assistance of this committee and your assistance, Mr. Chairman, we hope to be able to develop a truly developmental program.

Mr. Passman. Giving $300 million to a little country this size, and taking what happened last week, would certainly indicate that the success they have had, the progress they have had, has been to the extent of getting 300 million American dollars. Now, if we deal

with the situation on that basis, maybe these people who are out on strike will someday come to their senses. I think we have to deal with this program realistically and I do not see any reason whatsoever to be very encouraged over Bolivia.

I am afraid there is not much in the showcase to show for the $300 million, other than we have a government in power that is on speaking terms with us.

Mr. FORD. Would the chairman yield?

Mr. PASSMAN. Yes; I yield.

BUDGETARY SUPPORT

Mr. FORD. How much of that $300 million has gone for direct budgetary support?

Mr. STERNFELD. It got to $22.8 million per year.

Mr. PASSMAN. What was the aggregate sum since 1952?

Mr. FORD. Give us a ball park figure.

Mr. STERNFELD. About $56 million.

DOMESTIC REVENUES

Mr. PASSMAN. Does our aid exceed the amount of money they collected for their budget? What are the domestic revenues accruing to the credit of Bolivia?

Mr. MOSCOSO. $40 million a year.

Mr. PASSMAN. Let us start in 1960. It was only $26 million, total domestic revenue.

How much aid did we give that year?

Mr. MOSCOSO. $24.3 million.

Mr. PASSMAN. How much was the budgetary support?

Mr. MOSCOSO. $16.7 million.

Mr. PASSMAN. Is that sum included in this $26 million?

Mr. MOSCOSO. No.

Mr. PASSMAN. Let us go to calendar year 1961. The revenues amounted to $34 million. How much aid did we give them that year?

Mr. MOSCOSO. $21.7 million.

Mr. TENNANT. The total aid including military in 1961 was $30 million.

Mr. PASSMAN. How about budgetary support in 1962?

Mr. MOSCOSO. $19 million.

Mr. PASSMAN. Which is 50 percent of their total domestic revenues?

Mr. MOSCOSO. That's right.

Mr. RHODES. This is really a great example of the failure of socialism. This is a socialist state.

Mr. MOSCOSO. As a matter of fact, Mr. Congressman, that is one of the lessons we are trying to pin down. One of the things we are working with the Bolivians is to regenerate some vitality in the private sector in Bolivia. Just recently we approved a loan for one of these industrial banks, Mr. Chairman, that you were speaking of in the case of northeast Brazil, in which we are trying to generate economic activity in the private sector by providing the private sector with development funds for industrial development.

WELFARE PROGRAM

Mr. PASSMAN. Do they have a welfare program in Bolivia similar to the welfare program in this country?

Mr. MOSCOSO. As a matter of fact, one of the problems with Bolivia is that they have a welfare program approved since the date of the revolution, way beyond the capacity of the economy to support it.

Mr. PASSMAN. When the miners go out on strike, are they eligible for the welfare benefits?

Mr. MOSCOSO. No. As a matter of fact, this is precisely what the miners are protesting about, because they have been cut off all the various benefits that they wanted to have.

Mr. PASSMAN. This is just an example of failure, so far as giving away our wealth is concerned, hoping we can create something satisfactory.

AID TO STATE-OWNED INDUSTRIES

Mr. RHODES. How much have we given in grants and in loans to the State-owned industries, the tin mines, and the railroads and all? You can furnish that for the record.

Mr. MOSCOSO. We can get you the information on that. For all the public corporations owned by the Government of Bolivia?

Mr. RHODES. That's right.

(The information requested is as follows:)

TOTAL ASSISTANCE TO STATE-OWNED INDUSTRIES IN BOLIVIA BY AID AND PREDECESSOR AGENCIES SINCE 1952

The following assistance by type of funds is in the form of loans to the State-owned industries except as indicated:

[In millions of dollars]

	U.S. dollars	U.S.-owned local currency	Bolivian-owned counterpart [1]
Nationalized mines (COMIBOL)	11.4	5.2	7.2
National oil company (YPFB):			
For spare parts and oil equipment			12.7
For aviation gasoline (not produced in Bolivia)			1.8
National airlines (LAB)		.2	
Railroads	[2] 1.5		1.0

[1] Bolivian-owned counterpart generated from U.S. supporting assistance grants and repayable by recipient industries to the counterpart fund.
[2] Supporting assistance grant.

EFFECT OF CESSATION OF AID TO BOLIVIA

Mr. PASSMAN. Could this be an example where possibly aid is doing more harm than good? These people have to live. They have a socialistic government there and if you cut off this aid, those people would have to work or starve, would they not?

Mr. MOSCOSO. It is not a question of working, Mr. Chairman. I think what might happen is that we might have a government which no longer receives any support from us, trying to get support from almost anyone.

Mr. PASSMAN. Why do you not try to let them get it?

We shall now adjourn, gentlemen, until tomorrow afternoon.

WEDNESDAY, AUGUST 7, 1963.

Mr. PASSMAN. The committee will come to order.

GOLD BACKING OF U.S. DOLLAR

I shall read from an article captioned "Study Urged on Ending Gold Backing of Notes":

Senator Javits, Republican, of New York, is urging the Joint Senate-House Economic Committee to hold hearings on a proposal to remove the 25-percent gold reserve requirement for Federal Reserve notes * * *.

Federal Reserve notes are currency making up the bulk of the paper money in circulation. About $12 billion of the $15.6 billion in U.S. monetary gold is earmarked as backing for the notes under the 25 percent gold reserve requirement.

The remainder of the article will be inserted in the record.

(The article follows:)

STUDY URGED ON ENDING GOLD BACKING OF NOTES

Senator Javits, Republican, of New York, is urging the Joint Senate-House Economic Committee to hold hearings on a proposal to remove the 25-percent gold reserve requirement for Federal Reserve notes.

In a letter to Senator Douglas, Democrat, of Illinois, the committee chairman, Senator Javits said some economists have advanced the proposal as one method of dealing with the balance-of-payments crisis.

Senator Javits, the ranking Republican on the committee, said an exploration of the views of Government, academic, and banking witnesses "would go a long way toward alleviating unjustified fears that might arise should the United States ever find it desirable or necessary to take the actions."

Federal Reserve notes are currency, making up the bulk of the paper money in circulation. About $12 billion of the $15.6 billion in U.S. monetary gold is earmarked as backing for the notes under the 25-percent gold reserve requirement.

The remainder of the gold is called the "free reserve." Foreign holders of dollars credits who demand gold are paid from the free reserve. Because more dollars have for years been going out of the country than have been coming back, the free reserve has been dwindling.

Senator Javits said it is argued by some economists that ending the 25-percent gold requirement would make clear to the world that "the entire U.S. gold supply—not simply the dwindling 'free' reserve—stands behind our foreign dollar liabilities; and that there is much opinion among bankers, economists, and Government officials that the gold reserve requirement is an anachronism and should have been abandoned long ago."

He wrote Senator Douglas:

"While removal of the requirement would probably have no adverse domestic economic consequences, there is some question about the effect such a move might have on confidence in the dollar abroad.

"A considerable body of opinion holds that the requirement should not be lifted until substantial progress toward balance-of-payments equilibrium is achieved. Others believe that to wait until action becomes urgently necessary would be particularly damaging to confidence. The issue, therefore, seems to become one of determining the proper time of such action."

Mr. PASSMAN. Other nations have tried such a procedure and later they had to repudiate their public debts and issue new currency. I hope that we do not proceed with any such idea of withdrawing the gold support from our currency.

SURFEIT OF FUNDS HELD BY WORLD BANK

This is an article about the World Bank:

Pity the World Bank. It currently is suffering from a problem most of us have never had to worry about: more money than it can easily spend * * *.

Shortage of skills: The high amount available for lending and the decline in loans clearly indicates the Bank's view that the obstacle to development in many countries is not lack of money but a shortage of trained persons capable of planning and carrying out industrial development projects.

I have always argued that if we cut this foreign aid bill down to about $1 billion and used only the best trained personnel possible to obtain, we could go into these countries and start possibly 10 percent of the number of projects you now have, and we could make this thing work and people would really appreciate it.

I shall insert the remainder of this article in the record.

(The article referred to follows:)

BANK NOW SURFEITED ON MONEY

(By Michael Churchill, staff reporter)

Pity the World Bank. It currently is suffering from a problem most of us have never had to worry about: more money than it can easily spend.

Although it has been busily lending $2 million every day to underdeveloped countries, the Bank has more than $1.6 billion on its hands. It would take the Bank 3 years to distribute this amount at its current pace.

One obvious solution would be for the Bank to lend more of it faster. This is something the developing countries have been urging the conservatively run Bank to do for years.

But instead of going up, the amount of loans made in the year ending June 30 sharply declined to less than half that of the preceding year. This drop was more apparent than real, since many of the loans were made just before or after the year, but there was no flood of new loans.

SHORTAGE OF SKILLS

The high amount available for lending and the decline in loans clearly indicates the Bank's view that the obstacle to development in many countries is not lack of money but a shortage of trained persons capable of planning and carrying out industrial development projects.

Officials of the Bank indicated last week that they foresaw no liberalization of the lending policy. Loans, they sternly insisted, depend on the ability of countries to recommend sufficiently qualified projects and on their capability of repaying—not on how much money the Bank has.

Nevertheless, the Bank has become sensitive about the pile-up of money in its vaults. To keep it from getting even greater, the Bank's new president, George D. Woods, has stopped floating bonds to bring in more money.

Woods' predecessor, Eugene Black, used to float bonds to acquire new funds even when the Bank didn't need the money. Under Black the Bank borrowed six or seven times a year.

STAY IN MARKETS

The reason, according to a Bank official, was that Black was especially eager to establish the Bank as a familiar figure in the money markets of the world and to maintain its perstige as a borrower. Bank officials say he was not particularly disturbed by the big pile-up of cash.

Woods, on the other hand, has not floated a loan since he came into office in January. Present thinking at the Bank is that the amount of money should be reduced to $1 billion. This would take care of disbursements of loans to countries and repayments of the Bank's own borrowings for about 1 year. The present figure would finance 1½ to 2 years' operations.

Despite this change in policy, officials were able to reduce the cash by only about $1.6 million—to $1.617 billion—in the year ending last June. This was partly because of unexpectedly high sales of loans to private banks, borrowings earlier in the year, and repayments of money by its borrowers. But it also was partly due to the record profits of the Bank on its transactions, which hit $82 million.

It isn't easy to stop making money once you start.

RUMORS OF RUSSIAN REQUEST FOR U.S. LOAN

Mr. SCHEINMAN. Mr. Chairman?

Mr PASSMAN. Yes, sir?

Mr. SCHEINMAN. While we are covering a few matters, a few days ago you read in the record a small article appearing in the U.S. News & World Report, "Washington Whispers Hints Are Heard That the Russians Will Soon Be Looking—"

Mr. PASSMAN. I recall the article.

Mr. SCHEINMAN. As I said then, we would, for the benefit of yourself and the committee, check this matter. We have contacted the White House and I am prepared to say——

Mr. PASSMAN. What did the White House say?

Mr. SCHEINMAN. On behalf of the administration, they have said they heard no such whispers.

Mr. PASSMAN. I am glad, then, we brought the matter to the White House's attention.

We shall take a brief recess in order to respond to a rollcall on the House floor.

(Thereupon, a brief recess was taken.)

U.S. AID OBJECTIVES IN TURKEY

Mr. PASSMAN. The committee will come to order.

This document came to me in the mail this morning and it says, "U.S. aid objectives for Turkey."

Have you ever seen one of those things?

Mr. TENNANT. I have never seen one, no, sir.

Mr. PASSMAN. You have an increase in agricultural production programs going to 1975, according to this.

I notice also we have programs for increased school capacity and school enrollment in primary schools, going to 80 percent, of the eligible population, and that goes to 1973.

You have manufacturing output to provide training for 600 managers per year, and that goes to 1972.

Then there is one of them on increased school capacity for 1970, and so forth.

Mr. TENNANT. I am not familiar with this document but I will be glad to refer it to Mr. Gaud who is responsible for our program in Turkey and we will give you our comments.

Mr. PASSMAN. I would like to know if we are planning these programs that far in advance.

(The following information was subsequently supplied:)

COMMENTS ON AID OBJECTIVES IN TURKEY

This document, which was prepared by USAID/Turkey, states development objectives for Turkey that the United States is helping to achieve through its development grant and loan programs. The planning dates used, running through 1975, are not intended to imply that the United States will provide aid to Turkey through that period. The document gives target dates by which it is hoped that Turkey will attain certain goals.

U.S. EXPENDITURES AND RECEIPTS

Mr. PASSMAN. I note that net deposits for the first 30 days of fiscal year 1964 to the U.S. Treasury amounted to $5,628 million and total withdrawals amounted to $10,736 million; so we are breaking more records every day.

I yield to Mr. Natcher.

PROPOSED ASSISTANCE TO UNIVERSITY OF BRASÍLIA

Mr. NATCHER. Is there any money in the request for fiscal year 1964 for use at Brasília?

Mr. MOSCOSO. We are contemplating the possibility of receiving an application for a loan to assist the University of Brasília.

Mr. NATCHER. Is this particular university located near or in the——

Mr. MOSCOSO. It is in the city.

Mr. NATCHER. It is in the capital city?

Mr. MOSCOSO. In the capital city, yes.

Mr. NATCHER. Can you tell me how many buildings have not been completed or whether construction has completely stopped in the capital city? Can you give us any idea as to the number of large buildings?

Mr. MOSCOSO. No, sir.

Mr. NATCHER. You know there are a number where the construction work has stopped?

Mr. MOSCOSO. That is right.

Mr. NATCHER. Do you have any knowledge of whether they are having extreme difficulties in maintaining the city from the standpoint of having its people stay there for any period of time?

Mr. MOSCOSO. That is right.

Mr. NATCHER. As far as this particular bill is concerned the only money is a loan to be applied to the university which would be located within the city?

Mr. MOSCOSO. If we should make the loan. I do not think the application has been made yet, and if the application should meet the criteria, and if it should be one of the priority items, we think we ought to make this loan.

Mr. NATCHER. Can you tell me how many Federal cities there are in the world? We have Washington, D.C., and Brasília. How many more do we have?

Mr. COTTRELL. There are Federal districts in many countries; Vietnam, for instance.

Mr. NATCHER. Where the capitol is located in a territory that is under the control of the government in its entirety?

Mr. COTTRELL. Yes.

Mr. NATCHER. There are a number?

Mr. COTTRELL. There are a number of them. I could not give you the number offhand. Mexico.

Mr. NATCHER. I did not know they had that many. There are a number of them?

Mr. MOSCOSO. There are a number of them.

Mr. NATCHER. With your permission, Mr. Chairman, I would like a list placed in the record at this point.

Mr. PASSMAN. Yes, of course.

(The information supplied follows:)

NATIONS' CAPITALS LOCATED IN FEDERAL DISTRICTS

Thirteen countries, Federal districts:
Washington, D.C.
Mexico City
Managua, Nicaragua
Santo Domingo, Dominican Republic
Lagos, Nigeria
Léopoldville, Congo
Islāmābād, Pakistan
Canberra, Australia
Buenos Aires, Argentina
Brasíla, Brazil
Bogotá, Colombia
Asunción, Paraguay
Caracas, Venezuela

Mr. PASSMAN. We are talking about this loan for Brasíla and are we talking about this credit for 40 years, with no interest, and a 10-year grace period?

Mr. MOSCOSO. Yes, sir.

CRITERIA FOR AID LOAN

Mr. PASSMAN. You mentioned something about an AID program meeting the criteria. Does this mean the country or the applicant is so weak that they or he cannot qualify for any type of bankable loan before actually qualifying for an AID loan?

Mr. MOSCOSO. In every loan paper we submit to the loan committee, we must certify that these funds are not available from any other banking institution.

Mr. PASSMAN. Including the World Bank or any of them?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. The applicant must be so weak he would not qualify for a regular bankable loan?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Thank you for your factual answer.

BOLIVIA

U.S. ASSISTANCE TO STATE-OWNED INDUSTRIES

Back to Bolivia. I note, at the top of page 22 of the justifications, the following statement:

AID will continue its efforts to rationalize the operations of the state-owned industries in Bolivia.

Practically all industries in Bolivia are state-owned and state-controlled, are they not?

Mr. MOSCOSO. Pardon me? What page number?

Mr. PASSMAN. Page 22 of the justifications.

What do you mean by "rationalize the operation of state-owned industries of Bolivia"?

Mr. MOSCOSO. The private sector in Bolivia has been effective. This was due to a policy of special exchange for their imports which was established a number of years ago. When this subsidy was eliminated in 1957, the productivity of these industries declined substantially

and they began to operate in the red. The Government forbade the dimissal of excess employees. Also, workers have demanded increases in wages over a period of time and a number of these industries have not been able to meet these wage demands. There have been strikes and labor-management problems and in many instances some of the industries have gone under because they have not been able to rationalize their operations.

Mr. PASSMAN. I believe your statement here says AID will continue its efforts to rationalize operations of the state-owned industries in Bolivia.

Mr. MOSCOSO. This has happened in the public sector, too.

Mr. PASSMAN. Practically everything in Bolivia is in the public sector, is it not?

This is considered one of the more socialistic forms of government in the world, is it not?

Mr. MOSCOSO. Yes, it is.

Mr. PASSMAN. Thank you.

SLOW ECONOMIC PROGRESS

Page 22 also indicates that Bolivia has made "marked progress" during the past 2 years. However, I note further that—

> the situation in Bolivia from the U.S. point of view remains very tenuous and unstable and that Bolivia continues to be dependent upon the U.S. balance-of-payments support and International Monetary Fund drawings.

If these statements are true, as your justifications indicate, I would not say that Bolivia has made marked economic self-help progress. Furthermore, our exchange of yesterday indicated there had been no improvement. The situation seems to be stagnated.

Mr. MOSCOSO. I would say in comparison with the situation prior to the last 2 or 3 years, there has been a slight improvement.

Mr. PASSMAN. Not marked, but slight, if anything?

Mr. MOSCOSO. That is right. The improvement has not been uniform. As I said yesterday, there has been a very substantial improvement in the political capabilities of the government.

Mr. PASSMAN. The political capabilities may have improved but there is no particular desire to put those capabilities to work?

Mr. MOSCOSO. Yes, sir; they have.

I wish to give to the chairman this article which I think is quite meaningful. This was written by Nathan Miller, who I do not know, but he is the Baltimore Sun's reporter in Latin America. He has written it from La Paz.

Mr. PASSMAN. I am going to read this report carefully. However, I am interested now in whether or not we are going to be able to reduce substantially this pouring out of American wealth into this seemingly bottomless pit there. That is the main point for consideration.

Mr. MOSCOSO. That is right, but I believe Bolivia does not fall into this category.

Mr. PASSMAN. You could have a 5-ton truck but if you are not going to use it, it would not mean a thing in the world. You could say that this truck has a capacity to do these things but we are not going to use the capacity.

LABOR DIFFICULTIES

Mr. Moscoso. They are using it in this particular case. For the first time they are facing up to the labor difficulty instigated primarily by Communist labor groups.

Mr. PASSMAN. You had a mighty big strike since this report was written and the workers are idle now?

Mr. Moscoso. In two of COMIBOL's main lines; yes. In COMIBOL's other mines; no.

May I quote from the article?

The paragraph I marked states that for the first time the Government stood fast against excessive labor demands and for the first time the rank and file of union members did not bend to intemperate Communist leadership.

Mr. PASSMAN. Are they back at work?

Mr. Moscoso. The Government has not given in to their demands. They are back at work in many of the mines, but not in the two major ones most fully under Communist leadership.

Mr. PASSMAN. Neither have they given in to the Government's demands.

We have to be factual about this. Are they not out on strike presently?

Mr. Moscoso. Yes, in two of the major mines.

Mr. PASSMAN. It is a stalemate. They are daring each other?

Mr. Moscoso. I would not call it a stalemate because it has not lasted long enough.

Mr. PASSMAN. What if we suspended aid until they got this matter settled?

Mr. Moscoso. We did not suspend aid.

Mr. PASSMAN. Could you expedite the settlement if we suspended aid?

Mr. Moscoso. I do not see that that would——

Mr. PASSMAN. You have given 4 million people $300 million since 1952 and they have been continuously in and out, have they not?

Mr. Moscoso. How do you make someone out on strike work?

Mr. PASSMAN. If they get hungry they might work.

COMMUNIST INFLUENCE IN BOLIVIAN LABOR ORGANIZATIONS

Mr. Moscoso. Should the rest of the 4 million people suffer for the Communist-led strike?

Mr. PASSMAN. Are they, in reality, Communists, or just a bunch of stubborn people who are demanding unreasonable things from the Government?

Mr. Moscoso. The Baltimore Sun and this reporter call them Communists, Mr. Chairman, as you can see.

My political colleague can say whether these assessments of these miners are that they are Communist led.

In this case I am sure that the assessment that has been made by several agencies of the U.S. Government is that they are Communists.

Mr. PASSMAN. I hope that the Government holds out against their demands.

Mr. COTTRELL. That is exactly what the Government intends to do at this time.

Mr. PASSMAN. They have tolerated this kind of thing off and on for 10 or 12 years, but you think this time the Government is going to hold out?

Mr. MOSCOSO. That is right.

ENGINEERING FEASIBILITY STUDY PROJECT

Mr. PASSMAN. I note, on page 51, that you want $200,000 for fiscal year 1964 for an engineering feasibility study project. This sum would be consolidated with funds provided by Germany and the Inter-American Development Bank and will finance the contract with German consultant engineering firms; is that correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Why are you contracting with a German firm under this program?

Mr. MOSCOSO. They are participating in the cost of the project, No. 1; No. 2, they are also participating in one-third of the cost of the mining industry rehabilitation program.

Mr. PASSMAN. On a loan basis?

Mr. MOSCOSO. Yes. However, the consultant engineering project is a grant project.

Mr. PASSMAN. How much?

Mr. MOSCOSO. I am sorry. Did you say Germans or we?

Mr. PASSMAN. Germans.

Mr. MOSCOSO. This is a grant on the part of the Germans.

Mr. PASSMAN. Are they going to supply the machinery?

Mr. MOSCOSO. $400,000.

Mr. PASSMAN. Are they going to furnish the machinery that goes into the mines?

Mr. MOSCOSO. This is a feasibility study. They are furnishing the equipment and machinery as a part of their contribution to the triangular (IDB, AID, Germany) rehabilitation program.

Mr. PASSMAN. The Germans are doing so?

Mr. MOSCOSO. Yes, sir; and so are we.

Mr. PASSMAN. In subsequent years, replacements and so on, would have to be German make; is that correct?

Mr. MOSCOSO. In the case of American equipment, it would have to be American equipment.

We encouraged the Europeans to participate in the economic programs in Latin America and they should have a chance of some of that aid being made available for some of their equipment, just like we do.

OCCUPATIONAL HEALTH PROGRAM PROJECT

Mr. PASSMAN. Did you justify the $260,000 which you obligated in fiscal 1963 for the occupational health program, mentioned on page 55?

Mr. MOSCOSO. We did not justify that, Mr. Chairman.

Mr. PASSMAN. You did not justify that item?

Mr. MOSCOSO. No, sir.

AID-PEACE CORPS PROJECT COORDINATION

Mr. PASSMAN. Is the Peace Corps in on this project?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Gentlemen, I want to be just as fair as I can about this. I suppose that 50 times through these hearings we have run into the Peace Corps getting into these aid programs where you already have AID technicians. Could you keep out of duplication of effort under such conditions?

Mr. MOSCOSO. We try strenuously to avoid duplication. It works because the technical level of the Peace Corps is a lower one.

Mr. PASSMAN. At a lower level?

Mr. MOSCOSO. Lower level of technical competence than the AID technicians.

Mr. PASSMAN. That is what I have been contending all along.

How many Peace Corpsmen are going to be in this health program?

Mr. MOSCOSO. I do not have the figure.

Mr. PASSMAN. You do not know how many but they will be in there?

Mr. MOSCOSO. There will be some, yes.

Mr. PASSMAN. I just do not know why we should be giving technical aid from three or four different spigots for the same activity.

U.S. CONTRIBUTIONS TO ILO, PAHO, AND UNICEF

Does the United States contribute to UNICEF, the International Labor Organization, and the Pan-American Health Organization?

Mr. MOSCOSO. They contribute, yes, sir.

Mr. PASSMAN. Supply the amount for the record, please.

Mr. MOSCOSO. Yes, sir.

(The requested information follows:)

U.S. CONTRIBUTIONS TO ILO, PAHO, AND UNICEF

The United States contributes to the regular assessed budgets of the International Labor Organization and the Pan-American Health Organization and makes voluntary contributions to the United Nations Children's Fund and the malaria eradication and the community water supply programs of the Pan-American Health Organization. The U.S. contributions to these organizations for 1962, 1963, and 1964 are:

	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964 (estimated)
ILO [1]	$2,449,000	$2,772,000	$3,502,000
PAHO: [1]			
(a) Regular budget [1]	3,102,000	3,392,000	3,887,000
(b) Malaria eradication program	2,000,000	2,000,000	2,000,000
(c) Community water supply program	300,000	300,000	300,000
UNICEF	12,000,000	12,000,000	12,000,000

[1] Appropriation by Department of State: Contributions to international organizations.

COORDINATION OF U.S. ASSISTANCE WITH MULTILATERAL AGENCIES

Mr. PASSMAN. I believe that UNICEF, the Pan American Health Organization and the International Labor Organization are likewise in on this same project the Peace Corps is in on?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Is there any penalty if they get to fighting among themselves as to who is going to carry the project through to conclusion?

Mr. MOSCOSO. The missions have been especially instructed to coordinate their efforts with all of these other agencies.

Mr. PASSMAN. Is there internal friction about who is going to be in charge?

Mr. MOSCOSO. Like all human endeavors there will be occasional failings of that kind, but we try to keep them to a minimum.

Mr. PASSMAN. You have four or five different agencies and people on this same project. You have the AID people, UNICEF, the International Labor Organization, the Pan American Health Organization, and now you have the Peace Corps coming in?

Mr. MOSCOSO. They are all providing——

Mr. PASSMAN. What is the total cost of this project?

We are still talking about the project you did not justify to the Congress last year; is that correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. Now you have five organizations in on it. What is the cost to completion?

Mr. STERNFELD. The cost to completion to the AID portion of the project would be $580,000.

Mr. PASSMAN. How about the Peace Corps, do you have their part of it?

Mr. STERNFELD. No.

Mr. PASSMAN. How about the other three organizations?

Mr. MOSCOSO. No, we do not have that.

Mr. PASSMAN. Thank you.

CIVIC ACTION PROJECT

What type of operation and construction do you propose to finance at a cost of $380,000? I refer to the civic action project, found on page 58.

Mr. MOSCOSO. These are for the construction of feeder roads.

Just to give you the background, one of the problems in Bolivia is that the country has very few roads in its rich agricultural areas. It has relatively good land in certain parts of the country and a very poor agricultural area on the altiplano where most of the people congregate. The Army of Bolivia under this civic action project is helping to construct feeder roads and helping to maintain those roads in the northern area of the country, and in Tarija, which is one of the tropical areas where you get some better agricultural land.

Mr. PASSMAN. I know what feeder roads are but it would appear to me that there is some conflict between what we see on page 58 and what we were told earlier.

This project utilizes two operational ECU battalions and there are an additional two units currently being formed to maintain and build feeder roads "at a very low unit cost" in remote areas of Bolivia, you state.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. When we speak of civic action projects, are we talking about the military?

Mr. MOSCOSO. Military groups, that is right.

Mr. PASSMAN. Did they testify earlier this year that they were not creating these civic action battalions?

Mr. MOSCOSO. I was not present during their testimony.

Mr. PASSMAN. Specifically for such purposes?

Mr. MOSCOSO. I was not present to hear their testimony.

SELF-HELP COMMUNITY WATER SUPPLY PROJECT

Mr. PASSMAN. Did you justify last year the $240,000 you allocated to the self-help community water supply project, on page 60?

Mr. SCHEINMAN. Mr. Chairman, I would be happy to check that matter with the Department of Defense.

Mr. PASSMAN. Do that, please, if you will.

Mr. SCHEINMAN. I believe that there are expenses in the military assistance portion that relate, as has been testified, to the equipment which is provided to support military units rather than the AID funding which goes to the consumables related to the specific project.

Mr. PASSMAN. I think they told us they were not formulating battalions for civic action programs. That is what the program is?

Mr. SCHEINMAN. I understand the question.

Mr. RHODES. Mr. Chairman?

That is absolutely correct. They did tell us they were not forming such battalions.

Mr. SCHEINMAN. Specifically for that purpose, that is correct.

Mr. PASSMAN. Did you justify the $240,000 allocated to the "Self-help community water supply project," shown on page 60?

Mr. MOSCOSO. It was not justified, sir.

(Additional information supplied follows:)

As indicated by previous defense witnesses, military assistance funds are not utilized to develop units intended solely for use in civic action projects. Military assistance does provide equipment and training to units, especially engineer units, which in addition to their military missions carry out training by doing useful work aimed at accelerating economic development in their countries. Costs associated with particular civic action projects, such as the costs of construction materials, are, as a general rule, provided under the economic aid program or by the government concerned.

EDUCATION ASSISTANCE PROJECT

Mr. PASSMAN. When did you allocate funds to build 200 schools under the "Educational assistance project," shown on page 61?

Mr. MOSCOSO. That was built out of fiscal year 1962, $200,000, and fiscal year 1963 funds, Mr. Chairman, allocated for school building. Fifty have been built and 50 are nearing completion. Construction has just begun on 100 more.

Mr. PASSMAN. Have you allocated funds for the 200 schools?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. You propose to build another 50 out of what appropriation?

Mr. MOSCOSO. Moneys have been allocated for 200 so we still have 50 more left to make a grand total of 250 which will complete the program.

Mr. PASSMAN. You have a remarkable record indicated here on page 61.

You obligated $1,149,000 last year and you wound up with $1,210,000 unliquidated.

Mr. TENNANT. There are 2 years involved.

Mr. PASSMAN. You still could not have $1,210,000 left out of $1,149,000.

Mr. TENNANT. There was some unliquidated from prior years.

Mr. MOSCOSO. From previous years, sir.

Mr. PASSMAN. Is it not a fact that this demonstrates that AID has had so much more money than they could prudently obligate they adopted a policy of obligating it anyway? Here you have funded under "Educational assistance project 511–N–69–AJ" funds that will not be expended for several years hence. You built 50 schools but you obligated in 1962 $2,178,000. You had unliquidated $1,136,000 and in fiscal 1963, you had obligated $1,149,000. You have on hand $1,210,000; is that correct?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Even so, from 1948 to 1963, inclusive, you have only been able to spend a certain amount and you started the project in 1948.

You have spent, since you started the project in 1948—that would be 15 years—$2,117,000, and you had on hand, unexpended, $1,210,000, which is more than one-third of the total amount, and yet you are asking for an additional $500,000.

Mr. MOSCOSO. The building of the school is only one of several activities, Mr. Chairman. You will see we also have a textbook program——

Mr. PASSMAN. It does not alter the fact that if you have the same level of expenditures in fiscal year 1964 and in subsequent years as you have had in the preceding 15 years, you have a seven-and-a-half-year supply of money without the $500,000.

Mr. MOSCOSO. We spent $1,075,000.

Mr. PASSMAN. You spent $2,117,000 since the inception of the project in 1948.

Mr. MOSCOSO. That's right, and in 1963 we spent $1,075,000. We have stepped up the project. In earlier years this was a small technical aid project.

Mr. PASSMAN. I am putting it all together and taking the aggregate. You have been funding on this project since 1948.

Mr. MOSCOSO. That's right.

Mr. PASSMAN. You have funded a total of $3,327,000.

Mr. MOSCOSO. That's right.

Mr. PASSMAN. But you have withdrawn only $2,117,000, which leaves $1,210,00 unexpended.

Mr. MOSCOSO. We spent, last year, $1,075,000.

Mr. PASSMAN. How about the money you asked for in previous years that you did not spend? You said you built only 50 schools.

Mr. MOSCOSO. Completed 50. Fifty more are nearing completion, and construction has just begun on 100 more.

We have completed 50 and allocated the funds for 200 schools from fiscal years 1962 and 1963 funds.

Mr. PASSMAN. You have actually liquidated sufficient funds for only 50 schools.

Mr. MOSCOSO. Fifty more are near completion. They may be finished by now.

Mr. PASSMAN. Let us project this item to completion date. What is the total cost going to be?

Mr. MOSCOSO. $4,488,000.

Mr. PASSMAN. Is that from the inception of the project?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. When did you expect——

Mr. MOSCOSO. 1967.

Mr. PASSMAN. It will require 4 years for you to spend the remainder of $1,160,000, according to your figure. You are going to spend $4,487,000 and you have allocated $3,327,000, so you will need $1,160,000 over the next 4 years?

Mr. MOSCOSO. That's right.

Mr. PASSSMAN. In fact, you do not need any more money for fiscal year 1964?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. How much are you going to spend in fiscal year 1964?

If you need only $1,160,000 to finish this project in 4 years, we want to know at what rate of expenditure you are going to continue it.

Mr. MOSCOSO. As you can see, Mr. Chairman, we have accelerated the project and we spent $1,075,000——

Mr. PASSMAN. We have already figured that out, and you have agreed to the correctness of it. I want to know if you need only $1,160,000 to complete the project——

Mr. MOSCOSO. We will have expenditures, again, of over $1 million a year.

Mr. PASSMAN. Then you do not actually need the $500,000. If the Congress should not appropriate a dime, and you meet this program according to schedule—$1 million a year—when you come back in next year, you are still going to have $210,000 unexpended. Is that correct?

Mr. STERNFELD. That is correct, but you will still have to obligate some additional funds——

Mr. PASSMAN. Not necessarily.

You let the committee and the Congress decide whether you are going to be permitted to continue funding these programs years in advance of completion date.

GOVERNMENT MANAGEMENT ASSISTANCE PROJECT

What type commodities do you intend to supply at a cost of $310,000, on page 63, under the Government management assistance?

Mr. MOSCOSO. This is going to be equipment for the customs police, the postal system, and some IBM equipment for the tax program, firearms, vehicles——

Mr. PASSMAN. Also bookkeeping machines?

Mr. MOSCOSO. We will have IBM equipment, for the tax program.

COMIBOL REHABILITATION LOAN

Mr. PASSMAN. On page 68, you have a project in connection with the COMIBOL rehabilitation project. Its success will be determined during 1963, you state. You approve $5 million. How much money has been spent?

Mr. MOSCOSO. $140,000.

Mr. PASSMAN. It says here:

It is anticipated during 1963 the success of reducing costs and the will of the authorities to take the actions needed for internal reform will be tested. In March 1961, AID made available $3.5 million to the Bolivian Mining Corp. as part of the triangular operation for financing rehabilitation of nationalized mines. Similar amounts of funds were also made available by the Inter-American Development Bank, the German Government, and the IDB with joint financing, and also providing services of a team of management consultants.

After all of that aid, and after approving this loan of $5 million, we come down here and you say, in substance, that during 1963 you will determine whether or not it is a successful operation.

Why did you not determine whether it was a good project before you got this country committed to such a loan?

I quote:

It is anticipated that during 1963 the success of reducing costs and the will of the authorities to take the actions needed for internal reform will be tested, and the outcome of the program may well be determined.

Should such a determination not be made before you make the loan?

Mr. Moscoso. It always is, and we didn't approve this loan until it had been justified in a very complete loan application. We are talking here about the reality of a very difficult situation for the security of the United States and not what someone put on a piece of paper.

Mr. PASSMAN. The trouble is, Mr. Director, we have already approved the loan. You have approved in here $3.5 million, and you have made disbursements of $140,000. We cannot do anything about it. The looseness of it is there.

Mr. Moscoso. There is a lot of equipment that has to be bought. As a matter of fact, it normally takes 8 months to get a piece of equipment to final destination in Bolivia.

Mr. PASSMAN. You do not know whether it is going to be successful. You say you are not going to determine whether it will be successful until sometime in 1963.

Mr. Moscoso. That's right.

Mr. PASSMAN. I regret that you are going to dump $5 million into a seemingly bottomless pit.

Mr. Moscoso. It isn't going to be a bottomless pit, Mr. Chairman.

Mr. PASSMAN. It is either a success or it is not; is that right?

Mr. Moscoso. That's right.

Mr. PASSMAN. So far it is not a success?

Mr. Moscoso. If the attempt to rehabilitate the mines in Bolivia, after it has been given a reasonable length of time, doesn't work out, we just simply will not be able to——

Mr. PASSMAN. Does "rehabilitate," in this case, mean bringing about some coordination between the Government and the laboring people?

Mr. Moscoso. No. Rehabilitation means that, plus a number of other things.

The main part is bringing back into the mines equipment and machinery that had not been replaced by the mining barons who for years exploited these mines.

Mr. PASSMAN. And the laborers would not let them put in modern machinery, would they?

Mr. MOSCOSO. In some instances, Mr. Chairman, we have pretty much the same problem we are facing with the railroads here in the United States.

Mr. MILLER. With respect to the presentation—the presentation of materials themselves—we try to give as accurate, unbiased, and unprejudiced and critical account of the projects that we have——

Mr. PASSMAN. Thank you, Mr. Miller.

Mr. Montoya?

EMERGENCY PUBLIC WORKS PROGRAM

Mr. MONTOYA. Mr. Moscoso, going to page 65, I notice that you have a $3 million project which is divided into small subprojects, and the goal of the project is to provide employment for people in Bolivia. Is that the main purpose?

Mr. MOSCOSO. Yes. And to gain time so that the development program which we are now undertaking has a chance to get off the ground. Also, to permit the rehabilitation of the mines and to provide work for the surplus workers who are now there and who, unless you can find work for them to do outside the mines, will cause serious problems.

Mr. MONTOYA. The project has no direct relationship to the rehabilitation of the mines, does it?

Mr. MOSCOSO. Yes.

Mr. MONTOYA. In what respect?

Mr. MOSCOSO. It is hoped that quite a number of the people who will be displaced from the mines during the rehabilitation program will directly or indirectly find employment in some of these public works.

Mr. MONTOYA. And this is an outright grant to the Government of Bolivia for this purpose?

Mr. MOSCOSO. That's right.

Mr. MONTOYA. You are not requesting funds for this project this year?

Mr. MOSCOSO. We are not.

Mr. MONTOYA. Has it served its purpose, already?

Mr. MOSCOSO. Yes, sir.

Mr. MONTOYA. Do you expect to reactivate the project later on?

Mr. MOSCOSO. It is serving its purpose.

Mr. MONTOYA. Have you terminated the funding of this program?

Mr. MOSCOSO. That's right; we are not requesting new funds.

Mr. MONTOYA. What have you accomplished?

Mr. MOSCOSO. You can see all of the projects that are built or are being built at this time.

Mr. MONTOYA. Was this project justified before this committee?

Mr. MOSCOSO. No; it was not. This is part of the budget support that we provided in fiscal year 1962 money.

ASSISTANCE FINANCED FROM SUPPORTING ASSISTANCE FUNDS

Mr. MONTOYA. What other similar expenditures did you indulge in financed by the supporting assistance appropriation?

Mr. MOSCOSO. Is this 1963?

In 1963, $9.9 million was given to Bolivia in supporting assistance.

Mr. MONTOYA. For what purposes was that money used?

Mr. MOSCOSO. $7.5 million was given for general budget support; $2.3 million was given for industrial commodity imports.

Mr. MONTOYA. Is that mining equipment?

Mr. MOSCOSO. Primarily generators, wool, and gasoline.

U.S. ASSISTANCE TO BOLIVIAN MINE REHABILITATION

Mr. MONTOYA. Have you extended any loans to Bolivia to rehabilitate its mines?

Mr. MOSCOSO. Yes, sir; we have.

Mr. MONTOYA. What is the extent of those loans?

Mr. MOSCOSO. We made a loan of $3.5 million.

Mr. MONTOYA. Is that repayable in local currency or in dollars?

Mr. MOSCOSO. In dollars, at 4-percent interest, 10 years. This was done out of fiscal year 1961 supporting assistance and then in 1963 we made them a development loan of $5 million in participation with the German Government and the Inter-American Development Bank as part of the triangular operations.

Mr. MONTOYA. How is that repayable?

Mr. MOSCOSO. This is a two-step loan with COMIBOL repaying the Government of Bolivia within 10 years in local currency at 4-percent interest, and the Government of Bolivia repaying AID at three-quarters of 1 percent over 40 years.

Mr. MONTOYA. Is that development loan funds?

Mr. MOSCOSO. Yes.

Mr. MONTOYA. That is a 10-year grace period?

Mr. MOSCOSO. That's right.

Mr. MONTOYA. And three-quarters of 1 percent service charge for the remainder?

Mr. MOSCOSO. That's right.

GERMAN AND INTER-AMERICAN DEVELOPMENT BANK PARTICIPATION IN BOLIVIA MINE REHABILITATION

Mr. MONTOYA. What was the amount of participation by the German Government?

Mr. MOSCOSO. The German Government participated with $6.6 million, $2 million first phase and $4.6 million second phase; and the Inter-American Development Bank with $9.3 million, $4.5 million first phase and $4.8 million second phase.

Mr. MONTOYA. What were the terms of repayment under that participation, or should I say those participations, by the Inter-American Development Bank and the——

Mr. ROSENSON. I can give it to you for the Inter-American Development Bank.

Mr. MONTOYA. What is it?

Mr. ROSENSON. That loan was made in July 1961 and was repayable in 14 semiannual payments, beginning March 1, 1965, and repayable in dollars. The loan of $4.8 million was made February 14, 1963, repayable in 15 semiannual payments, beginning April 1, 1966, and repayable half in dollars and half in local currency.

Mr. MONTOYA. At what rate of interest?

Mr. ROSENSON. The rate of interest was 4 percent.

Mr. MONTOYA. Give me the data on the German loan, now.

Mr. MOSCOSO. We don't have it, but we will give it for the record.

(The information requested is as follows:)

TERMS OF REPAYMENT ON GERMAN LOAN FOR COMIBOL REHABILITATION (TRIPARTITE PROGRAM)

During phase I of Operation Triangular the terms of the German $2 million loan were the same as those of the first phase loans made by IDB and AID, namely a 10-year loan, at 4 percent, with a 3-year grace period, repayable in hard currency. It is anticipated that the terms of the second phase German loan for $4.6 million which is currently being negotiated will be the same as the terms for the second phase IDB loan.

FEASIBILITY STUDIES

Mr. MONTOYA. Going back to page 53 and page 52, with regard to the project listed on those pages, is it your intention as a result of anything done under these projects to project into your feasibility findings the need for DLF financing to carry out the objectives that might be delineated in your studies?

Mr. MOSCOSO. Not necessarily loan financing or any other financing.

Mr. MONTOYA. That is one of the purposes of this study, to determine how much money is needed and what it is needed for?

Mr. MOSCOSO. That's right.

BOLIVIAN ECONOMIC SITUATION

Mr. MONTOYA. Before you initiated these projects, did you evaluate the almost admitted possibility that Bolivia cannot participate in any financing in carrying out the objectives that might be recommended?

Mr. MOSCOSO. In quite a number of these projects, Mr. Congressman, you will see that the Bolivian Government, out of budgeted funds, does participate to the extent that it can.

Mr. MONTOYA. I am noticing here that the total revenues for Bolivia for the year 1962, which is the last year, were $39.4 million and that they had a deficit of $29.9 million and that for this same year, which would be fiscal year 1963, we gave to Bolivia in loans, supporting assistance, and development grants the total sum of $30.6 million, which was over and above its deficit and very, very close to its total domestic revenues.

Mr. MOSCOSO. That's right.

Mr. MONTOYA. That picture has existed for quite a few years, has it not?

Mr. MOSCOSO. That's right.

Mr. MONTOYA. I know since I have been on the committee we have been led to believe that these expenditures are necessary to uplift the Bolivian economy and up to this time that goal has not been realized.

Mr. MOSCOSO. Have I done that, Mr. Congressman?

Mr. MONTOYA. No, you haven't, Mr. Moscoso, but what is the present hope?

Mr. MOSCOSO. I believe that we are now on the verge of finding out exactly what our prognosis should be for this development program that we are vigorously trying to push forward. This is truly a development program for Bolivia. We have identified the primary needs of sectors of the Bolivian economy. This economy has to become diversified, and we have to rehabilitate the mining industry.

Why the mining industry? For the simple reason that that is where Bolivia gets 90 percent of its foreign exchange and for the simple reason that that is where the Government of Bolivia gets a substantial amount of its revenue. We are strenuously trying to develop the road system so there can be colonization schemes developed similar to the one working so effectively in the Santa Cruz area. If we can do that, Bolivia can become self-supporting in agriculture and at least at a bare minimum, people will be able to subsist.

Mr. MONTOYA. What is the total area of Bolivia?

Mr. MOSCOSO. It has 4 million people and——

Mr. MONTOYA. 1,000 square miles?

Mr. MOSCOSO. The total area is——

Mr. MONTOYA. 1,000 square miles?

Mr. MOSCOSO. 424,000 square miles.

ROAD PROJECTS

We are helping them build a number of roads to try to create a communications and transportation network. I did not mean to imply that we are going to build roads to connect all of the points in Bolivia. We are building roads from the area where the population has concentrated to rich agricultural areas which can support major colonization programs.

Mr. MONTOYA. What are they contributing to these road projects?

Mr. MOSCOSO. In the case of the feeder roads, the Government of Bolivia will provide $525,000 of counterpart funds and $390,000 of central budget funds in support of this project.

Mr. MONTOYA. And what are we contributing?

Mr. MOSCOSO. $480,000 in fiscal year 1964.

Mr. MONTOYA. Is this a fiscal year 1964 figure for both?

Mr. MOSCOSO. For both.

Mr. MONTOYA. You mentioned $525,000 in counterpart funds. That is also our money, isn't it?

Mr. MOSCOSO. Yes, originally loaned or granted by us—it is owned by them. It is the supporting assistance money that I mentioned to you.

Mr. MONTOYA. What do you mean, it is owned by them?

Mr. STERNFELD. Mr. Congressman, supporting assistance funds are provided to the Government of Bolivia as a cash grant for their budget operations. When we provide them the cash for the commodities, under the supporting assistance chapter of the act, the currencies which are generated as a result of this aid become country-owned currency—as opposed to Public Law 480, where we sell them wheat and the other commodities. Those Public Law 480 currencies are recorded in our books as U.S.-owned currencies. That is the difference.

Mr. MONTOYA. I never heard of a country owning its own counterpart funds.

Mr. STERNFELD. We have a veto right on the use of the funds but they are deposited to their account.

Mr. MONTOYA. Is that a misnomer, that the country owns its own counterpart funds?

Mr. STERNFELD. No; this is correct. It is legally theirs, but they cannot use the counterpart funds without our approval.

Mr. MONTOYA. Is that all we have by way of road projects, just this particular one?

Mr. MOSCOSO. No. We have approved recently a loan for the building of an access road and the improvement of two other access roads to a colonization area.

Mr. MONTOYA. How much money does that involve?

Mr. MOSCOSO. The total cost of the entire colonization effort is $21,450,000, including Bolivian and external inputs. The AID portion is $7,200,000 for the roads.

Mr. MONTOYA. How is the other to be contributed?

Mr. MOSCOSO. The remaining external share is primarily to be financed by the Social Progress Trust Fund and the Fund for Special Operations of the IDB.

Mr. MONTOYA. To what extent?

Mr. MOSCOSO. $9,100,000 total.

Mr. MONTOYA. What bank is that?

Mr. MOSCOSO. The Inter-American Development Bank.

Mr. MONTOYA. What is the rate of interest, and is it repayable in dollars or in local currency?

Mr. ROSENSON. For the Social Progress Trust Fund loan it is 1.25 percent interest in local currency plus a service charge of three-quarters of 1 percent in dollars, and it is repayable in their currency or at the borrower's option in dollars. For the Special Operations loan, the interest rate is 4 percent and the loan is repayable in local currency.

TOTAL AID TO BOLIVIA

Mr. MONTOYA. What is the amount of aid we have extended to Bolivia since the inception of the program?

Mr. MOSCOSO. Including everything, $328,200,000.

Mr. MONTOYA. How much of that is represented in loans?

Mr. MOSCOSO. $91.5 million is loans.

Mr. MONTOYA. Would you divide these loans into hard currency and soft currency loans? Or are they all soft currency payments?

Mr. MOSCOSO. There is a $26.4 million item which is Export-Import Bank, and that is a hard loan.

Mr. MONTOYA. What has been the dollar repayment experience?

Mr. MOSCOSO. $21.5 million has been repaid.

Mr. MONTOYA. There is $26 million outstanding, or the balance?

Mr. MOSCOSO. No; the total was $26.4 million.

Mr. MONTOYA. Out of the balance of $91.5 million which no doubt is on a loan basis, requiring local currency repayment, what has been the repayment?

Mr. MOSCOSO. $30,997. That is on principal, and $43,909 interest.

Mr. MONTOYA. We haven't been repaid too much, have we?

Mr. MOSCOSO. No, sir.

Mr. MONTOYA. Are they delinquent?

Mr. MOSCOSO. No; these are recent loans.

Mr. PASSMAN. Has this matter something to do with the $300 million we broke away from the Export-Import Bank yesterday, because $300 million was the giveaway part of it?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. That fact accounts for the small amount of return, because in this you are dealing with the aid part and not Export-Import Bank?

Mr. MOSCOSO. That's right.

Mr. MONTOYA. This is strictly local currency repayment?

Mr. MOSCOSO. That's right.

(NOTE.—The answer was subsequently changed to "No.")

LEVEL OF AID TO BOLIVIA

Mr. MONTOYA. Is there any hope that you are going to reduce the aid and loans to Bolivia below the figure that you have been hovering around for the last 3 fiscal years?

Mr. MOSCOSO. No, sir.

Mr. MONTOYA. Is it your intention to increase it?

Mr. MOSCOSO. Has our estimate increased?

Mr. MONTOYA. It is increasing this year over and above last year and the year before?

Mr. MOSCOSO. That's right. It is increasing, because we are now getting the projects ready for the financing.

POLITICAL SITUATION IN BOLIVIA

Mr. MONTOYA. What is the political situation in Bolivia now?

Mr. COTTRELL. I would say they have reached a confrontation between the Government and the miners. The prime political problem today is we have a government in Bolivia that is willing to face the miners and their demands that have been unreasonable to date. They are Communist led. The Government is being firm. They are insisting on the rehabilitation of the mines and they are in this confrontation at the present time.

Mr. MONTOYA. Do the Communists now control the mines?

Mr. COTTRELL. A Communist-led miners union.

Mr. MONTOYA. And that has been the case for some time?

Mr. COTTRELL. That is true.

Mr. MONTOYA. What is the present picture along those lines, other than the confrontation by the Government.

Mr. COTTRELL. It looks as though the Government is making their point stick. We hope they will.

Mr. MONTOYA. But the Communists still control the unions?

Mr. COTTRELL. That's right, and it is a question of whether the unions are going to be submissive to the orders of the Comibol, which is the Government mining company. If the Government is successful, it means they will be able to improve conditions in the mines and break the leadership of the Communists over the unions and the situation will be vastly improved over the present and past situation.

Mr. MONTOYA. Is this the first time they have ever had this kind of confrontation?

Mr. COTTRELL. A strong enough government to do it; yes. In the past the Government has been responsive, very responsive to the demands of the miners, which as I have said, have been strongly influenced and led by the Communists.

Mr. MONTOYA. When was the last pay raise the miners received?

Mr. COTTRELL. I don't know.

Mr. MONTOYA. They are constantly demanding a pay raise, is that right?

Mr. COTTRELL. They are demanding that the management of the mines be in their hands and not in the hands of the Government-owned company. This means a wide variety of working conditions that the Government does not control.

Mr. MONTOYA. Are the mines now under the control of the Government?

Mr. COTTRELL. No; the mines are in the hands of the unions and the Government is insisting that this triangular arrangement be put into effect so the mines can then become operable on an efficient basis.

Mr. MONTOYA. Who owns the mines?

Mr. COTTRELL. They were nationalized in 1952.

Mr. MONTOYA. Why do the miners still control or dominate the operation of the mines?

Mr. COTTRELL. Basically because of Communist agitation.

Mr. MONTOYA. Do they have a contract with the Government? What kind of concession makes this situation possible?

Mr. COTTRELL. Actually, the first and prime reason is the physical presence of the miner in the mines. On occasion the Government has sent troops down to enforce one or another of their demands. They have had skirmishes and the Government has backed off, generally.

Mr. MONTOYA. Do the union people handle the administrative affairs of the mine?

Mr. COTTRELL. Yes; to a large extent.

Mr. MONTOYA. And just report to the Government the physicial results they attain?

Mr. COTTRELL. Exactly.

U.S. SUPPORT OF BOLIVIA'S MINE REHABILITATION EFFORTS

Mr. MONTOYA. And we are actually investing U.S. dollars in those mine operations, are we not?

Mr. COTTRELL. Indirectly. We are supporting the Government, which is attempting to correct this situation. I say indirectly, because our support to the Bolivian Government and through their National Mining Co. probably does——

Mr. MONTOYA. Are we engaged in multilateral arrangements whereby we and the German Government and others——

Mr. MOSCOSO. Yes; we are, Mr. Congressman.

Mr. MONTOYA (continuing). Are going in there and reequipping the mines——

Mr. COTTRELL. Attempting to reequip them under certain conditions.

Mr. MONTOYA. How can we help to manage it if the mines are under the almost complete domination of the labor unions?

Mr. MOSCOSO. Those are demands we are making now, and that is one of the reasons for the strike. Comibol which is the Bolivan National Mining Corp., that manages the mines, and the advisory group set up by the Inter-American Bank, have demanded that the workers allow management to manage; that they allow the management to move equipment from one mine to another; allow equipment to be replaced; not permit union meetings during working hours, etc.

Mr. MONTOYA. Have union meetings during working hours stopped?

Mr. MOSCOSO. The work in two of the major mines has stopped because they went on strike when the Government said they were going to enforce the regulations.

Mr. MONTOYA. How much have we agreed to put into those mines?

Mr. MOSCOSO. As I said a moment ago, we have put in $8.5 million we loaned them, together with the German Government $6.6 million, and the Inter-American Bank $9.3 million.

Mr. MONTOYA. So a total of $8.5 million is our commitment in those mines up to the present time?

Mr. MOSCOSO. That's right.

Mr. MONTOYA. What is the overall figure projected into the future?

Mr. MOSCOSO. It is a $37 million total, where we will participate about a third, the German Government about a third, and the Inter-American Development Bank about a third.

Mr. MONTOYA. Is it safe to say in round figures the overall investment we will make in those mines will be approximately $15 million?

Mr. MOSCOSO. About; that is correct.

Mr. MONTOYA. And we are doing that in spite of the fact that the Communists now dominate the operation of the mines?

Mr. MOSCOSO. The Communist stranglehold over these mines should be broken. We hope that this program is successful; and part of the program is to get the miners to obey management.

BOLIVIAN GOVERNMENT EFFORTS TO CONTROL NATIONALIZED MINES

Mr. MONTOYA. In the absence of the Government just taking the mines over, how can we accomplish that purpose?

Mr. MOSCOSCO. Well, Mr. Congressman, there is a very interesting article that I showed the rest of the members of the committee that has just come in from——

Mr. MONTOYA. But, Mr. Moscoso, we have not been told here that the Government has taken any positive steps other than confrontation. to take over the mines.

Mr. Moscoso, what steps are they taking?

Mr. MOSCOSO. They have agreed they will not accept the miners' demands that they continue to be allowed to veto management decisions.

When I say "management" I mean COMIBOL.

Mr. MONTOYA. Does COMIBOL have any Communists within its membership?

Mr. MOSCOSO. Not that I know of.

Mr. MONTOYA. This is an agency of the Government?

Mr. MOSCOSO. Yes.

COMMUNIST INFLUENCE IN BOLIVIA

Mr. MONTOYA. What is the Communist situation in the rest of the country.

Mr. COTTRELL. The Communists are organized among the campesinos, among the laborers, certain student groups and certain intellectuals of the country. Their strength is strongest among the mining element.

Mr. MONTOYA. What is the Communist situation at the university?

Mr. COTTRELL. Also in the university the intellectual student groups.

Mr. MONTOYA. Do the Communists dominate the internal government of the university?

Mr. COTTRELL. No, I wouldn't say so.

Mr. MONTOYA. Have they any key posts?

Mr. COTTRELL. ———.

STUDENT INFLUENCE OVER UNIVERSITY POLICY IN LATIN AMERICA

Mr. MONTOYA. Why do these students have so much power in the universities of Latin America?

Mr. COTTRELL. Students all over Latin America take a much keener interest in politics than they do in the United States. I think it is mainly due to the fact that politics is such a serious business that parties who succeed each other manage to remove the elements of the other party from government, from privileges. In fact, it is a way of life for them so at an early age, they are very keenly aware of what changes in politics can make with respect to their own welfare. That means you have students of high school age actively engaged in politics, where up here our young people don't become really actively engaged in politics or become as serious about it until a later age.

Mr. MONTOYA. What I am trying to elicit from you: What distinguishes the power of the student in Latin America in trying to dictate the policy at the university, from the American student where he has no voice in the policy of the university?

Mr. MOSCOSO. This goes back to even before the Middle Ages. This goes back to the University of Bologna and the way the universities were born in Europe. The universities were born as a result of a group of relatively wealthy youngsters who wanted to be educated and who paid the professors for educating them. Therefore, they dictated the time, the materials they were going to be taught and the kind of profession, et cetera, and that student relationship was maintained throughout Europe until it was finally broken in some of the universities in Europe. But it came almost undiluted into Latin America. Then a so-called reform movement, which took place in the University of Cordova in Argentina, early in this past century, gave the students a preponderant voice in the appointment of the faculty and in the appointment of the rector of the school.

Mr. MONTOYA. Do they have a right to vote on the faculty?

Mr. MOSCOSO. Yes; and to vote on the rector of the university.

Furthermore, they have achieved a situation of almost complete autonomy insofar as the area, or campus of the school is concerned. For instance, in Venezuela, the Central University of Caracas is surrounded by a high wire fence and no uniformed public official may enter that compound without the previous consent of the university officials.

Mr. MONTOYA. That is true in the other universities, is it not?

Mr. MOSCOSO. It is true in many other universities in Latin America.

Mr. MONTOYA. Has anything been done to try to change that setup?

Mr. MOSCOSO. Yes.

Mr. MONTOYA. The great danger has been that the Communists have made agents within those university compounds agitating the students

and handling political affairs on behalf of the Communist Party. Isn't that the core of most of our trouble?

MEASURES TO COUNTERACT COMMUNIST INFLUENCE IN LATIN AMERICAN UNIVERSITIES

Mr. Moscoso. One of the strong programs we are sponsoring is one for strengthening the universities of Latin America. Already, out of 200, more or less, so-called first-class universities in Latin America, we have contracts in 57 of them, with U.S. universities providing stronger faculties, assistance in their laboratories, and their curriculum; exchange students and so forth.

The idea is to see if we can expose these youngsters to some ideas more similar to the ones we have here, and also to give them different motivations from those they have today.

I must say the situation of the universities in Latin America emanates from the weakness of the economy. Government is the biggest thing in most of the countries of Latin America. Therefore, these youngsters start to work at their professions rather early in life and they found and recognized in politics a means of achieving success and prominence quicker than in any other way, because they feel that the private section, that is, business, commerce, et cetera, does not provide an easy way for them to achieve any kind of success.

Now, that is partly true because in many of these societies in Latin America there is a rigidity which is nothing compared to anything we know here in the United States.

Mr. MONTOYA. Aren't we extending quite a few grants to the different universities in Latin America?

Mr. MOSCOSO. Yes.

Mr. MONTOYA. Are we making any conditions about trying to remove this autonomy so that the universities can be more responsive to the government?

Mr. MOSCOSO. We are doing it in a very indirect fashion. You are dealing with a centuries-old tradition, and you are dealing with situations where even people who have been victims of this kind of autonomy are reluctant to do anything about it when they achieve high places.

Mr. MONTOYA. What is being done besides getting some of our professors into these universities?

Mr. MOSCOSO. That is all we are doing. In some cases we are trying to help staff the faculties. We are trying to help every one of the colleges in the Central University of Ecuador.

Mr. MONTOYA. The real trouble is that the Communist Party International has been subsidizing quite a few students within these universities.

Mr. MOSCOSO. Students in quotes. Some of them have lost their hair.

Mr. MONTOYA. They are just enrolled for the mission?

Mr. MOSCOSO. That's right.

Mr. MONTOYA. They agitate all the year round, and they lead these students to vote the directors of their student bodies whom they can use as they would want to, is that correct?

Mr. MOSCOSO. That's right.

Mr. MONTOYA. What are we doing specifically in that direction to counter the Communist effort? Do we have any of our own people subsidized?

Mr. MOSCOSO. Several things, sir, are happening. In the first place, CU, one of the divisions of the Department of State has a very strong student exchange program. I remember in the case of the Central University of Venezuela, a group of youngsters from the United States—not more than a handful of them, six or seven, did more to counter Communist propaganda than anything I have seen done by any agency of the Government. The Peace Corps is doing a tremendous amount of that type of work, at this moment, too.

Mr. PASSMAN. In the colleges?

Mr. MOSCOSO. Most of the times they do it outside of the colleges, but they project the image of the U.S. youngster motivated differently than the others—not as much interested in politics as doing something for the welfare of his fellow human beings. Interested in doing something constructive. Interested in demonstrating that things can be done in the country to better the lives of the people, rather than demonstrating in the streets.

Mr. MONTOYA. That is all, Mr. Chairman.

PERSONAL WEALTH OF EXILED LATIN-AMERICAN POLITICAL LEADERS

Mr. PASSMAN. Incidentally, politics is quite a profitable vocation in Latin America, is it not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. There has been no Latin American known to go into exile poor, has there?

Mr. COTTRELL. A number of Cubans.

Mr. PASSMAN. You know the people I am talking about. I am talking about the top echelon people in government.

We have known many of them who went into exile worth many millions of dollars; is that not correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. It is a very profitable business for many of the people in government. They are not unmindful of the situation we tolerate of the rather common practice of skimming off the top. We hope that this program will possibly make the penalty in South America for skimming off the top, the same as the law is in this country.

Mr. MOSCOSO. That is one of the prime objectives of the Alliance.

Mr. PASSMAN. We certainly hope that it works out.

The Comibol rehabilitation project, in reality, is a subsidiary of the Bolivian Government?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. We have given the Government about $300 million in the grant-aid or soft-loan side since 1952. This sum would be a part of the total?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. Mr. Rhodes?

U.S. COMMITMENTS IN BOLIVIA INVOLVING LOCAL CURRENCY

Mr. RHODES. Do we generate any local currencies by our activities in Bolivia?

Mr. MOSCOSO. Yes, we do.

Mr. RHODES. What is the status of the various amounts involving local currency—Bolivian—will you put that in the record?

Mr. MOSCOSO. Yes.

Mr. RHODES. Will you also put in a statement on the terms under which those currencies can be used?

Mr. MOSCOSO. Yes.

(The information requested is as follows:)

STATUS OF COMMITMENTS INVOLVING LOCAL CURRENCIES—STATEMENT ON THE TERMS UNDER WHICH THOSE CURRENCIES CAN BE USED

The terms, conditions, and uses of the U.S.-generated local currency are spelled out in the separate project agreements drafted by U.S. AID/Bolivia for each grant or loan project. These agreements written in both Spanish and English are signed by the Mission Director for AID and the Minister of Economy for Bolivia. The agreements indicate the background reasons for instituting the project or program, the purpose of the project, its work plan, its financial plan, and various standard provisions, including one that the Bolivian Government agrees to give full publicity to the Bolivian people that the project is an evidence of the friendship of the people of the United States under the Alliance for Progress.

Local currency loans made under the project agreement mechanism are mostly short-term loans—from 2 months to 5 years. The interest rates of the loans vary from 1 percent for cooperatives, etc., to 12 percent for loans to profitmaking concerns. Most loans fall into the 4 to 8 percent interest rate range. All of the local currency loans are at lower rates than loans for comparable ventures 10 to 30 percent financed by Bolivia's commercial banks. These loans have tended, in a small way, to reduce the extremely high interest rates prevailing in the domestic market in Bolivia.

Status of all U.S. generated local currency

[In millions]

	Total, all accounts	U.S. owned	Bolivian owned counterpart
A. Amounts obligated and released (fiscal year 1954 to 1963, inclusive)	$92.5	$17.0	$75.5
Completed activities as of June 30, 1963	27.6	6.0	21.6
All-year obligations on on-going projects and programs:			
Grant projects	38.6	4.3	34.3
Local currency loan projects	26.3	6.7	19.6
B. Unobligated local currency available as of June 30, 1963	1.7	.5	1.2
C. Comparison of amounts obligated and released for budgetary support and for development projects (fiscal years 1954 to 1963, inclusive):			
Budgetary support	46.0		
Development projects	46.5		
Total	92.5		

[In millions]

	U.S. owned local currency	Bolivian owned counterpart
D. Sector breakdown of all-year obligations on on-going local currency projects:		
Agriculture:		
Grants	0.6	2.5
Loans (6 to 10 percent)	1.1	2.0
Mining:		
Grant projects	.2	1.0
Loans—COMIBOL (1 to 4 percent)	5.2	7.2
Transportation:		
Grants		1.0
Loans (4 percent)	.1	1.6
Industry:		
Grants	.1	
Loans (4 to 12 percent)	.4	5.8
Health and education grants	1.2	3.0
Public administration and public safety grants	.2	.8
Budgetary support (1961-63):		
Grants	1.1	20.0
Loans (4 percent)		3.0
Colonization of new land grants	.4	2.0
Miscellany grants	.4	2.0
Public works grants		2.0

QUESTION OF AIDING SOCIALIST FORM OF GOVERNMENT

Mr. RHODES. We should let a lot of this socialist economy fall of its own weight.

Mr. MOSCOSO. I tried to find out how much this whole incident in Cuba cost us, that surveillance in the month of October and extending about 6 weeks. Over and above the actual cost of running the ships and planes and so forth, over and above that, I think it cost $———. This was just a question of a few days. You can well imagine what kind of a situation we would have in a case of a continental nation like Bolivia. You have heard from Mr. Cottrell the tremendous pressure which has been brought to bear by the Communists in this particular country. The Communists might not be interested, as the chairman indicates. However, the way they are fighting would indicate to the contrary. It is very much in the interests of the United States and to its security that we spend this money.

Mr. RHODES. Well, I would certainly agree with you that Bolivia should not become a Communist nation. However, I am not convinced that this is the only way or even the best way to insure that this does not occur. It seems to me you are perpetuating a situation in Bolivia which can never be a viable one.

ASSISTANCE TO BOLIVIA'S PRIVATE SECTOR

Mr. MOSCOSO. We are very much trying to make it a viable one. Yesterday I started to mention one of the efforts we are making in developing the private sector of the economy. That sector has had its back against the wall and we are trying to rehabilitate it.

Mr. RHODES. As I recall, you said that you had started a bank there for small business loans. What else——

Mr. MOSCOSO. A rehabilitation program.

Mr. RHODES. What else have you done in the private sector?

Mr. MOSCOSO. We have been devoting substantial sums of the local currencies available to us, in supervised industrial and agricultural credit programs.

Mr. RHODES. Has Bolivia ever expropriated any American property?

Mr. COTTRELL. Yes, the mines were partly American owned, in the early days. I think it was 1952, when the mines were nationalized. There were heavy U.S. interests in those mines as well as other foreign interests.

Mr. RHODES. Was a prompt and equitable settlement made?

Mr. COTTRELL. Not prompt. At that time they worked out a settlement which meant repayment over a period of years from the product of the mines, but it was considered satisfactory, after negotiations.

Mr. RHODES. Do you know whether the terms are being maintained?

Mr. COTTRELL. No; I don't.

Mr. MOSCOSO. I understand that they have been maintained.

Another thing I would like to mention is the fact that we are also making a strenuous effort to get to the small- and medium-sized farmer with supervised agricultural credit, so they also will be able to survive.

U.S. ASSISTANCE TO EDUCATION

Mr. RHODES. Are we interested in education in Bolivia?

Mr. MOSCOSO. We have a program in education that was mentioned a while ago. We are assisting them in building schools and in preparing textbooks. On page 61, Mr. Rhodes, that is shown. We are training rural teachers. We are printing textbooks and we are helping them build rural self-help schools.

SETTLEMENT OF EXPROPRIATION CASES IN BRAZIL

Mr. RHODES. This has to do with Brazil, but since we mentioned it yesterday, might I mention it now:

This is an article which was in the Washington Post of the 7th of August, which I guess is today, isn't it?

Mr. MOSCOSO. Yes.

"Brazil Hints Backout on Buying Firm." It has to do with the purchase by the Brazilian Government of the assets of the American & Foreign Power Co.

The indication is, since the Brazilian Cabinet was reshuffled in June that—

the new Government has not yet made good on its downpayment. In fact, it has asked to reschedule the downpayment deadline to October and to hold up the signing of a final contract until the Government completes an inventory of the properties.

Now, I mention this because, as I say, we mentioned it yesterday and I assume it would still be your intention, Mr. Moscoso, to do everything possible to bring about a settlement.

Mr. Moscoso. You asked me about the situation, and I promised to give you the information. This is the I.T. & T., and the other is the situation with American & Foreign Power.

Mr. Rhodes. Could we put that in the record?

Mr. Passman. Yes, certainly.

(The documents referred to follow:)

I.T. & T. Settlement

On February 1, 1963, I.T. & T. issued a press release stating the company had reached a satisfactory interim arrangement for payment of its expropriated properties in the State of Rio Grande do Sul, Brazil.

The arrangement involved a loan from the Bank of Brazil in the amount of $7.3 million, pending the conclusion of the expropriation lawsuit or an agreement between the State of Rio Grande do Sul and the company. Under the terms of the loan the maturity dates of the amounts owed by the company were to be postponed automatically until the company receives such indemnity as is due to it. The agreement further provides that $3,650,000 is to repatriated and an equal amount is to be reinvested in Brazil.

American & Foreign Power Settlement

On April 22, 1963, the American & Foreign Power Co. (Amforp) reached an understanding with the Brazilian Government on the terms to be incorporated in a subsequent contract, pursuant to which the Amforp systems interest as of December 31, 1962, in all its utility subsidiaries in Brazil will be purchased by the Brazilian Government or one of its agencies for a price of $135 million.

Under the proposed contract, Amforp will receive a downpayment of $10 million in New York. The balance of the purchase price, amounting to $125 million, will be payable in New York in U.S. dollar notes to be issued by or guaranteed by the Brazilian Government and maturing serially over a 22-year period beginning in 1966. The contract will provide that 75 percent of the total price is to be reinvested in nonutility enterprises in Brazil.

Amforp also will be paid $7.7 million for all interest, dividends, and current items owed to the company by the Brazilian subsidiaries as of December 31, 1962. Of this amount, 10 percent will be paid in cash in New York at the time of signing the contract, with the balance to be evidenced by 6-percent dollar notes maturing semiannually over a 15-year period beginning in 1963.

Mr. Rhodes. That is all, Mr. Chairman.

Mr. Passman. Mr. Ford?

FISCAL YEAR 1963 REQUEST AND PROGRAM LEVEL FOR BOLIVIA

Mr. Ford. What did you justify for Bolivia as the proposed program for fiscal 1963, Mr. Ambassador?

Mr. Moscoso. The program last year was $10 million, of which $6 million was grants and $4 million was supporting assistance. Then we indicated that development lending was contemplated and that the project applications would be considered.

Mr. Ford. Did you have any proposed figure for loans under the Alliance for Progress?

Mr. Moscoso. No, sir; we did not.

Mr. Ford. You did not include that in any of your funding programs?

Mr. Moscoso. Yes, we did, but we did not say what the amounts would be because we did not know at that time.

Mr. Ford. What did you execute in fiscal 1963?

Mr. Moscoso. $29.6 million.

Mr. Ford. Total?

Mr. Moscoso. Yes, $29.6 million.

Mr. Ford. Broken down by the following: How much in supporting assistance?

Mr. Moscoso. Supporting assistance, $9.9 million.

Mr. Ford. Grants?

Mr. Moscoso. $7.5 million.

Mr. Ford. Loans?

Mr. Moscoso. $12.2 million.

Mr. Ford. A total of $29.6 million.

Mr. Moscoso. Yes.

Mr. Ford. Or an increase of how much?

Mr. Moscoso. $19.6 million.

Mr. Ford. You had a $5.5 million increase in supporting assistance?

Mr. Moscoso. $5.9 million.

Mr. Ford. That is correct, $5.9 million. You had a $1.5 million increase in grants?

Mr. Moscoso. That is right.

Mr. Ford. And a $12.2 million increase in loans?

Mr. Moscoso. This is what the development lending figure emerged at.

Mr. Ford. How much did you tell us you were going to use in Bolivia in fiscal 1963 in Public Law 480?

Mr. Moscoso. We do not have that here.

Mr. Ford. How much did you execute in fiscal 1963?

Mr. Sternfeld. Including all titles, $21.4 million.

Mr. Ford. Did you actually execute more Public Law 480 in fiscal 1963 than you think you contemplated?

Mr. Sternfeld. No, sir. We have been trying for many years to push up the Public Law 480 program because there is a very heavy use of local currencies in that country. I think you can see from page 25 of the book the major increase which has taken place in the Public Law 480 program.

Mr. Ford. In the supporting assistance area, what was the request by the administration?

Mr. Tennant. $481.5 million.

Mr. Ford. What did you finally get in the appropriation?

Mr. Tennant. $395 million.

Mr. Ford. You had an $86 million reduction in supporting assistance?

Mr. TENNANT. That is correct.

Mr. FORD. In Bolivia, you actually made available $5.9 million more than you justified in supporting assistance?

Mr. TENNANT. That is correct.

Mr. FORD. In the case of grants, what was the Executive request for grants, worldwide?

Mr. TENNANT. The request for Latin America was $100 million plus the carryover.

Mr. FORD. $132 million was made available?

Mr. TENNANT. That is correct.

Mr. FORD. So, you got all you asked for plus the unobligated balance, and in the case of Bolivia, in grants you made available $1.5 million more than you justified?

Mr. TENNANT. That is correct.

FISCAL YEAR 1964 PROGRAM FOR BOLIVIA

Mr. FORD. What are you requesting for fiscal 1964 for Bolivia?

Mr. MOSCOSO. A range of from $——— to $——— of which $——— to $——— would be development lending. As you can see, we now have a better idea of what possible lending we may be able to do—$5.5 million in grants, and $——— in supporting assistance. We are trying to reduce the supporting assistance sector and go into loans.

Mr. FORD. Will any programs be carried out if the Bolivian Government does not stand up and seek to remedy its local problems?

Mr. MOSCOSO. They must help themselves. As a matter of fact, we would consider that a violation of our agreement with them under the COMIBOL financing if they do not. We are endeavoring to get the Inter-American Bank to do the same thing. Even the World Bank at this time is contemplating a project to be financed in Bolivia, the first one they would ever do in Bolivia.

Mr. FORD. We are about 6 weeks into fiscal year 1964. Have you made any loans under the Alliance for Progress program, have you made any grants, have you made any supporting assistance agreements with Bolivia, since the beginning of the current fiscal year?

Mr. MOSCOSO. We are continuing at the same rate. We have continuing authority.

Mr. STERNFELD. We have not started any new grant projects in Bolivia itself. We got a request from the Ambassador and mission director last week asking whether they could undertake a private factory rehabilitation program. Individual private enterprise is just stuck. This could be a counterbalance, hopefully, to the strike taking place in the mines. We gave them that authority.

Mr. FORD. You are continuing the program in fiscal 1964 which had previously been started at the same level?

Mr. MOSCOSO. That is correct.

Mr. FORD. But have you begun any new programs since this recent crisis arose?

Mr. MOSCOSO. No, not since the crisis arose. Prior to the crisis we did make loans.

Mr. FORD. In fiscal 1964? How much?

Mr. Moscoso. For the Industrial Development Bank, the private development bank that I mentioned yesterday, I think, $2.4 million.

Mr. Ford. When was that made?

Mr. Moscoso. This was approved on July 10, but it has not been signed yet. We have not negotiated it.

Mr. Sternfeld. This is from no-year funds available in our carry-over.

Mr. Ford. In other words, in fiscal 1964 you have made a loan agreement?

Mr. Sternfled. A loan approval.

Mr. Ford. For how much money?

Mr. Sternfeld. $2.4 million.

Mr. Ford. This was July 10, 1963?

Mr. Sternfeld. That is correct.

Mr. Ford. That is in fiscal 1964.

Mr. Sternfeld. But we have not yet negotiated this loan with the Government of Bolivia. We have reserved funds for that particular project. The AID Administrator authorized this.

Mr. Ford. Do you intend to proceed with negotiations if this current crisis is not resolved favorably?

Mr. Moscoso. We have told the President that the whole economy of Bolivia collapses unless this operation is gotten going. He realizes the whole future of his country rides with this operation.

Mr. Ford. When do you think this crisis will be resolved?

Mr. Moscoso. We think the miners will not be able to hold out more than a month at the most. They are not getting any food. They are not being paid.

Mr. Ford. That is all.

OBLIGATIONS AND RESERVATIONS OF FUNDS

Mr. Passman. So often you have reserved funds and carry them as obligated in anticipation that you may negotiate a loan contract. You may recall that yesterday, Mr. Controller, I asked for a list of the type of reservations, or obligations, you had in that category.

Mr. Tennant. Yes, sir.

Mr. Passman. We agreed this was technically unobligated money, but it was carried in an obligational status. Is that correct?

Mr. Tennant. Yes. We are heading our column——

Mr. Passman. You said that technically they are not obligated funds, but yet the committee would have no way of knowing the facts of the matter, because the funds are carried as a commitment, in obligational status.

We want to know the total amount, worldwide, of the commitments which have been made that may or may not develop into a loan agreement. We are certainly doing business in a rather uncertain area with the American taxpayers' money when we wind up with a tremendous amount of money that we cannot call really an obligation, but it is reserved just in the event that we may inter into these credit agreements. When are you going to have that information available?

Mr. TENNANT. I am sure we can——

Mr. PASSMAN. This so-called loan referred to a little while ago falls in that same category, does it not?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. I believe you said the AID Director approved it. Has this kind of thing ever happened in the past?

Mr. TENNANT. Yes, sir; ever since it—that is, the development loan program—got started.

Mr. PASSMAN. Forgive me for not knowing about it. This thing is so loose it is pitiful.

Mr. TENNANT. I think we should say one or two words about this point. In most cases when these loans are approved, the country is notified, and then the details are negotiated to a final agreement.

Mr. PASSMAN. Here you are carrying money in reserve. It was noted yesterday that a $10 million item was committed for which you may never actually enter into a loan agreement whereby you will use it. Is that correct?

Mr. TENNANT. You said "may." I guess that is true. However, it is a commitment we plan to carry out.

Mr. PASSMAN. The whole program is going to fall in on you, gentlemen, if you do not start operating on a little sounder basis. We are going to pursue this until you finally give us a list of the amount of money that you carry as obligated. You said yesterday, technically unobligated; but since it is not in the list of unobligated funds, then it has to be in the obligated portion. It may well be that you gentlemen do not need a nickel this year in this foreign aid program because you have pyramided the unliquidated balances until now the total is about $7,200 million, and it keeps going up and up every year.

(Information subsequently supplied follows:)

Agency for International Development—Approved loans unsigned as of June 30, 1963

[Dollar amounts in thousands]

Area and country	Description	Date of authorization [1]	Type of loan and amount				
			Alliance for Progress	New development loans	Development loans, liquidation account		
					U.S. dollars	Foreign currency	Total
Africa:							
Cameroon	Transcameroonian railway	June 29, 1962		$9,200			
Ethiopia	3d highway program	Apr. 10, 1963		4,000			
Guinea	Electrification project	June 18, 1963		2,400			
Ivory Coast	Highway equipment	June 29, 1963		1,700			
Kenya	Nairobi water supply	May 24, 1963		2,200			
Liberia	National Medical Center	Jan. 23, 1963		4,700			
	do	June 18, 1963		600			
	Mount Coffee hydroelectric project	May 7, 1963		24,300			
	Junior-senior high school	June 27, 1963		1,700			
Subtotal, Liberia				31,300			
Mali	Higher teachers training college	June 24, 1963		2,100			
Niger	Niger Development Bank	Aug. 1, 1962		500			
Nigeria	Ibadan water supply	Apr. 30, 1963		12,100			
Somali	Chisimaio port and municipal facilities	May 21, 1963		3,600			
Sudan	Industrial development bank	Sept. 26, 1961		2,000			
	Khartoum sewerage	Apr. 5, 1963		3,800			
Subtotal, Sudan				5,800			
Tanganyika	Regional urban water supplies	Apr. 22, 1963		1,300			
	University college	May 15, 1963		800			
	Teacher training college, Dar-es-Salaam	May 28, 1963		800			
	Community development training center, Tengeru.	June 14, 1963		250			
	Agricultural college	June 26, 1963		1,250			
	Electrical equipment	June 29, 1963		300			
Subtotal, Tanganyika				4,700			

See footnotes at end of table, p. 2297.

Agency for International Development—Approved loans unsigned as of June 30, 1963—Continued

[Dollar amounts in thousands]

Area and country	Description	Date of authorization [1]	Type of loan and amount				
			Alliance for Progress	New development loans	Development loans, liquidation account		
					U.S. dollars	Foreign currency	Total
Africa—Continued							
Tunisia	University of Tunis	June 28, 1963		$1,800			
	Agricultural equipment	do		6,500			
Subtotal, Tunisia				8,300			
Uganda	Uganda Development Corporation, Ltd., subloans:						
	Agricultural	July 27, 1962		2,000			
	Industrial	June 29, 1963		2,400			
	Secondary school expansion						
Subtotal, Uganda				4,400			
Total, Africa				92,300			
Latin America:							
Argentina	Farm and country elevator grain storage	May 7, 1963	$21,700				
	Aided self-help housing	May 24, 1963	2,000				
Subtotal, Argentina			23,700				
Bolivia	Construction and improvement of access roads	June 28, 1963	7,200				
	El Alto Highway	do	3,900				
	El Alto Customs and Warehousing Center	June 29, 1963	2,200				
Subtotal, Bolivia			13,300				
Brazil	Santa Cruz thermal plant	Apr. 20, 1963	15,500				
	Dner feasibility studies	June 27, 1963	1,500				
	Combined highway project	June 29, 1963	11,000				
Subtotal, Brazil			28,000				
Colombia	Housing, resettlement, and penetration roads	Aug. 30, 1960			$5,000		$5,000
	Cali sewerage	June 29, 1963	3,700				
	Mineral resources survey	do	2,000				

Subtotal, Colombia			5,700		5,000		5,000
Costa Rica	Second rural agricultural development loan	Apr. 17, 1963	5,000				
	Slum replacement housing	June 18, 1963	2,000				
	Cachi hydroelectric project	do	1,500				
	IBRD/AID highway loan	June 29, 1963	2,100				
Subtotal, Costa Rica			10,600				
Ecuador	National highways, IBRD program supplemental loan.	Dec. 31, 1962	2,700				
	Feasibilities studies	Feb. 28, 1963	2,000				
Subtotal, Ecuador			4,700				
El Salvador	Primary school construction	June 12, 1963	2,400				
	Agricultural loan program	June 18, 1963	8,900				
	Finance subloans by INSAFI	June 28, 1963	4,500				
Subtotal, El Salvador			15,800				
Nicaragua	Las Mercedes Airport	June 27, 1963	1,000				
Peru	Housing, resettlement, and penetration roads	July 25, 1960			6,700		6,700
Regional	CABEI: Feasibility studies	May 31, 1963	2,500				
Total, Latin America			105,300		11,700		11,700
Near East/south Asia:							
Cyprus	Equipment and consultants	June 29, 1963		2,275			
Egypt-United Arab Republic	Rakta cardboard project	June 18, 1963		5,700			
Greece	Program loan	Apr. 25, 1963		10,000			
	Pastraki Dam and hydroelectric	June 29, 1963		21,600			
Subtotal, Greece				31,600			
Israel	Desalination power plant, Eilat	Apr. 23, 1963		2,400			
	Timna copper project	May 21, 1963		4,400			
	Powerplant, Haifa B	June 17, 1963		17,000			
	Program loan III	June 29, 1963		21,200			
Subtotal, Israel				45,000			
Turkey	Seflon nylon plant	Jan. 4, 1963		1,800			
	Keban/Ciceroz hydro studies	Dec. 11, 1962		350			
	Feasibility studies and consultants	June 27, 1963		3,000			
	General commodities	June 29, 1963		35,000			
Subtotal, Turkey				40,150			

See footnotes at end of table, p. 2297.

Agency for International Development—Approved loans unsigned as of June 30, 1963—Continued

[Dollar amounts in thousands]

Area and country	Description	Date of authorization [1]	Type of loan and amount				
			Alliance for Progress	New development loans	Development loans, liquidation account		
					U.S. dollars	Foreign currency	Total
Near East/South Asia—Continued							
India	BEAS dam project	June 24, 1960				$33,000	$33,000
	West coast paper mill	Oct. 17, 1962		$6,300			
	Central ropeway F project	Oct. 28, 1962		7,700			
	Chandrapura thermal power, stage II	Mar. 11, 1963		16,000			
	5th railway	Mar. 30, 1963		15,850			
	Dudga coal washery	May 6, 1963		5,100			
	Tarapur nuclear power	June 28, 1963		80,000			
Subtotal, India				130,950		33,000	33,000
Pakistan	Sui Gas Transmission Co., Ltd	Dec. 22, 1961		2,800			
	Sawmill and timber extraction project	Dec. 1, 1962		2,200			
	Coastal embankments project	Mar. 14, 1963		6,500			
	Dacca International Airport	Mar. 16, 1963		4,300			
	General consultants	Mar. 25, 1963		4,400			
	Rechna Doab salinity control No. 1	Apr. 1, 1963		750			
	General commodities No. III	June 17, 1963		70,500			
	Advisory services, public health	June 28, 1963		1,500			
	Investigation and consultanting services	do		5,600			
	Balancing works: Water and sewerage	June 29, 1963		3,100			
	5th railway loan	do		14,500			
	Telecommunication	do		4,700			
	Machinery pool:						
	West Pakistan	do		5,000			
	East Pakistan	do		6,200			
Subtotal, Pakistan				132,050			
Total, Near East/south Asia				387,725		33,000	33,000

Far East:							
China	Shen-Ao III thermal plant extension	June 14, 1963		21,500			
	Program loan No. II	June 28, 1963		15,000			
Subtotal, China				36,500			
Korea	Changsong coal mine	May 29, 1963		9,500			
	Kusan thermal power	June 27, 1963		12,800			
Subtotal, Korea				22,300			
Total, Far East				58,800			
Recapitulation by areas:							
Africa				92,300			
Latin America			$105,300		$11,700		11,700
Near East/south Asia				387,725		33,000	33,000
Far East				58,800			
Grand total ($688,825,000)			105,300	538,825	11,700	33,000	44,700

[1] Of 85 approved loans unsigned as of June 30, 1963, 1 was authorized in fiscal year 1960; 2 were authorized in fiscal year 1961; 3 were authorized in fiscal year 1962; 79 were authorized in fiscal year 1963 (24 from July 1, 1962, to Apr. 30, 1963; 11 in May; 44 in June).

NOTE.—In July 1963, 5 of the new development loans and 6 of the Alliance for Progress loans were signed.

Are you familiar with this ROCAP program?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. Is it a regional program or funds reserved for the program, or requested for the program, so you can supplement the projects which are listed under the country heading?

Mr. Moscoso. No. The funds for ROCAP are funds which are devoted to projects of a regional nature.

Mr. PASSMAN. Is the amount of money you have in ROCAP to be spent in the 21 Latin American countries where you have a program?

Mr. Moscoso. No. It will be spent in the five Central American countries plus Panama to support economic integration.

Certain of the projects may have an impact on two countries, three countries, or all of the six countries in Central America and Panama.

Mr. PASSMAN. The money will be spent in Latin America.

Or all of the six countries in Central America and Panama.

Is Central America part of Latin America?

Mr. Moscoso. A very defined region of Latin America; yes, sir.

Mr. PASSMAN. The money will be spent in your region?

Mr. Moscoso. Yes.

Mr. PASSMAN. And your region is Latin America?

Mr. Moscoso. That is right.

Mr. PASSMAN. You do have a regional office for Central America and Panama. Instead of this being a regional program as your counterparts in the other regions, covering any or all countries in the region, this will be limited entirely to Central America plus Panama?

Mr. Moscoso. That is right.

Mr. PASSMAN. Is this the only regional program you have in your area?

Mr. Moscoso. We have one for the whole region.

Mr. PASSMAN. In these Central American countries, do you have an aid program other than what they get out of ROCAP?

Mr. Moscoso. Yes.

Mr. PASSMAN. So, what they get out of ROCAP is a supplement to the projects listed by country in Central America?

Mr. Moscoso. That is right.

Mr. PASSMAN. On page 91, you run into another Latin American regional program, do you not?

Mr. Moscoso. That is right.

Mr. PASSMAN. This is for all of Latin America, is it not?

Mr. Moscoso. This is for all of them.

Mr. PASSMAN. So, whatever they get out of the regional account would be a supplement to what you have justified by country programs?

Mr. Moscoso. This will be used for the entire Latin American region.

Mr. PASSMAN. Whatever British Honduras, for instance, gets out of this regional program will be in addition to what you have listed for British Honduras by individual projects?

Mr. MOSCOSO. They will not get anything out of this.

Mr. PASSMAN. I believe that is the only country in your region which is not getting something, is it not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. That is strike one. It takes three strikes to count a man out.

Mr. FORD. They are still up to bat, Mr. Chairman.

Mr. PASSMAN. How about Argentina? You have so many projects listed for Argentina I shall not count them, but whatever they get out of this region will be money in addition to the individual contracts under the individual country listing?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Does that fact mean this is in reality a disguised contingency fund?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Why did you not take the same projects you have under regional accounts and put them under the country programs?

Mr. MOSCOSO. Because these are programs which impinge on each one of the several countries. It is a better way to finance them and to control them if they are controlled centrally.

Mr. PASSMAN. If this is something like the Social Progress Fund?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. All the countries get some of the money, do they not?

Mr. MOSCOSO. But the Social Progress Trust Fund is a completely different operation from this.

Mr. PASSMAN. If you have a country in Central America with 50 projects listed under the country programs, this country then would also be eligible for certain finances out of each of the two regional programs; is that correct?

Mr. MOSCOSO. Yes, that is right.

Mr. PASSMAN. Has ROCAP been in effect since the inception of the aid program in Latin America?

Mr. MOSCOSO. No.

Mr. PASSMAN. When was this plan dreamed up?

Mr. MOSCOSO. Our regional office for Central American Economic Integration has been in existence since July 1, 1962, I believe.

Mr. PASSMAN. Let us see if you cannot take another year off that.

Mr. MOSCOSO. I am sorry. I am looking at the wrong page now.

Mr. PASSMAN. When did this plan come into being?

Mr. MOSCOSO. This came into being last year.

Mr. PASSMAN. This is a regional program in addition to a regional program. That makes two regional programs for certain countries.

Mr. MOSCOSO. Perhaps this should be called a subregional program. The entire region, Latin American region——

Mr. PASSMAN. I am willing to say a partial regional program. This was created last year?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Who conceived this plan?

Mr. MOSCOSO. We did, in AID.

Mr. PASSMAN. Are you asking for $——— for a new program for Latin America under ROCAP?

Mr. MOSCOSO. No. The program for economic integration is not new. We started last year, Mr. Chairman.

Mr. PASSMAN. When did you justify this ROCAP program to the Congress last year?

Mr. MOSCOSO. We justified it——

Mr. PASSMAN. I am talking about ROCAP.

Mr. MOSCOSO. This is page 11 of last year's presentation book—Central American region, $4.5 million. I recall mentioning this to you.

Mr. PASSMAN. Did you have any such project listed for Latin America last year?

Mr. MOSCOSO. Pardon me, sir?

Mr. PASSMAN. You do not have any such project listed for last year that we can find.

Mr. MOSCOSO. Under the heading "Central American Region."

Mr. PASSMAN. We asked you about ROCAP.

Mr. MOSCOSO. That became the nomenclature or the monicker of it.

Mr. PASSMAN. How much did you request for the Central American region last year?

Mr. MOSCOSO. $4.5 million.

Mr. PASSMAN. But then you changed the name of it to ROCAP, and did you obligate $10 million?

Mr. MOSCOSO. Some of this was lending.

Mr. PASSMAN. I do not care what it was. We are trying to establish the amount.

You asked for $4.5 million for the Central American Region last year. You changed the name to ROCAP. Did you obligate $10 million?

Mr. MOSCOSO. No.

Mr. PASSMAN. Did you obligate $10 million to this outfit?

Mr. TENNANT. We estimated $10 million, but actually obligated $8.6 million.

Mr. PASSMAN. But you asked for $4.5 million.

Mr. TENNANT. That is correct.

Mr. PASSMAN. You asked for that amount, and then estimated $10 million but obligated $8.6 million?

For this new program you are asking for $——— for fiscal 1964. Is that correct?

Mr. TENNANT. Yes, sir.

Mr. Chairman, the $8.6 million that I gave you included $2.9 million from the Social Progress Fund. On a comparable basis to the $4.5 million, we obligated $5.7 million.

Mr. PASSMAN. But you took the money away from the Social Progress trust fund and put it into this new program, did you not? Are you not asking for money for the Social Progress Fund for fiscal 1964, that the fund be replenished?

Mr. TENNANT. Yes.

Mr. PASSMAN. If you had not transferred out of the Social Progress Trust Fund the $2.9 million to make this $10.1 million as you indicate here, later down to $8.6 million, you would have requested less money for Social Progress. So, it is just about the same thing, is it not?

Mr. TENNANT. I would not exactly put it that way, no.

Mr. PASSMAN. You mean if you had not transferred money out of the Social Progress account to this fund, you would still have asked the same amount for Social Progress? You have less money in Social Progress by the fact that you transferred out to this new program, do you not?

Mr. TENNANT. No money was actually transferred out of the Social Progress Trust Fund.

Mr. PASSMAN. You just allocated out of it to this account?

Mr. TENNANT. The Inter-American Bank made a loan in this area from the Social Progress Trust Fund.

Mr. STERNFELD. For the national universities of Central America.

Mr. PASSMAN. Let us back up and start all over again and just see if any of us understand this matter. One of you said that you transferred out, or allocated out, or spent out, or promised out, or planned out, or programed out, of the Social Progress Trust Fund $2.9 million to ROCAP, did you not?

Mr. TENNANT. I do not think it was put that way, sir.

Mr. PASSMAN. Put it your way. Where did you get the $8.6 million for ROCAP?

Mr. TENNANT. The Inter-American Bank made a loan of $2.9 million for the national universities of Central America.

Mr. PASSMAN. Where did they get their money, out of foreign aid?

Mr. TENNANT. Out of the Trust Fund.

Mr. PASSMAN. Are you asking for money for the Social Progress Trust Fund in fiscal 1964?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. Then if you had not made this allocation, loan grant, gift, or whatever you call it, you would have requested less money for the Social Progress Fund in fiscal 1964, would you not?

Mr. MOSCOSO. If the Social Progress Fund had not made any loans, then you would not ask for any.

Mr. PASSMAN. You mentioned some other organization for $4.5 million last year, but what gets me, Mr. Moscoso, for the same outfit you are requesting $——— in fiscal 1964.

Mr. MOSCOSO. If the chairman would only give me 1½ minutes——

Mr. PASSMAN. I will give you plenty of time when we get the record made as to what you people are doing.

You have one regional project for all of Latin America. Then you pop up here all at once with a project about twice that size just for Central America plus Panama. You go from $4.5 million in fiscal 1963 under one name, to $——— the following year under another name. Whatever you give this area out of this ROCAP, $——— will be in addition to the program that you have listed under that particular country, will it not?

Mr. MOSCOSO. May I have my time?

Mr. PASSMAN. If you will tell me whether that is true or not. Whatever projects you have, the money you get out of this account to be spent in these countries will be in addition to the amount listed on the tabs and projects that you have here on an illustrative basis?

Mr. MOSCOSO. For the time being and for the transitional period, you are correct.

OBJECTIVE OF ROCAP PROGRAM

Now let me tell you the objective of this, Mr. Chairman. I am almost sure I can convince you that what we are trying to do——

Mr. PASSMAN. Do not bet money on it, but go ahead.

Mr. MOSCOSO (continuing). You would not only approve but want us to do it. What we are trying to do here, among the objectives, is to concentrate into one single operation the operations which are now distributed in these several country missions. We may not be able to do it overnight. We may not be able to do it in 1 year or 2 years. But we will be accomplishing two things at the same time.

Mr. PASSMAN. But it is a new project, and it will be a trial run on a new system; is that correct?

Mr. MOSCOSO. I described what we were trying to do last year. We had three pages on it. I described it in testimony. I told you about the Central American Economic Community——

Mr. PASSMAN. You changed the name of the organization and doubled the amount of money that you allocated. You asked for $4.5 million, and you wind up allocating $8.6 million.

Mr. MOSCOSO. If we put the words "region" forward instead of backward. We called it Central American region. We call it now regional office for Central America (ROCAP). If that is——

Mr. PASSMAN. It is in addition to all the other projects. If this plan works out, then you are going to eliminate the other system?

Mr. MOSCOSO. That is what we hope to be able to do, by assisting economic integration in Central America.

Mr. MINSHALL. Mr. Ambassador, would what you said indicate that you plan to authorize and appropriate on a regional basis rather than on a country-by-country basis? Is that your plan?

Mr. MOSCOSO. There are several objectives.

Mr. MINSHALL. What is the main objective?

Mr. MOSCOSO. The main objective is to achieve the economic integration of Central America. This is something that historically has been attempted and has not been achieved in Latin America. This time, the necessary institutions are being set up, and the necessary treaties and protocols have been signed. Already a great degree of economic integration is taking place.

Obviously, when these economies are integrated fully, there will not be any reason whatsoever for having five or six missions in those places, and then we can concentrate our operations in one.

Mr. MINSHALL. How many people are presently employed by the new organization called ROCAP?

Mr. MOSCOSO. We have 20 people now.

Mr. MINSHALL. What is your target? Do you plan to push that up substantially in the next few years?

PLANNED PHASING DOWN OF INDIVIDUAL COUNTRY MISSIONS IN ROCAP COUNTRIES

Mr. MOSCOSO. We plan to phase in and phase out. In other words, as more and more of the responsibilities for the region are picked up by ROCAP, fewer of the activities will be performed by the other country missions. This will be performed over a period of time, because the integration will be accomplished over a period of time.

Mr. MINSHALL. Over what period of time? How long will this take?

Mr. MOSCOSO. Economic integration is supposed to be almost fully effective in 1966.

Mr. MINSHALL. In other words, you will not have any AID offices in any of these countries, and it will all be centralized?

Mr. MOSCOSO. I am not saying we will not have it at that moment. I am saying we will try not to have it at that time.

Mr. MINSHALL. How many people are presently employed in all of these countries? You have 20 in ROCAP, and how many in all the other countries?

Mr. PASSMAN. Do you not have the total somewhere?

Mr. MOSCOSO. 233.

Mr. MINSHALL. This makes a total of 255 people.

Mr. MOSCOSO. That is right. We hope to be able to concentrate them in one regional mission when the economic integration is achieved.

Mr. MINSHALL. Where are these people from in ROCAP? Were they absorbed——

Mr. MOSCOSO. They are helping to achieve the integration of these countries. They are helping to achieve the necessary capabilities for economic integration. They are assisting in the creation of institutions for integration.

Mr. MINSHALL. As you look down the road, you plan to absorb the people who are working in these other countries into this central organization?

Mr. MOSCOSO. We hope we will be able to achieve substantial economies. Why should we have six educational advisers when this becomes one single thing?

Mr. MINSHALL. I hope you are right.

Mr. PASSMAN. You are asking here for $28,500,000 under these 20 people. How many personnel did you have last year? Let us see how much you cut it by this approach.

Incidentally, your counterparts said this was a supplement to the country programs as listed by country.

Mr. COTTRELL. Which areas?

Mr. PASSMAN. Just check the record. You will find it.

Mr. MOSCOSO. 245.

Mr. PASSMAN. Does that figure include ROCAP?

Mr. MOSCOSO. ROCAP was not in existence at that time.

Mr. STERNFELD. The figures we gave you were as of May 25, 1962, and May 25, 1963.

FISCAL YEAR 1963 ROCAP PROGRAM LEVEL

Mr. PASSMAN. Last year under your divider sheet, you had an agency set up, "Central American integration." On page 171, it said: "Central American economic integration," which would have been CAEI, C-A-E-I; is that right?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. You envisioned a program total of $4.5 million?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You wound up with a program of $8.6 million obligated?

Mr. Moscoso. $5.7 million. The other——

Mr. PASSMAN. Is that the total amount? Where did you get the $8.6 million figure?

Mr. Moscoso. We added to that the loan made by the Inter-American Development Bank.

Mr. PASSMAN. But they made the loan to ROCAP?

Mr. Moscoso. That is right.

Mr. STERNFELD. No.

Mr. PASSMAN. He says they did and you say they did not.

Mr. STERNFELD. They did not make it to ROCAP; they made it to Central American educational institutions.

Mr. PASSMAN. You asked for $4.5 million. Later you said $8.6 million, and now you say $5.7 million.

Mr. Moscoso. $8.6 million is what the region received——

It so happens that the Central American universities received a $2.9 million loan from the Social Progress Trust Fund.

Mr. PASSMAN. At least, this is a brandnew project cooked up in 1963, and by the time you moved out of fiscal 1963 into fiscal 1964, you changed the name of it to ROCAP?

Mr. Moscoso. That is the name of our regional office dealing with the Central American economic integration.

Mr. PASSMAN. Instead of asking for $4.5 million, you are asking for $———?

Mr. Moscoso. That is right.

Mr. PASSMAN. This plan is intended to reduce the personnel ultimately, is it not?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. Last year you had 245 people with this new program to reduce personnel: it has been increased from 245 to 255 people.

Mr. Moscoso. There has been an increase, that is right.

Mr. PASSMAN. So, it is working out differently than you anticipated. Your dreams are that later you will be able to reduce the personnel; is that right?

Mr. Moscoso. That is right. You said "ultimately," and I agree.

Mr. PASSMAN. But it is increasing now.

Mr. Moscoso. Just by the nature of the operation, is has to, but only temporarily.

Mr. PASSMAN. Will you tell us the total amount you are requesting in your area, exclusive of the $———? You have an increase in personnel. Let us see if you have an increase in the dollar request.

Mr. Moscoso. $———.

Mr. PASSMAN. Is that the sum from all the spigots? You have over a billion dollars in this thing for Latin America, have you not?

Mr. Moscoso. It ranges from $——— to $———.

REQUESTS AND PROGRAM LEVELS FOR CENTRAL AMERICAN COUNTRIES

Mr. PASSMAN. Let us take all spigots of foreign aid for Latin America. Then we shall deal next with your overall region, and then from the overall region we shall come down to the Central American region. Or, if you want to deal with it in reverse, we shall take it your way.

How much did you request for Central America last year, in the area where you have this new regional program?

Mr. Moscoso. We requested $4.5 million. You say the region?

Mr. PASSMAN. Central America.

Mr. Moscoso. For the countries of Central America?

Mr. PASSMAN. Yes. You "reduced" the personnel from 245 "down" to 255. Let us see if you "reduced" the money request the same way. You do not reduce by going up.

Mr. Moscoso. Sometimes you do. You have to spend money to make money.

Mr. Moscoso. $20.8 million.

Mr. PASSMAN. You had $20.8 million?

Mr. Moscoso. In grants.

Mr. PASSMAN. We want the total amount, gentlemen.

Mr. Moscoso. $20.8 million is grants for the countries of Central America.

Mr. PASSMAN. How much are you requesting in the same category for fiscal 1964?

Mr. Moscoso. $23.3 million.

Mr. PASSMAN. Let us put the two figures together and see how well this region is working out. Put down $——— and put under it the figure they just gave you, $23 million. That is what you are requesting for fiscal 1964. What total did you have for fiscal 1963?

Mr. Moscoso. We requested for fiscal 1963, $20.8 million for the countries of Central America.

Mr. PASSMAN. In 1963, you had 245 personnel, total?

Mr. Moscoso. That is right.

Mr. PASSMAN. In 1964, you are going to have 255 personnel?

Mr. Moscoso. That is right.

Mr. PASSMAN. In 1963, you had $20.8 million for Central America?

Mr. Moscoso. That is right.

Mr. PASSMAN. In fiscal 1964, you are asking for $——— when you pick up this regional amount, putting the two together. The personnel is going up and the money has doubled. If you pick up the $——— under this new outfit, ROCAP, and take what you have programed by country, that is $———. Last year you requested $20.8 million.

Mr. TENNANT. The only point I think I should make, Mr. Chairman, is that the Development Loan category was starred as countries eligible for development lending on the receipt of loan applications in last year's book.

Mr. Moscoso. You are dealing with noncomparable figures. To get the $——— you cited, you have added the figure for ROCAP, the $——— which includes loans to the total fiscal year 1964 request for grants for ROCAP and the individual countries. Therefore, the ROCAP grant figure is double counted.

Mr. PASSMAN. If you leave it out, it has more than doubled.

Presently, not only are you increasing personnel, but you are increasing the dollar request. Is that correct?

Mr. Moscoso. Yes, that is right.

ROCAP PROJECTS

Mr. PASSMAN. The project book indicates that you initiated 11 projects plus the technical support project under this heading,

ROCAP, in fiscal 1963. How many of these projects were specifically justified to the Congress, and in what amounts?

Mr. STERNFELD. Our records show only one project was not justified before the Congress. The other projects were justified.

Mr. PASSMAN. State specifically, please, the 11 projects and the manner in which you justified them.

(Off the record.)

Mr. PASSMAN. Could you give us the total cost at completion of the 11 projects?

Mr. STERNFELD. $10,815,000.

Mr. PASSMAN. Does that figure represent the cost of the 11 projects you had in the program for fiscal 1963?

Mr. STERNFELD. That represents the——

Mr. PASSMAN. The amount from start to completion?

Mr. STERNFELD. That is correct. It also includes the one project which we did not justify.

Mr. PASSMAN. What was the cost of that one project?

Mr. STERNFELD. The total cost of that project was $4,200,000.

Mr. PASSMAN. You requested money for 10 projects, and one project you did not request money for. All 11 projects would be $10,853,000, and the one project that you did not request money for is almost half of the total, or $4,200,000. What project is this?

Mr. STERNFELD. That is the mobile rural health program.

Mr. PASSMAN. Is that the one which includes the Peace Corps outfit, where you have them pulling in for several different accounts?

In project after project all over the world, we find that the Peace Corps is now getting into the AID agency, right into the same type of project. Earlier this afternoon we heard, I think, that they were in five different agencies.

Under ROCAP, the Central American area, rural mobile health is costing $4,200,000, which you did not justify, and the regular team of U.S. technicians is being supplemented by the Peace Corps volunteers.

JUSTIFICATION FOR DEVELOPMENT LOANS TO ROCAP

On what basis are you estimating the requirement for $20 million for development credits to this organization?

Mr. MOSCOSO. The estimates are based on our best estimates of the support that the Central American Bank for Economic Integration will require in order to help finance regional programs important to economic integration.

Mr. PASSMAN. How much have you allocated for this purpose out of the fiscal year 1963 funds or out of prior year funds, in total? Are you talking about the soft type of loan that we identified earlier? Give us the total. If it is Export-Import Bank, say so. If it is anything else, give us the total.

GRANTS TO CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Also, could you tell us whether or not you justified the $3 million grant to this organization?

Mr. STERNFELD. It came out of fiscal 1961 money. I do not think I could tell you.

Mr. PASSMAN. A grant out of 1961 money for an organization that you did not create until 1963?

Mr. STERNFELD. This is the Central American Bank for Economic Integration, a bank run by the Central American——

Mr. PASSMAN. You set up the bank in 1961, but you never did justify to Congress the funds for it, did you?

Mr. STERNFELD. I was not here, sir.

Mr. PASSMAN. Did you justify the funds?

Mr. TENNANT. The $2 million grant was not included in the fiscal year 1961 congressional presentation.

Mr. PASSMAN. This is just another spigot. If we had not gotten into this matter, we would have flipped through these country programs, and even they amounted to more than the total you had in the previous year.

Now you are making——

LOAN TO CABEI

Mr. MOSCOSO. This was a $5 million, 4-percent loan, 15 years.

Mr. PASSMAN. Who is loaning what to whom?

Mr. MOSCOSO. To the Central American Bank for Economic Integration. DLF made the loan in fiscal 1961.

Mr. PASSMAN. The Central American area and the Central American Bank are two different projects?

Mr. MOSCOSO. The Bank has been established by the governments of the Central American area to assist economic integration.

Mr. FORD. Will the chairman yield there?

How much has been disbursed on this loan which was, I gather, obligated in fiscal 1962?

Mr. MOSCOSO. Nothing has been disbursed on it.

Mr. FORD. This was money appropriated in fiscal 1961?

Mr. MOSCOSO. That is right.

Mr. FORD. It was obligated in fiscal 1962?

Mr. MOSCOSO. The loan was authorized on June 28, 1961; therefore that was fiscal year 1961. The loan agreement was signed on August 16, 1962.

Mr. FORD. In other words, the authority to withdraw that was consummated in fiscal 1962?

Mr. MOSCOSO. August 16, 1962, was in fiscal year 1963.

Mr. FORD. The obligation was made in August of 1962 which was in the second month of fiscal 1963?

Mr. MOSCOSO. Yes, sir; that is, the loan agreement was signed in fiscal year 1963.

Mr. FORD. No money has been withdrawn, no expenditure has been made against an obligation?

Mr. MOSCOSO. That is right.

Mr. FORD. Why is that?

Mr. MOSCOSO. One of the problems we are having is that the Central American common market people agreed in a treaty to give special treatment to certain industries which were set up in the region and which would have integration effects. In other words, one industry located in Guatemala which would, in effect, take care of all of the other markets in Central American countries.

When the protocols which would implement that particular treaty agreement were approved, they seemed to imply that some of these industries were going to get a monopoly position for an undetermined number of years. We have protested that. We have not allowed disbursements until such time as this is clarified.

Mr. FORD. I am not urging you to make the disbursement, but what is the expectation for the implementation of this project?

Mr. MOSCOSO. A similar problem arose in which the Inter-American Development Bank is involved. A group has been appointed which will report on how to deal with the situation making a recommendation to the Central American Bank for Economic Integration as to the way the fund should be handled to avoid the creation of industrial monopolies in these countries.

CAPITAL FUNDING OF CABEI

Mr. PASSMAN. You have a new organization within the AID program, ROCAP, for the Central American area. We helped create and furnish the capital for the Central American Bank for Economic Integration?

Mr. MOSCOSO. Yes, sir; for the Central American Bank for Economic Integration. We participate together with the Central American governments.

Mr. PASSMAN. You also have funds out of the Inter-American Development Bank, do you not?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. To the Central American Bank for Economic Integration?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. We are still dealing with AID funds, but two banks

CABEI REPAYMENTS INTO REVOLVING FUNDS OF AID AND IDB

When the Central American Bank for Economic Integration repays its loan to the Inter-American Development Bank, does that money go back into the revolving fund of the Bank?

Mr. MOSCOSO. No.

Mr. PASSMAN. Where does it go, then? Does it not go back into the revolving fund of the Inter-American Development Bank, and not to the U.S. Treasury?

Mr. MOSCOSO. That is right; because it is a loan that was made from the Fund for Special Operations, of the IDB.

Mr. PASSMAN. Then on the amount from the DLF, when that is paid back, that goes back into the revolving fund of the DLF account, does it not?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Regardless of how many different banks, and any exchanges between the banks, it does not go back presently into the U.S. Treasury to pay our bills here or to reduce the public debt?

Mr. MOSCOSO. No.

Mr. PASSMAN. Now, you are asking for $——— as a development credit to this area for fiscal year 1964?

Mr. MOSCOSO. That is right, $———.

Mr. PASSMAN. How much of this money will be paid to the Bank and how much will be disbursed to individuals, companies, and projects in the country? How much of the $——— will be in development credits to the organization? How much of it will be to the Bank and how much to the organization to redistribute?

Mr. MOSCOSO. The bulk of these funds will go to——

Mr. PASSMAN. We want to know the amounts.

We want to know how much will go to the Bank and how much will be disbursed to individuals or to companies.

Mr. MOSCOSO. I do not know yet.

I think the bulk of it will go to the Bank and some of it will go to CSUCA, which is the Superior Council of Central American Universities, because we are interested in building up the capabilities of those universities.

Mr. PASSMAN. Under normal conditions, normal operations, your Social Progress Fund, your Alliance for Progress Fund, and all of these things could actually operate under one account and you could have different allocations for different purposes, could you not?

Mr. MOSCOSO. Technically, yes; but politically, no.

Mr. PASSMAN. If you could not consolidate all of the different accounts you have—Social Progress Trust Fund, Alliance for Progress, the DLF and all this—could it not, in effect, be brought in under one fund and you would have different categories, and could you not do a better job if you brought these things back under one heading? After all, when you create these different agencies within agencies, the amount of the requests go up and up.

Your amount, even though you thought it would go down, is up for fiscal 1964, is it not?

Mr. MOSCOSO. Ultimately it will be down.

Mr. PASSMAN. How do we know that it will? We have been hearing that type of claim for many years.

We worked this program down one time to the point that we were appropriating as low as $2.7 billion in round figures, and then it started going up again.

I do not believe that you people could bring it under control if you tried. I think it would take an act of Congress to consolidate all of these different spigots. With reference to this $———, you just said you did not know where it is going to go until you get it. You think, you said, it may go certain places, but you do not know how much is going to go into this bank or any other project.

Mr. MOSCOSO. It all depends on whether the applications for the Bank are acceptable and meet the criteria.

Mr. PASSMAN. You are asking the Congress to provide money for projects before they have been established as feasible and desirable.

Mr. MOSCOSO. But, Mr. Chairman——

Mr. PASSMAN. If you cannot tell us where the $——— is going to go, I do not think I should pursue asking these questions. You do not presently know, do you?

Mr. Moscoso. I doubt if anyone who is buying shares of stock in a bank that is going to be created can reasonably ask the people who are going to put the bank together where they are going to spend the money.

Mr. PASSMAN. You people have not really pinpointed, I believe, the cost of one single project since you have been coming before this committee.

Mr. Moscoso. It is a different activity.

CENTRAL AMERICAN REGIONAL HOME LOAN BANK

Mr. PASSMAN. On page 133, on this same ROCAP, there is the Central American Regional Home Loan Bank, and you plan to establish that bank out of fiscal year 1964 funds. For how much do you plan to capitalize the bank?

Mr. Moscoso. This is going to be handled as a division of the Central American Bank for Economic Integration. It will not be a separate operation.

Mr. PASSMAN. Can you get us some information on this operation?

Mr. Moscoso. Yes, we will be very happy to provide it.

(The requested information follows:)

CENTRAL AMERICAN HOME LOAN DEPARTMENT

Home mortgage institutions of various types exist in the Central American countries. However, savings themselves are insufficient to provide capital in sufficient volume. A source of secondary financing is needed. This project provides for the creation, within the Central American Bank for Economic Integration, of a Central American Home Loan Department to act as a source of secondary financing for the home mortgage institutions in the member countries of the Central American Common Market through the purchase of participation in home mortgages issued by private institutions.

The home loan department will eventually be a self-capitalizing institution which will provide a source of financing for middle income housing. This will help make it possible for the public housing agencies of the various Central American Governments to discontinue using public funds for middle income housing. This project would be a first major step toward achieving this goal.

Individual mortgage issuing institutions would be provided considerably more funds to finance home construction, which will have significance beyond the number of homes produced. The increased funds flowing through these institutions would result in greater competition among the institutions and consequently more liberal financing policies and would also create a demand for construction materials and construction.

The effective demand to be met by this project and in the future by CABEI and other institutions to be strengthened by this project is considerable; 17,000 homes a year for 20 years is a conservative estimate.

In general, there are four types of institutions in Central America making home loans. They are: (1) Banks, public and private; (2) mutual or stock savings and loan associations, and cooperatives; (3) private savings and loan companies which are also in the business of developing land and constructing houses; and (4) government housing agencies. The home loan department of CABEI would be designed to assist only those institutions in the first two categories. Government housing institutes would not be eligible for assistance from CABEI in this program because the program is designed specifically to relieve these housing institutes of the problem of meeting demand for home financing which could be done on a commercial basis. In order to encourage the creation of new savings and loan institutions as well as to provide incentives for existing financial institutions which are totally or primarily in the field of home mortgage financing, CABEI would give preferential treatment to such institutions.

Tentatively, the following principles are being considered:

(1) The home loan department would be a source of secondary financing, only. Its resources will eventually be a combination of loans, investment guaranties and sale of participation certificates.

(2) It should assist that lower and middle income group which does not require any form of subsidy.

(3) Some equity in the form of prior savings, downpayment, or land ownership should be involved in the original home financing.

(4) Issuing institutions would be required to retain some financial interest in the mortgages.

(5) Mortgages in which the home loan department participates would be required to meet certain legal, financial, liveability, and property standards.

Initially, AID would make a loan to CABEI. Once the home loan department is well established, it is intended that CABEI issue its own participation certificates against its portfolio, possibly guaranteed under AID's investment guaranty program. Even in the absence of such sales by CABEI, the proposed loan would still leave CABEI with earned capital at the end of the loan period.

AID supervision of the project during the initial 2 years would be exercised through a U.S. expert in home mortgage financing, who would serve as an adviser to the head of the CABEI home loan department and the periodic supervisory services of Jack D. Gordon, president of the Washington Federal Savings and Loan Association of Miami Beach, Fla., who has been serving as an AID consultant in the development of the home loan department, its policies, procedures and standards.

This project would, finally, stimulate considerably the now depressed construction industry in the region. Central America produces cement, wood, and reinforcing steel, the principal materials employed in home construction, and many of these industries are now operating well below capacity. It is estimated that the increased level of construction and building materials production induced by this project would be maintained by future investment in housing and other construction projects.

Mr. PASSMAN. Gentlemen, we shall recess until tomorrow afternoon at 1 o'clock.

THURSDAY, AUGUST 8, 1963.

Mr. PASSMAN. The committee will come to order.

BRITISH HONDURAS

Yesterday we turned the pages in the book and picked, I suppose, the only country or territory in Latin America with the exception of Cuba where we do not have an aid program. That is British Honduras, which I believe is a possession of Great Britain. We have in the past had an aid program for Honduras, have we not?

Mr. MOSCOSO. Yes, we have.

Mr. PASSMAN. What amount do you have on hand unliquidated to the credit of British Honduras as of June 30?

Mr. TENNANT. $121,000, sir.

Mr. PASSMAN. That money will be disbursed, will it not? Does that figure include Public Law 480 aid?

Mr. TENNANT. That includes economic, military aid and Public Law 480.

Mr. PASSMAN. So you do have a small continuing program in British Honduras out of allocations from previous years?

Mr. TENNANT. I wouldn't call it a continuing program. This covers liquidation of obligations that occurred in previous years.

Mr. PASSMAN. By "continuing," I mean you will make disbursements out of allocations from previous years.

Mr. TENNANT. That is correct, sir.

Mr. PASSMAN. Thank you.

U.S. AID TO RUMANIA

To switch briefly to a different area, what has been the total amount of aid we have given to Rumania in previous years?

Mr. Moscoso. Rumania?

Mr. PASSMAN. Yes, since the end of World War II, or since the beginning of the foreign aid program as we know it today?

Mr. TENNANT. Mr. Chairman, our statistical book does not have Rumania in it. I would have to check to see whether there was any or not. I do not know whether we did or did not.

Mr. PASSMAN. We wish you would check your records. See if we have had a program in Rumania since the end of World War II: if so, how much?

Mr. TENNANT. Yes, sir. I will do that.

(The following statement was subsequently supplied:)

A check of the records shows that no aid has been supplied to Rumania.

Mr. SCHEINMAN. Mr. Chairman, are you referring to any particular kind of assistance?

Mr. PASSMAN. Any of the 16 spigots. Milk tastes the same from a black cow as it does a white.

Are any of you people familiar with an aid plan that is reported to be in the tentative stage for Rumania?

Mr. SCHEINMAN. No, sir. I am not personally familiar with the reference which you are making.

Mr. PASSMAN. I asked a question.

Will you ascertain whether or not there is any tentative aid plan for Rumania, from whatever source it might be? Could you get that information and let us have it tomorrow and if the answer is no, determine if they can delegate to you the authority to assure the committee that you do not have an aid program for Rumania or that you do not contemplate starting one?

Mr. SCHEINMAN. Yes, sir.

LAO REQUEST FOR TRANSIT OF COMMUNIST IMPORTS THROUGH THAILAND

Mr. PASSMAN. I am going to insert in the record a letter and newspaper clipping I received via airmail from Bangkok, Thailand. I believe the United States pays all the foreign exchange requirements for imports to Laos. Now, it would appear that Laos is getting permission, or it is under consideration, to be able to bring Communist-purchased goods through Thailand into Laos. If they are buying goods from Communist China and paying for it with American money, even if this is done indirectly we want to try to pin down the facts. In that connection, therefore, I shall place in the record at this point the letter and the newspaper article clipped from the Bangkok Post, volume 19, No. 179, Saturday, August 3, 1963, price 2 baht.

(The letter and newspaper clipping follow:)

BANGKOK, THAILAND, *August 5, 1963.*

Congressman OTTO E. PASSMAN,
House Office Building,
Washington, D.C.

DEAR CONGRESSMAN PASSMAN: Many Americans living abroad admire you for your courageous stand against the wildness of some of the American aid programs abroad. Like you, we are not opposed to American aid in principle but only to the excesses and the stupidities which frequently characterize the program.

Perhaps the attached newspaper clipping will aid you in your current fight for getting some sense into the program.

Isn't it almost inconceivable that the Government of Laos would ask the Government of Thailand to allow goods from Red China to pass over its soil? Thailand is a stanch ally of the United States, a member of SEATO and it is illegal for goods from Communist countries to come here.

Furthermore, it is well known that the United States pays all the foreign exchange requirements for imports to Laos. If the Lao want to have goods from Red countries pass over Thai soil that are brought in by the commercial import program, it means that U.S. taxpayer's money is being used to buy goods from Red countries. Is this what our tax money is to be used for? Do Americans pay taxes to support the damned Commies by letting the Lao use our money to buy goods from them? If so, then indeed, the American foreign aid program has really gone off the track.

Please look into this. You will also find in the enclosed clipping a note that the Lao now want to buy much more rice than they need from Thailand, because Thailand, as part of its aid program, has reduced the price below the world market price level. Undoubtedly, this extra rice will be shipped to Red countries, in return for Red goods coming to Laos. What a travesty.

And, oh yes, where is our brave "General" Kong Le who was supposed to be making such a firm stand against the Reds in Laos? He has taken leave from the war that American taxpayers are paying for * * * and gone off to Moscow for treatment of his ailing sinus condition.

[From the Bangkok Post, Aug. 3, 1963]

LAOS TO THAI: "LET GOODS OF REDS TRANSIT"

REQUEST STUDIED—ALSO WHY "SO MUCH RICE" NOW REQUIRED

The Thai Government is studying a request of the Lao Government for facilities for transit through this country of goods from Communist countries designated for the neighboring country, it was revealed today.

Informed sources told the Post that the request was contained in a recent letter from Prince Souvanna Phouma, Prime Minister of Laos, to Prime Minister Sarit Thanarat.

The note was handed to Marshal Sarit by Lao Ambassador Nou Ing Ratanavong.

It was explained by Thai officials that at present Thailand grants transit facilities for goods consigned to Laos but the question of goods of Communist origin has not been broached until now.

Prince Souvanna Phouma made the request in connection with Thailand's economic assistance for Laos.

The officials said the matter is receiving careful consideration by the Thai Government, which has to make certain that while it aids Laos it does not bring about a danger or threat to itself.

A possible solution, it was suggested, is that the Thai Government may permit passage of Communist goods but may want to keep a check on the types and quantities of goods—the types in order to insure their necessity to the economy of Laos, and the quantities to insure that there is no surplus which may be smuggled back into Thailand for sale here.

This Lao request is combined with the request, reported about earlier, for sale of glutinous rice to Laos without collecting any premium.

The rice request is also under detailed study. Some officials are wondering why Laos requires "so much rice." They pointed out that Laos used to purchase 15,000 to 20,000 bags of rice per year. This year, after reduction of premiums

from 800 to 100 baht per ton, Thailand has sent to Laos a total of already 40,000 bags.

The Lao Premier also asked that the rice be sold at prices prevailing last June, when the 40,000 bags were sold. Officials noted that rice prices have already risen, in a seasonal trend, since then.

(NOTE.—AID's comments on above article follow:)

The article in the Bangkok Post, cited in the letter from an American resident, is incorrect in its statement that the Government of Laos has asked the Government of Thailand to permit transit of goods of Communist origin across Thailand to Laos. The letter writer's observations on this point are, therefore, without foundation.

The United States is not financing transactions of any sort by Laos with the Communist bloc.

The letter draws a false conclusion from the fact that Laos has increased imports of glutinous rice from Thailand. The increased requirement results from the large-scale displacement of Lao farmers by the civil war and the prolonged delay in achieving unification and peace. As a consequence, normal planting has been impossible in many areas, and more than 100,000 refugees must be fed. There is no evidence of reexport of Lao rice to Communist countries.

SOURCES OF ASSISTANCE TO LATIN AMERICA

Mr. Administrator, would you cite a list of all U.S. agencies and spigots of those agencies or funds that provide the financing for the Latin American aid program? I could start out and you could possibly supplement the listing if I should miss some of them.

Under AID, you have the Alliance for Progress, the Social Progress Trust Fund, the Development Loan Fund. Is the DLF eligible?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. They are eligible for development loan funds. That is No. 3. Now you have——

Mr. SCHEINMAN. Off the record, Mr. Chairman.

(Discussion off the record.)

Mr. PASSMAN. You could channel freely from the DLF into Latin America, could you not?

Mr. SCHEINMAN. There is a restriction on transfer.

Mr. PASSMAN. We are trying to establish the different spigots from which you draw funds that make it more complicated to administer the program.

You have the Alliance for Progress, you have your loans and grants under AID, you have the Development Loan Fund, you have the Public Law 480, you have the Inter-American Development Bank, you have the International Development Association, you have the World Bank, you have the Central American Bank. You have development grants, which includes a combination of grant aid and technical assistance.

Is Latin America also eligible for supporting assistance?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. All right, supporting assistance.

Then you have the U.N. programs under several different names. Then you have UNICEF.

Would you help fill in on the others?

Mr. MOSCOSO. Yes, sir; if there are any others.

Mr. SCHEINMAN. At this time, sir?

Mr. PASSMAN. Yes. We want to get them in the record.

Mr. MOSCOSO. Peace Corps, Export-Import Bank.

Mr. PASSMAN. I am talking about giveaway programs, but put in Export-Import Bank. We included IDA, did we not?

Mr. Moscoso. Yes, sir; we also got the World Bank. That is why I mentioned Export-Import Bank.

Mr. PASSMAN. I forgot to put the President's contingency fund in there.

You can accomplish just about the same kind of things out of every one of those funds.

You have military assistance. We forgot that one. And you do get some civic action projects even out of the military aid.

Mr. MONTOYA. You forgot one, Mr. Chairman, the local currency repayment fund.

Mr. PASSMAN. Yes. You can plow that currency back into the program, can you not?

Mr. Moscoso. That is right.

Mr. STERNFELD. No, we cannot reuse local currency repayments of the DLF.

Mr. PASSMAN. The currency goes back in so that you can use it. Turn through these pages here. We shall see where you asked for $200,000 cash and you got $5 million in local currency that I do not recall you asking the Congress to appropriate.

Mr. TENNANT. Local currency is either the counterpart or U.S.-owned growing out of Public Law 480 transactions.

Mr. PASSMAN. You have three or four different sources of local currency.

Mr. TENNANT. There are several accounts.

Mr. PASSMAN. Do you see how confused you have got the program? It is uncontrolled and, in its present form and scope uncontrollable.

I hope that some day, if the program is to be continued, we will have a package of foreign aid and place a limitation on the part that could be grants and the part that could be the disguised grants. Then you could administer the program with some degree of prudence and effectiveness.

Please help us establish the other spigots that we did not get in, if we missed any. We have a record full but I should think possibly there might be others.

URUGUAYAN TAX STRUCTURE

Do you have a program for Uruguay?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. "Retirement at 50 With Full Pay—Uruguay Has No Income Tax Bite." This is a newspaper report from the capital of Uruguay, dated August 7, 1963, and it is by Harold Y. Jones, of the Copley News Service.

(The article follows:)

RETIREMENT AT 50 WITH FULL PAY—URUGUAY HAS NO INCOME TAX BITE

(By Harold Y. Jones, Copley News Service)

MONTEVIDEO, URUGUAY, August 7.—Ever dream of a place where you pay no income tax and can retire at the frisky age of 50 at full pay? There is such a place—Uruguay, the peaceful little country of 3 million sandwiched between 2 giant neighbors, Argentine and Brazil.

Uruguay has something that amounts to an income tax law but it has so many exemptions that only a man who makes 20 times the national average salary of 1,200 pesos (about $70) a month pays anything. There are few men in Uruguay who earn that much ($1,400).

The Uruguayan Government thus has to look elsewhere for the tax revenue it needs to support its massive welfare state activities.

Who pays? It's the men who produce the country's wool, meat, and other related products sold abroad.

Sales of these products bring in 90 percent of Uruguay's export earnings, which range between $125 and $175 million a year. The Government takes about 25 percent of export revenue.

It also imposes equally sizable duties on the more than $200 million Uruguayans spend each year bringing in luxury and manufactured goods not produced in their own country.

These taxes on agricultural goods going out and manufactured goods coming in have created a flourishing smuggling industry in Uruguay.

Some cattlemen and sheep ranchers sneak their herds and flocks into Brazil, shear and slaughter them, and then send the meat and wool to world markets through Montevideo as "in transit" products to avoid paying export taxes to their own government.

Smugglers bearing cars, refrigerators and hundreds of other items cross the border from Brazil. Economists here figure that the total loss to the Uruguayan treasury is about $30 million a year.

Because of this and because of less wool available for export last year's tax take was down and the national budget ran a deficit of about 600 million pesos (then the equivalent of $55 million).

"We're looking for new things to tax," said a Government accountant. "We've got to have more money to keep the Government payroll current."

Mr. PASSMAN. Let me note that, say, $1,400 there might buy as much as $2,200 would purchase here.

Mr. MOSCOSO. May I comment on this?

Mr. PASSMAN. Yes, sir.

Mr. MOSCOSO. The first sentence in the presentation book indicates that the United States looks to Uruguay to make fundamental changes in its economic and social welfare policies.

Mr. PASSMAN. We have been seeking those kinds of changes for many years with very little success.

Mr. RHODES. You had those words classified in the book. Are you going to classify them out of the record? I just happened to be looking at them. They are in the gray area.

Mr. MOSCOSO. Mr. Congressman, I suppose after due consideration, et cetera, it may be necessary to classify them, but quite frankly, I have been telling that to my Uruguayan friends to their face for quite a while.

Mr. PASSMAN. Let me say, Mr. MOSCOSO, that I generally admire you for your sincerity and forthrightness.

ALLIED SHIPPING TO CUBA

Mr. RHODES. Mr. Chairman, I asked some days ago for the Department to give me an explanation of Circular No. 12 of the Department of Commerce in which were listed various foreign ships which had carried cargoes to Cuba. I asked for an explanation of this in light of section 107 (a) and (b) of the Mutual Security Appropriation Act of 1963.

I have here an unclassified report of the reason that the administration gives for not having stopped military and economic assistance to the countries whose ships had gone into Cuba carrying cargoes or in a posture to carry cargoes. I have this report here, Mr. Chairman, and after I make a few comments on it, I would like to have it inserted in the record.

Mr. PASSMAN. The information will, as requested, be inserted in the record.

Cuba Shipping: Section 107 of the Foreign Aid and Related Agencies' Appropriation Act, 1963

This memorandum sets forth a legal analysis of the applicability of section 107 of the Foreign Aid and Related Agencies' Appropriation Act, 1963 (Appropriation Act), to the voyages to Cuba undertaken by aid recipient country ships listed in the Maritime Administration Report No. 12.

Section 107

"(a) No assistance shall be furnished to any country which sells, furnishes, or permits any ships under its registry to carry to Cuba, so long as it is governed by the Castro regime, under the Foreign Assistance Act of 1961, as amended, any arms, ammunition, implements of war, atomic energy materials, or any articles, materials, or supplies, such as petroleum, transportation materials of strategic value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war, contained on the list maintained by the Administrator pursuant to title I of the Mutual Defense Assistance Control Act of 1951, as amended.

"(b) No economic assistance shall be furnished to any country which sells, furnishes, or permits any ships under its registry to carry items of economic assistance to Cuba so long as it is governed by the Castro regime, under the Foreign Assistance Act of 1961, as amended, unless the President determines that the withholding of such assistance would be contrary to the national interest and reports such determination to the Foreign Relations and Appropriations Committees of the Senate and the Foreign Affairs and Appropriations Committees of the House of Representatives. Reports made pursuant to this subsection shall be published in the Federal Register within 7 days of submission to the committees and shall contain a statement by the President of the reasons for such determination."

General conclusion

All voyages to Cuba by aid recipient country ships listed in the Department of Commerce Maritime Administration Report No. 12 have been analyzed and fall into several categories. The applicability of section 107 to each of these categories is discussed below. On the basis of an analysis of the various categories listed below it is the opinion of the Office of the General Counsel of the Agency for International Development and of the Office of the Legal Adviser of the Department of State that no action to terminate aid or to waive application of section 107 is legally required at this time.

Discussion of categories

Arrived in ballast.—With regard to those vessels which sailed to Cuba in ballast it is clear that no violation of section 107 has occurred, since they could not have possibly carried proscribed items.

Free world.—There is no evidence or reason to believe that any free-world country has sold or furnished to Cuba items proscribed by section 107. Therefore, it can legally be concluded that in the absence of evidence of transshipment any voyages between such countries and Cuba did not involve the carriage of items proscribed by section 107, so long as no call was made at a Communist bloc port. There is no evidence of such transshipment.

No Battle Act.—This category relates solely to vessels flying the flag of countries which receive military assistance only. In the case of such countries only subsection (a) of section 107 is applicable, and that subsection is violated only if ships of such countries carry Battle Act, title I items to Cuba. On this latter point subsection (a) describes the articles proscribed by that subsection as follows: "arms, ammunition, implements of war, atomic energy materials, or any articles, materials, or supplies, such as petroleum, transportation materials of strategic value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war contained on the list maintained by the administrator pursuant to title I of the [Battle Act]."

The phrase "contained on the list maintained by the Administrator pursuant to title I of the [Battle Act]" qualifies all of the descriptive words appearing before that phrase. Moreover, the reference to petroleum is not to petroleum per se, but to petroleum which is an article used in the production of arms, ammunition and implements of war and which is contained in the Battle Act title I list. Crude oil is not such an item. This interpretation of section 107(a) is further sustained by the fact that the descriptive words used in section 107(a) are taken directly from title I of the Battle Act. Section 103(a) provides in pertinent part as follows:

"The Administrator is hereby authorized and directed to determine within 30 days after enactment of this act * * * which items are, for the purpose of this act, arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and those items of primary strategic significance used in the production of arms, ammunition, and implements of war which should be embargoed to effectuate the purposes of this act."

Where Congress in one statute uses certain descriptive words and then repeats these words in a subsequent statute at the same time referring to the first, it must be assumed that the words of the subsequent statute were intended to relate to the same things as the first statute. Thus, where there is now no evidence that voyages by ships of countries receiving only military assistance carried Battle Act items, section 107 is not legally applicable.

Prior charter.—Certain voyages between bloc ports and Cuba were undertaken by aid recipient country ships in fulfillment of charter arrangements with the bloc entered into prior to the effective date of the appropriation act.

A factor, if not the determining factor, in deciding whether a country permitted a voyage is whether the country took any steps to prevent the voyage. Whether any particular preventive action is sufficient to excuse the country from responsibility under section 107 for the voyage, must be judged by the likelihood that such action will succeed. A country cannot be excused merely because it took token steps which could not reasonably be expected to prevent a voyage. Thus, the sole question in the prior charter cases is whether section 107 required the country to force termination of these contracts as the minimal preventive action sufficient to excuse the country from responsibility.

It is the opinion of counsel that section 107 does not require an aid recipient to force shipowners to terminate prior contracts in order to demonstrate that the country did not "permit" the voyage.

Charter parties are binding contractual obligations. There is little likelihood that shipowners would be relieved of liability to shippers, under force majeure for breach of these charters had they been forced by the aid recipient governments to do so. Such action by recipient governments, therefore, could in most cases have exposed shipowners to substantial liabilities, in some instances running into millions of dollars. In view of this fact, section 107 must be interpreted in accordance with the basic principle of fairness which runs throughout U.S. law, that people should not be penalized for entering into contracts which fail to meet a legal standard if the contract is made before the legal standard is promulgated. Nothing in section 107—such as provision for indemnification of shipowners—indicates that Congress intended to depart from this basic principle, and require aid recipient governments to take actions exposing their shipowners to substantial liabilities. No such intent, of course, can be attributed to general statements of the congressional desire to terminate aid recipient country shipping to Cuba.

At sea.—Under both paragraphs (a) and (b) of section 107 a violation occurs only if the aid recipient country involved permits its ships to carry cargoes to Cuba. An aid recipient country can be held to have permitted a voyage only if it was in a position to do something about preventing the voyage at the time the appropriation act imposed such a responsibility upon it and it failed to take such preventive action. However, if, at that time, the only preventive measure available to the country was to force return of a ship already at sea, the legal opinion is that the aid recipient country could not be held to have permitted the voyage by its failure to take such action. It would be unreasonable to construe the appropriation act as imposing upon aid recipient countries the burden of forcing return of ships on the high seas.

Under investigation.—Certain voyages are still being investigated for either charter or cargo information or both. Since it is presumed for the reasons indicated in the third paragraph on page 5 that some part of each cargo moving to Cuba from a bloc country includes items of economic assistance, no further cargo information is being sought in the case of vessels of countries which are subject to section 107(b). In these cases section 107(b) is applicable unless excluded on other grounds, chiefly the existence of a prior contract. However, it is the view of counsel that no action would be proper under section 107 until the necessary contract information is developed. A substantial number of voyages to Cuba by aid recipient country ships were in fulfillment of charters made before the effective date of the appropriation act. The contract date is important in determining whether the aid recipient government permitted the voyages. The governments involved have exhibited a generally cooperative attitude on this issue. These considerations make it most inappropriate and certainly not legally

necessary to conclude that these cases involved violations of section 107 before the necessary charter information is obtained.

In the case of countries receiving only military assistance, further investigation to determine whether any title I Battle Act items were carried is indicated in some cases although there is now no evidence that any such items were, in fact, carried on these voyages. As a legal matter, therefore, the question is whether because these ships all sailed from Communist bloc ports they must be presumed to have carried title I Battle Act items. It is the view of counsel that no such presumption is proper and that only at such time as there is concrete evidence that Battle Act items were carried are these voyages of any concern under section 107. Neither the statute on its face nor the legislative history thereof nor the facts of the case require such a presumption.

Greek ships which are under charter signed after appropriation act, but prior to Greek decree.—Three Greek ships sailed from bloc ports to Cuba under contracts entered into after the effective date of the appropriation act and before issuance of the royal Greek decree, described below. It is the view of counsel that while these vessels must be considered to have carried items of economic assistance the evidence is insufficient to hold that the Greek Government permitted the voyages.

In addition to aid for specific projects, training and other forms of technical assistance, bloc countries are extending substantial trade credits to Cuba. These credits are believed to be on sufficiently concessional terms to constitute economic assistance. Since it is not possible to identify particular cargoes with these bloc credits, all or some part of every cargo from the bloc not otherwise excluded must be attributed to this assistance effort. Under this reasoning, the three Greek ships in question carried items of economic assistance to Cuba.

The Greek Government at the time of these voyages had a general policy against its ships sailing to Cuba. This policy was evidenced by the Greek Government's generally cooperative attitude subsequently verified by its issuance of the royal decree barring Greek ships from trade with Cuba. There is now no evidence that the Greek Government knew of the voyages and of the fact they carried proscribed cargoes. Indeed for the Greek Government to possess such knowledge would mean that the Greek Government, at the time of the voyages, had reached the same conclusions as this Government regarding the nature of the bloc-Cuba aid relationships. This is most unlikely since the conclusions of this Government were based upon its own intelligence information. Accordingly, in the absence of any evidence that the Greek Government specifically acquiesced in these voyages with knowledge that they carried proscribed cargoes (i.e., permitted the voyages), the United States Government must conclude that the Greek Government is following its stated policy.

In addition to these facts, it can be concluded that a government does not permit voyages to Cuba if upon request of the U.S. Government it takes reasonable action to prevent such voyages. Such is the case with Greece. Within 6 months of the effective date of the appropriation act it issued a comprehensive decree which covers all Greek shipping which might be subject to section 107. The 6-month lapse is certainly a reasonable period for such action. Thus, it can be concluded legally that Greece should not be treated as having violated section 107 in respect of these voyages.

Mr. RHODES. The comments are these: The administration, in this report, discusses the various categories of ships which had gone into Cuba and offers an explanation of why each category was not deemed to be in violation of the prohibitions of sections 107 (a) and (b).

I have very little comment to make on each voyage. I have no reason to believe that the voyages were not carried out exactly as it is represented that they were. I do have some argument, however, about the application of the law under which the various assumptions are made. Also, I have some argument as to whether or not the administration could not have included under each category of excuse the number of ships of each nation which were involved. They have not seen fit to do that and it is my hope that they will in the future liberalize their rules of classification to allow at least the numbers of ships under each category to be included in the record.

In the construction of the law, the Battle Act is referred to quite freely, and I see no reason to believe that it should not be referred to

rather freely because much of the language of sections 107(a) and 107(b) is taken from the Battle Act. I am also informed from the Department that the enforcement of section 107(a) is under the same section of the Department of State which enforces the Battle Act. Therefore, the use of the Battle Act as an analogy I think is well taken. However, in the interpretation of the law I have exception to the manner in which the administration has interpreted the word "petroleum" and the context in which it is used. For instance, in the act the language is as follows:

> No assistance shall be furnished to any country which sells, furnishes, or permits any ships under its registry to carry to Cuba so long as it is governed by the Castro regime, under the Forign Assistance Act of 1961, as amended, any arms, ammunition, implements of war, atomic energy materials, or any articles, materials, or supplies such as petroleum, transportation materials of strategic value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war contained on the list maintained by the Administrator pursuant to title I of the Mutual Defense Assistance Control Act of 1951, as amended.

Now, the administration has interpreted the prohibition against petroleum being transported into Cuba in this manner, and I quote:

> Moreover, the reference to petroleum is not to petroleum, per se, but to petroleum which is an article used in the production of arms, ammunition, and implements of war, and which is contained in the Battle Act, title I list. Crude oil is not such an item.

I think this puts a very strained interpretation on the law. It really says that you have to prove that petroleum is to be used in the production of arms, ammunition, and implements of war, or it is not prohibited. In other words, if certain crude oil is to be refined for gasoline, then in order to keep that crude oil out you would have to prove that the gasoline was going to be used to manufacture arms or ammunition or as an implement of war. Obviously, this cannot be done.

I am satisfied that when the Congress passed section 107(a) it referred to all petroleum, whether the petroleum be crude or refined, and without regard to its use. There is no doubt but what the refineries of Cuba are now being operated on oil which is being brought into that country, much of it from countries which are in the free world or transported in bottoms which are supplied by countries which are in the free world. It seems to me, Mr. Chairman, that this is wrong.

I would strongly urge that the administration look again not only at the interpretation of the word "petroleum" as it appears in these acts, but also in the advisability of applying the Battle Act in its total force to Cuba.

Mr. PASSMAN. I want to say that I fully concur with the views expressed by the gentleman from Arizona. We hope that before we finish the hearings that we shall have additional comment from the executive branch dealing with the Battle Act and why it is not being applied with relation to Cuba.

STATE DEPARTMENT'S POSITION ON SECTIONS 107 (A) AND (B) OF APPROPRIATION ACT

Mr. COTTRELL. I might say in response to a question put to me by Mr. Ford the other day as to why the subcommittee print of foreign aid and related agencies appropriation bill 1964 suggested the elimination of sections 107 (a) and (b), I can reply to Mr. Ford that this

print was made up in December of last year and at that time we did not have experience in applying 107 (a) and (b). I can inform him that the State Department has found these two clauses quite useful in our bilateral discussions with certain countries who have been engaged in shipping to Cuba and that the Department has no objection to their inclusion in the 1964 bill. I might also say that since this print was made up I believe another amended print has been submitted and we will supply it to you if you wish.

APPLICATION OF SECTION 107 TO CUBAN CRUDE PETROLEUM IMPORTS

Mr. FORD. Would the administration oppose changes in section 107 (a) and (b) to tighten up the Battle Act to prevent what is transpiring now in reference to petroleum?

Mr. COTTRELL. I think this would be a matter of study. I understand Mr. Rhodes' point but the interpretation of this is a function of the administrator of the Battle Act of conferring with various authorities so I would not be in a position today to express an opinion.

Mr. RHODES. Would the gentleman yield?

Mr. FORD. Surely.

Mr. RHODES. Mr. Secretary, I do not want to take issue with you on something which is your own business, but I do not think Congress necessarily delegated this authority to administer sections 107(a) and (b) to the administrator of the Battle Act. It was to the President of the United States and if he in turn delegated it to the administrator of the Battle Act this is his business. However, the administration is responsible to the Congress for this, and since the administration of the Battle Act is under the State Department, I should think that the Secretary of State would be responsible under the President.

Mr. SCHEINMAN. That is correct, sir. I might point out, Mr. Rhodes, that you have to keep in mind that since we agree 107(a) states the provisions of the Battle Act and the application of the Battle Act provisions will govern the application of 107(a) that the term "petroleum" is part of a list of items described as of strategic importance to the manufacturer of arms and ammunition and it is through the exercise of the determination and analysis that it was felt that petroleum crude oil rather than other types of petroleum which you will find on the Battle Act list is of such a general kind of commodity that it was deemed not appropriate to include that on the list.

Mr. RHODES. May I address myself to that? Of course the point I was trying to make is a point which I am sure must go back to legislative history not only of section 107(a) but to the history of the Battle Act, too.

Mr. SCHEINMAN. That is correct.

Mr. RHODES. This is what I would like to have the administration do. It seems to me they should try to determine what the Congress meant when it passed both acts. The mere fact that the Battle Act may have been interpreted as it is now interpreted over a period of years to me doesn't change the original legislative intent. If the intent was as I think it was, then petroleum should be petroleum and not have a strained definition placed on it in the interpretation of these acts. I would like to have a review made of our whole posture.

Mr. SCHEINMAN. We do. The subject we are discussing relates to the application of the Battle Act.

Mr. RHODES. Yes. I was not the author of 107(a), but certainly I think all lawyers would have to agree that when Congress uses exactly the same language in a statute which had been used in a previous statute that the two just have to be somewhat related.

Mr. SCHEINMAN. Thank you, sir.

Mr. COTTRELL. Your concern is not mitigated by the fact that petroleum is freely available from Soviet bloc sources?

Mr. RHODES. No. Soviet bloc sources may be somewhat strained in bringing in petroleum—their sources not only of oil but of tankers. It seems to me that very definitely we should require that if Cuba is to have oil, that she get it from Soviet bloc sources.

Mr. SCHEINMAN. One other matter, sir. I want to say again that any other information that any members of the committee would wish, including your reference to quantifying the shipping, we would be happy to take under consideration and do our best to supply it on an unclassified basis.

I would like, however, to check my recollection. I do believe that Cuba was placed on the list of countries in connection with the Battle Act itself. You made some passing reference to the fact that Cuba was not listed as a country.

I believe the administration did place Cuba on the list of countries with respect to the application of the Battle Act.

Mr. RHODES. I will swear you and Mr. Miller told me it had not, Mr. Scheinman, so I would suggest that you check both of our memories and see which is correct.

Mr. SCHEINMAN. Yes.

PURPOSE OF ROCAP

Mr. PASSMAN. On yesterday we were able to develop that the purpose of the regional programs was, for one major objective, to reduce personnel and also to make for a more manageable program. But we found that instead of creating an organization capable of administering this vast program more effectively on a regional basis, rather than a country basis, there had been an increase in the personnel, overall, and that instead of really being an organizational proposition it was one involving many millions of dollars of supplemental aid to the programs in the countries, in that you are requesting $———— for the regional setup, which was organized only last year.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Is it the purpose of organizing a regional setup so that they may assume the responsibilities presently discharged by the mission groups in the several countries?

Mr. MOSCOSO. The purpose of the regional office is twofold. One is to work with Central American regional organizations to accelerate the economic integration of this region, which is comprised of six small countries which by themselves will not be able to achieve viable economies. What they have not been able to achieve separately they hope

to achieve as one single economic unit. This has been attempted before and it has failed in the course of the last hundred or so years. They are now approaching it in a different manner. They are trying to achieve economic integration first before they touch the political part. They are creating the necessary institutions. They are planning those which will be required a little later. For instance, they have already achieved the creation of a financial clearinghouse. They are now studying the possibility of a unification of currencies.

They have created a supreme court, which is only advisory but which they hope eventually may become the supreme court of the Central American area. They have created a Secretariat for Economic Integration. They have created a joint planning commission. They have created a development bank, the Central American Bank for Economic Integration (CABEI), for the purposes of accelerating the integration movement and they have also created an organization of Central American university rectors in order to try to achieve a degree of regional specialization in their higher education efforts.

REGIONAL PROGRAMS PLUS COUNTRY PROGRAMS

Mr. PASSMAN. This plan is supplementing the country programs in this limited region?

Mr. MOSCOSO. You could call it that, Mr. Chairman. But it is really——

Mr. PASSMAN. In the Central American countries you have AID missions, do you not?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Presently carrying out AID programs?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You are not canceling out any of these AID programs, are you?

Mr. MOSCOSO. No, not at the moment.

Mr. PASSMAN. You are not discharging any of the AID missions in those countries?

Mr. MOSCOSO. Not now, but with the achievement of various steps of integration——

Mr. PASSMAN. Nevertheless, you are starting a very expensive program which is a supplement to the present programs in the countries under the AID missions; is that correct?

Mr. MOSCOSO. To accelerate the integration——

Mr. PASSMAN. Please tell us.

Mr. MOSCOSO. That is the purpose.

Mr. PASSMAN. You are putting in more money from the regional plan than you would normally spend from a country-level allocation?

Mr. MOSCOSO. This is to do the kind of things which would be extremely difficult to do from a country basis.

Mr. PASSMAN. We have had an aid program going for 17 years. But here, you come in with a brand new scheme. There was a very small item requested last year. It was under a different name. You changed the name and allocated more money than you had justified for a differently designated item. This year you are asking for about five or six times the amount you asked for last year under a different name. Will the country programs as we know them in the books continue?

Mr. Moscoso. They will be changed and reduced as economic integration gains momentum. At the moment we are not.

Mr. PASSMAN. Let us talk about the present. You are continuing the present programs on an expanded basis in Latin America?

Mr. Moscoso. The country programs plus the regional integration programs.

Mr. PASSMAN. The country programs themselves are up over last year?

Mr. Moscoso. Some of them are up, yes.

Mr. PASSMAN. So this regional sum is in addition to what is in the country programs?

Mr. Moscoso. That is right.

Mr. PASSMAN. It appears to be just another way of getting money, increasing the overall amount, creating a new spigot that makes it more difficult for the committee and the Congress to understand the operations.

Mr. Moscoso. No. We are creating——

Mr. PASSMAN. You stated yesterday the purpose was to save money.

Mr. Moscoso. We are creating a recipient, not a new spigot.

Mr. PASSMAN. That is exactly what you are doing. You are fair enough to say it.

Mr. Moscoso. That is right; in order to close the other six spigots.

Mr. PASSMAN. You are increasing every program in every country in this area. Then, in addition to that fact you have two regional funds.

You have the Latin America-wide regional fund that you get money out of to add to the country programs, do you not?

Mr. Moscoso. That is right, sir.

Mr. PASSMAN. In this area you also have a special regional program into which you dip again and get money to supplement the regular programs?

Mr. Moscoso. Hopefully, inside of the time that these countries have agreed that they will integrate the economies we will have an economy of close to 12 million people.

Mr. PASSMAN. You have a country-by-country program. Now you come along and you create regional programs from which you supplement what they would get out of the regular allocation to the country.

Now you come along for a certain area and create another regional plan, which means these countries are getting the regular allocation out of AID, they are drawing out of the area-wide regional program, and also this special regional program.

Mr. Moscoso. We are hoping quite a number of the projects——

REGIONAL DEVELOPMENT PLANNING PROJECT—ROCAP

Mr. PASSMAN. Under the regional development planning project, on page 129, do you propose to hire Latin American personnel rather than U.S. personnel to develop these regional economic development plan?

Mr. Moscoso. Yes, sir; we do, but we will also permit the hiring of U.S. specialists.

Mr. PASSMAN. Are you finally going to get this thing completely out from under the supervision of Americans?

Mr. Moscoso. Not necessarily.

Mr. PASSMAN. I can see the trend. This Social Progress Trust Fund is one. To what extent are you going to turn this over to the——

Mr. Moscoso. I hope the Latin Americans will continue to develop their countries, to participate in the process.

Mr. PASSMAN. When we spend American dollars, I prefer to keep the supervision of this spending under American personnel.

IMPROVEMENT OF STATISTICS AND CENSUS PROJECT—ROCAP

Last year, when you were initiating the census project, described on page 130 of this year's project book, it appeared that the project was to process, analyze, and to publish data already collected and to be collected in the near future.

However, the project description this year appears to include funds to finance approximately 50 percent of the cost of the census programs to be undertaken. We cannot reconcile what you said last year and what you say in this year's book.

Mr. Moscoso. We explained this project last year. We mentioned cost of training participants and contract service consisting of reimbursement of the Bureau of the Census for technical services.

Mr. PASSMAN. You said last year this project was to deal with data already collected.

Mr. Moscoso. On what page of last year's book?

Mr. PASSMAN. Page 469.

This year it says the project is proposed to assist the countries in the completion of basic census population, housing, agriculture.

We wish you would check the two statements.

(Information subsequently supplied follows:)

The census project (596–H–78–AA), which appeared on page 469 of the 1963 Congressional Presentation, concerned the processing, analysis, and publication of data already collected and "to be collected."

In project 596–AA–78–AD–5, "Improvement of Statistics and Census," of the fiscal year 1964 presentation, greater emphasis is placed upon assistance to the Central American countries in the taking of regular censuses of population, housing, agriculture, and industry.

IMPROVEMENT OF ADMINISTRATIVE PRACTICES PROJECT—ROCAP

Mr. PASSMAN. On page 131, in connection with the administrative practice project, it is stated that a portion of the contract service estimate of $600,000 will be used to assist in establishing a regional Institution of Administrative Sciences. What is the estimated cost of this proposed institute and how do you propose to finance it?

Mr. Moscoso. Until termination, sir?

Mr. PASSMAN. Yes.

Mr. Moscoso. It is estimated at $1,690,000.

This is the whole project, sir.

Mr. PASSMAN. Let us see if we cannot break it out and know what you are going to do.

Mr. Moscoso. A regional institution for public administration training and tax administration, building onto some existing organizations and institutions.

Mr. PASSMAN. You are going to create an institute; is that correct?

Mr. Moscoso. We do not have the total figure of setting up this regional institute to completion.

Mr. STERNFELD. Sir, there is a survey going on at the moment to determine the total cost of establishing this regional Institute of Administrative Sciences. It is estimated that $400,000 of that $600,000 contract services would be required for the first year cost in working with this Institute of Administrative Sciences.

Mr. PASSMAN. For what purposes will the $960,000 be used?

Mr. STERNFELD. The $960,000 includes expenses connected with participants, for training purposes, technicians, as the book says, "4 U.S. advisers in public administration, including training, customs, and tax fields, and 25 participants." There are some commodities contained here for the school that would be set up. I know from personal knowledge that the survey is still going on in Costa Rica and Guatemala.

Mr. PASSMAN. What is the total amount you will need to supplement the previous allocation?

Mr. STERNFELD. The total cost of this project to completion is currently estimated at $1,690,000.

Mr. PASSMAN. Do you actually believe we can successfully develop and administer the thousands of projects you have planned in this aid program? I thought we agreed last year that it would be much better to have a few projects, and plan and execute them well.

CADASTRAL SURVEY PROJECT

What was the unliquidated balance as of June 30 for the cadastral survey project, on page 132?

Mr. MOSCOSO. $400,000.

Mr. PASSMAN. That is the estimate?

Mr. MOSCOSO. Yes; we do not have the actual.

Mr. STERNFELD. Our best figures are the estimates——

Mr. PASSMAN. Heretofore you have usually been able to give us the figures on these items.

Mr. STERNFELD. $400,000.

Mr. TENNANT. These figures in the book, sir, are the estimates we made as of the time we put the books together.

Mr. PASSMAN. Can you not now start giving us actual figures? Today is August 8.

Mr. TENNANT. Reports come in from the field approximately a month after the end of the year. I am not sure whether this mission's reports are in or not.

Mr. PASSMAN. Can you project the cost to completion, then, and give us that figure?

Mr. MOSCOSO. $2,721,000.

Mr. RHODES. Is that our part?

Mr. MOSCOSO. Yes, sir.

FUND RESERVATIONS FOR LOANS APPROVED BUT NOT SIGNED

Mr. PASSMAN. We made an observation yesterday that you had unobligated funds of $515 million. You have much more money unobligated but technically it is obligated. I asked the specific question: Did you include these figures in the unobligated amount?

We want a list of those questionable technically unobligated amounts which are carried as obligations.

Mr. TENNANT. I do have the total of them, sir.

Mr. PASSMAN. You have two unobligated funds, one for $515 million, and another that is technically unobligated but, figuratively speaking, it is obligated. Do you have those items?

Mr. TENNANT. The total of loan agreements——

Mr. PASSMAN. That questionable zone.

Mr. TENNANT (continuing). That have been approved but not signed, $688,825,000.

Mr. PASSMAN. Does that figure include the $515 million?

Mr. TENNANT. No; it is in addition to that.

Mr. PASSMAN. These are obligations you are carrying which under normal conditions would be unobligated funds, but you carry them as obligated, although you are yet to have a contract signed; is that correct?

Mr. TENNANT. I think our problem reverts to the term "obligation." These are reservations.

Mr. PASSMAN. In military aid you have the reservation category.

Mr. TENNANT. We have had this before.

Mr. PASSMAN. How much is this amount?

Mr. TENNANT. $688,825,000.

Mr. PASSMAN. Unobligated but technically obligated, waiting for the contracts to be approved and signed?

Mr. TENNANT. Waiting for agreements to be signed.

Mr. PASSMAN. You do not even have an agreement.

Mr. MOSCOSO. This is worldwide.

Mr. PASSMAN. That gives you over a billion dollars of unobligated funds.

(NOTE.—See previous testimony beginning on p. 2291.)

AID TO INDIVIDUAL COUNTRIES FROM REGIONAL FUNDS

In previous questions about the unliquidated balances to the credit of these countries, in giving us the specific amount did you include this part of Latin America where you have two regional funds?

Let us say you have "Randolphville," with $150 million unliquidated to its credit. Did you include that amount in the two regionals accounts?

Mr. TENNANT. No, sir. ROCAP and the regional account are indicated individually and not as part of any country.

Mr. PASSMAN. To actually ascertain the amount of funds that ultimately would be disbursed in the country, you would have to go back and pick up the amount that they would have in, we shall say, if it is Guatemala, the amount they would have in the entire Latin American region. You would add that sum. Then you would have to pick up what you have in ROCAP and add that amount to get the total.

Mr. TENNANT. Technically that is correct; however, the total figures for all countries we have provided included these two items.

Mr. PASSMAN. I am asking about Guatemala, for example.

Mr. TENNANT. Your statement is correct for the individual country.

Mr. PASSMAN. You have to add the two. Would you also have to add the interregional sum?

Mr. TENNANT. The interregional?

Mr. PASSMAN. Yes.

Mr. TENNANT. Yes.

Mr. PASSMAN. I always thought we were accomplishing something when we pointed out the amount of funds you had unliquidated to the credit of these countries, and here are three accounts we left out.

How much trouble would it be to break out of these three different regionals—interregional, Latin American region, Central American region, or ROCAP—and show what they would get? Could it be done?

Mr. TENNANT. It would be very impractical, sir.

I think the illustration I would give is the people who are running the Central American regional office, or ROCAP, service six countries. It would be difficult to say how much time they devote to any one country.

Mr. PASSMAN. I am not talking about the time. I am talking about the money.

Mr. TENNANT. The money is used to pay their salaries. You would have to prorate that.

Mr. PASSMAN. You are talking about $————. You only have 20 people in this ROCAP.

Mr. TENNANT. That is one illustration. Another illustration is when money is loaned to the Bank, I gather the Bank is——

Mr. STERNFELD. We can break the Bank out.

Mr. TENNANT. It is distributing money across the board to these countries.

INABILITY TO DETERMINE TOTAL FUNDS PROGRAMED FOR ANY ONE COUNTRY

Mr. PASSMAN. If a Member walks up to me on the floor and says, "Passman, tell us how much is in this bill for Guatemala," it is impossible for me to tell him, is it not? I cannot tell him what is in this bill for Guatemala because all I can do is say that according to these pages, under the country they get this much. But it is impossible for me to tell him what is in this bill for Guatemala until I know how much they are going to get out of the interregional account, the Latin American region and the Central American region, plus the social progress trust fund; is that correct?

Mr. TENNANT. The social progress fund is in the figures we gave you yesterday.

Mr. PASSMAN. How about the other three?

Mr. TENNANT. The other three——

Mr. PASSMAN. Are not included. I could not actually give a Member an intelligent and accurate answer until I know how much the country is going to get from the other three funds; is that correct?

Mr. TENNANT. I think that is correct.

It is true in any operation where you have across-the-board expenses; if you prorate them, you have to use some optional approach.

Mr. PASSMAN. We are talking about $———— for these Central American countries. You cannot tell us that when you are dealing with 20 personnel there that you are going to pay them $————. These people are allocating these funds to projects in those areas.

Mr. TENNANT. Some of these projects cannot be broken country by country.

Mr. PASSMAN. Some of them can.

Mr. TENNANT. Yes.

Mr. PASSMAN. Nevertheless, as it stands now, we could not tell the full committee or the House, in response to a direct question, how much money you have in this bill for any one country on the face of the earth, even under your illustrative justifications. We would not be able to tell them the total country sum without knowing what they were going to get out of the various special accounts.

You have a program for which even the Controller could not tell you how much is in the bill for any one country. It is impossible to do so, because you do not know how much each country will get out of the region. That fact is undetermined at this point, is it not?

Mr. MOSCOSO. For the grant funds, I think——

Mr. PASSMAN. Why single out one category? Let us think of it as aid, leaving out the Export-Import Bank.

We are not going to request this information this year. It would be too much trouble to ask you this year to break it out. But we are going to request it next year. That will give you a year to work on it, so you can tell us that this is the amount of money in the interregion that will go to countries X, Y, Z; this amount of money out of the Latin American region will go to certain countries in Latin America; this is the amount in ROCAP, in the other regional account in Latin America.

Mr. MOSCOSO. It will be a very difficult job.

Mr. PASSMAN. We are going to try to find out how much is in this bill for these countries.

Mr. MOSCOSO. Suppose we eliminated ROCAP. You still have the same problem.

TOTAL UNEXPENDED BALANCES, FOREIGN AID PROGRAM

Mr. PASSMAN. We have three forms of aid accounts now. You are getting a new recap sheet. Recent history shows an alltime high of unliquidated funds at more than $7 billion. Has this figure gone up?

Mr. TENNANT. It is in the magnitude of $7 billion. The Treasury has just released some yearend figures. We are reconciling those.

Mr. PASSMAN. Do you have an idea as to the total amount at this time?

Mr. TENNANT. I would say in the magnitude of $7 billion. I think the figure I gave you the other day was just over $7 billion.

Mr. PASSMAN. About $7.2 or $7.3 billion. Will it go up much more than that total?

Mr. TENNANT. It will come down a little. The preliminary figure was taken from cable information.

Mr. PASSMAN. You have three categories in that unliquidated amount. You have the actual unobligated balance; you have another $600 million that is technically unobligated but, figuratively speaking, it is obligated, and you carry it as a reservation, and you have the amount that is firmly obligated; is that correct?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. I am getting up a recap sheet, showing the amount in each category.

Mr. TENNANT. You said "unliquidated." You meant "unexpended."

Mr. PASSMAN. Yes, unexpended. You say "unliquidated." I pick that stuff up using your terminology, not mine. Is that not your terminology, "unliquidated?"

Mr. TENNANT. When we are talking about an individual project, we use the term "unliquidated." It represents the obligations not yet paid off. On the total program we generally use the term "unexpended" which includes unliquidated plus unobligated.

Mr. PASSMAN. If you have $7,400 million on hand unexpended and/or unliquidated and/or pulled out of the Treasury, that is in three categories.

You have the purely unobligated part, which is $515 million, including the revolving fund. You have account No. 2, which is technically unobligated, but figuratively it is obligated because it is in a reservation category awaiting approval and signing of the contract; is that right?

Mr. TENNANT. I believe so.

Mr. PASSMAN. That is more than $600 million?

Mr. TENNANT. $688 million.

Mr. PASSMAN. You take away from the $7.2 billion the $688 million that is technically unobligated and the $515 million that is actually unobligated, and then that would leave you whatever figure it is of firm obligations at this time. They are firm now but subject to subsequent deobligations?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. Thank you.

RESERVATION OF FUNDS FOR LOANS AND REGULAR OBLIGATIONS

Mr. TENNANT. I wanted to say a word. When you left for the floor, we were in the middle of this discussion and I used some terms that probably confused the issue.

Ever since the Development Loan program was started back in the old Development Loan Corporation days, the figures provided the committee—and which we have been providing ever since—have included loan approvals. The executive branch has used the terms "obligations" and "commitments" more or less interchangeably. The figures have generally included in commitments the loan approvals that have been authorized but not yet executed as loan agreements.

Have always included, I guess I should say, loan transactions that have been approved and authorized by the Administrator and which have been committed to the country but the details of the loan agreement have not been negotiated.

Mr. PASSMAN. And a contract has not even been signed?

Mr. TENNANT. Loan agreement not signed.

Whether we use the term "reservation" or "commitment" is not too material, but I guess the columns have been headed "Commitments and obligations," and the other column has been headed "Unobligated and unreserved."

Mr. PASSMAN. On this caption I do not see where you have "Unreserved."

Mr. TENNANT. In the overall tables we provided last week.

Mr. PASSMAN. We run into projects that you have had obligated for years but for which you have not yet signed the contracts; is that right?

Mr. TENNANT. You run into some.

Mr. PASSMAN. These items have been carried in an obligated status for years, yet the contracts are still unsigned.

In this gray area of $688 million, will you indicate the year and date that you charged it to the appropriation, speaking of the technically unobligated money that is figuratively obligated?

Mr. TENNANT. We will give you date and year the various commitments were made to the countries.

Mr. PASSMAN. We want the date you marked it up on your books.

Mr. TENNANT. That is the date it is marked up.

Mr. FORD. Is this like that case yesterday of the Bank where you had signed an agreement but you were still in the process of negotiation and you had obligated, reserved, whichever term you wish to use, $20 million? Is that the kind of case the chairman is speaking of?

Mr. MOSCOSO. No signing yet. The way the Chairman is discussing this with the Controller, as I understand it, is after a loan application has gone through the process of analysis, and so forth, and is finally approved and authorized by the Administrator, between that time and the time that the loan documents are finally signed, the Controller says these funds are to be reserved. That is right. You cannot touch them for all intents and purposes, you had made a commitment to make these funds available. You presume since these people made application in good faith, they are going to sign a contract with you.

Mr. PASSMAN. You have funds that you have been carrying for years, obligated; whereas, in reality it is not an obligation. We are looking at one here, for example, that goes back to July 1962. We are appropriating funds for 1964. You have no contract signed yet, and this is 2 years old.

It would appear to me that you should not be carrying funds in an obligated status for 2, 3, 4 years, setting the money up that far in advance of getting the contract signed. It would be better, it seems to me, to deobligate the funds and say, "this matter did not go through but we are going to negotiate another loan, there is something wrong."

Here is another one, which I turn to offhand. You approved this one July 31, 1962. That is 13 months ago. You have not gotten the contract signed yet. This one item of $12,500,000.

Anyway, you are going to give us a list covering these data?

Mr. TENNANT. Yes, sir.

(NOTE.—See p. 2293).

HIGHER EDUCATION PROJECT—ROCAP

Mr. PASSMAN. How do you propose to spend the $1,650,000 for contract services, on page 136?

Mr. MOSCOSO. For the establishment, with the cooperation of the Council of Central American Universities, of regional centers in the field of economic development and public service improvement. We are going to give assistance to the universities in terms of fellowships and getting them faculty, research grants, teaching materials, books. We are also setting aside some funds for the assistance to outstanding students who plan to follow careers in economic development and public service through programs of scholarships and internships and research grants.

Mr. PASSMAN. What amount did you request for this program for fiscal 1963?

Mr. MOSCOSO. $435,000.

Mr. PASSMAN. You asked for $435,000 last year?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. But you obligated $1,533,000?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Which is over 300 percent more than you justified. You spent only $333,000, which was actually $102,000 less than the amount you justified.

If you had not increased the obligations you would have had an unliquidated balance of $102,000, but you obligated $1,533,000.

Mr. STERNFELD. This involves universities, and the universities require a 2-year contract.

Mr. PASSMAN. Did you know that fact last year when you told us you wanted only $435,000 for this project?

Mr. STERNFELD. We did not expect——

Mr. PASSMAN. Why did you ask for anything until you knew what you needed? We are running into this kind of situation every hour of the day. Here you asked for $435,000, Congress appropriated it, and you spent $333,000. Had you lived up to what you justified, you would still have had $102,000 unliquidated; but, rather, you obligated $1,533,000 and you have $1,200,000 unliquidated.

In addition to that money you are asking for $2,712,000 for fiscal 1964.

Project the cost of this project to conclusion.

Mr. STERNFELD. In the way of grants——

Mr. PASSMAN. Give us the total.

Mr. STERNFELD. $4 million. We do not expect to go beyond these major amounts of funds, beyond fiscal year 1964.

From 1964 through 1968 we expect to be dealing with only technician costs. If there are any other funds involved in higher education in Central America, which we have not done on a grant basis, it would be on a loan basis.

Mr. PASSMAN. What kind of loan? Is it one of those disguised grant things, 40 years, 10-year grace period?

Mr. STERNFELD. It would probably be a 40-year loan; yes, sir.

Mr. PASSMAN. Give us the total cost.

Mr. STERNFELD. We do not have an estimate.

Mr. PASSMAN. What if you finish the project in the manner that you started it? You asked for $435,000, but you allocated $1,533,000. Then you are asking for an additional $2,712,000. You have missed your estimate here by 300 percent. If you miss the total cost by the same figure, you are running into a very expensive project, are you not? Would this $4 million be in addition to the $4 million you are asking?

Mr. STERNFELD. Yes, sir; $4 million is in addition to the $4 million we are asking here.

Mr. PASSMAN. That brings the cost up to $8 million?

Mr. STERNFELD. $8 million.

Mr. PASSMAN. You see how easy it is to "poop off" $4 million?

Mr. STERNFELD. Yes.

Mr. PASSMAN. Thank you.

Here is a $435,000 new project that jumped to $8 million.

You justified only $435,000. You did not justify $1,533,000, did you?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. Thank you.

INABILITY TO DETERMINE TOTAL FUNDS PROGRAMED FOR ANY ONE COUNTRY

We are dealing in this program with a situation that I did not fully know about until today. There is not a member of the committee, or House, or those at the witness table who can tell you how much you have in this program for any country.

In Central America you have the country program and they allocate funds to each project in the various countries. Then these countries are eligible to draw money out of the interregional account. They are eligible to draw more money out of the Latin American regional account. Certain of the countries are eligible to draw money out of the ROCAP regional account. So as to be able to know what aid goes into a country, you would have to be able to analyze and state the amounts a given country could get out of these three regional accounts.

If you can, gentlemen, please try in the future in your justifications to indicate about what the countries will get out of the regional accounts. If you cannot do it by project, then we hope you can do it by an estimate of what the countries will get out of the three regional accounts.

CADASTRAL SURVEY PROJECT

Mr. RHODES. I want to mention the project on page 132, the cadastral survey. I want to just make the remark that I think it is wonderful to have all the land in Central America surveyed. All of Arizona has not been surveyed yet. In fact, all of Nevada has not been surveyed nor all of New Mexico, or Utah. Alaska is only about 20 or 25 percent surveyed. So after you get through down there, perhaps you will have some people well enough trained so we can use them to complete the job of cadastral survey in the United States.

COSTA RICA

Mr. PASSMAN. You are requesting for Costa Rica in fiscal year 1964 how much, from all spigots?

Mr. MOSCOSO. $2 million. We have development lending contemplated.

Mr. PASSMAN. How much is that amount?

Mr. MOSCOSO. We do not know how much it will be.

Mr. PASSMAN. In all the examination we have had, the figures you have given us do not include development credits?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Thank you.

Mr. MOSCOSO. Wherever we have an estimate, we have given it to you.

Mr. PASSMAN. What is the estimate of the DLF for Costa Rica?

Mr. MOSCOSO. We do not have it. Wherever it is available, we have given it to you.

Mr. PASSMAN. There is a lot on the outside that you may fund that is not in here?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Yet there are no justifications.

Mr. MOSCOSO. It is included in the programed loans which are listed on page 11.

Mr. PASSMAN. You have no specific country programs yet, but there may be some; is that right?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. What has been the amount of money to Costa Rica since the inception of the program?

Mr. MOSCOSO. $104.8 million. This includes the Eximbank.

Mr. PASSMAN. How much for the Export-Import Bank?

Mr. MOSCOSO. $25.5 million.

Mr. PASSMAN. What has been the net amount of aid?

Mr. MOSCOSO. $79.3 million.

Mr. PASSMAN. In the estimate for Costa Rica for fiscal year 1964 of $2 million, that figure does not include what they could, or may, get out of ROCAP, this regional account?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. It does not include, either, what they may get out of the inter-American region, does it?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Also, it does not include what they could get out of the interregional account; is that correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. It does not include what they may get out of the Development Loan Fund?

Mr. MOSCOSO. Or the Eximbank.

This is our estimate of the development grant program.

Mr. PASSMAN. You just answered they are eligible for substantial funds out of all the others. So what does this $2 million figure mean?

Mr. MOSCOSO. It is the development grant program for Costa Rica.

Mr. PASSMAN. This is strictly grant?

Mr. MOSCOSO. Right.

Mr. PASSMAN. This is the outright grant, and does not pick up the disguised grant part.

TAX STRUCTURE

Is this one of the countries that does not have an income tax?

Mr. MOSCOSO. They have an income tax.

Central Government revenues and autonomous agency incomes together total 18 percent of gross national product.

Mr. PASSMAN. Earlier in the hearings it was agreed that some of these Latin American countries would pass legislation forgiving taxpayers their unpaid taxes. Is that quite the practice in Latin America, or is it the exception?

Mr. MOSCOSO. I say that would be the exception.

Mr. PASSMAN. What is the highest income tax bracket for the individual?

Mr. MOSCOSO. I do not have that.

Mr. PASSMAN. When we were there, some years ago, I believe we were told that they had no income tax law at all in that country.

Mr. MOSCOSO. Costa Rica?

Mr. PASSMAN. Yes.

Mr. MOSCOSO. They have an income tax law. On November 14, 1962, they amended thet income tax law, so obviously they had an income tax law.

Mr. PASSMAN. Try to inform us as to Costa Rica's income tax laws, please.

(The information supplied follows:)

COSTA RICA'S INCOME TAX

An income tax was established in Costa Rica by law No. 837 of December 20, 1946, with subsequent amendments, the last being in November 1962. The highest bracket in the income tax law applies to income over 500,000 colones ($75,188 equivalent). This is taxed at a rate of 30 percent.

GOVERNMENT REVENUES

There is some question about how much they pay. In your books here we notice you do not give any information on the Central Government finances as to domestic revenues, and you had no estimate last year.

Mr. MOSCOSO. On the index page you will see that tax revenues and Government income in Costa Rica are already 18 percent of the GNP.

Mr. PASSMAN. I am talking about where you show their tax collections. You have it on most of the countries, but you do not have it on Costa Rica.

Mr. MOSCOSO. It is right here in the percentage.

Mr. PASSMAN. Look on page 64 of last year's books. Central Government finances, fiscal year, December 31, and the same information is lacking in fiscal year 1964.

Mr. MOSCOSO. The Agency did not put it in this year for the smaller countries with smaller programs.

Mr. PASSMAN. Does that indicate they no longer collect any taxes?

Mr. MOSCOSO. I do not think so.

Mr. PASSMAN. You do not give a bit of information at all there. You have no income tax information on this sheet; is that correct?

Mr. STERNFELD. That is correct.

FISCAL YEAR 1963 DEVELOPMENT LOANS

Mr. PASSMAN. Would you comment concerning your classified statement on the divider sheet which indicates that you made a commitment of $10 million in development credits in fiscal year 1963?

At the time of the commitment, how many loan applications did you have on hand?

We are in Costa Rica where you said they would get $2 million. Now we are going into a $10 million item. Have we actually made this commitment?

Mr. MOSCOSO. We have made it.

Mr. PASSMAN. Did you fund this out of 1963 funds?

Mr. MOSCOSO. Yes. Supervised agricultural credit, $5 million; slum clearance and housing, $2 million; Cachi hydroelectric project, $1.5 million, and participation with the World Bank in highway construction, $2.1 million.

Mr. PASSMAN. What is the population of that country?

Mr. MOSCOSO. 1.3 million.

FISCAL SITUATION

Mr. PASSMAN. They collected, you indicate, $5.6 million in income taxes in 1961.

Mr. STERNFELD. Not enough.

Mr. PASSMAN. Certainly it is not enough, and it will never be enough as long as we give them our taxpayers' money.

Mr. MINSHALL. What is the internal fiscal situation in Costa Rica?

You said the fiscal problem was of such magnitude that the United States found it necessary to give assurances and subsequently the $10 million in development loans.

Can you give us more detail on this?

Mr. MOSCOSO. During the electoral period——

Mr. MINSHALL. Why is it so bad?

Mr. MOSCOSO. Fiscal difficulties arose in the changeover between one administration and another. There was also a decline in economic activity. This is not much different from the problems facing us in some of the other countries in Latin America.

Mr. MINSHALL. I am talking about Costa Rica now. They are economically well off, are they not?

Mr. MOSCOSO. No. They depend on coffee, and the price of coffee has gone down considerably over the last 3 or 4 years.

Mr. MINSHALL. What have they done with the $100 million-plus we have given them through this aid program? Is that going down the drain, too?

Mr. MOSCOSO. No. Programs have been presented here and moneys have been used according to those programs. Highways have been built. Hydroelectric dams have been built.

Mr. MINSHALL. Is it lax bookkeeping and accounting and administration?

Mr. MOSCOSO. These countries are underdeveloped, and usually an underdeveloped country is not able to create the capabilities to administer their fiscal resources adequately.

One of the purposes of this program is to correct that situation by working with them and providing technical advice.

Mr. MINSHALL. What did they do with this $10 million?

Mr. MOSCOSO. The $10 million?

Mr. MINSHALL. Yes.

Mr. MOSCOSO. They are building the things I just mentioned.

Mr. MINSHALL. Give them again, will you please?

Mr. MOSCOSO. Supervised agricultural credit, Slum clearance, Cachi hydroelectric project and participation in a World Bank highway construction program.

Mr. MINSHALL. How will this remedy their internal sloppiness in management?

Mr. MOSCOSO. We have a grant program which includes funds for assisting them in bettering their public administration capabilities.

Mr. PASSMAN. They went all these years without any tax program.

Mr. MINSHALL. There is no need for them to have a tax program. They get the money from us.

Mr. PASSMAN. It looks as if they pay about $4.30 per capita income tax, and we pay about $555 per capita income tax.

We are giving those people a lot of money.

FISCAL YEAR 1963 PROGRAM LEVEL

What is the total amount that we obligated to Costa Rica last year, from all spigots?

Mr. MOSCOSO. $13 million.

Mr. PASSMAN. With reference to this $10 million credit last year, could this commitment be considered budgetary support?

Mr. MOSCOSO. Which commitment, the $10 million?

Mr. PASSMAN. Any part of it, or all of it.

Mr. MOSCOSO. We gave Costa Rica this series of development loans.

Mr. PASSMAN. It is budget support?

Mr. MOSCOSO. That is right, since in a way, quite a bit of aid does assist the budget.

Mr. PASSMAN. It all assists the budget?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. There is such a thing as direct budgetary support, and that is about what this is, is it not?

Mr. MOSCOSO. In this case we tied it to specific projects. The $5 million agricultural credit loan is going for subloans to farmers.

Mr. PASSMAN. Did you make the commitment first, then, later develop the projects?

Mr. MOSCOSO. No. These projects had been developed.

Mr. PASSMAN. How could you develop projects dealing strictly in round figures?

Mr. MOSCOSO. They had a number of projects.

Mr. PASSMAN. We agree that this is budgetary support?

Mr. MOSCOSO. That is partially correct.

Mr. PASSMAN. We agree they should increase their taxes?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You agree they are intelligent people?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Yet the American taxpayer has to carry this kind of load.

How much money did we disburse to Costa Rica last year, or obligate?

Mr. TENNANT. $13 million.

Mr. PASSMAN. You have not suspended any part of it, have you?

Mr. TENNANT. No, sir.

Mr. PASSMAN. The program is going along?

Mr. MOSCOSO. That is right.

FISCAL YEAR 1964 PROPOSED PROGRAM

Mr. RHODES. On page 31 of their presentation, they say they will advise the Government of Costa Rica that no further budget support loans will be made to cover deficits.

Mr. MOSCOSO. That is right.

Mr. RHODES. It says "will." When are you going to do it?

Mr. MOSCOSO. We have already done this at the same time we arranged for this year's program.

Mr. RHODES. In your presentation, you do not have any loans for 1964. All you have is Alliance for Progress grants. Are you assuming the Government of Costa Rica is not going to do what you are asking?

Mr. MOSCOSO. We assume they will do what is necessary.

Mr. RHODES. You do not have any proposed programs for 1964?

Mr. MOSCOSO. If you will take a look at page 11, there is a footnote, development lending contemplated. Projects will be considered.

Mr. RHODES. You are not in a postion right now to advise us as to what the projects might be?

Mr. MOSCOSO. No, sir. If we were, we would put the figure in.

Mr. RHODES. Of what magnitude in dollars will they be?

Mr. MOSCOSO. I could not tell you, Mr. Rhodes.

SELF-HELP MEASURES BY COSTA RICA

Mr. STERNFELD. We are concerned about the fiscal situation in Costa Rica. We are getting together with the Inter-American Development Bank and the World Bank. We worked out a procedure whereby we will go together—the Inter-American Bank, the World Bank, and the U.S. Government—to indicate to the Government of Costa Rica our concern, and that it has to take a series of specific steps to improve its income. If not, they are going to find it difficult to get any assistance from the United States or the IDB or the World Bank because they will be unable to pay their share of the costs of new projects. An analysis of their fiscal situation shows that they have not taken, as the chairman pointed out, all the adequate steps on their revenue side.

The proof of the pudding will be in what they actually do.

At the particular time this book was published, we did not have any specific applications from this Government. We now know of a number of projects that they are interested in getting financing from the IDB, the World Bank, and ourselves, so we have told them they are going to have to take many actions on their own before their applications get acted upon.

FISCAL INFORMATION ON CENTRAL AMERICAN COUNTRIES

Mr. RHODES. You do not have anything in this book about the fiscal situation in Costa Rica. This is most unusual. I think the presentation for practically every other country has the amount of the budget, the amount of the domestic revenues, and the amount of the governmental deficit, if any, and there usually is. In the Costa Rica presentation, you do not have a thing.

Mr. MOSCOSO. The same thing happens in the case of El Salvador. This apparently was left out in the case of Guatamala also.

Mr. RHODES. Will you furnish those for the record?

Mr. STERNFELD. We will.

(The information supplied follows:)

Central Government finances: [1] *Costa Rica*

[Dollars in millions—6.65 colones=$1]

	1960	1961	1962 (estimated)
Total revenues, domestic [1]	72.0	71.3	82.1
Total expenditures [1]	80.6	80.2	95.6
(Defense)	2.0	2.0	2.0
(Capital outlays)	17.3	20.5	27.0
Deficit or surplus, before foreign aid	−8.6	−8.9	−13.5

[1] Includes autonomous institutions.

Central Government finances: El Salvador

[Dollars in millions—2.5 colones=$1]

	1960	1961	1962 (estimated)
Total revenues, domestic	76.8	74.2	74.5
Total expenditures	75.7	86.2	78.0
(Defense)	8.5	6.2	9.2
(Capital outlays)	20.7	16.2	15.8
Deficit or surplus, before foreign aid	+1.1	−12.0	−3.5

Central government finances: Guatemala

[Dollars in millions—1 quetzal=$1]

	1961 [1]	1962 [1]	1963 (estimated) [1]
Total revenues, domestic	85.8	86.0	88.3
Total expenditures	95.6	108.8	105.8
(Defense)	9.2	9.1	9.0
(Capital outlay)	25.9	26.2	32.0
Deficit or surplus, before foreign aid	−9.8	−22.8	−17.5

[1] Fiscal year ending June 30.

COMPARISON OF UNITED STATES AND COSTA RICAN LITERACY RATES

Mr. PASSMAN. What is the literacy rate in the United States?

Mr. MOSCOSO. About 90 percent.

Mr. PASSMAN. What is the literacy rate in Costa Rica?

Mr. MOSCOSO. 88 percent.

Mr. PASSMAN. It is about on a par with America?

Mr. MOSCOSO. Yes.

COSTA RICA'S GOLD AND FOREIGN EXCHANGE POSITION

Mr. ANDREWS. Mr. Ambassador, how do you account for the gold and foreign exchange holdings going up from $12 million in 1961 to an estimated $19 million in November 1962?

Mr. MOSCOSO. It has gone up to the level it was before, Mr. Andrews, but currently it has again dropped.

Mr. ANDREWS. Here is a country where you have a high rate of literacy?

Mr. Moscoso. These people have spent considerable amounts of money in educating their people. If they educate their people, it is bad; if they do not, it is bad. I think it is good they spend money on education.

Mr. Andrews. I am delighted to see a rate of 88 percent. I wish it were 100 percent.

Mr. Passman. They have educated them to survive without paying income taxes.

Mr. Andrews. I am concerned——

Mr. Moscoso. May I give you the latest figure?

The International Monetary Fund reports that in February of this year the gold and foreign exchange reserves of the Central Bank were $11.17 million.

Mr. Andrews. How do you account for it going down?

Mr. Moscoso. This is one of the difficulties we have been trying to help them with. They have not taken care of their fiscal matters adequately.

Mr. Andrews. I hate to think we are taxing our people to death in this country and helping these countries down there who do not make any effort to collect taxes from their people.

NEED FOR ASSISTANCE TO SUPPORT DEMOCRATIC GOVERNMENT

Mr. Ford. Supposing nothing was made available in aid to a country like Costa Rica? What, in your opinion, would be the impact?

Mr. Moscoso. I think as a result of our not assisting the country, the chances are that extremist elements in the population would try to bring down the Government.

Mr. Ford. Is there that element in Costa Rica?

Mr. Moscoso. There is. The Communist Party is active in Costa Rica in spite of the fact it is a good democracy.

Mr. Ford. Have they had a history of revolution and counterrevolution?

Mr. Moscoso. They have had a history of great stability. They do not even have an army. They have a small national police. With a situation that might occur if we did not help them, it might be relatively easy for subversive elements to get hold of the Government. It was tried at one time. Fortunately, they had a good democratic leader who took up arms and defended the country.

Mr. Ford. Do they have a truly representative government, free elections?

Mr. Moscoso. They do have. It is one of the best democracies in Latin America.

Mr. Passman. You have an aid program planned for 99 nations, I believe, for fiscal year 1964. What you said about Costa Rica would also apply to most of the other 98 nations around the world, would it not?

Mr. Moscoso. In the sense they are underdeveloped; yes.

Mr. Passman. It says here that Costa Rica is "one of the few traditional democracies of Latin America and has been relatively free from internal strife."

Mr. Moscoso. That is right.

Mr. PASSMAN. Now you tell us that if we did not give them the aid—$2 million plus $10 million, plus all the other spigots—there might be an internal uprising?

Mr. MOSCOSO. It might happen.

Mr. PASSMAN. What you are actually saying, it seems to me, is that we are getting ourselves so committed to practically every nation on the face of the earth, trying to shore up weak governments and to finance projects that they refuse to tax their people to finance, and the minute we might find it necessary to discontinue this aid, there would be an uprising within the country.

REASON FOR COSTA RICAN FISCAL DIFFICULTIES

Mr. MOSCOSO. May I explain that Costa Rica is suffering from a very simple fact. I understood you read the Commerce Advisory Committee report (COMAP). You will find there has been a very great drop in the price of the one product these people produce.

Mr. PASSMAN. That kind of thing has happened in my congressional district, with respect to the cotton crop, which is our major source of income.

What you are describing has been happening for a long time. They have their peaks and valleys in these nations, and that kind of situation has been going on for many years. Would you agree to that statement?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Did you not say that these people spent money educating themselves?

Mr. MOSCOSO. Yes.

RELATION OF EDUCATIONAL ASSISTANCE TO FISCAL DIFFICULTIES

Mr. PASSMAN. We find on page 144 of the project book that you propose to spend $502,000 for education of these people who have a literacy rate of 88 percent, which is almost on a par with ours.

Mr. MOSCOSO. Let's analyze this.

I think we have to look at the details of this. This is vocational education.

It is in order to assist these people out of this single product economy.

Mr. PASSMAN. You are director of this region. Why do you let people saddle you with all these projects when you said these people were not paying enough income tax, that they are not taxing to the extent they could and should? You cannot say they are an illiterate people because the record is just the opposite.

If they are not willing to take hold of this situation and tax their people on a par with what they can afford to pay, if they are not willing to do that in order to have these projects, then so far as I am concerned, I would not give them a dime.

Mr. MOSCOSO. Mr. Chairman, in spite of your many years on this committee, and in spite of the fact I have only been here about 2 years, I have said what you have said directly to the Latin Americans more times than you have said it.

Mr. PASSMAN. But what do you do? You say, "You have heard me lecture, but here is your check." They do not revise their laws. They get the next check and the next check and the next check.

The chairman of the Committee on Foreign Affairs gave assurance that no money would be asked for this purpose until reforms had been initiated and brought into being. This is an example, and it spreads like wildfire, that we are disbursing the money about as fast as we can allocate it. They have not created these reforms, and they apparently do not intend to do so.

I hope you make this program work. But you cannot bring these people around to their senses to do what they should do for themselves as long as you keep allocating and disbursing money by the billions of dollars.

Mr. Moscoso. May I say, there is some progress.

We have six principal tax measures which have been approved.

Mr. PASSMAN. Chances are you give them more money than their total revenue. I note from the record: Performance of major taxes, income, $5.6 million; sales, excise, and production, $5.4 million. That is about $4.28 per person. Import-export, $27.4 million; property and transfer, $3.2 million. That is an ad valorem tax on property, is it not?

Mr. Moscoso. That is right.

Did you see the per capita income? Three hundred and forty-four dollars per year.

Mr. PASSMAN. Why do you not relate this to some of the countries with $70?

Mr. Moscoso. I said 18 percent of the gross national product in Government revenues.

Mr. PASSMAN. You have already said they are not taxing themselves sufficiently. Do not take both sides of it. Let us see what they do.

EDUCATIONAL PROJECTS

What is the anticipated cost to construct and complete the Rural Education Center which you propose to develop under the agricultural development project?

Mr. Moscoso. We do not have the estimate.

Mr. PASSMAN. Why do you need $55,000 for contract service under the Ministry of Education project, on page 149?

Mr. STERNFELD. This is for short-term specialists to help the Minister of Education in developing his program. They would be on a contract basis.

Mr. PASSMAN. Do we not have some States in the Union with a literacy lower than it is in Costa Rica?

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. Why do you need $56,000 for contract services for the University of Costa Rica development project, on page 150?

Mr. STERNFELD. This will be a contract with an American university to help the Elementary Education Department of the University of Costa Rica.

Mr. PASSMAN. This is the same country that has a literacy rate of 88 percent, which is higher than the literacy rate for some of the States in the United States?

Mr. STERNFELD. Yes.

Mr. PASSMAN. Project the cost of this project to completion.

Mr. STERNFELD. The total cost of this project is estimated at $827,000. That includes since the beginning of the project.

Mr. PASSMAN. Why are you increasing the cost of the technical support program by 100 percent?

Mr. STERNFELD. We are expecting in Costa Rica to increase the participant training program which will require additional help, additional technicians to work on the training program involving over 100 participants.

NATIONAL PLANNING PROJECT

Mr. PASSMAN. I note that you are requesting $115,000 to initiate a new project entitled "National planning." What is the estimated cost to complete this project?

Mr. STERNFELD. $615,000.

Mr. PASSMAN. Do you recognize that we do not have a legal obligation to appropriate another dime of foreign aid in any way, shape, form, or fashion beyond June 30 of 1963? We have discharged every legal obligation of the U.S. Government through June 30; is that correct?

Mr. SCHEINMAN. That is correct, subject to a continuing resolution.

Mr. PASSMAN. If we did not appropriate another dime for foreign aid, we would have lived up to the legal commitments we have made?

Mr. SCHEINMAN. Subsequent to qualifications.

Mr. PASSMAN. A lot of people do not understand that fact.

Here we are, however, going into nations as far ahead as 1975, and you give them one slice of it. It is only natural they would expect that every year until the project is completed they would get another slice of the money. Is that not true?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. You people tell us you never know what projects you are going to plan until you get the money. You have said you would give them a slice of the funds, which obligates us morally to see the project through to conclusion.

Should these organizations fail to provide the necessary assistance, you state, additional requests may be levied upon AID.

What does that statement mean?

Mr. MOSCOSO. It is contemplated some assistance in the public administration program——

Mr. PASSMAN. Does it simply mean that if they do not put up some part of it, we go down into our right pocket and take out the difference?

Mr. MOSCOSO. "May be levied."

Mr. PASSMAN. That is a warrant for payment out of the Treasury. That opens the door.

AGRICULTURAL PRODUCTION

Mr. NATCHER. According to the justifications, two-thirds of the people in Costa Rica are engaged in agriculture.

Mr. MOSCOSO. That is right.

Mr. NATCHER. Is this a country that produces wheat and the different feed grains?

Mr. MOSCOSO. No; they sometimes have to import wheat and feed grains.

Mr. NATCHER. Why is it that feed grain is not produced?

Mr. Moscoso. Climatic conditions. This is a tropical country. They cannot produce the different types of feed grains we have in this country. They can produce a certain amount of corn, but wheat is very difficult to grow in a climate like this. They do produce coffee which we do not produce, and for the same reason we cannot produce coffee, they cannot produce wheat.

PROPOSED FISCAL YEAR 1964 PROGRAM

Mr. ANDREWS. You state in the book that the aid in the fiscal year 1964 proposed program for Costa Rica totals $2 million in grants. In addition, development loans will be considered as appropriate.

Mr. Moscoso. That is right.

Mr. ANDREWS. Have you discussed any of those proposed loans with our chairman, or with the committee?

Mr. Moscoso. We discussed the possibility of a private development bank being set up in Costa Rica.

Mr. ANDREWS. How much would that cost us?

Mr. Moscoso. It will be about $———.

Mr. ANDREWS. Just how far have you gone in your discussions with reference to that proposed bank?

Mr. Moscoso. We are still discussing with the Costa Ricans the desirability of permitting a privately-owned bank to operate there.

As you know, sometime last week I explained to you that Costa Rica nationalized its banking system back in 1948. A number of Costa Ricans, in order to stimulate a stronger private sector, are proposing a private development bank. This, I think, would be one of the ways of correcting current economic conditions in Costa Rica.

Mr. ANDREWS. You are in the process of discussing it with the Costa Rican people?

Mr. Moscoso. That is right.

Mr. ANDREWS. A proposed loan for $——— for a bank in 1964?

Mr. Moscoso. We are not even at that stage.

I discussed with the Foreign Minister of Costa Rica last Friday the desirability of obtaining their endorsement of the idea so that that charter of the bank could be approved.

Mr. ANDREWS. But you could make that loan in fiscal year 1964?

Mr. Moscoso. We could; yes.

Mr. ANDREWS. Will that be one of the 40-year, three-quarter-percent loans?

Mr. Moscoso. Yes, sir.

Mr. ANDREWS. So-called grants?

Mr. Moscoso. We will lend it to the bank and they in turn can pay the Government and the Government can pay us.

Mr. ANDREWS. What other development loans are you considering for Costa Rica in 1964?

Mr. Moscoso. We believe the bank might be one of those, and possibly some other projects.

Mr. ANDREWS. What figure do you have in mind for this project?

Mr. Moscoso. $———.

Mr. ANDREWS. Would that be a loan?

Mr. Moscoso. Yes.

Mr. ANDREWS. Forty years, three-quarters of 1 percent?

Mr. MOSCOSO. Yes.

Mr. ANDREWS. What else?

Mr. MOSCOSO. That is all at the moment.

Mr. ANDREWS. At the moment. That is a good answer. Thank you, sir.

METROPOLITAN WATER SUPPLY PROJECT AT SAN JOSE

Mr. RHODES. Mr. Moscoso, the loan on page 156 for the Metropolitan Water Supply at San Jose was approved on June 12, 1961, signed December 22, 1961, and there have been no disbursements. What is the holdup? From the description it sounds as if San Jose is badly in need of water, but apparently they are not going ahead as rapidly as the description would indicate they should?

Mr. MOSCOSO. This is a loan that was originally initiated by the Eximbank in which we are participating. The Eximbank approved the selection by the Costa Rican Government of an engineering firm to do the detailed engineering, plans and specifications. The firm went broke.

Mr. FORD. That was good selection?

Mr. MOSCOSO. It was also poor approval. The Bank approved the selection. They had to renegotiate. All of that time was wasted. They had to start all over again.

I agree, this is something that is unusual.

Mr. RHODES. It seems like this is something the people could understand—a water supply.

Mr. MOSCOSO. Yes.

Mr. RHODES. If they are going to do anything, I would agree with them on doing something like this.

Mr. MOSCOSO. May I ask a question?

I am interested. Do you think it is a worthwhile attempt to try to get a private industrial development bank set up in a little country that is too dependent on one single agricultural product?

Mr. RHODES. Mr. Moscoso, why do you and I not talk about that later? There is no reason for me to testify here. You are the administrator of the program, not I.

WATER AND SEWERAGE PROJECT, PERU

Mr. PASSMAN. Let us discuss the water and sewerage project in Peru.

You allocated funds in February of 1962, in the amount of $8.6 million. This water contract has never been signed so there could not have been any disbursements. What you are referring to there you will find similarly all through the book.

Mr. MOSCOSO. May I suggest after the military takeover in Peru, we cut off aid, as you will recall.

Mr. PASSMAN. Have you deobligated the $8.6 million, Mr. Controller, in Peru?

Mr. TENNANT. No, sir.

Mr. PASSMAN. You did not cut off then? You held it up temporarily?

Mr. MOSCOSO. We held it up temporarily.

SAN JOSE WATER SUPPLY PROJECT

Mr. MINSHALL. It is my understanding that one of the best natural resources of Costa Rica is the water supply. Why would it be so expensive to get a water supply into Metropolitan San Jose?

Mr. MOSCOSO. Water by itself is no problem. You have to have the capability of distributing and collecting.

Mr. MINSHALL. Is this to replace their entire water system?

Mr. MOSCOSO. No. It is an expansion, and a replacement in some of the areas where it has to be replaced. The city has expanded considerably.

Mr. MINSHALL. I wonder if you could supply for the record a little more detail why they have not gone ahead with this, and what they plan to do without taking the time now.

Mr. MOSCOSO. We will be happy to do that.

(The information supplied follows:)

METROPOLITAN WATER SUPPLY PROJECT—COSTA RICA

Development Loan Fund loan 203 for local currency costs for the metropolitan water supply project of Costa Rica was signed December 22, 1961. A companion Export-Import Bank loan of $4,500,000 was authorized for U.S. dollar costs of materials, equipment, and U.S. engineering services. A requirement of the Export-Import Bank loan is that the engineering work be completed before construction is started.

The National Water and Sewerage Authority (SNAA) of the Government of Costa Rica chose the U.S. firm Meissner Engineers of Chicago for the overall project. This company, however, went bankrupt in March 1963, and it was necessary for SNAA to chose another engineering firm. Gannett, Fleming Corddry & Carpenter was approved in April 1963 by the Export-Import Bank.

Gannett, Fleming Corddry & Carpenter reported that as of July 26, 1963, the engineering work on final design plans was 75 percent complete.

It is estimated that bids for construction can be let in April 1964.

RELATION OF NATIONAL PLANNING PROJECT TO TAX COLLECTIONS IN COSTA RICA

Mr. RHODES. Mr. Moscoso, your project on page 154 is headed "National Planning," $115,000. Will this have anything to do with more efficient collection of taxes?

Mr. MOSCOSO. Yes. This is one of the problems in Costa Rica.

Mr. ANDREWS. Have we not sent some tax experts to some of the Latin American countries to teach how to collect taxes?

Mr. MOSCOSO. Unfortunately, not yet in Costa Rica.

Mr. ANDREWS. What kind of reputation does a man acquire who goes to Latin America to teach and advocate the collection of taxes?

Mr. MOSCOSO. I can show you some of the editorials addressed to me.

Mr. ANDREWS. Favorable or unfavorable?

Mr. MOSCOSO. Very unfavorable.

Mr. ANDREWS. They do not believe in taxes?

Mr. MOSCOSO. I doubt if you can find any place on earth where people enjoy the payment of taxes. This is something that has to be—you have to educate the people to their responsibilities. Even in Europe we still find some of the countries where the tradition of participating in the support of the government has not been sufficiently developed.

Mr. ANDREWS. Do you know of any place in the world where taxes are collected as they are in the United States?

Mr. MOSCOSO. In England and in the Scandinavian countries, I understand the collection of taxes is pretty high.

Mr. FORD. No questions.

Mr. MINSHALL. No questions.

Mr. PASSMAN. I believe Costa Rica is one of our gold-purchasing countries. It would appear that in 1961, with that little $5 million tax collection, they bought $2 million worth of our gold. In 1962 they bought $500,000 of our gold. That is not a lot, but putting it on a per capita basis, it perhaps exceeds some of the other countries.

Mr. MOSCOSO. Forty cents per capita.

Mr. PASSMAN. They pay only $4.30 per capita in income taxes.

TAXES IN COSTA RICA

Mr. ANDREWS. What is the per capita income tax payment?

Mr. PASSMAN. $4.30 against about $555 in the United States.

Mr. ANDREWS. That is not as much as we gave them last year. Our aid figure is $10 per head.

Mr. MOSCOSO. We are dealing with one of the bad traditions in a number of Latin American countries where most of the taxation is indirect instead of direct.

If you figure out the indirect taxes, it is substantially more than $4.30.

Mr. PASSMAN. I think the total tax collections were almost as much as our aid.

Mr. ANDREWS. According to your figure there, the per capita income tax collection was $4.30.

Mr. MOSCOSO. Yes. That is bad, I agree.

Mr. ANDREWS. If you took the aid we gave them last year, $13 million, and spread that out among the 1.3 million people, each would get $10 apiece.

So we are giving them more than twice what they are paying in income taxes.

Mr. MOSCOSO. That has not been disbursed, and when it is disbursed it will be over a period of years. So you would have to spread that amount over whatever time it takes to finish disbursements.

Mr. ANDREWS. The book shows $13 million in 1963.

TOTAL AID TO COSTA RICA

Mr. PASSMAN. And you are pouring more money in all the time. What has been the total amount of aid to Costa Rica?

Mr. TENNANT. Including Eximbank or excluding?

Mr. PASSMAN. Leave it out, and then add it on.

Mr. TENNANT. $79.3 million, excluding the Eximbank loans.

Mr. PASSMAN. That is a sizable figure.

Mr. TENNANT. The Export-Import Bank loans total $25.5 million. The total aid through fiscal year 1963 would therefore be $104.8 million.

Mr. PASSMAN. The $79.3 million is the giveaway part of it.

Thank you.

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EL SALVADOR

The next country is El Salvador, for which the 1964 estimate is $———; is that correct?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. That sum does not include any money they may get out of the ROCAP, or the Central American regional account; does it?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. It does not include any money they may get out of the Latin American regional account; does it?

Mr. MOSCOSO. This is going to come from the Latin American region.

Mr. PASSMAN. It does not include any money they may get from the interregional fund?

Mr. MOSCOSO. No.

Mr. PASSMAN. It does not include any of the IDA, or Inter-America Development Bank, or the U.N., or anything else?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. It does not include anything you may have in here under the development credit program?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. In other instances, you say it does not include the DLF. In this instance it does?

Mr. MOSCOSO. In El Salvador, it does.

Mr. PASSMAN. What is the amount of unliquidated funds to the credit of El Salvador, all spigots?

Mr. MOSCOSO. $15,221,000.

Mr. PASSMAN. What has been the total we have given to El Salvador since the inception of this program?

Mr. MOSCOSO. $55.1 million.

This excludes the Eximbank.

Mr. PASSMAN. What is the population of El Salvador?

Mr. MOSCOSO. 2.6 million.

Mr. PASSMAN. What is the literacy rate there?

Mr. MOSCOSO. Forty-eight percent.

Mr. PASSMAN. How much did you request last year for the development grant program for El Salvador?

Mr. MOSCOSO. $2 million.

Mr. PASSMAN. How much more did you obligate to El Salvador?

Mr. MOSCOSO. $3 million.

Mr. PASSMAN. So this is another instance where you requested one figure and obligated 50 percent over that amount?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. In Costa Rica, where there is a literacy rate of 88 percent, you have $405,000 in the general education category. You get into El Salvador with a literacy rate of 48 percent literacy and with a larger population than Costa Rica, and you allocate in the field of general education $434,000.

Mr. MOSCOSO. We loaned them $2.4 million for school construction. We made them a loan because they are in better economic condition and better fiscal condition.

Mr. PASSMAN. Is that a 5-year loan?

Mr. MOSCOSO. Forty-year.

Mr. PASSMAN. One of those disguised grants, no interest, 10-year grace period?

Mr. MOSCOSO. One of those soft loans.

PROPOSED FISCAL YEAR 1964 DEVELOPMENT LENDING

Mr. PASSMAN. What type of development credits do you propose to spend for the development bank and financial institutions in this country in the amount of $———?

Mr. MOSCOSO. We have already made the loan.

Mr. PASSMAN. This is something you proposed for 1964. You have already done it, and you are now letting us in on it?

Mr. MOSCOSO. I thought you were talking about an agricultural loan.

Mr. PASSMAN. Is there another $——— loan you do not list here?

What type of development credits do you propose to extend to the development bank?

Mr. MOSCOSO. Similar to the one we are planning to lend the funds to in Costa Rica.

Mr. PASSMAN. What do you plan to lend them in Costa Rica?

Mr. MOSCOSO. $——— is the contemplated loan.

Mr. PASSMAN. You are asking for $———?

Mr. MOSCOSO. Yes. We have supervised agricultural credit, $———.

Mr. PASSMAN. How many banks do you propose to establish in fiscal year 1964?

Mr. MOSCOSO. In what country?

Mr. PASSMAN. El Salvador.

Mr. MOSCOSO. We are planning to help establish a private development bank, and an agency for supervised agricultural credit for relending to small farmers.

Mr. PASSMAN. You are talking now about one country?

Mr. MOSCOSO. That is right.

DEVELOPMENT BANKS PROPOSED TO BE ESTABLISHED IN LATIN AMERICA

Mr. PASSMAN. How many in all of Latin America?

Mr. MOSCOSO. I would have to get that for the record, Mr. Chairman.

(The information follows:)

ESTABLISHMENT OF DEVELOPMENT BANKS IN LATIN AMERICA DURING FISCAL YEAR 1964

It is anticipated that 13 applications will be received for loans to assist in establishing new development banks in the following fields: Agriculture, 5; housing, 1; industry, 7.

INCREASED AGRICULTURAL PRODUCTION PROJECT

Mr. PASSMAN. How much has been obligated to date on this increased agricultural production project, on page 161?

Mr. MOSCOSO. $370,000.

Mr. PASSMAN. I am talking about the project on page 161. Could you tell us the total amount of money that you have obligated to the project from its inception?

Mr. STERNFELD. The book is in error showing actual through June 30, 1962, as $363,000. It should have shown $2,363,000. Therefore, you would have to add $2,363,000 plus $370,000 for a total of $2,733,000 as the amount that has been obligated to date in the food and agricultural field to increase agricultural production.

Mr. PASSMAN. When did you discover that error?

Mr. STERNFELD. I discovered it in preparing to come up to this committee, sir, because we wrote this into the book.

Mr. PASSMAN. What was the figure through June 30, 1962?

Mr. STERNFELD. As I indicated it should have shown $2,363,000 instead of $363,000.

Mr. PASSMAN. You showed you had obligated $363,000 but the figure is actually $2,363,000?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. You dropped off a couple of million dollars at the end.

Mr. STERNFELD. That is an important figure.

Mr. PASSMAN. What will this project cost to completion?

Mr. STERNFELD. $5,233,000.

Mr. PASSMAN. The project is going to be completed in 1968?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. You have no legal obligation to go beyond June 30, 1963?

Mr. STERNFELD. That is right.

Mr. PASSMAN. You spent $2,363,000. You showed, however, that you spent only $363,000. You corrected the error. If you stopped it all at once would it please or displease them?

Mr. STERNFELD. The agricultural production in a country like——

Mr. PASSMAN. I am talking about the people.

Mr. STERNFELD. Of El Salvador?

Mr. PASSMAN. You feel we have a moral commitment here; is that correct?

Mr. MOSCOSO. Did we make them feel——

Mr. PASSMAN. Do we have a moral commitment?

Mr. MOSCOSO. I would not think so.

Mr. PASSMAN. Thank you. That is the best answer we have had during these hearings. A lot of people think just the opposite.

I wonder if in the future you could change your format to show the estimated total cost of project? We have run into some that were $200,000. The projection is $8 million. We have run into $363,000, and you correct it to $2,363,000. It goes to 1968. The total cost is how much?

Mr. STERNFELD. $5,233,000.

Mr. PASSMAN. Can you change your format in the future so that you will show estimated cost of project?

Mr. TENNANT. Total inception through completion?

Mr. PASSMAN. Yes.

Mr. TENNANT. We would be glad to change it for you.

Mr. FORD. Would you yield?

Mr. PASSMAN. Yes; but if you will, Mr. Controller, if you have changed the title or the number of the project, so indicate.

I yield to Mr. Ford.

Mr. FORD. One of our colleagues has asked if I would ask this question in all seriousness.

If some mythical country were carrying on the same aid program to help underline needy countries of the world would the United States qualify after considering, (1) our total debt; (2) our trade deficit; (3) our gold situation, amount on hand and obligations of the gold fund; (4) annual deficits; (5) unemployment?

Mr. RHODES. Would you add a sixth, the tax level, the level of taxation of the citizens.

Mr. MINSHALL. You could add need for housing, need for water supply, and all these things.

Mr. PASSMAN. You want to know whether or not we would be eligible immediately for aid if we submitted such statistics?

Mr. ANDREWS. With a high priority.

Mr. PASSMAN. A very high priority. Would you agree, gentlemen?

Mr. MOSCOSO. No. I would say you have to take the most important one of all which you have not mentioned, Mr. Ford.

Mr. FORD. What is that?

Mr. MOSCOSO. Net income per capita.

Mr. FORD. Is that the most important one? Is that the true criteria by which you judge these problems?

Mr. MOSCOSO. I would think it would be impossible to judge the effect of any one of these others without taking into consideration the fact that you had a net income per capita, that you had a capital base which would be able to support a high level economy.

Mr. FORD. That is a very interesting comment because are there not some countries where we do make aid and assistance available that have a very high per capita income? I am thinking of the Middle East.

Mr. MOSCOSO. Not in Latin America. I do not know about them.

Mr. FORD. Isn't that true, in some of the Middle Eastern countries there is a very high per capita income?

Mr. PASSMAN. You have to relate per capita income to something, do you not, when you talk about it, say to the gross national product?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. In some countries you can buy more with $5 than you can buy in this country for $100? What you can buy with what you earn has to be considered.

Mr. MOSCOSO. In a wealthy country, Mr. Chairman.

Mr. PASSMAN. You know what I am talking about. It is not necessarily what the income is; it is what it will buy.

Mr. FORD. It is the quantity not the quality of the dollar is what you are saying.

Mr. PASSMAN. That is right.

Could you select out of the hundred countries we are giving aid to about 30 that we could go to on a reverse basis and see if they would not be willing to give us a little aid until we can get out of this jam we are in on our annual budget deficit, on our balance of payments, on our gold outflow, and our ever-increasing public debt?

Mr. RHODES. Mr. Chairman, aren't we really getting some aid now? Don't we have some countries in Europe that are buying our bonds and making some credit available to us?

Mr. PASSMAN. We are borrowing dollars from them. They have dollars in excess of their needs.

TEACHER TRAINING AND PLANNING PROJECT IN EL SALVADOR

How much did you request and justify last year for the teacher training project, on page 164?

Mr. MOSCOSO. $400,000.

Mr. PASSMAN. Last year you said you wanted $400,000 for this project, on page 164, did you not?

Mr. MOSCOSO. We obligated——

Mr. PASSMAN. You obligated $835,000, did you not?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. And you had unliquidated funds amounting to $500,000?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Had you actually only obligated what you said that you needed you still would have had $65,000 unexpended, but instead you more than doubled the amount and you wind up with $500,000 unliquidated, and you are asking for $355,000 for fiscal year 1964. Now project the cost, if you will, to completion.

Mr. STERNFELD. $2,800,000.

CIVIC ACTION PROJECT

Mr. PASSMAN. Did you justify last year the $100,000 that you obligated to the civic action project, on page 166?

Mr. STERNFELD. No, we did not.

Mr. PASSMAN. You obligated $100,000. You spent $5,000. You have $95,000 on hand unliquidated and you ask for an additional $100,000.

Project this cost to the end, if you will.

Mr. STERNFELD. $300,000.

Mr. PASSMAN. Mr. Minshall?

CLASSIFICATION OF INFORMATION

Mr. MINSHALL. I have one question, Mr. Moscoso. On page 33 of the justifications, I come back to a question I have asked periodically. Why all the classification on page 33 for El Salvador? You have practically three-fourths of the first column in the gray area marked confidential.

Mr. MOSCOSO. Mr. Congressman, I frankly do not do this classification but as I read these books I am inclined to agree with you. There seems to be overclassification. Maybe there is something that I do not know about.

Mr. MINSHALL. If you don't know about it, I do not know who does. Somebody is on the payroll that does not need to be there.

Mr. MOSCOSO. There are political nuances that sometimes we are not aware of and I suppose this is that kind of information.

Mr. MINSHALL. Does Rusk or a committee decide this, or is it a girl behind a desk?

Mr. SCHEINMAN. We have discussed the subject earlier and we have given it considerable thought. What you have to do is look at the specifics that you are referring to because there are various possibilities. One, of course, is that we have made an error and that the particular reference should not be classified or could not or did not have to be classified. Other possibilities are that at the time these books are presented, and you will remember it was several months since these things were put together, circumstances at that time insisted on a classification because of the nature of the U.S. relationships with the country.

Mr. MINSHALL. Maybe it is to protect the American public from finding out how ridiculous some of these aid programs are.

Mr. SCHEINMAN. In my experience that has never been the case.

Mr. MINSHALL. I think we should let the people know some of the silly things we are doing. They would rise up in arms. They are pretty fed up now with the little they have found out.

Mr. SCHEINMAN. It is also true that some of the material which is classified here should be classified and is presented in this form to give the committee the broadest possible information.

Mr. MINSHALL. You agree some of this, in your opinion, or most of this is overclassified?

Mr. MOSCOSO. Certain things, quite frankly, as I notice, do not seem to require it.

Mr. MINSHALL. That is all.

Thank you very much, Mr. Chairman.

Mr. FORD. Would you yield?

Mr. PASSMAN. Yes.

FISCAL YEAR 1963 REQUEST COMPARED WITH FISCAL YEAR 1963 PROGRAM LEVELS

Mr. FORD. What did you ask for last year for El Salvador?

Mr. MOSCOSO. Last year we asked $2 million for development grants, and we indicated that development lending was contemplated.

Mr. FORD. But no specific program was laid out?

Mr. MOSCOSO. No.

Mr. FORD. You actually executed in fiscal year 1963, $2.9 million for grants?

Mr. MOSCOSO. $3 million.

Mr. FORD. $3 million?

Mr. MOSCOSO. Yes.

Mr. FORD. $1 million more than you asked for?

Mr. MOSCOSO. That is right.

Mr. FORD. How much did you execute in loans?

Mr. MOSCOSO. $16.6 million.

Mr. FORD. And you did not specifically ask for anything in the development loans?

Mr. MOSCOSO. No. We mentioned that there would be development loans coming in from El Salvador, but we did not know what the amounts would be.

Mr. FORD. In the several instances where I have asked questions of this same nature, it seems to me that I have found that in most cases the obligations have been larger than what you justify, despite the fact

that the Congress did not make reductions in the various appropriation accounts.

I am wondering where the pinch came. Did it come in areas other than Latin America?

Mr. MOSCOSO. No. In the case of development grants there were no reductions that I remember.

Mr. FORD. Not in development grant, that is right. As I remember, you received $100 million, which is what you asked for, and you had $32 million, which was a reappropriation.

Mr. STERNFELD. That is the reason for your finding increases in what we are telling you was justified, because we only justified the appropriation request of $100 million. We did not come back and justify the $32 million of no-year money which we are doing this year. We are justifying not only the new money to be appropriated but also the money that will be made available, reappropriated or on a deobligation basis.

Mr. FORD. What I said may not be applicable to the grants but I think it would be appropriate as far as development loans are concerned.

Mr. MOSCOSO. Except there were a number of countries where we did not do any development lending this year.

Mr. FORD. I apparently have not run into those instances as yet.

Mr. MOSCOSO. Peru.

Mr. FORD The ones which I have examined the reverse has been true—Brazil.

Mr. STERNFELD. Brazil was much lower than what we had justified. I think you commented upon that.

Mr. MOSCOSO. In Peru we did not make any loans.

Mr. STERNFELD. In Paraguay we did not make any loans.

COMPARISON OF ESTIMATED LOAN PROGRAM WITH ACTUAL OBLIGATIONS, FISCAL YEAR 1963

Mr. FORD. Will you prepare a list for the benefit of the committee showing in the development loan category what countries and to what extent we either did more or less than what you justified. Submit that for the record.

Mr. TENNANT. There is a listing that appears in the other book that is not in front of you, the dark book, on page 185, which is our section 634(d) report. It shows the differences between what we presented and what we implemented on a basis of the presentation book estimates. I am referring to the other classified book that Mr. Merrill has picked up. However, in terms of the insert you requested, we will up-date the presentation estimates to show preliminary obligation figures for fiscal year 1963. We will be glad to provide that, sir.

(The information supplied follows:)

Comparison of fiscal year 1963 loan programs for Latin America as presented to Congress in the fiscal year 1963 presentation with the fiscal year 1963 loan obligations/authorizations (preliminary)

[In thousands of dollars]

Country	Proposed program	Preliminary obligations/authorizations
Argentina		76,400
Bolivia	(1)	18,300
Brazil		37,400
Chile		35,000
Colombia		87,200
Costa Rica	(1)	10,600
Dominican Republic	(1)	2,100
Ecuador	(1)	6,300
El Salvador	(1)	16,600
Guatemala	(1)	700
Honduras	(1)	1,650
Jamaica	(1)	5,000
Mexico	(1)	
Nicaragua	(1)	1,000
Panama	(1)	6,000
Peru	(1)	
Uruguay	(1)	6,000
Venezuela	(1)	30,000
Central American Bank for Economic Integration	(1)	2,500
ROCAP (regional office, Central America and Panama)	(1)	
Expenses of Inspector General	(2)	85
Total	510,400	342,835
Funded from:		
Alliance for Progress loans	500,400	333,885
Inter-American social and economic program	10,000	8,950

[1] Development lending was contemplated, but no amount was indicated in presentation to Congress.
[2] In the presentation to Congress, it was proposed that $150,000 of Inspector General expenses be funded from the Alliance for Progress, which it was contemplated would include both loans and grants in a single fund.

Mr. FORD. That is all.

Mr. PASSMAN. The people who are justifying this program are the people who are actually administering the program; is that correct?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Thank you.

GUATEMALA

The next country in your area is Guatemala, for which the fiscal year 1964 estimate is $4,500,000; is that correct?

Mr. MOSCOSO. That is right; $4.5 million.

Mr. PASSMAN. Does that sum include all spigots?

Mr. MOSCOSO. This does not include development lending which is contemplated. It does not include any other source except AID.

Mr. PASSMAN. This is just the grant part of it? Is that right?

Mr. MOSCOSO. $4.5 million; that is right.

Mr. PASSMAN. This is just grant-aid spigot. Then you get into all the others.

What is the grand total of the estimate for Guatemala, from all spigots?

(Discussion off the record.)

Mr. STERNFELD. $———.

Mr. PASSMAN. That figure does not include the Development Loan Fund?

Mr. MOSCOSO. No.

Mr. PASSMAN. When we get into the Development Loan Fund we are talking about the 40-year, no interest, 10-year grace period credits, with three-quarters of 1 percent service charge, which we usually refer to as a soft loan?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Could you anticipate what that amount may be?

Mr. MOSCOSO. Between $——— and $———.

Mr. PASSMAN. Let us put down the middle figure, $———. How much is that total?

Mr. TENNANT. $———.

Mr. PASSMAN. Running through these books we would have said $4,500,000 for Guatemala.

Mr. MINSHALL. What is this for, Mr. Chairman?

Mr. PASSMAN. Fiscal year 1964. That is what the books show. When you put in the other spigots, how much is the total?

Mr. TENNANT. $———.

Mr. PASSMAN. We still do not have all that they are eligible for, what they may get out of the interregional fund. You do not have that down, do you?

Mr. TENNANT. No, sir.

Mr. PASSMAN. They are eligible, are they not?

Mr. TENNANT. Yes.

Mr. PASSMAN. You do not have what they may get out of the Latin American region, do you?

Mr. TENNANT. No, sir.

Mr. PASSMAN. They are eligible, are they not?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. You do not have what they may get out of the ROCAP fund, do you?

Mr. TENNANT. No, sir.

Mr. PASSMAN. They are eligible, are they not?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. You do not have what they may get out of the Social Progress Fund, do you?

Mr. TENNANT. No, sir.

Mr. PASSMAN. They are eligible, are they not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. You do not have what they may get out of the Inter-American Development Bank, do you?

Mr. TENNANT. No, sir.

Mr. PASSMAN. They are eligible, are they not?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You do not have what they may get out of IDA, do you?

Mr. MOSCOSO. No.

Mr. PASSMAN. They are eligible, are they not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. There are about nine others. This indicates how fictitious these justifications are.

Mr. MOSCOSO. I hope it was not expected that we would justify World Bank lending.

Mr. PASSMAN. I did not bring in World Bank. I brought in these giveaway programs. I did not bring in Export-Import Bank. I brought in the giveaway part.

I did not get into those spigots where they may get a little something back. I stayed in the giveaway field. Did I add military aid?

Mr. MINSHALL. No; you did not.

POLITICAL SITUATION IN GUATEMALA

Mr. PASSMAN. What type of government is in control of Guatemala at this time?

Mr. MOSCOSO. A military government.

Mr. COTTRELL. The present government took over in Guatemala on March 31, 1963.

Mr. PASSMAN. Did we suspend the aid program when they took over?

Mr. COTTRELL. No.

Mr. MOSCOSO. It was not suspended.

Mr. PASSMAN. I thought that was one of the criteria.

Mr. MOSCOSO. I would have to answer that off the record.

Mr. PASSMAN. It will not be necessary. This is no exception.

We did not suspend aid.

Page 35 of the justifications indicates your aid program is based in part on projects "aimed at the problems of political and social unrest particularly as they might affect the 1963 elections." However, since the military dictatorship now in power has cancelled the elections, how much of your proposed 1964 program are you canceling? Give us an estimate.

Mr. MOSCOSO. I do not think this in any way changes the situation.

Mr. PASSMAN. Your book said so, particularly as they might affect the 1963 elections. The military took over and canceled the elections.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. We are going to go right along with the same aid program.

Mr. MOSCOSO. Conditions persist.

Mr. PASSMAN. Your projects were based upon the fact that they were going to have elections.

Mr. MOSCOSO. There will be elections.

Mr. PASSMAN. I imagine there will. But the elections you predicated the funds upon have been canceled; is that not right?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Thank you.

Mr. MINSHALL. Will the chairman yield?

Mr. PASSMAN. Surely.

Mr. MINSHALL. When do they plan to have elections?

Mr. MOSCOSO. They were planning to have their elections September or October this year.

Mr. MINSHALL. Is that still a firm date?

Mr. MOSCOSO. No.

Mr. MINSHALL. They are canceled, postponed indefinitely; is that correct?

Mr. Moscoso. We have an idea they will be held within the next year or two.

Mr. Minshall. Next year or two?

Mr. Moscoso. Yes.

Probably it will be sooner than that.

Mr. Minshall. If they do have an election, this fellow Arevalo will come into the act. He is a strong contender?

Mr. Cottrell. He was in the last presidential election. He is no longer considered a political contender.

Mr. Minshall. He was considered a good political possibility only a short time ago, before this uprising.

Mr. Cottrell. That is right.

Mr. Minshall. What changed the situation? If there ever was a Communist, it is Arevalo.

Mr. Cottrell. I can answer his question.

Off the record.

(Discussion off the record.)

Mr. Minshall. On the record. We can sanitize it later.

Mr. Cottrell. Well, I can say that at the present time Mr. Arevalo is not in Guatemala.

Mr. Minshall. He was in Mexico?

Mr. Cottrell. He was in Mexico. He had a certain following before this coup occurred. I cannot predict, of course, if elections are held in the future, that Arevalo will not come back and run; but the events that have occurred since this time have led political observers to believe his following is not as strong as it was in Guatemala.

Mr. Minshall. What is classified about what you just told me?

Mr. Cottrell. I am not giving you now in open hearing——

Mr. Minshall. What did you plan to give? What have you left out?

Mr. Cottrell. If we may go off the record, I will tell you.

Mr. Minshall. We can sanitize it. You can red line this all you want.

Mr. Passman. Off the record.

(Discussion off the record.)

Mr. Passman. You come along with something here where we know a friendly government has been overthrown, and we have to go off the record. You testify any way you want to, but I think we ought to have it on the record so other Members may have the opportunity of reading it. You make that decision.

Mr. Cottrell. All right; certainly. What was your question, again?

Mr. Minshall. Off the record.

(Discussion off the record.)

Mr. Cottrell. I repeat again that prior to the coup, when it was anticipated they would have elections in Guatemala, Mr. Arevalo, who has a following in Guatemala, was considered a very serious candidate. Events transpiring since that time, including Mr. Arevalo's departure

from Guatemala and his stay in Mexico, are regarded by people in Guatemala and other places to have reduced his political appeal.

He may return at such time as elections are held in Guatemala. I would not deny he might even be a candidate. But this is the present status of Mr. Arevalo.

Mr. MINSHALL. I still do not know what is classified about that.

Mr. COTTRELL. Nothing.

Mr. MINSHALL. Is there something you were going to tell me that was classified?

Mr. COTTRELL. No; I am not attempting to withhold anything from you. There is a natural disinclination on the part of the State Department to discuss individuals, particularly political individuals, in a public hearing. Perhaps I am too sensitive, but you will have to lay it to my inexperience in appearing before congressional committees.

Mr. MINSHALL. These are things you read about in the New York Times magazine section, the Cleveland Plain Dealer, the Cleveland Press, and the Chicago Tribune every day.

Mr. COTTRELL. It is different when an official of the State Department makes the statement on a public record.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Was the Ydigoras government considered a friendly government to the United States?

Mr. COTTRELL. Not unfriendly.

Mr. PASSMAN. Did we accept the Ydigoras government of Guatemala as a friendly government to the United States in what we were trying to do in Latin America?

Mr. COTTRELL. I would agree.

Mr. PASSMAN. You had a military dictatorship, and it was anti-Communist, I believe; is that correct?

Mr. COTTRELL. Correct.

Mr. PASSMAN. Now you come along, and they overthrow this friendly government and a bunch of rebels take over. We are continuing the same level of aid to this government as we had for the friendly government.

Mr. COTTRELL. I think the reason was the present Government feared that Mr. Arevalo and leftists would win in an election and take over.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Around the world friendly governments are overthrown one night, and we continue the aid to the new government the following day.

We just give them money on a basis of hope, it seems.

Is it not true that five or six governments have been overthrown in Guatemala since 1950?

Mr. MOSCOSO. I do not know exactly how many, but there have been several.

Mr. PASSMAN. Do you remember one of the friendly commanders in chief of the Guatemalan Army who was shot all to pieces and the Government overthrown? I happened to be a personal friend of his. I was down there one time as his guest. The first thing I knew, he was dead.

It just looks as if we are going to continue spending the American taxpapers' dollars based upon hope, and that we will recognize any government that gets into power, I do not know where this aid program will eventually lead us.

We are trying to make money serve every purpose. I am afraid this policy is wrecking our country and our economy, building up a public debt that I do not know what we are going to do with.

PROPOSED NEW GRANT PROJECTS FOR GUATEMALA

I note that you propose to initiate five new projects in fiscal 1964 in this country at a cost of $1,446,000. What is your estimated cost to complete these five projects?

Put the information in the record, please, by project.

(The information supplied follows:)

New grant projects in Guatemala, fiscal year 1964

[In thousands]

Project	Estimated obligations, fiscal year 1964	Cost to completion
Development of agricultural institutions	$545	$2,400
Improvement of communications facilities	150	150
Development of education policies and priorities	248	250
Public finance and planning	295	800
Long-range industrial and commercial agricultural credit institutions	203	410
Total	1,446	4,010

IMPROVEMENT OF SAN CARLOS UNIVERSITY

Mr. PASSMAN. Did you justify the $35,000 which you obligated for the San Carlos University project, on page 179?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. You did not justify this project but you obligated $35,000. Now you are asking for $1,120,000 for fiscal 1964.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Project the cost, if you will, to the date of completion.

Mr. MOSCOSO. $4,200,000.

Mr. PASSMAN. You start with $35,000 and wind up with $4,200,000.

Mr. MOSCOSO. I think that we discussed this role of the university in Latin American politics and the fact that in many of them you find the headquarters of some of the subversive movements. It was also, I believe, the consensus that something ought to be done about this.

Mr. PASSMAN. The same people who are running the show now in the universities are still going to run it, and you will give them more money to run it with.

POLITICAL SITUATION AND CONTINUANCE OF U.S. AID

How far are you going to carry these programs in Guatemala if these people do not call free elections?

Mr. MOSCOSO. They have not said they were not going to hold elections. They have said they will hold elections.

Mr. PASSMAN. Have they said that they would?

Mr. MOSCOSO. Yes; the time has not been fixed. I suppose there will have to be an evaluation made by our Ambassador there.

Mr. PASSMAN. Who is he?

Mr. MOSCOSO. He is a career man.

Mr. PASSMAN. We have had this kind of situation in Guatemala ever since I have been in the Congress, and that has been for 17 years.

Mr. MOSCOSO. I think the Secretary will agree with me that this Government has shown complete friendliness with the United States.

Mr. PASSMAN. The incumbent Government is friendly to us?

Mr. MOSCOSO. This present Government.

Mr. PASSMAN. Would you expect them to indicate anything else than friendliness with all these tens of millions of dollars we give them? Why not suspend aid and see how friendly they will be. Who would not be friendly?

Mr. MOSCOSO. Friendly and anti-Communist.

Mr. PASSMAN. There was a friendly and anti-Communist Government, duly elected, in power, was there not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. These people came in and threw them out and said they were taking over?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You say they are a friendly Government.

Mr. MOSCOSO. The reason for the takeover is rather well known in the press, Mr. Chairman. The reason is that the friendly Government that was in power apparently was not willing to prevent Mr. Arevalo from running in the elections. This group of military, in order to avoid a Communist-dominated Government in Guatemala, decided to take over the Government.

Mr. PASSMAN. That was an assumption, of course. Anyway, they overthrew a friendly elected Government.

Mr. Minshall?

SAN CARLOS UNIVERSITY PROJECT

Mr. MINSHALL. Mr. Moscoso, would you go into a little more detail about this university program where we are spending some $4 million?

Mr. MOSCOSO. We spent only $20,000.

Mr. MINSHALL. $20,000?

Mr. MOSCOSO. Yes.

Mr. MINSHALL. Is that all you put in the university program, $20,000?

Mr. MOSCOSO. No; we are requesting funds for the program which will eventually cost $4,200,000, but for this fiscal year we are asking $1,120,000.

Mr. MINSHALL. That is the figure I want. How are you planning on using these funds and why?

Mr. MOSCOSO. Equipment, books, scholarships, and also for university contract, U.S. university contract, which will help the San Carlos University.

Mr. MINSHALL. What is the present student population of the university?

Mr. MOSCOSO. I cannot give you that.

Mr. MINSHALL. Do you plan to increase it substantially?

Mr. MOSCOSO. I think that the project contemplates a betterment of the quality of university training. There might be some increase but it would be not more than——

Mr. MINSHALL. The reason I ask is I heard that the reason you are increasing this university program is to take a lot of these teenagers, who have been causing so much trouble, off the street and put them in school. This is the program?

Mr. MOSCOSO. This is not the purpose.

Mr. MINSHALL. Have you ever heard anything like that?

Mr. MOSCOSO. I have heard it said about our universities in the United States.

Mr. MINSHALL. I am talking about the universities specifically in Guatemala.

Mr. MOSCOSO. No. We have had in the case of the University of San Carlos a rather unique opportunity.

Mr. MINSHALL. Would you supply for the record the student population and what the immediate plans are of increasing it and how much it is costing per student, et cetera?

Mr. MOSCOSO. Yes, sir; we can get that.

Mr. MINSHALL. I would like to compare it with the cost of universities in this country.

Mr. MOSCOSO. It is low.

(The information supplied follows:)

SAN CARLOS UNIVERSITY (PROJECT 520-AC-66-AA-6)

Student population.—5,777, enrollment for 1963.

Plans for increasing enrollment.—Enrollment has increased at the rate of about 200 students per year based on the past 3-year average (5,229 in 1960 to 5,777 in 1963). However, the project is not designed primarily to increase enrollment, but to better existing methods.

Cost per student.—The University of San Carlos budget for 1963 totals $2,538,323. With an enrollment of 5,777, the average cost per student amounts to $439.39.

U.S. project assistance in the amount of $1,120,000 budgeted for fiscal year 1964 is programed as follows:

(*a*) U.S. technical assistance: $20,000 for 1 year.

(*b*) Contract services: $500,000 for contracting with a U.S. university or institution for a 2-year period, or annual rate of $250,000.

(*c*) Commodities: $300,000 for the acquisition of books and other technical reference materials (of permanent or long-range benefit to the university).

(*d*) Local expenses: $300,000 to provide for 400 scholarships over a two-school year period.

The average project costs per student amounts to $193.89 for the amount to be obligated in fiscal year 1964 for both short- and long-range benefits to the university.

HONDURAS

Mr. PASSMAN. The next country is Honduras. Your request is for $2,500,000. Let us put all segments together. It is too bad we did not start this practice 75 countries ago.

Mr. MOSCOSO. $———, but the lending part is an approximation, $———.

Mr. PASSMAN. According to the books, you wanted $2,500,000 for Honduras; is that correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. And for all these years we have been examining on this figure, but when you pull the other spigots in, you bring this for Honduras alone from $2,500,000 up to the figure you just gave.

Mr. TENNANT. $———.

Mr. STERNFELD. You have already examined on the military, $——.

Mr. PASSMAN. That figure does not include all of those other things that we established on Costa Rica. They would be added, too?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. They are also eligible for money out of ROCAP?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. They are eligible for money out of the Latin American region?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. They are eligible for money from the interregional account?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. They are eligible for money out of IDA?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. They are eligible for money out of the Inter-American Development Bank?

Mr. MOSCOSO. That is hard money.

Mr. PASSMAN. They are eligible for money, are they not?

Mr. MOSCOSO. Yes. You said you did not want to include that.

Mr. PASSMAN. All that we give them is money. They are eligible also for money out of the Social Progress Trust Fund?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. They are eligible for money out of funds of the United Nations?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. They are eligible for funds out of the contingency account?

Mr. MOSCOSO. That is right.

Mr. MINSHALL. This all comes out of one pocket, the pocket of the taxpayer.

Mr. PASSMAN. They are eligible for Public Law 480 aid?

Mr. MOSCOSO. Yes; it is already there.

Mr. PASSMAN. They are eligible for all the things I have just enumerated in addition to the $——— we have picked up from $2.5 million; is that right?

Mr. TENNANT. Yes, sir.

RURAL DEVELOPMENT PROJECT

Mr. PASSMAN. I note that you propose to initiate rural development project on page 194 at a cost of $305,000. Will you project the cost to completion?

Mr. MOSCOSO. $1,500,000.

TEACHER TRAINING PROJECT

Mr. PASSMAN. What is the cost to complete the teacher training project, on page 198, for which you are requesting $150,000 to initiate the project in 1964?

Mr. Moscoso. $500,000, cost to completion.

PUBLIC ADMINISTRATION PROJECT

Mr. PASSMAN. It would appear that you are expanding the public administration project, on page 200, a projected estimate of $400,000 for fiscal 1964. I hope that is a typographical error.

Mr. Moscoso. It is correct.

TAX LAWS

Mr. PASSMAN. Did the revised income tax laws pass the 1963 Congress in Honduras?

Mr. Moscoso. The first income tax law was passed in March 1955 and was effective retroactively to January 1, 1955.

Mr. PASSMAN. I asked you if the revised income tax law has been presented to the 1963 Congress and if it passed.

Mr. Moscoso. Yes; it was approved in June 1963.

Mr. PASSMAN. Could you get us a copy of that law?

Mr. Moscoso. We can.

(The information follows:)

REVISED HONDURAN INCOME TAX LAW

Informal translation of Honduran Income Tax Surcharge as published in the official register of the country, La Gaceta, No. 18,007, Tegucigalpa, Honduras, June 25, 1963.

DECREE NUMBER 122

The National Congress Decrees:

ARTICLE 1.—There is created a tax called the Complementary Income Tax which is equal to twenty percent (20%) of the income tax which is levied against natural and legal persons, including those who enjoy concessions from the state, and whose annual net taxable income is 20,000 lempiras[1] or more, in accordance with the established regulations of the Income Tax Law.

ARTICLE 2.—The Directorate General of Direct Taxation will be responsible for calculating and controlling taxation which is established by this decree in all matters related to the application and requirements of this decree.

ARTICLE 3.—Once the income tax and this complementary tax have been determined, the Directorate General of Direct Taxation will collect them both in a single schedule but will indicate in that schedule which portions are attributable to the basic tax and which to the complementary tax.

ARTICLE 4.—The Complementary Income Tax will be paid, together with the ordinary income tax, at the Central Bank of Honduras or the Ministry of Finance, whichever the Directorate General of Direct Taxation may indicate.

Payments on the Complementary Income Tax, as well as payments on the ordinary income tax which may be made after the closing dates and times which have been established for such payments, will be subject, each one of these taxes, to a surcharge of ten percent (10%); and if the payment should be effected through special process, then the said surcharge will be twenty percent (20%) also for each one of the types of taxes.

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[1] One lempira equals 50¢ US$.

Mr. PASSMAN. Is there any indication of whether it will increase revenue?

Mr. MOSCOSO. Yes, it will increase revenues.

(The information follows:)

Personal and corporate tax rates by income brackets under the Honduras income tax law

Amount of income (U.S. dollars): [1]	Tax rate (percent)
Up to 2,500	3
2,500.01 to 5,000	4
5,000.01 to 10,000	6
10,000.01 to 25,000	8
25,000.01 to 50,000	10
50,000.01 to 100,000	15
100,000.01 to 250,000	20
250,000.01 to 500,000	25
Over 500,000	30

[1] Converted at 2 lempiras=$1.

Mr. PASSMAN. Is this one of the countries in which a big shot might build up a tax liability and then they possibly introduce a bill in the legislature forgiving him and letting him start all over again?

Mr. MOSCOSO. I do not recall that happening there.

As a matter of fact, this country's first income tax law was in 1955.

Mr. PASSMAN. Could you tell us what they collected through income taxes in 1962?

Mr. MOSCOSO. In 1962, income tax collected amounted to $4.6 million.

Mr. PASSMAN. The revised income tax law has been presented in the 1963 Congress?

Mr. MOSCOSO. It has been approved in Honduras.

It was approved June 25, 1963.

Mr. PASSMAN. The Internal Revenue Office was established in 1963. It does not say anything about a law. It says an "attempt to improve administration of existing revenue laws."

We are talking about income tax now?

Mr. MOSCOSO. Yes. A revised income tax law was scheduled and approved. We even have an estimate——

Mr. PASSMAN. If you want to put the information in the record, all right.

Mr. MOSCOSO. This is an estimate of the Government of Honduras:

(The information supplied follows:)

ESTIMATED INCREASED REVENUE FROM THE REVISED HONDURAN INCOME TAX LAW

The 20-percent surcharge on taxes levied on incomes which exceed $10,000 is expected to produce $600,000 annually. Law became effective July 1, 1963.

Mr. PASSMAN. Are not most of these things in here the estimates of those countries?

Mr. MOSCOSO. Some are. Some we work out ourselves.

Mr. PASSMAN. Which estimates are usually the highest?

Mr. MOSCOSO. It all depends.

Mr. PASSMAN. You are fair.

Mr. MINSHALL. No questions.

NICARAGUA

Mr. PASSMAN. The next country is Nicaragua, and the estimate for 1964 is $2 million.

Put all the spigots together.

Mr. MOSCOSO. It is $———.

Mr. PASSMAN. According to the book it is $2 million, but the actual is $———. That does not include the 12 or 15 other spigots from which they are eligible, such as the ROCAP for Central America? They are eligible for funds from that account?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Also from the Latin American region and the interregional account, and from the Social Progress Fund?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. The President's contingency fund, and all of the accounts under the U.N.?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Also, the Inter-American Development Bank, the International Development Association.

Last year you requested $298,000 to finance 72 participants during the year. How many participants did you program and what was the cost during fiscal year 1963?

But, first, we asked you the other day to give us a list of the number of acres that had been distributed. Did you ever get that information up for us?

Mr. PASSETT. It is being typed.

It turned out to be quite a complicated list.

Mr. PASSMAN. I imagine it did.

Mr. MOSCOSO. Last year we proposed 72 participants and we actually had 90.

Mr. PASSMAN. That is running true to form.

From what source did you get the money to increase the participants?

Mr. MOSCOSO. We had a lower cost per participant.

Mr. PASSMAN. Is that running true of your entire area?

Mr. MOSCOSO. No. In this particular case it is.

RURAL COOPERATIVE DEVELOPMENT PROJECT

Mr. PASSMAN. Did you request and justify the $38,000 you obligated for the rural cooperative development project, on page 207?

Mr. MOSCOSO. We did not.

Mr. PASSMAN. You did not request any funds for this project; did you?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. But you obligated $38,000; is that correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. What is the estimated cost to complete the project?

Mr. MOSCOSO. $1.3 million.

Mr. PASSMAN. This one started at $38,000, which you did not justify, and it is going to cost $1.3 million.

ELEMENTARY EDUCATION PROJECT

Why do you need $113,000 for commodities, and $138,000 for local expenses for the elementary educational project, on page 210?

Mr. STERNFELD. $113,000 is for commodities for material to be used by the teachers.

Mr. PASSMAN. What kind of materials?

Mr. STERNFELD. Books, visual aids to improve the curriculums—training materials.

Mr. PASSMAN. For what purposes is the $138,000?

Mr. STERNFELD. The local expense of $138,000 is for costs associated with these teacher-training centers, the four teacher-training centers.

NATIONAL PLANNING OFFICE PROJECT

Mr. PASSMAN. Are you setting up one of these national planning projects in this country?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. In fiscal 1963, you obligated $85,000 and you only spent $25,000 of that amount?

Mr. STERNFELD. That is right.

Mr. PASSMAN. You carried over $60,000, yet you are asking for $300,000 more.

Mr. STERNFELD. Right.

Mr. PASSMAN. Can you give us your estimated cost on that project?

Mr. MOSCOSO. $———

Mr. PASSMAN. I wish we had the thought years ago to ask you people to put that stuff on these pages. I bet we have obligated $250 billion if we had any way of knowing, according to the interpretation of the recipient nations. We do not have a single legal commitment for another dime in foreign aid after June 30, do we?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. If we stopped right now and did not give them another dime, we have no legal obligations outstanding?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Thank you.

If you made a list of every project we have allocated funds to and projected the costs to completion it is possible they have not yet manufactured an adding machine that would give you that total.

POLITICAL SITUATION IN NICARAGUA

Mr. MINSHALL. I have a question as to the general political climate of Nicaragua.

Mr. COTTRELL. President Schick won the election.

Mr. MINSHALL. Who is he?

Mr. COTTRELL. He has a good reputation. He is an educator. He is a prominent Nicaraguan who campaigned very vigorously throughout the country and won in a free election.

Mr. MINSHALL. Is he pro-American?

Mr. COTTRELL. Yes, he is.

Mr. MINSHALL. Who did he defeat?

Mr. MOSCOSO. And he is poor.

Mr. MINSHALL. And he is poor, you say. Who financed his campaign?

Mr. MOSCOSO. Probably the party that he belongs to.

Mr. PASSMAN. He just went into office, did he not?

Mr. MOSCOSO. He just went in. He is one of the people in Latin America that has generally been conceded to be personally very correct.

Mr. MINSHALL. Who did he defeat?

Mr. MOSCOSO. I cannot remember his name.

Mr. MINSHALL. Who was the incumbent? What happened to him? Did he get shot?

Mr. MOSCOSO. The incumbent was Luis Somoza.

Mr. MINSHALL. Where is he now?

Mr. MOSCOSO. He was up here a few weeks ago. I suppose he is back in Nicaragua again.

Mr. COTTRELL. Retired to private business.

Mr. MINSHALL. What happened to him?

Mr. COTTRELL. He voluntarily retired. He made an attempt to democratize the country.

Mr. MINSHALL. You have a little doubt about whether he is going to be the successor. You say while the new President Schick has been associated with and sponsored by the Somoza brothers, ———

Mr. MOSCOSO. That is right.

Mr. MINSHALL. Say that again slow.

Mr. MOSCOSO. ———

Mr. MINSHALL. Are the Somoza brothers going to run the country?

Mr. MOSCOSO. Mr. Schick, I believe, is going to make an attempt to run it democratically.

Mr. MINSHALL. Which team are you rooting for, the Somoza team or the Schick team?

Mr. MOSCOSO. I do not think anyone should have any doubt. I am rooting for Mr. Schick and a more democratic government.

Mr. MINSHALL. The Somozas were not so democratic?

Mr. MOSCOSO. In my estimation.

Mr. MINSHALL. The President-elect was sponsored by Mr. Somoza?

Mr. MOSCOSO. Yes. I think that is one of the reasons to lead us to believe he may be able to be allowed to run the country. As part of the effort that the outgoing President, Luis Somoza, initiated in order to democratize the country, he allowed more freedom of the press, and hopefully he will allow Mr. Schick to run the country without intervention on his part.

Mr. MINSHALL. If he does not, how does it look?

Mr. MOSCOSO. It would be very bad for democracy, I would say.

Mr. MINSHALL. Very bad for our aid program in Nicaragua?

Mr. MOSCOSO. Yes; it would be.

Mr. PASSMAN. This is the country in which the older Somoza was assassinated?

Mr. MOSCOSO. Correct.

Mr. PASSMAN. I visited that country in 1949. I was his guest. We drove down to his oceanfront retreat. I suppose you have been there. We spent the day.

(Off the record.)

PANAMA

Mr. PASSMAN. The next country in this area is Panama.

The fiscal year 1963 estimate is the misleading estimate of $———.

Now, let's put all these pieces together and get the total.

Mr. TENNANT. I want to say one thing in putting these figures together. Certain of the figures we are using in this composition are classified.

Mr. PASSMAN. If you put them together, they are not classified.

Mr. TENNANT. I think they could be.

I think the countries could easily determine components.

Mr. MOSCOSO. ———.

Mr. PASSMAN. Does that figure include all the other spigots?

Mr. TENNANT. Yes, sir. This $——— includes loans, grants——

Mr. PASSMAN. In this one instance you had development credits included?

Mr. TENNANT. Yes, sir.

Mr. MOSCOSO. This is the low range.

Mr. PASSMAN. Are they eligible for all these other types of aid we have indicated for other countries?

Mr. MOSCOSO. No.

Mr. PASSMAN. What is the answer?

Mr. MOSCOSO. There is one they are not members of, the Central American Bank for Economic Integration.

Mr. PASSMAN. Let us add that one to these others.

Mr. MOSCOSO. We are not holding anything back.

Mr. MINSHALL. I think you are going to have to have an appendix.

Mr. PASSMAN. The project book indicates you plan to have six contract technicians on duty at the end of fiscal year 1964.

Mr. MINSHALL. That is right.

Mr. PASSMAN. This is so, although you are not requesting any supporting assistance funds for Panama, is that correct?

Mr. MOSCOSO. That is correct.

Mr. STERNFELD. This is for the projects inaugurated in 1962 with supporting assistance funds under the $9.9 million supporting assistance grant made to the Republic of Panama in order to protect our investment. We feel we should continue some of these contract technicians.

Mr. PASSMAN. Did you obligate out of 1962 funds technicians for 1964?

Mr. STERNFELD. No, sir. These are contract employees. These are not U.S. direct hire technicians. We had 2-year contracts that were obligated back there.

Mr. PASSMAN. If I asked you 150 more questions on Panama we would get about the same type of answers we have received on the other countries so far, would we not?

Mr. MOSCOSO. I would not know what the questions are.

Mr. PASSMAN. If I asked about the same questions on the projects, would we get about the same kind of answers, is that right?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Thank you.

RURAL ROAD DEVELOPMENT

Mr. MINSHALL. I note in Panama, in your description, that Panama lacks personnel adequately trained in road construction. This seems to be a common complaint in all these countries, they do not have adequate roads, or adequately trained personnel to construct or repair the roads.

Mr. Moscoso. Generally speaking, that is the case.

Mr. MINSHALL. How much are we putting in the road construction program and in training people?

Mr. Moscoso. We are asking for $260,000.

Mr. MINSHALL. Will this complete the road training program and the road building program? Looking down the road, how much longer?

Mr. Moscoso. Two more years.

Mr. MINSHALL. How much more money?

Mr. Moscoso. The total for the whole program would be $2.7 million—from the initiation to the completion.

Mr. MINSHALL. How many miles of road have they built?

Mr. Moscoso. Up to now, 110 miles of new road.

Mr. MINSHALL. How much in total will they have?

Mr. Moscoso. I do not have the figure. I assume at the rate they have been building, about 30 miles per year, so they will do about 170 miles.

Mr. MINSHALL. Thank you, Mr. Chairman. That is all I have.

TOTAL UNEXPENDED BALANCE, FOREIGN ASSISTANCE PROGRAM

Mr. PASSMAN. Mr. Comptroller General, I am asking you to please prepare a sheet giving the amount of funds carried over. I always like to use verified figures.

We want this information in the three categories, the total amount. Military, annual; the total amount of unexpended funds, broken down into five categories; unobligated, whatever the figure is, and so forth.

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. Also, reservations, firm obligations, and then the total.

The only message I want to get over is to inform the membership of the amount of money you have on hand undisbursed in the pipeline.

We know the pipeline is up every year and the program is broader.

(The information supplied follows:)

Foreign assistance program (mutual security)—Preliminary June 30, 1963, unexpended balances

[In thousands of dollars]

	Unobligated/unreserved balance	Unliquidated obligations/commitments	Total
Economic assistance:			
Budgeted programs:			
Development loans	92,479	2,170,047	2,262,526
Development grants:			
General authorization	46,620	353,987	400,607
Special foreign currency programs	100	2,780	2,880
Surveys of investment opportunities	1,197	303	1,500
Alliance for Progress:			
Loans	90,815	280,371	371,186
Grants	4,245	56,192	60,437
Inter-American program for social progress	6,121	47,227	53,348
Social Progress Trust Fund		335,000	335,000
International organizations	431	133,985	134,416
Supporting assistance	7,382	358,139	365,521
Contingency fund	117,182	219,093	336,275
Administrative expenses, AID	2,036	7,736	9,772
Administrative expenses, State		779	779
Chilean reconstruction		17,765	17,765
Total budgeted programs	368,608	3,983,404	4,352,012
Special revolving funds:			
Acquisition of property	3,578	559	4,137
Investment guarantees	116,355	152,231	268,586
Borrowing authority, ECA	544		544
Total special revolving funds	120,477	152,790	273,267
Total economic assistance	[1] 489,085	4,136,194	4,625,279
Military assistance: [2]			
Grant aid	25,000	2,263,500	2,288,500
Sales program	1,500	69,600	71,100
Total military assistance	26,500	2,333,100	2,359,600
Grand total economic and military assistance	515,585	6,469,294	6,984,879

[1] Breakdown of this amount is as follows: "Annual accounts, $179,193"; "No-year appropriation accounts $192,993," and "Borrowing authority, $116,899."

[2] Preliminary June 30, 1963, data not available; figures shown represent estimates shown in budget document.

Foreign assistance (mutual security) program—Breakout of unexpended balances as of June 30, 1963, preliminary

[In millions of dollars]

	Annual accounts	No-year accounts		Total
		Appropriated funds	Borrowing authority	
Economic assistance:				
Unliquidated obligations/commitments:				
Unliquidated obligations	1,133.0	2,161.6	152.8	3,447.4
Unliquidated loan commitments [1]		688.8		688.8
Total unliquidated	1,133.0	2,850.4	152.8	4,136.2
Unobligated/unreserved balances	179.2	189.5	120.4	489.1
Total unexpended balances, economic assistance	1,312.2	3,039.9	273.2	4,625.3
Military assistance:				
Unliquidated obligations/reservations	2,263.5	69.6		2,333.1
Unobligated/unreserved balances	25.0	1.5		26.5
Total unexpended balances, military assistance	2,288.5	71.1		2,359.6
Total, economic and military assistance	3,600.7	3,111.0	273.2	6,984.9

[1] Reserved to fund loan applications which have been reviewed and formally approved by the AID Administrator. Negotiations in process with the cooperating countries to work out final terms and conditions of loan agreements which will be executed upon completion of detailed negotiations.

Foreign assistance activities—Preliminary June 30, 1963, unexpended balances

[In thousands of dollars]

	Amount
Foreign aid (mutual security):	
Military assistance	$2,359,600
Economic assistance	[1] 4,625,279
Total, mutual security	6,984,879
Other foreign aid:	
Peace Corps	[2] 34,104
Ryukyu Islands	3,836
Cuban refugees	[3] 1,818
Migrants and refugees	[4] 8,969
Inter-American Development Bank	[5] 200,000
International Development Association	([6])
Total, other foreign aid	248,727
Grand total	7,233,606

[1] Includes revolving funds for investment guarantees, excess property, and borrowing authority, ECA.

[2] Excludes any unliquidated balances of prior year funds in contingency funds and administrative expenses, AID accounts from which this program was financed prior to fiscal year 1962.

[3] Excludes $13,800,000 reserved as result of cessation of flights from Cuba. Excludes unliqudated obligations for Cuban refugee program in prior year contingency fund account from which this program was financed until fiscal year 1963.

[4] Excludes unliquidated obligations in prior year contingency fund account from which this program was financed until fiscal year 1963.

[5] This balance on the U.S. Treasury accounts represents callable capital stock as explained on p. 83 of the appendix to the Budget of the United States. The Bank reports $517,402,000 of unexpended balances of funds from all sources. U.S. subscriptions become merged with resources provided to the Bank and disbursements cannot be identified as being applicable to specific authorizations of member nations. However, of this balance, $441,928,000 is in U.S. dollars, not all of which was derived from U.S. contributions.

[6] As of June 30, 1963, the unexpended balance for the U.S. Treasury accounts was zero. The Association reports $696,962,000 of unexpended balances of funds from all sources. U.S. subscriptions become merged with resources provided to the Association and disbursements cannot be identified as being applicable to specific authorizations of member nations.

Mr. PASSMAN. The committee will stand adjourned until 1 o'clock tomorrow afternoon.

FRIDAY, AUGUST 9, 1963.

COST OF A $1 MILLION DEVELOPMENT LOAN

Mr. PASSMAN. The committee will come to order.

I want to say that this hypothetical estimate on a credit by the U.S. Government of $1 million made in 1963 for 40 years with a 10-year grace period, at three-fourths of 1 percent annual service charge, submitted as an insert for page 6531 of the transcript, is goat stew. When we are paying 3½- to 4-percent interest to borrow money, and will doubtless continue to be paying at that interest rate, or more, then showing that we would have a net profit at the end of 40 years by collecting three-fourths of 1 percent service charge—well, if that is not goat stew, I have never tasted it.

I am going to keep this copy, but we hope you will submit an accurate answer to a legitimate question, which was asked by Mr. Rhodes.

Mr. SCHEINMAN. We will be happy to reexamine the statistics.

Mr. PASSMAN. We wish you would do more than reexamine the statistics. We want you to give us correct information.

I am going to request now that you submit a tabulation showing how much interest we would have to pay at 3½ percent to borrow

this million dollars for 40 years, taking into account the schedule of repayments on the credit we have extended. Then we want to subtract from that figure the amount we shall receive at three-fourths of 1 percent, the annual service charge. Then we want to show what the net loss will be to the U.S. Government on the operation, if we get all back that will be due, in accordance with the schedule.

The former AID Administrator, Mr. Hamilton, said about this thing, which we call development credits, was more than half grant to begin with, when you figure in the cost of the money.

I do not know who prepared this estimate, but, quite frankly, besides being ridiculous, it is amusing. If it were not really amusing, I would call it an affront to the committee.

Can you get that information up for us accurately?

Mr. TENNANT. I will compute the interest——

Mr. PASSMAN. We can borrow money at 3½ percent and lend it at three-fourths of 1 percent and end up with a net profit after 40 years, if we can make that kind of formula work, believe me, we have really staggered upon something to hang onto.

Mr. TENNANT. I believe that computation is based on the theory that not all loan funds used in the foreign aid program are borrowed by the U.S. Treasury.

Mr. PASSMAN. This tabulation is a fantastic piece of work.

Mr. TENNANT. We will compute it in the way you ask.

Mr. PASSMAN. Let us put the information in there accurately.

(The information supplied follows:)

HYPOTHETICAL COST OF $1 DEVELOPMENT LOAN (TERMS: 40 YEARS, 10 YEARS' GRACE, 0.75 PERCENT INTEREST)

The computation below is based upon the following assumptions:

All of the $1 million is borrowed at 3½ percent.

Rate of loan disbursement: $300,000 in first year; $500,000 in two installments, second year; and $200,000 in two installments, third year.

Treasury rate of 3½ percent paid on same basis; i.e., Treasury borrowings on same dates as Development Loan disbursements.

Principal repaid in equal semiannual installments after 10-year grace period.

Interest paid semiannually.

Debt incurred by Treasury borrowing reduced at same time development loan repayments are made.

	Interest cost at 3.5 percent	Interest earned at 0.75 percent
1st 3 years	$62,125	$13,313
Next 7 years of grace period	245,000	52,500
Final 30 years	525,000	112,500
Total	832,125	178,313

NOTE.—Interest cost over interest income: $653,812.

Executive branch note

The above computation of $653,812 does not represent the true cost of lending $1 million under the foreign assistance program. Foreign assistance expenditures are covered by current appropriations and funded from general revenues on the same basis as other executive programs. U.S. Treasury borrowing is for general fiscal purposes and cannot be attributed to any particular part of the Federal budget, including foreign assistance, but should be attributed proportionately to all Government expenditures.

The President's 1964 administrative budget envisioned a deficit of 12 percent to be financed by borrowing. If a proportionate share of the hypothetical $1 million loan resulted in an increase in the national debt, the interest income over interest cost, calculated as above, would be $99,855 over the life of the loan of 40 years, or an average of approximately $2,500 per year.

SHIPMENTS OF METRECAL AND SALAD DRESSING

Mr. PASSMAN. I read now from a newspaper article:

Faceless bureaucrats in the Agency for International Development, the fancy-titled Foreign Aid Administration, not so long ago shipped crates of Metrecal to dieting Far East natives.

And now several million pounds of salad dressing are waiting to be sent to gourmets of the Arab world. More than 2,350,000 pounds of soybean salad dressing will be shipped to Lebanon, the United Arab Republic, and Jordan late this month.

If you can, please find out whether this Metrecal is just a one-shipment deal or whether we are going to continue it.

U.S. TAXES

We were talking yesterday about the tax receipts in Costa Rica. I think the Costa Ricans are paying about $4.28 a year per capita. We computed this on $100 million total. I read in yesterday's paper that our treasury's tax take was $105 billion, 900,000 for fiscal 1963.

We shall put this news item in the record.

(The newspaper clipping follows:)

[From the Evening Star, Washington, D.C., Aug. 8, 1963]

YEAR'S TAX TAKE IS $105.9 BILLION

(By the Associated Press)

American taxpayers helped the Internal Revenue Service celebrate its 100th birthday anniversary by pouring a record tax take—$105.9 billion—into Federal coffers in the fiscal year which ended June 30.

The treasury bonanza included a new high for individual income and employment taxes, $67.9 billion, and a $6.5 billion increase over fiscal 1962, when receipts totaled $99.4 billion.

In surpassing the $100 billion mark for the first time, the Revenue Service noted that in its first year of operation 100 years ago the total take was $41 million.

AID TO RUMANIA

Mr. SCHEINMAN. Mr. Chairman, there is one open item from yesterday I would like to respond to this afternoon, if I may.

Mr. PASSMAN. Yes.

Mr. SCHEINMAN. You asked yesterday that I obtain information about an alleged foreign-aid program to Rumania.

Mr. PASSMAN. Yes.

Mr. SCHEINMAN. I am advised that there have been no discussions about foreign assistance to Rumania; that there have been no plans developed for a foreign-aid program to Rumania, and that there is no present prospect or intention to provide foreign assistance to Rumania.

Mr. PASSMAN. Does your response apply also to Public Law 480 aid?

Mr. SCHEINMAN. To foreign assistance, sir.

Mr. PASSMAN. To all foreign assistance, every category, every spigot?

Mr. SCHEINMAN. That is correct.

Mr. PASSMAN. There has been no discussion and no plan?

Mr. SCHEINMAN. That is correct.

Mr. PASSMAN. Have you discussed this matter with Secretary Rusk and Secretary McNamara?

Mr. SCHEINMAN. I discussed it with the officials of the executive branch who I believe are appropriate, sir.

Mr. PASSMAN. It is not secret as to what level you discussed this matter, is it?

Mr. SCHEINMAN. No; I discussed it with the Acting Administrator of the Agency for International Development, Mr. Coffin.

I have discussed it also with members of the State Department, including the Assistant Secretary of State.

Mr. PASSMAN. What is the name of the Assistant Secretary?

Mr. SCHEINMAN. Mr. Tyler.

Mr. PASSMAN. I hope you can go a bit further, because I think this discussion, if it was held, might have taken place at a much higher level.

Mr. SCHEINMAN. I have also discussed it with a Vice President of the Export-Import Bank.

SHIPMENT OF METRECAL AND SALAD DRESSING

Mr. TENNANT. On the Metrecal item and the salad dressing shipment you mentioned, we will check into those and see what the situation is. The last time we found that some Metrecal was financed from AID funds, we did recover the amounts from the cooperating country.

Mr. PASSMAN. You recovered the amount?

Mr. TENNANT. Yes, sir.

The way this operates is that the authorizations are issued in three-digit codes established by the Commerce Department. Sometimes a commercial importer buys items under that code which we would not honor.

In such cases, we recover an equivalent amount of funds from the aid-receiving country.

Mr. PASSMAN. I thought it was well to mention the matter, anyway, because there is no use to be shipping millions of dollars worth of foods that people are not going to use.

UNEXPENDED AND UNOBLIGATED BALANCES

You have given us a chart here which shows a total of other foreign aid, $7,233,606,000. What do you mean by "total other foreign aid?"

Mr. TENNANT. Mr. Chairman, one of the two sheets you have is the detail of the mutual security program. Then we take the total of the mutual security program and add to it other foreign aid items which you requested such as Peace Corps, refugee programs, Ryukus, and so forth.

Mr. PASSMAN. How does this figure compare with last year? You gave me a chart the other day that I have been using.

Mr. TENNANT. Those figures, sir, as you notice, were marked "preliminary." You pressed me for an early submission of figures before the Treasury figures came through to us.

Mr. PASSMAN. You gave me this tabulation the 1st of August, did you not?

Mr. TENNANT. Yes, sir; but——

Mr. PASSMAN. You had already been 1 month out of the end of the fiscal year.

Mr. TENNANT. There are two points I would like to bring up, Mr. Chairman. One is that while the Treasury gives us preliminary figures in this period, they do not give us final figures until the first part of September. During the present time, also, we are involved in a section 1311 audit, which is normal in most Government agencies, so any figures we give you at this time are preliminary, subject to these reconciliations.

Mr. PASSMAN. What have we been using in prior years? I want to be accurate.

Mr. TENNANT. The comparable figures——

Mr. PASSMAN. Last year.

Mr. TENNANT. To the $7.2 billion figure that you just read——

Mr. PASSMAN. Is comparable to this one. The one I gave you in my format to work by.

Mr. TENNANT. That figure last year was $6.8 billion.

Mr. PASSMAN. What did I use on my figures?

Mr. TENNANT. $6,889,186,000.

Mr. PASSMAN. What was the final figure for last year? These checks had not been drawn on the Treasury, had they?

Mr. TENNANT. The final figure for last year, the end of fiscal year 1962, was $6,870,200,000. That is the unexpended balance for the mutual security program on June 30, 1962.

Mr. PASSMAN. If I use the figures you gave me the other day, that are in the worksheet now, I am going to use the $7.263 billion, against the $7.233 billion, and omit the "other foreign aid." Does this chart take care of all of it, including Chapter II: Inter-American Bank, and all that?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. This is $248 million.

Mr. TENNANT. The figures we gave you today are the best preliminary figures at this time.

Mr. PASSMAN. Final as of this time?

Mr. TENNANT. Final as of today. Let me put it this way: Until we have final runs from the Treasury, we cannot give accurate final figures.

Mr. PASSMAN. I shall use then the figures you gave me the other day, and indicate the date the information was submitted. Had the disbursements then been made from the Treasury?

Mr. TENNANT. Yes; the disbursements had been made, sir.

The disbursements were made, but had not yet been reported.

Mr. PASSMAN. Do you assign these people cash in the field?

Mr. TENNANT. There are U.S. disbursement officers in the field, employees of the State Department, who effect oversea payments for AID.

Mr. PASSMAN. They have advance funds. How do you enter those accounts on statements downtown so as to draw a trial balance for June 30?

Mr. TENNANT. That is our problem. Until we get all the reports in, we cannot line the figures up properly. On the preliminary reports

we gave to you, we had not yet had all posts reporting. All of them have reported now. However, we have the problem of detailed reconciliation between the Agency's account and the Treasury account. The Treasury will not give us final figures until the first part of September.

Mr. PASSMAN. The Treasury statement shows a trial balance, and here is your balance sheet as of June 30, 1963. Do you understand?

Mr. TENNANT. Yes.

Mr. PASSMAN. They say we close the year with a deficit of $6.2 billion. At some subsequent date, we shall say 30 or 60 days later, you find that the field has disbursed certain funds. Out of what funds do they disburse this money? Is it an advance item charged on the Treasury statement, or does the Treasury reimbursement increase the expenditure during the new fiscal year?

Mr. TENNANT. No. As I understand the Treasury routine—and I am not an expert on Treasury accounting—the figures they put out early in July are preliminary figures.

Preliminary figures, as of June 30, are often released in July or August. Treasury has the same problem with all these reports coming in from, I suppose some 100 or 150 disbursement officers in the field. These disbursing officers have what is comparable to a checking account. Until the U.S. Treasury in Washington gets all this information in, they cannot provide final June figures.

However, any disbursements where the check is dated in June will be recorded in the final June 30 disbursement figures.

Mr. PASSMAN. They have already made an official closing and declared the deficit to be $6.2 billion, have they not? You do not keep a set of books open indefinitely after the closing period.

Mr. TENNANT. I am not an expert on how Treasury reports its Government deficit figure.

Mr. PASSMAN. There is a certain day on which they say, "This is it, and anything that comes in subsequent to this date will have to go in the next fiscal year."

Mr. TENNANT. That may be true, sir.

Mr. PASSMAN. I think that is.

Is the $515 million in purely unobligated funds holding firm?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. Is the $688 million of technically unobligated funds, but which are in a reserve status, holding firm?

Mr. TENNANT. Yes, sir. I have provided a listing of those commitments to the committee, as requested.

Mr. PASSMAN. So, we now have three categories here: Completely unobligated, technically unobligated and carried in the reservation category, and then the actual. As you gave us yesterday, it is $515 million completely unobligated, and $688 million technically unobligated but in a reservation category—is that figure holding firm?

Mr. TENNANT. That figure is holding firm.

Mr. GARY. Is that in addition to the $500-and-some million?

Mr. PASSMAN. Yes, sir. There are three figures.

Mr. TENNANT. The $688 million that we were discussing yesterday represents approved loans on which commitments have been made to cooperating countries, but on which the negotiations are currently in process and the final loan agreement has not yet been executed. We

are working with the cooperating countries, working out the details of each loan arrangement, repayment schedule, and so forth. This takes some time. It does not reach the technical section 1311 obligational status until sometime after initial loan approval and commitment and notice to the cooperating country.

Mr. PASSMAN. Have I described it correctly, using the $7.2 billion as the estimate I read into the record yesterday? That would be made up of three parts. One would be the totally unencumbered, or unobligated funds, of $515 million; $688 million of it would fall into the category you just described, technically unobligated but in a reservation category. The commitment has been made and the money is in reservation status pending final signing of the contract. When you subtract the $688 million and the $515 million, the remainder is operating out of firm, going contracts. Is that correct?

Mr. TENNANT. That is correct. As you know, Mr. Chairman, these figures you are talking about have always been included in the pipeline figures that you use.

RESERVATION OF LOAN FUNDS

The technique we are using on the loan program, it is my understanding, is the same technique as has been used by the development loan program since its inception, and also is used by the Export-Import Bank in their operations.

Mr. PASSMAN. But this is the first time we have ever referred to anything in economic aid as a reservation. Under the law, in military aid programs you have a right to reserve funds.

Mr. TENNANT. I know I used the term "reservation." Whether we refer to it as a reservation or commitment, is a fine point. We are reserving funds to finance the loan commitments.

Mr. GARY. They are funds committed to a certain country for certain projects?

Mr. TENNANT. Yes. Notices of the loan approval have been given to the countries and negotiations are in process toward consummating a formal loan agreement.

Mr. PASSMAN. You mean they are conditionally committed. Is that not right?

Mr. TENNANT. I know the specific loan agreement that you were talking about the other day had conditions precedent in it.

Mr. PASSMAN. It is conditionally committed pending signing of the contract?

Mr. TENNANT. Yes.

Mr. PASSMAN. We have many contracts going back to 1961, many more in 1962, some of which have been out 16 or 17 months, for which you have carried the funds as obligated and the contracts are yet to be signed. Is that a statement of fact?

Mr. TENNANT. There are some transactions like this, except I would refer to these as loan agreements rather than contracts.

Mr. PASSMAN. Am I making a statement of fact that we have some loan agreements, or commitments, that have been outstanding, some since 1961, many since 1962, that still are not yet signed?

Mr. TENNANT. That is correct.

Mr. SCHEINMAN. Mr. Chairman——

Mr. PASSMAN. If I may continue, please——

Mr. TENNANT. There are some of those, sir.

Mr. PASSMAN. You also have some that go back to 1960, at least one, which you carry as obligated without signed contracts, do you not?

Mr. TENNANT. There was one transaction in fiscal year 1960.

Mr. PASSMAN. How many in 1961?

Mr. TENNANT. Two transactions.

Mr. PASSMAN. How many in fiscal 1962?

Mr. TENNANT. In 1962, there are two transactions, and in 1963, there are 79 transactions.

Mr. PASSMAN. We are talking about the fiscal years. How many did you have in 1962 that we call fiscal 1963, fiscal 1963 but signed in calendar 1962, from July 1 to December 31?

Mr. TENNANT. July 1 to December 31?

The details are listed in that particular sheet. I have not recapped them in that specific 6-month category.

Mr. PASSMAN. We ran into one yesterday, $8.5 million. You went back, I think, to February 1962, and you still have to get the contract signed.

Mr. TENNANT. Yes; that is right.

Mr. PASSMAN. So, it is a question of haste, as far as I am concerned, in getting these funds behind an obligation, because any time you have something that is firm, you do not have to wait 2 or 3 years finally to get the contract signed.

Mr. TENNANT. I would not characterize it as haste, Mr. Chairman.

Mr. PASSMAN. I think this statement explains it. I am looking at one of many of them that you have down here on June 29, just before the fiscal year closed, another on June 28. While I get into another country, maybe Mr. Gary would like to look at the number of contracts you put in behind an obligation, or reservation, status just before the curtain dropped.

Mr. TENNANT. Mr. Chairman, this is a no-year account, and whether they are obligated on June 29 or July 1, really makes no difference, because the account does not lapse at the end of the fiscal year.

Mr. PASSMAN. Yes, but it gets into the obligated status. That practice accounts, no doubt, for a lot of the funds being deobligated. If you had left this in normal status, the chances are you would have had in excess of a billion dollars of purely unobligated funds. When you look at all these contracts you enter into on the last day of the fiscal year, and then some 16 or 17 months later you still have not gotten the agreements signed, it appears that you are operating in haste.

CHILE

The next country is Chile, for which the fiscal year 1964 estimate is $———; is that correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. Does that figure include all spigots, or is it merely the grant part?

Mr. MOSCOSO. This is the grant and loan estimate.

Mr. PASSMAN. Let us put all parts of the aid together, Mr. Controller.

Mr. MOSCOSO. $———.

Mr. PASSMAN. Is that the amount from all spigots that we were talking about yesterday?

Mr. TENNANT. Yes, sir; that is all spigots.

Mr. PASSMAN. Instead of $———, it is what?

Mr. TENNANT. $———.

Mr. PASSMAN. That figure does not include what they may get out of the Latin American regional account, does it?

Mr. MOSCOSO. No, it does not.

Mr. PASSMAN. They are also eligible for funds out of the interregional account, are they not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. They are also eligible for funds out of the social progress trust fund?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. They are also eligible for money out of the contingency fund, are they not?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. They are also eligible for funds out of supporting assistance?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. They are also eligible for funds under the U.N. programs, are they not?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. If you will add all the other spigots, let the record show that we know, even when we go from $——— to $———, that is still incomplete, because you have these fabulous amounts in your regional accounts that will be disbursed somewhere.

They are also eligible for the Inter-American Development Bank, are they not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. They are also eligible for the International Development Association?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. That is enough. Thank you.

CUMULATIVE AID TO CHILE

Could you tell us the total amount of assistance that we have given to Chile since the inception of the program?

Mr. MOSCOSO. Excluding the Export-Import Bank, it is $498,500,000.

UNEXPENDED BALANCE

Mr. PASSMAN. Can you tell us the total amount that you have to the credit of Chile undisbursed as of June 30, 1963?

Mr. MOSCOSO. $107,770,000 estimated.

Mr. PASSMAN. You have over a year's pipeline for Chile if you did not get any additional appropriation, based upon the annual expenditure?

Mr. MOSCOSO. Yes, sir, that is correct.

Mr. PASSMAN. Going over these preliminary figures that you have given to us, the amount on hand unliquidated, if you are to reduce the preliminary estimates that would likewise reduce some of these other figures. So, you are doing business on an estimate for the previous year's expenditures, and not actual figures?

Mr. TENNANT. That is correct, sir.

CHILE'S INTERNATIONAL TRADE BALANCE

Mr. PASSMAN. The divider sheet indicates Chile's international trade balance experienced a significant turn from minus $85 million in calendar year 1961 to a plus of $60 milion in 1962. Is that correct?

Mr. MOSCOSO. Yes.

Mr. PASMAN. Have you any information as to the actual trade balance for calendar 1963, thus far?

Mr. MOSCOSO. No, sir; we do not have it here. We would be glad to supply it for the record.

Mr. PASSMAN. All right, sir.

(The information requested follows:)

Chile's trade balance 1st quarter calendar year 1963

[In millions of dollars]

1st quarter calendar year 1963:	
Imports	84.4
Exports	78.7
Trade balance	−5.7

However, the balance-of-payments situation during calendar year 1963 has been as follows:

[In millions of dollars]

	Calendar year 1963, 1st quarter	Estimate for calendar year 1963
Merchandise and services	−5.7	−77.0
Private autonomous capital	−1.2	14.6
Official autonomous capital	13.0	80.1
Short-term capital, errors, and omissions, etc	−7.4	
Balance	−1.3	+17.7

STATUS OF EARTHQUAKE LOAN AND TREASURY STANDBY CREDIT

Mr. PASSMAN. Several months ago, the committee and the Congress approved an appropriation of $100 million in the form of a loan to Chile to assist in that country's earthquake reconstruction program. What is the status of that loan?

Mr. MOSCOSO. The loan has been disbursed.

Mr. PASSMAN. In its entirety?

Mr. MOSCOSO. All the funds have been spent. But there are $18 million in funds on which the bills are being processed for reimbursement.

Mr. PASSMAN. They also had a Treasury credit, as I recall. Did they ever utilize that Treasury credit?

Mr. STERNFELD. No, sir; they did not. You asked that question earlier, and we checked with the Treasury Department.

Mr. PASSMAN. They did not utilize that Treasury credit?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. For how much was the Treasury credit?

Mr. STERNFELD. There was a standby agreement, I think, for $15 million.

Mr. PASSMAN. Is that credit still active?

Mr. STERNFELD. No, sir. It has been terminated.

U.S. AID OBJECTIVES

Mr. PASSMAN. Page 45 of the justifications indicates that [off the record].

Would you comment on that statement?

Mr. MOSCOSO. We are very much interested in assisting the Chileans in the implementation of their 10-year program. In order to do that, we want to be sure that their budget and their plans are in complete coordination. We want to be sure that the Chileans will have the local resources necessary to finance their participation in the plan.

BUDGET DEFICITS

Mr. PASSMAN. Could you tell us the total amount of aid to Chile in fiscal year 1960?

Mr. MOSCOSO. $46.6 million, including the military.

Mr. PASSMAN. They had a Treasury deficit that year of $94 million.

Could you tell us the amount of aid in 1961?

Mr. MOSCOSO. In 1961, it was $128.7 million, including the military assistance.

Mr. PASSMAN. The deficit went up to $97 million that year.

Could you tell us the amount of aid in 1962?

Mr. MOSCOSO. In 1962, it was $244.6 million.

Mr. PASSMAN. The Treasury deficit jumped up to $174 million that year.

DOMESTIC REVENUES AND CONVERSION INTO U.S. DOLLARS

Last year, you indicated that the domestic revenues, actual, for 1960, would be $674 million. The total, however, was only $506 million. Evidently they did not do much tax raising.

For 1961, you estimated the revenues in dollar equivalent would be $773 million. The total was only $569 million, still an indication of no increase in tax collections.

For 1962, your own figures, dollar equivalent, you estimated $890 million. The total was only $657 million.

These statistics just do not hold very firm, do they?

Mr. MOSCOSO. May I have Mr. Sternfeld explain this, Mr. Chairman?

Mr. STERNFELD. When last year's book was put together, for the estimate of 1961 revenues, as you indicated, we said $773 million. At that point in time, we used an exchange rate of 1.05. That produces, in millions of escudos, 811.7 escudos. In the book this year, to show comparability against 1962, we converted escudos at the rate of 1.4—the rate in 1962, not 1961. But if you were to compare the escudos, if you multiplied 569 times 1.4 escudos, you would get 796.6 compared to the earlier estimate of 811.7.

Mr. PASSMAN. Every one of them is off. In every country we go into, these statistics show that the people are not increasing their taxes, and you change the exchange rate. Did I read the figures correctly for the 3 years that I compared?

Mr. STERNFELD. Yes, sir, that is correct.

Mr. PASSMAN. How about you giving your "escudo" arrangement on 1960, then? They were off there.

Mr. STERNFELD. For 1960, the calculation in the fiscal year 1964 presentation was converted at the rate of 1.4 escudos.

Mr. PASSMAN. How about the next year? How did you "escudo" that into a deficit?

Mr. STERNFELD. What do you mean?

Mr. PASSMAN. 1961. I used 3 years.

Mr. STERNFELD. That is correct. If I may explain, we are trying to show each year's book at the comparable rate, but our conversions are done at the same rate so this will not be askew. We did this in last year's book, and we have done it in this year's book.

Mr. PASSMAN. In practically every country on which we examine, you are off, say, about 2 to 1. We examined on one country where the actual revenue was about 50 percent of the estimate.

Mr. STERNFELD. That is correct.

Mr. PASSMAN. It does not appear to me that they are increasing their taxes or they would not have this kind of situation.

Mr. STERNFELD. Mr. Chairman, the actual facts show for this 1 year, 1961, that our estimate was too high last year; that there was a shortfall of 15 million escudos in comparison. We are not trying to hide the fact that that estimate was too high.

Mr. PASSMAN. But you have to take into account that in both instances you are dealing with dollar equivalents. You state this year this is the dollar equivalent. The next year this is the dollar equivalent. If you are going to take the difference in the exchange rate, you would also have to take the difference in the U.S. dollar exchange rate and its purchasing power.

I would rather take the dollar equivalent one year and compare it with the dollar equivalent the second year.

RELATION OF GOVERNMENT REVENUES TO COST OF LIVING CHANGE

Mr. MOSCOSO. I think, Mr. Chairman, perhaps the best way of comparing this is to take the percentage change in revenues and then the percentage change in the cost of living. It indicates——

Mr. PASSMAN. Of course, you would have to apply that same kind of formula to the dollar, too.

Mr. MOSCOSO. Yes.

In this case, the percentage change in revenues was 12.4 percent, but the percentage change in the cost of living was only 7.7.

Mr. PASSMAN. That fact means, it seems to me, they should have reduced their treasury deficit. As we increase our aid, then, of course, it looks as if their budget deficit should decrease.

INCREASE IN CAPITAL OUTLAYS

Mr. MOSCOSO. They increased their capital outlays, Mr. Chairman. They increased them from $137 to $146 million.

Mr. PASSMAN. Am I looking at the records correctly, that the bigger the aid program, as it is stepped up in those 3 years substantially, their deficit went up just about in proportion?

Mr. MOSCOSO. Mr. Chairman, we make a commitment today, and the effect will not be immediately discernible in the income of that country. It will come somewhat later. We are giving you the actual figures as they have been occurring.

On the divider sheet, you will see there has been an increase in capital outlay, since 1962, from $146 to $183 million.

ABILITY OF CHILEANS TO HANDLE OWN AFFAIRS

Mr. PASSMAN. Earlier this week, we were discussing the Latin American countries, and we agreed that some of them did not have the leadership or the ability at the top echelon to handle these programs. Then we moved into the nations where they had the know-how and the ability, and they were not particularly anxious for their people to know it was American aid.

What category do these people fall in? Do they possess the know-how?

Mr. MOSCOSO. Yes, sir, I think they have the know-how. They have a very difficult situation arising from many years of distortion in their economy. They started to be primarily a metal producing country, having two or three minerals which provide them with most of their foreign exchange and most of their employment—saltpeter or nitrates and copper.

They are now diversifying their economy. They find that port developments which were very useful in the shipping out of their nitrates and copper, are not very useful in shipping out diversified industrial products like some of the steels that they are now making in the southern part of Chile.

So, they have had to make considerable changes in the distribution of their products and in their railroads, roads, and so forth. So, they are undergoing a very difficult period right now. But intellectually, I think they are one of the superior people. They are well educated. I think if we give them the help that I hope we will give them, they will be able to help us, and they are already helping us in certain ways.

Mr. PASSMAN. In what ways?

Mr. MOSCOSO. For instance, let us say they are helping their Latin American colleagues. The President of the Inter-American Development Bank is a very distinguished Chilean.

Mr. PASSMAN. Is he the one who went to Paris and spent about $12,690 in a month?

Mr. MOSCOSO. He also sold some $25 million worth of bonds over there, Mr. Chairman.

Mr. PASSMAN. He could have sold that many downtown and would not have had to spend nearly $13,000. Did you ever look at that expense account?

Mr. MOSCOSO. Yes, I did, Mr. Chairman, but I do not think that reduces the intellectual capacity of the country.

Mr. PASSMAN. No. It appears to me he is plenty smart.

Mr. MINSHALL. Mr. Moscoso, you told the chairman a moment ago that you thought the Chilean people were able to make their own decisions and handle their own affairs. However, right in your own statement you say in the gray area, ———.

Mr. MOSCOSO. That is right.

Mr. MINSHALL. In other words, you imply they cannot make the proper decisions.

Mr. MOSCOSO. If you will give me an opportunity, I will explain that the latent capacity of a person is not utilizable unless you can give him the necessary skills, and even if you might be born with a very high IQ, unless you get the necessary training and the necessary experience——

Mr. MINSHALL. They do not amongst themselves have the necessary desicion making ability today?

Mr. MOSCOSO. I said they needed our assistance in order to be able to develop that capability.

Mr. MINSHALL. They do not have it today?

Mr. MOSCOSO. They have the potential capability.

Mr. MINSHALL. They do not have it until it is developed; is that it?

Mr. MOSCOSO. They have the potential capability.

Mr. PASSMAN. If we should actually try to develop any justification for these aid programs based just upon common sense and our own predicament, we could not do it, could we? We know we are having to borrow this money. Our annual budget deficit has become an accepted practice now. Nobody ever talks about balancing the budget, and the public debt is going up.

I noticed in this morning's paper that our exports are off 5 percent. Did you see that item?

Mr. MOSCOSO. Yes. That is a very short-term operation.

Mr. PASSMAN. We know that our exports are falling. We know we are losing our markets.

Talking about the upset and the change in the economy on account of this, that happens in every nation on the face of the earth every year. There are always some changes. This is as old as the country. How old is this country?

Mr. MOSCOSO. This country achieved its independence at the time the other Latin American countries did.

Mr. PASSMAN. About how old is the country?

Mr. MOSCOSO. For about 150 or 160 years, it has been an independent nation.

Mr. PASSMAN. How about the literacy rate in this country?

Mr. MOSCOSO. It is 80 percent.

Mr. PASSMAN. Up to within about 10 percent of ours?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. What is the population?

Mr. MOSCOSO. 7.9 million.

INCOME TAX

Mr. PASSMAN. How much income tax did they collect from the people last year?

Mr. MOSCOSO. Income taxes last year, $135.8 million.

Mr. PASSMAN. How much is that per capita? That is better than some of the other countries. Is this direct income tax?

Mr. MOSCOSO. Yes; direct income tax. That is about $17 per capita.

Mr. PASSMAN. There is a $17 per capita tax. Their literacy rate is 80 percent. We have a literacy rate of 90 percent in this country, and I believe our capita income tax payment is about $555.

Did they ever pass the income tax law that they have been debating down there for years?

Mr. MOSCOSO. It is still being debated, but they did approve a constitutional amendment which will permit now the land reform program to move faster.

Mr. PASSMAN. Passing laws and putting them into effect are two different matters; are they not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. They are still debating that income tax problem?

Mr. MOSCOSO. We also have been debating ours, Mr. Chairman, for 3 years.

Mr. PASSMAN. We have passed more laws since they started that debate. I suppose there have been five or six of them. We extended the law this year, I think on just about 3 days' notice, on the excise tax.

We were told several years ago that Chile was getting ready to increase the income tax. How much longer are they going to debate the issue?

Mr. MOSCOSO. I hope it is not as long as we have been debating ours.

Mr. PASSMAN. We have been debating this political tax bill, I believe, since about February. They have been debating theirs about 4 years.

Mr. MOSCOSO. I mean——

Mr. PASSMAN. Let us get right down to facts.

You know and I know for several years before this committee the witnesses have said that Chile was considering increasing the income tax. The following year they said the same thing. The following year, the same thing. Last year they were on the verge of enacting the law. This year, you say they are still debating it.

What tax have we been debating here for 4 years? I think we have passed four tax laws.

Mr. MOSCOSO. I was here last year and told you that these people were debating their income tax bill, and I am sorry to say it has not been approved yet.

Mr. PASSMAN. What is holding it up, Mr. Moscoso?

Mr. MOSCOSO. I can assure you it is not lack of effort.

Mr. PASSMAN. We all represent the American taxpayers. We are extracting taxes to the point that it is almost impossible for people to continue with the burden at this rate. But undoubtedly you will recommend pouring tens of millions of dollars more into this country. Have you any idea when they will enact this tax law?

Mr. MOSCOSO. I think it probably will be enacted before the end of the calendar year.

Mr. PASSMAN. Upon what factors do you base that prediction?

Mr. MOSCOSO. The fact that it has already been approved in the house and now it is in the senate.

Mr. PASSMAN. Did we not discuss some other Latin American country that approved the bill in the house and now it has gone to the senate? I wish you would get us a report on this, because personally——

Mr. Moscoso. I will be happy to give you that, Mr. Chairman.

Mr. PASSMAN. Please do that, and give us a general idea whether they are just going to keep on debating this matter for years while we continue pouring our money into the country.

(Information subsequently supplied follows:)

CHILEAN TAX REFORM BILL

Chile has had some form of income taxation since the 19th century. The first general income tax law was enacted on January 2, 1924.

Prior to 1924, however, government expenditures were financed largely through the customs house. During the period 1924–32, a system of internal taxes was established, which from 1932 to 1937 was amended, revised and supplemented. It was during this latter 5-year period that the general outline of the present system was established. With the beginning of serious inflation in 1939 many complexities were added to the system through the proliferation of numerous surcharges, additional and transitory taxes. This trend towards complexity became increasingly accelerated after 1948 as continued severe inflation created the need for more piecemeal legislation intended to maintain the level of real revenues. These revenue problems reached their most acute phase in 1952, but since then, the system has been relatively sensitive to price changes. Fewer changes and less tinkering with the system have been needed. However, it has become evident, particularly with mounting taxpayer resistance that the system which developed is unsatisfactory. Its makeshift growth is reflected in problems of undue complexity, unfairness in burden distributions, and various economically questionable features.

Recognizing the need for really effective tax reform legislation, President Alessandri, in his message to the Chilean Congress on May 21, 1961, said that the Government of Chile had "* * * set as a goal for 1961 and 1962 the study, approval, and implementation of projects to introduce necessary changes * * * in tax legislation in order to satisfy economic development demands."

The strategy of reform which was developed in Chile had two prongs. Initial emphasis was given to the administrative side, so as to prepare the implementational machinery necessary for substantive change. An organic administrative reform bill was enacted in December 1962. On the substantive side, a reform bill submitted by President Alessandri to Congress in September 1962 passed the Chamber of Deputies in 1963. Final revision, and Senate passage of this bill, which includes comprehensive reform of the income and inheritance taxes are expected imminently. Although enactment of this comprehensive legislation has not moved as quickly as expected, the administrative reforms have proceeded energetically. On the basis of the organic law, the National Tax Service has been completely reorganized; collection, audit and investigation functions measurably strengthened; personnel and taxpayer training programs successfully conducted; operational manuals written and distributed; and the general level of administration dramatically improved. For the first time in Chilean history, criminal prosecutions have been initiated against a number of tax evaders.

Finally, and on the basis of a law adopted in November 1962, an extensive property tax program has been launched. A countrywide mapping and reassessment program is slated for completion in 1964. This program is intended to add many parcels to the tax rolls and to update present unrealistically low assessments. Individual reassessment of every separate property is in process, with scheduled completion by end of 1964.

CONDITIONS ON U.S. AID TO CHILE

Mr. Moscoso. Mr. Chairman, we have made our aid—the loan program particularly—conditional on their maintaining a level of taxation and having a surplus.

Mr. PASSMAN. Their having a surplus?

Mr. Moscoso. Yes, having a current account surplus so they can invest——

Mr. PASSMAN. A budget surplus?

Mr. Moscoso. A budget surplus in their operating expenses which they can invest in development projects.

Mr. PASSMAN. We are telling them, "Do as I say, not as I do." If ever a country has made a mess of its own budgetary matters, we have done so. I wonder if they ever throw that fact back at you? I think we have had maybe five small surpluses during the past 32 years. If you average it out for 30 years, our budget deficit has been $9 billion per year for those three decades.

LEVEL OF FISCAL YEAR 1963 AID

You are still disbursing money there, are you not?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. How much did you disburse last year?

Mr. Moscoso. $41 million.

Mr. PASSMAN. I mean, rather, the total amount that you obligated.

Mr. Moscoso. From AID——

Mr. PASSMAN. From all segments.

Mr. Moscoso. Social Progress Fund——

Mr. PASSMAN. All of it, in total.

Mr. Moscoso. The total, $88.5 million.

(Off the record.)

Mr. Moscoso. Just the economic and military was $97.5 million.

Mr. PASSMAN. You have Public Law 480 and all the others.

Mr. TENNANT. Including Public Law 480, $97.5 million is the total.

Mr. STERNFELD. Including the military. Eighty-eight and one-half million dollars does not include the military.

Mr. ANDREWS. He has testified that the per capita income payment down there was $17.

Mr. Moscoso. This is the income tax only.

Mr. ANDREWS. I figured out a few minutes ago that, based on the total amount of $97.5 million, and with a population of 7.9 million, our aid to them averages $11.10 per capita, as against their per capita income tax of $17. If you remember, yesterday we had another country down there, Costa Rica, whose income tax collections averaged $4.30 or $4.28 per capita, and our aid benefit to them was $10 per capita.

Mr. PASSMAN. Would it not follow, then, Mr. Moscoso, that our aid amounts to about 70 percent of their total income tax collections?

Mr. Moscoso. More or less. There are other taxes, of course, which they pay.

Mr. PASSMAN. In that connection, there is no country on the face of the earth with as many buried taxes as we have in the United States. All that is worked into the cost of what the consumer purchases, and then on top of those taxes we have the income tax. That is the source of revenue that we depend pretty much upon to run our Federal Government, is it not—the excise taxes and income tax?

Mr. Moscoso. That is right.

Mr. PASSMAN. Last year you justified a $3.3 million development grant loan for Chile. What was the amount of your development grant program there for fiscal year 1963?

Mr. Moscoso. $6.3 million.

Mr. PASSMAN. You asked last year for $3.3 million. Your book shows $4.9 million. You wound up with $6.3 million. You do it just about the way you want to.

I have stated those figures correctly, have I not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. I notice, on page 237 of the project book, that you allocated $6,000 worth of commodities under "Supporting assistance in 1963." Does this country get supporting assistance?

Mr. MOSCOSO. Yes, sir. You willl find quite a number of these in the book. They are small amounts which pertain to various types of assistance that we gave to a number of countries at the time of the Cuban——

Mr. PASSMAN. I know, but are they eligible for supporting assistance?

Mr. MOSCOSO. Yes; they are.

MODERNIZATION OF INTERNAL TAX ADMINISTRATION

Mr. PASSMAN. Local expense under modernization of internal tax administration is shown on page 239. They are still debating the tax law.

Mr. MOSCOSO. We are assisting them in the administrative province of tax collection. We have a very good and strong program there which seems to indicate that we are having some success in bettering their tax collection.

Mr. PASSMAN. Is this one of the countries where when the big shots build up tax liabilities, they pass legislation forgiving them all and starting over again?

Mr. MOSCOSO. That has happened.

That is why we are trying to help them to do a better job.

Mr. PASSMAN. I expect they could teach us a lot of things. That is a clever trick.

MODERNIZATION OF COMPTROLLER GENERAL'S OFFICE

How much did you request and justify last year for the modernization of the Comptroller General's Office, project 241?

Mr. TENNANT. $150,000.

Mr. PASSMAN. What is the average annual salary cost of the four public administration specialists you propose to contract for under this project?

Mr. STERNFELD. $35,000.

Mr. PASSMAN. $35,000 per person per year?

Mr. STERNFELD. Including the overhead charges of the firm; yes, sir.

Mr. PASSMAN. Is this one of the countries in which public officials can retire at full pay at age 50?

Mr. MOSCOSO. I don't recall but it may be one of the countries.

Mr. PASSMAN. It may be.

Mr. MOSCOSO. But I am not sure, Mr. Chairman.

Mr. PASSMAN. You reach the ripe old age of 50 and retire at full pay.

Find out about this country specifically, will you?

Mr. MOSCOSO. Yes, sir.

(Information supplied follows:)

RETIREMENT OF PUBLIC OFFICIALS

A civil servant can retire at age 50 at full annual pay computed at the average pay of the last 3 years of service if he has contributed 30 years to the social security system or has had 35 years of public service.

RURAL EXTENSION PROJECT

Mr. PASSMAN. How much did you justify last year for the rural extension project, shown on page 243?

Mr. MOSCOSO. $345,000.

Mr. PASSMAN. You asked for $345,000 and you obligated $607,000. Is that right?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Are you charged with the responsibility of getting this figure in the book far enough above what you actually requested so as to equal the amount that the budget requests?

Do you agree, Mr. Moscoso, that unless you did obligate according to what we run into in almost 100 countries, you never would be able to obligate the amount of the appropriation? We never have actually gone through the books and added up all of these justifications, so we go through the books and we find that almost without exception you obligate far in excess of what, sometimes three times as much, you justified.

Why did you have to do this?

Mr. MOSCOSO. Mr. Chairman, we did not obligate beyond the total appropriation which was given.

Mr. PASSMAN. What amount did you request?

Mr. MOSCOSO. We requested $345,000.

Mr. PASSMAN. And you obligated $607,000?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You did not obligate beyond the appropriation?

Mr. MOSCOSO. I am referring to the total program.

Mr. PASSMAN. Somewhere along the way you must have done so, because you said yesterday none of us ever knew what the total amount of these estimates would be unless they are added up.

I think we ran into one project for which you allocated $17,000 and before we are through it will be an $18 million project.

I think the best suggestion we ever made for the format is that you should show completion costs.

Let us ask for the completion costs on this one and see what we are getting into.

Mr. MOSCOSO. $1,579,000.

Mr. PASSMAN. And it started off in 1962 with $348,000?

Mr. MOSCOSO. This is one of the most important programs that we have in Chile.

Mr. PASSMAN. We have not run into one yet that was not important when we get into it.

Mr. MOSCOSO. Chile was a net exporter of food, Mr. Chairman, at one time.

Mr. PASSMAN. Are not all of these items important, in your opinion?

Mr. MOSCOSO. Some more than others. I believe this is one of the most important ones in Chile.

Mr. PASSMAN. What is this project intended to accomplish?

Mr. MOSCOSO. We are planning to increase the agricultural sector in Chile at least 5.5 percent per year.

We are trying to bring Chile back again to the position of being a net exporter—at least not a net importer—so as to reduce drain on the amount of money that Chile requires from external sources.

Mr. PASSMAN. Do they have an agricultural price support system there?

Mr. MOSCOSO. In certain instances. We are trying to help them correct some of the deficiencies of the system.

Mr. PASSMAN. If you happen to work it out let our Agricultural Committees of the House and Senate know about it. They are trying to work ours out, too.

Mr. MOSCOSO. This is a smaller country and a smaller problem.

Mr. PASSMAN. But you know we have our agricultural program in just about as big a mess as it can be gotten into; do you not?

Mr. MOSCOSO. I don't know about that.

Mr. PASSMAN. I will say that my statement is quite close to actual fact. If there ever has been a government program that is more messed up than our agricultural program in America, I do not know what it is, except, of course, this foreign-aid program.

Mr. ANDREWS. I'll bet they will make more friends teaching them how to farm than teaching them how to collect taxes.

SCHOLARSHIP PROGRAM

Mr. PASSMAN. I note that you obligated $25,000 to initiate the scholarship program in fiscal 1963.

Mr. MOSCOSO. We obligated $25,000; yes, sir.

Mr. PASSMAN. That obligation leads into an application for $4 million in development credits; does it not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Let us project the cost to complete this project.

Mr. MOSCOSO. $125,000 to completion.

Mr. PASSMAN. I refer to this $4 million. It leads into what amount?

Mr. MOSCOSO. This may be perhaps closer to $2 million than $4 million. This has not as yet been fixed.

Mr. PASSMAN. You estimate it at $4 million and you ask for that amount, yet you say it may be $2 million.

Mr. MOSCOSO. We are trying to help Chile create an institution similar to a very successful one which is set up in Colombia, which has permitted the Government to furnish scholarships to the best students of the country and in that way increase their skills and capabilities.

In the case of Colombia, this institution has been able to do the job of providing scholarships without any additional assistance from us. In other words, we are creating an institution——

Mr. PASSMAN. You are now getting ready to give them $4 million. It could be $6 million or it might be $2 million?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. The program is so unfirm you do not know whether it will cost $4, $6, or $2 million dollars, but you ask for $4 million.

Mr. MOSCOSO. It is one of those applications which is within that range we have asked for.

Mr. PASSMAN. Do you have an application pending?

Mr. MOSCOSO. No.

Mr. PASSMAN. How did you arrive at $4 million?

Mr. MOSCOSO. This is the estimate that our mission gave us at the time we were preparing the book but we learned later it may be possible——

Mr. PASSMAN. How did they know Chile would apply for a credit from us?

Mr. MOSCOSO. This is something which has been discussed with the Ministry of Education.

Mr. PASSMAN. We were told earlier that you do not discuss these propositions with the country until you get the money; that they did not know what we planned until the money was appropriated.

Time after time, however, we have found out that the country knew as much about it as we did.

We ran into one instance where the application pending was the exact amount you had in the book.

I am sure they know what we are doing.

PROJECT FOR OFFICE OF ENGINEERING SERVICES

Did you request and justify the $135,000 that you obligated for the Office of Engineering Service projects, on page 249?

Mr. STERNFELD. There is a different title——

Mr. PASSMAN. First, did you justify it?

Mr. STERNFELD. We justified $125,000 under a different title, sir, in last year's book.

Mr. PASSMAN. Under what title?

Mr. STERNFELD. "Physical planning improvement."

Mr. PASSMAN. What was the project number?

Mr. STERNFELD. 513R-70-RA.

Mr. PASSMAN. Now you change it. It is a different project number altogether. You are dealing with a different project.

Mr. STERNFELD. That is right.

Mr. PASSMAN. Look it up and let us get the matter straight.

(Discussion held off the record.)

Mr. PASSMAN. Last year you had an improvement program. Has that project been canceled?

Mr. STERNFELD. That project becomes project called——

Mr. PASSMAN. Has that project been canceled? Physical planning improvement would certaintly be different from Office of Engineering Services.

Mr. STERNFELD. That is right.

Mr. PASSMAN. What happened to the physical planning improvement?

Mr. STERNFELD. That was not carried out.

Mr. PASSMAN. Was the project canceled?

Mr. STERNFELD. That project was incorporated in the project called Office of Engineering Services.

Mr. PASSMAN. Is the Office of Engineering Services one which has a physical planning improvement program in its setup?

Mr. STERNFELD. They have engineers in that Office who work with the Government of Chile to help them develop projects which will improve the physical infrastructure of Chile.

Mr. PASSMAN. Was that project in reality canceled and what we are talking about now is a new project?

Mr. STERNFELD. No, sir. The project which was described under "Physical planning improvement" called for seven U.S. staff members at a cost of $110,000.

What happened here was that it was carried out in fiscal year 1963 at the cost of $110,000, under the heading "Office of Engineering Services."

The cost of the participants, which were higher than originally estimated by $10,000——

Mr. PASSMAN. Let us get this record straight.

You canceled that project, physical planning improvement. It was completely erased.

Then you created a new project, Office of Engineering Services, under a new number altogether. Now you are asking for $150,000 for five technicians for fiscal 1964. Is that correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. I realize you can do anything you want to with the account, but if you would stick a little closer to some of these things it would make more sense, so far as I am concerned.

BREAKDOWN OF LOCAL EXPENSES, TECHNICAL SUPPORT PROJECT

Would you give us a breakdown and the amount of each item under local expenses, the estimates of $270,000, page 250?

Mr. STERNFELD. We will have to supply that.

(The information requested follows:)

Technical support project—Local expenses

Local expenses included in technical support project for fiscal year 1964:

65 local employees salary costs	$165,000
Office rent and maintenance	30,000
Garage and warehouse rent	5,000
Printing, binding, and others	5,000
Participant language training expenses	23,000
Operating expenses	32,000
Communications	10,000
Total	270,000

ASSISTANCE TO INDUSTRIAL DEVELOPMENT BANK

Mr. PASSMAN. Is there any new project proposed on page 251?

Mr. MOSCOSO. The Industrial Development Bank.

Mr. PASSMAN. This is where we get into a lot of trouble. You stick one of these green sheets in here. Years ago, until we finally pinned it down, you had projects listed. You took deobligated funds, started hundreds of projects, allocated a little money and then switched them to category "C," for "continuing," but in reality they were new projects.

Now you come up with the divider sheet. Unless we ask the questions the next year you say, "It was on the green sheet."

Why not set up a page on this book, and the Comptroller agrees with me—

Mr. SCHEINMAN. We have already agreed with you.

Mr. TENNANT. You requested that and we agreed that we would effect the change next fiscal year.

Mr. PASSMAN. We now request it again, in case you might forget it.

Mr. MOSCOSO. I think it is a good idea.

Mr. PASSMAN. Let us see where this will lead us. You have one here for $66,000, "Industrial Development Bank, AD92AA5, $66,000."

Mr. MOSCOSO. This may result, Mr. Chairman, if what we believe is necessary is also found to be necessary by the Government of Chile, that we will assist a group of private entrepreneurs who will have obtained a charter from the Chilean Government to get up a private industrial bank.

Mr. PASSMAN. This program could lead into tens of millions of dollars of extra money requested?

Mr. MOSCOSO. We are trying to help the private sector of Chile to obtain the necessary funds in order to have them participate more actively in the investment activities and in the increasing of the gross national product of the country.

Mr. PASSMAN. Has the Government stifled the private sector of the Chilean economy?

Mr. MOSCOSO. No; more than that, sir. It is tradition. It is perhaps more the European tradition than anything else. They have not yet become aware of the many things which I think has made the United States great.

One of them is freedom of enterprise, no monopolies.

Mr. PASSMAN. Has that kind of thing not been a fact from time immemorial all over the world?

Mr. MOSCOSO. And in many instances we are very much involved in putting out fires because we have not put in enough of an effort——

Mr. PASSMAN. Do you realize that the request before this committee is one which would furnish funds for 95 nations of the world plus 4 territories?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. We get the same type of story on just about every nation.

Let us project this $66,000. It could lead to requests for many millions of dollars?

Mr. MOSCOSO. It could lead to a request for a loan; yes.

Mr. PASSMAN. A loan could be $1. I want to know if we are thinking in terms of a few hundred or are we thinking of something here—this brand new $66,000—that could lead to requests for millions of dollars?

Mr. MOSCOSO. If the bank which the private sector proposes in Chile is going to——

Mr. PASSMAN. I refer to this one project, Mr. Moscoso.

Mr. MOSCOSO. That is what I am trying to describe.

As I say, if the bank were set up by the Chileans and it was an institution which could make a very decided contribution to the development requirements of Chile, it could mobilize substantial amounts of private capital. If it could assist us later on, so that we in the United States and other countries would not have to give as much public assistance to Chile, I think we would be justified in giving it strong support. It may be $6 million, it may be $5 million, it may be $10 million.

Mr. PASSMAN. Do you think $10 million would be the maximum?

Mr. MOSCOSO. I can't tell, Mr. Chairman.

Mr. PASSMAN. You are dealing within a sphere of uncertainty. You do not know what it will cost.

Mr. MOSCOSO. No, it depends——

Mr. PASSMAN. You went from $6 million to $10 million.

Mr. MOSCOSO. It depends on the equity participation of the Chileans.

Mr. PASSMAN. You are getting into something and you do not know the cost.

Mr. MOSCOSO. It will be proportionate to the equity participation.

Mr. PASSMAN. That still does not answer the question. You do not know what it might cost.

Mr. MOSCOSO. I cannot tell.

I can say that it would be within the magnitudes we can reasonably consider within our program. That is, for Chile and the entire program.

Mr. PASSMAN. Ten miles on the way to the moon is part of the way, is it not?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. That is about the type of answer you have given us, I am willing to accept any figure you give us or I am willing to accept a statement that you do not know the cost.

Mr. MOSCOSO. I do not know at the moment.

U.S. ASSISTANCE TO CHILEAN SAVINGS AND LOAN SYSTEM

Mr. PASSMAN. You have another item here, the savings and loan system, ZW83AD6. You want $2,000.

Mr. STERNFELD. The Chileans are advancing in the savings and loan system.

They are setting up very good savings and loan systems. There are 22 associations presently set up.

Mr. MOSCOSO. $2,000 is for a short-term consultant to come down and help them with some of the problems——

Mr. PASSMAN. You said they had a fine savings and loan system there. Is it countrywide?

Mr. STERNFELD. Yes.

Mr. PASSMAN. How many associations do they have set up?

Mr. STERNFELD. Twenty-two associations.

Mr. PASSMAN. Now you are going to take $2,000 and redo their system for them?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. How long will you employ this consultant?

Mr. STERNFELD. I cannot tell you the time period.

Mr. PASSMAN. Does this amount include expenses, representation, salary, and everything?

Mr. STERNFELD. This would be at the rate of $75 a day, sir.

Mr. PASSMAN. Including expenses?

Mr. STERNFELD. That is the rate it takes for us to get a person who has experience in the United States of heading a savings and loan association to go down and——

Mr. PASSMAN. You say there is a very successful savings and loan system in Chile. The associations are scattered all over the country. They are operating well.

Let us arrive at about how long the consultant will be there.

Mr. MOSCOSO. The most he can be there would be 15 or 16 days.

Mr. PASSMAN. You have to take out airplane fare?

Mr. MOSCOSO. That is right, this will include the airplane ticket.

Mr. PASSMAN. Let us try to figure this out.

Mr. MOSCOSO. It would not be for more than 10 days.

Mr. PASSMAN. I cannot see much good you will do with this man in Chile for 10 days.

Mr. MOSCOSO. Mr. Harriman was less than 10 days in Moscow and he got the test ban treaty.

Mr. PASSMAN. We want to know what this consultant will do during the 10 days and we are entitled to know.

Mr. MOSCOSO. I am sure he will be working during that time. I will provide the details for the record.

(Information supplied follows:)

SAVINGS AND LOAN PROJECT

A U.S. consultant will be required for a 10-day trip to Chile to conduct one or two seminar-type meetings of assembled managers of the 22 Chilean savings and loan associations to discuss problems such as: Improvement of administrative efficiency, including speedup of loan application approvals; stimulation of a secondary mortgage market for mortgages purchased by the Caja Central; an appropriate balance of liberal lending practices and maintenance of adequate protection to depositors and lending institutions; and explain the U.S. and other applicable approaches to their problems. It is essential that a U.S. specialist maintain a working relationship, if only on a periodic basis, with the Chilean savings and loan system to insure that the system's objectives are maintained and that the system adheres to the standards necessary to achieve long-term success.

Mr. PASSMAN. You will have to make up your mind as what you will use the man for before you send him.

Mr. STERNFELD. That is right. We have found through experience that through the year there are problems which come up in the running of these savings and loan institutions——

Mr. PASSMAN. Have you had a man there before?

Mr. STERNFELD. Yes.

Mr. PASSMAN. Under what project?

Mr. STERNFELD. Under a project called savings and loan.

Mr. PASSMAN. Let us get the number and find out why you create a new project for $2,000 to send a man down for 10 days.

Mr. STERNFELD. The project was called improvement of the administration of the housing corporation.

Mr. PASSMAN. What is the project number?

Mr. STERNFELD. 513Q70QC.

Mr. PASSMAN. It does not look as though there is much, if any, relationship between this project and this proposed new project.

Mr. STERNFELD. This was in the housing field.

Mr. PASSMAN. I am trying to get into the savings and loan system. You stated that the experience indicated it had been successful.

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. We want cited the savings and loan system to which you have sent consultants.

Mr. STERNFELD. Consultant in the field for savings and loan?

Mr. PASSMAN. That is what you said. This other was requested to direct the housing advisers.

A housing adviser is something different from a consultant in savings and loan associations, and this was for direct hire technicians.

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. Would a housing adviser qualify as a consultant to a savings and loan system?

Mr. STERNFELD. The people who are doing housing work really cannot do a good job unless they know something about savings and loan.

Mr. PASSMAN. It looks to me like a waste of money for you to send a man down into a country such as this, already with a successful savings and loan system, 22 associations in operation, for 10 days at $75 a day, or approximately that.

Can you tell us who this man is?

Mr. STERNFELD. No, sir. It could be the president of the savings and loan association in Florida.

It is called the Washington Federal Savings and Loan Association of Miami.

Mr. PASSMAN. Where have you sent that man previously?

Mr. STERNFELD. We have sent him to Costa Rica to help——

Mr. PASSMAN. When was that trip?

Mr. STERNFELD. We sent him——

Mr. MOSCOSO. We have sent him to several countries on several occasions.

Mr. PASSMAN. Are these 22 building and loan associations scattered all over Chile?

Mr. STERNFELD. Yes.

Mr. PASSMAN. What is this man going to do?

Mr. STERNFELD. With the experience that this man has in this field of savings and loan institutions he could give them the advice to overcome the obstacles that might take place in their operations during the year.

Mr. PASSMAN. And do all that in 10 days?

Mr. STERNFELD. He is a very skilled man.

Mr. PASSMAN. He must be extremely skilled. You have other projects not nearly so important as this one on which you send the consultants out for 2 years.

Mr. STERNFELD. That is right.

Mr. PASSMAN. This man can do in 10 days what the others require 2 years to do?

Mr. STERNFELD. This would be a spot job he would be called upon to do.

Mr. PASSMAN. This is a new project, though. Can you project this one?

Mr. STERNFELD. No, sir, I cannot.

Mr. PASSMAN. Is it a new project?

Mr. STERNFELD. Yes, under a new title.

Mr. PASSMAN. You said it was the only new project. Then we ran into this little $2,000 item here, and that is also a new project; is it not?

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. Are there others?

Mr. STERNFELD. The other projects on the page are shown with funds allocated in fiscal 1963 for these other projects.

Mr. PASSMAN. How many people do you have in your region including all types of personnel? There are more than 60,000 in AID, if you include the participants. Is that the figure we established earlier?

Mr. TENNANT. We had an insert. It is slightly over 60,000 including participants, military and——

Mr. PASSMAN. Do you have 15,000 in your region, Mr. Moscoso?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Do you delegate some of the authority to the personnel?

Mr. MOSCOSO. I delegate.

Mr. PASSMAN. Can you tell us that this $2,000 will be the end of this project?

Mr. MOSCOSO. In this case institutions have been set up. There are difficulties in organizing mortgage collections, and in the implementation of a new system.

This is new in the case of Chile.

Mr. PASSMAN. Is this man also a housing expert?

Mr. STERNFELD. He knows a good deal about housing.

Mr. PASSMAN. Do you know him personally?

Mr. STERNFELD. I have not met him, sir.

Mr. PASSMAN. How do you know about his qualifications.

Mr. STERNFELD. By reputation, sir.

Mr. PASSMAN. He knows his housing and he is a building and loan expert. What else?

Mr. MOSCOSO. A banker.

Mr. PASSMAN. Anything else?

Mr. MOSCOSO. That is all.

CONCEPCIÓN AIRPORT CONSTRUCTION

Mr. PASSMAN. What are the technical problems which have been holding up disbursement of the airport construction program, described on page 254? I notice that the credit was signed on June 21, 1961, and no disbursements have been made as yet.

We are running into many contracts worldwide for which the contracts have been signed, but there have been no disbursements.

We want to discuss this project on page 254.

Mr. MOSCOSO. All right, the airport.

Mr. PASSMAN. We are looking at "Airport Construction, 513A010." This credit agreement was signed June 21, 1961, more than 2 years ago.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. There has not been a dime disbursed on the account.

Mr. MOSCOSO. Bids are being entertained at this moment.

They are examining them. The award is expected on September 3.

Mr. PASSMAN. This means that you have signed a contract agreement approximately 2 years and 3 months in advance of even awarding the contract.

In other cases you say you have obligated the funds a year or 2 years in advance of even signing the contract. Do you get my point?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. You have some instances where you have obligated the money and it is being carried as obligated for 1 or 2 years and there has been no contract signed.

We find other instances where you have a contract signed, the obligation has been outstanding more than 2 years, and you still have not received a bid as to what it will cost.

Mr. MOSCOSO. Mr. Chairman, I don't know the exact——

Mr. PASSMAN. Am I stating the facts correctly?

Mr. MOSCOSO. Yes, but I mean to say there are problems in site acquisitions, problems in finishing plans and specifications, and any one of these several contingencies might have delayed this.

Mr. PASSMAN. We were told these things were firmed up before they ever enterd into a contract.

Mr. MOSCOSO. I didn't say they acquired the land or finished final plans and spcifications.

Mr. PASSMAN. I repeat, along the way they tell us these things have been firmed up at the time they sign a contract on the credit agreement.

Mr. MOSCOSO. A feasibility study usually has been finished.

Mr. PASSMAN. If you had waited 2 years in this instance you still would have had plenty of time if you got the money in this fiscal year, in 1964.

Mr. MOSCOSO. Unless there was an assurance that they would get the construction money the Government of Chile perhaps would not have gone out to buy the land for the airport.

Mr. PASSMAN. Have they bought the land?

Mr. MOSCOSO. Yes, because they are going to start construction.

Mr. PASSMAN. What will be the situation if you find it takes three times this much money to complete the project?

Mr. MOSCOSO. We have a feasibility study which says——

Mr. PASSMAN. What does the study indicate?

Mr. MOSCOSO. With this amount of money and with whatever the Chilean Government was going to put up——

Mr. PASSMAN. How much were they going to put up?

Mr. MOSCOSO. Land acquisition costs alone will be $400,000 and that will be put up by them.

Mr. ANDREWS. What is the date of the feasibility study?

Mr. MOSCOSO. I don't have it here.

Mr. ANDREWS. That would be very important. If it was made 2 years ago, then the cost of the airfield now would probably be considerably higher. This yellow sheet shows that the cost-of-living index is rising very rapidly there.

Mr. MOSCOSO. That is right.

Mr. ANDREWS. From 139 in 1959 to 155 in 1960, and 167 in 1961. It is an esimated 185 for 1962.

Mr. MOSCOSO. Feasibility studies normally show the costs expressed in dollars. What would happen is that more escudos would have to be generated to pay for it.

Mr. ANDREWS. In other words, if it costs more we will have to put up more money?

Mr. MOSCOSO. No. If it costs more on account of the escudos depreciation the dollars would buy more escudos.

Mr. PASSMAN. The dollar will not buy as much today as it would a few years ago. You had to have a feasibility study a year or 2 years in advance of entering into a signed contract. Is that right?

Mr. MOSCOSO. There is usually——

Mr. PASSMAN. Is that correct?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. You are dealing with something which is several years old.

Mr. MOSCOSO. I doubt the estimate is more than a year or 2 years old, Mr. Chairman.

Mr. PASSMAN. You just said the feasibility study may precede the contract by 2 years and the money has been obligated for 2 years. That amounts to 4 years.

Mr. STERNFELD. Feasibility studies would have had to be made before April of 1961.

Mr. PASSMAN. It might be as much as 2 years before signing the credit agreement?

Mr. STERNFELD. That is right.

Mr. PASSMAN. Let us add the 2 years that this has been obligated. That would make 4 years, would it not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. In cases such as this is it not much better to have it brought up to date before you come before the committee, rather than to use an estimate that is 4 years old?

Mr. STERNFELD. Sir, bids are being let.

Mr. PASSMAN. You are still operating with an estimate that is 4 years old.

Mr. STERNFELD. The bids will show whether the estimate is sound.

Mr. PASSMAN. What will you do if you get bids for $7 million?

Mr. MOSCOSO. If the Government of Chile will increase its participation proportionately——

Mr. PASSMAN. Why did you not let them build it 4 years ago and save money, without any money of ours?

Mr. MOSCOSO. They didn't have funds then.

Mr. PASSMAN. Neither did we. We borrow the money.

Mr. ANDREWS. One further question on the airfield. You made a commitment to participate financially in the construction of that airfield?

Mr. MOSCOSO. Yes, sir.

Mr. ANDREWS. That commitment was made several years ago?

Mr. MOSCOSO. Signed June 21 but we approved it April 17, 1961.

Mr. ANDREWS. Two years ago last April?

Mr. MOSCOSO. That is right.

Mr. ANDREWS. If the ultimate cost of constructing that field is considerably higher than it was at the time the first estimate was made, we will naturally put up more money than the book shows?

Mr. MOSCOSO. Not necessarily. We would have to reexamine the situation and see if it is warranted that we spend more money and the Government of Chile would have to participate——

Mr. ANDREWS. You mean before they start construction?

Mr. MOSCOSO. That is right.

Mr. ANDREWS. Because you could find yourself 50 or 60 or 75 percent completed. If you did not put up money I have an idea nobody else will put it up.

Mr. MOSCOSO. We will do that before construction. When the bids come in we will know whether we can build it for this amount.

Mr. ANDREWS. Let me suggest this: If the bids are out of line with your first estimate, just forget it.

Mr. MOSCOSO. Even if the airport is required and they have no money to build it or have only part of the money to build it?

Mr. ANDREWS. That would by my advice, unless they put up the difference between the original estimate and——

Mr. MOSCOSO. That is one of the things that would enter the negotiations.

Mr. PASSMAN. If you are pouring into Chile through other spigots $100 million do you not think they might maneuver around to the point they could finance the airfield anyway, out of our money?

Mr. MOSCOSO. That might be possible.

AIRPORT DESIGN AND CONSTRUCTION PROJECTS

Mr. PASSMAN. Do you have three of these airport projects?

Mr. MOSCOSO. Two.

Mr. PASSMAN. There is airport design up here, $300,000.

Then you have airport construction, another $10,500,000.

Then there is $3,200,000.

Mr. MOSCOSO. Airport design was for these two airports. I'm sorry; we have three. The design is for the third airport.

Mr. PASSMAN. Here is one for which you obligated funds back on June 29, 1960. This was just as the curtain was dropping at the end of the fiscal year.

Then you signed a contract on December 7, 1960, and you disbursed $7,000 out of $10,500,000.

That gives an idea as to how phony these accounts can be when you actually examine them.

There is for this one the same feasibility study requirement time, 2 years. You have had it tied up approximately 3 years, and that is a total of 5 years.

Mr. MOSCOSO. Apparently there was some difficulty with the supervisory engineer and the contractor for this job.

I haven't the details but I shall supply them.

Mr. PASSMAN. If we insert information on all these subprojects it would take a truck to move the volumes out to the floor.

Put in what you can, however.

(Information supplied follows:)

PUDAHUEL AIRPORT LOAN

There were several causes of delays on the Pudahuel Airport project.

The Ministry of Public Works had not acquired the necessary land for the complete airport. Powerlines had to be relocated as well as roads and irrigation ditches, all of which required right-of-way decrees.

The irrigation season caused delays because there is a strict Chilean law which states that there is to be no interference with irrigation canals during the irrigation season.

The governing conditions and regulations were found to be somewhat discriminatory against the U.S. firm's participation as construction contractor. This required negotiation to have these conditions amended. Certain clauses in the administrative bases for construction contracts also had to be amended in order to meet the conditions of the loan. For example, they included an escalation clause which adversely affected the project in that the U.S. Government believed that such escalation costs should be for the account of the Government of Chile and not require a renegotation of the loan for a higher amount at

a later date. Amendment of these administrative bases requires a Chilean Presidential decree which takes time.

Mr. Moscoso. I agree with you that these things should be expedited.

Mr. PASSMAN. I would much prefer to say, "Keep money on hand unobligated" than for you to rush in on the last day of the fiscal year and throw behind a screen perhaps hundreds of millions of dollars when obligations are not firm and at subsequent dates the money might have to be deobligated.

I know you yourself have some misgivings about whether or not this money will ever be used as planned. The matter is now 5 years old.

Mr. Moscoso. They will have to do it, as a matter of fact, because this is the main airport of the whole country.

Mr. PASSMAN. Then let them do it.

On the next to the last day of the fiscal year we run into items of $10 million, $4 million, $7 million, $9 million, and so on, all over the world thrown in, and these sums add up to $688 million, the Comptroller tells us, and it is all in the shady area.

I do not mean ink shady, either. It is stuck behind a curtain and we cannot touch it.

Anyway, see what you can do.

Mr. Moscoso. This was in 1960.

Mr. PASSMAN. You have already stated that the feasibility study is about 2 years old before you ever get to signing a contract. You have money obligated going back to 1961 for which you do not even have the contract signed yet.

You may have had this stuff stuck away 2 years on an old feasibility study before you got the contract signed and that was almost 3 years ago.

Mr. Moscoso. I built three airports in Puerto Rico and I can tell you that with the rapid advance of technology in the aviation field a considerable amount of time has to be devoted——

Mr. MINSHALL. Considerable what?

Mr. Moscoso. You need considerable time.

Mr. PASSMAN. These things are supposed to be planned. I know planning takes considerable time, but this is supposed to have been firmed up before you signed a contract.

Mr. Moscoso. I don't have the details.

Mr. PASSMAN. You keep this money tied up for years.

Do you agree that we have a right to wonder what is behind such actions?

Mr. Moscoso. Of course.

Mr. PASSMAN. You said you built three airports in Puerto Rico.

Mr. Moscoso. These are owned by a public organization called the Puerto Rico Ports Authority.

I was head of the organization then.

Mr. PASSMAN. You did not build the airports out of your own capital?

Mr. Moscoso. No. There was no personal money in them.

The organization I headed built them.

Mr. PASSMAN. A corporation?

Mr. Moscoso. A public corporation.

Mr. PASSMAN. Did Uncle Sam have anything to do with these projects?

Mr. MOSCOSO. Oh, yes.

Mr. PASSMAN. You were the administrator of spending U.S. taxpayers' dollars in constructing three airports. Is that the way it was?

Mr. MOSCOSO. We spent our money, too. We put up 50 percent of the cost and all the land acquisition costs.

Mr. PASSMAN. Does Puerto Rico pay an income tax?

Mr. MOSCOSO. Yes; they do.

Mr. PASSMAN. They get back every nickel they pay?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. I am for them, but in reality you were spending Uncle Sam's money building airports in Puerto Rico.

Mr. MOSCOSO. Will you exchange seven seats in the Congress for the taxpayments?

Mr. PASSMAN. You were spending U.S. tax dollars. They may have been handled as carelessly as these aid dollars are, I do not know.

Mr. MOSCOSO. No.

Mr. PASSMAN. Why do you not give the same type of management here, then?

On Saturday, June 29, 1963, really the last workday of the week, just before Sunday, June 30——

Mr. ANDREWS. And the last workday of the year.

Mr. PASSMAN. That is right. On the last workday of the fiscal year they authorized $158,975,000, and it is carried as an obligation. My guess would be that possibly 75 percent of that money someday will be deobligated. Let us hope so.

DEVELOPMENT PROGRAM LOAN

How will the development program credit of $35 million, discussed on page 257, generate local currencies?

Mr. MOSCOSO. This is providing for the acquisition of U.S. goods.

Mr. PASSMAN. This is budgetary support, is it not, for $35 million?

Mr. MOSCOSO. It will go to help finance the development plan of Chile, a 10-year development cost. We are financing dollar costs of essential imports from the United States.

Mr. PASSMAN. That is a direct Government transaction, is it not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. It is budgetary support, is it not?

Mr. MOSCOSO. To increase the investment required by the Chilean program.

Mr. PASSMAN. Is it not budgetary support, as we understand that term?

Mr. MOSCOSO. That is right.

May I point out that this is for the capital budget of Chile?

Mr. PASSMAN. I understand what it is, budgetary support. The money goes into the budget.

Mr. MOSCOSO. It is not to pay employees but to build things and develop the economy.

Mr. PASSMAN. You know that, even if you have a deficit in the budget, you always have to pay employees.

Mr. MOSCOSO. I know.

Mr. PASSMAN. If you go in there with this money to do something else, it amounts to the same thing. You can pay employees out of this and buy what you want out of the other.

Mr. Moscoso. That is right.

Mr. PASSMAN. When it is in there it is all mixed up. It goes through the budget.

Mr. Moscoso. But there are certain physical things that will be built as a result of this effort.

CONDITIONS ON AID TO CHILE

Not only that but we have tied this to a surplus in their own budget current account which has to be invested together with our funds.

Mr. PASSMAN. You will not disburse this money unless there is a budget surplus?

Mr. Moscoso. That is what our commitment says. They have to have 155 million escudos budget surplus or we will not pay.

Mr. PASSMAN. They could accomplish their part in 30 seconds. They could call their banker and say, "Credit our account with this sum and we will be able to draw off this amount when you do."

Mr. Moscoso. They could do that and then that will cancel the IMF standby. The whole thing will fall through.

Mr. PASSMAN. Let us see what the surplus is running for Chile.

CHILEAN BUDGET DEFICITS

In 1960 they had a deficit in the budget of $94 million. We stepped up foreign aid.

In 1961 they had a $97 million deficit and we stepped up foreign aid again.

In 1962 they had a $174 million defiicit.

Did we give Chile any money at all in 1960, 1961, and 1962?

Mr. Moscoso. Yes, deficits in their total budget.

Mr. PASSMAN. Let us see how much, total.

Mr. STERNFELD. For all 3 years?

Mr. PASSMAN. Give the total by the year.

Mr. TENNANT. For fiscal year 1960, including MSP, economic and military, plus Public Law 480 and Export-Import Bank, $46.6 million.

Mr. PASSMAN. Next year?

Mr. TENNANT. $128.7.

Mr. PASSMAN. Next?

Mr. TENNANT. $244.6 million.

Mr. PASSMAN. As the aid increases the deficit increases. We have an agreement with them that they cannot get the money unless they have a surplus.

Mr. TENNANT. These figures include military-economic, Public Law 480, and Export-Import Bank.

Mr. PASSMAN. You know what an about-face is?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. They will certainly have to take an about-face if they come up with a surplus in their budget; will they not?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. You took the aid program up to a quarter billion dollars and that is the year they had the biggest deficit.

Mr. STERNFELD. The budget is divided into two parts. One is the operating budget and the other is the capital budget.

Mr. PASSMAN. They amount to the same thing.

Mr. STERNFELD. What we have been talking about is the surplus in the operating expenses so that the Government could devote more funds to the capital expenditures.

Mr. PASSMAN. They have a deficit in their total budget?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. And they will have a deficit in 1963 and 1964; will they not?

Mr. STERNFELD. That is correct. They will have a deficit if they have an effective development program.

Mr. PASSMAN. This is just about as though I have $2.94 in one bank and am ovedrawn in another bank.

Mr. Minshall?

OPERATING BUDGET SURPLUS AS CONDITION TO U.S. AID

Mr. MINSHALL. I have several questions, Mr. Chairman.

On page 45 I read to you about your apprehensive attitude toward the Chilean situation. I believe you consider it a ——— because on page 46 you say that ———.

Mr. Moscoso. That is right.

Mr. MINSHALL. What is your time limit on this? Suppose they fail to perform satisfactorily at 9 o'clock tomorrow morning, how much will you cut down your aid?

Mr. Moscoso. We will stop disbursement on this loan if they do not produce the surplus I was talking about a moment ago. Every quarter we check that.

Mr. MINSHALL. What is your prognosis? Do you think they will make it?

Mr. Moscoso. Yes. They have made it up to now. Just a few days ago Secretary Martin saw the Ambassador to Chile and he said they would make it.

AIRPORT CONSTRUCTION

Mr. MINSHALL. Getting back to the airports, when do you plan to start construction?

Mr. Moscoso. In September we hope to start construction in Concepción, and in Pudahuel I understand they have started.

Mr. MINSHALL. How long do you think it will take to construct them?

Mr. Moscoso. It will take, I think, about 1½ or 2 years.

Mr. PASSMAN. You have had some of these funds 3 years and have not disbursed them. Dulles International Airport was started and completed within about 3 years; was it not?

Mr. Moscoso. For the record I will send you a memorandum, Mr. Chairman.

(Information supplied follows:)

JOHN FOSTER DULLES INTERNATIONAL AIRPORT[1]

This 10,000-acre project in Chantilly, Va., 27 miles from Washington, took longer to build and cost more to complete than had been anticipated.

It was back before World War II that the need for an international airport, and a second airport, was recognized in Washington. In 1950, Congress approved the proposal.

[1] Source: Fortune magazine, March 1962.

After a false start—the purchase of property at Burke, Va., which was not eventually used for the airport—the airport was begun in 1958. At that time, it was to open early in 1961, but actually opened in November 1962.

Costs rose faster than the time necessary to build the mammoth facility. For example, these are the estimates and the dates they were made:

	Millions		Millions
1956	$50	1961	$105
1959	85	1962	[1] 108

[1] Latest estimate provided by FAA.

Mr. PASSMAN. You referred to Dulles. That is a mammoth airport.

Mr. MOSCOSO. Site acquisition started 12 years ago, I believe.

Mr. PASSMAN. You have been talking about Dulles, and there was no appropriation at first but from the time they got the money it went very fast.

Excuse me. Go ahead, please, Mr. Minshall.

Mr. MINSHALL. I have nothing else, Mr. Chairman.

CHILE'S DEVELOPMENT PLAN AND FUTURE U.S. AID

Mr. ANDREWS. How far in the future have you projected programs for Chile? Have you thought about anything 5 or 8 or 10 years from now?

Mr. MOSCOSO. Chile has a development plan. It is a 10-year development plan.

Mr. ANDREWS. When did the 10 years start?

Mr. MOSCOSO. In 1962.

Mr. ANDREWS. So you have 8 years to go?

Mr. MOSCOSO. Yes, sir.

Mr. ANDREWS. Are you thinking about projects contained in the 10-year plan, which may be 8 years in the future?

Mr. MOSCOSO. We are asking the Chileans to think about it.

Mr. ANDREWS. You are interested in it?

Mr. MOSCOSO. We are interested that they do the right kind of feasibility work, that they do the right kind of engineering, and that the other things they do will increase their ability to achieve a self-sustaining growth.

Mr. ANDREWS. But you are planning to help them for 8 more years?

Mr. MOSCOSO. Not necessarily. The financing might be done by the Inter-American Development Bank or the Export-Import Bank. The Export-Import Bank is participating with us.

OBLIGATIONS AT END OF FISCAL YEAR

Mr. PASSMAN. I believe that on Friday, June 28, the next to the last workday in the fiscal year, they obligated $126 million, did they not?

Mr. TENNANT. I believe that is correct. You said obligated, did you?

Mr. PASSMAN. And on Saturday, June 29, the last workday, they obligated $158,975,000.

That is $126 million on June 28, and $158,975,000 on Saturday, June 29, or a total of $284,975,000 in those 2 days.

What you actually do, you move this money out of an unobligated status over into a reservation or obligated status, do you not?

Mr. TENNANT. I would describe it somewhat differently.

Mr. PASSMAN. Here is $515 million completely unencumbered on June 30, which, with the exception of the no-year funds, would lapse if you did not obligate it. You had $515 million completely unencumbered on June 30, is that right?

Mr. TENNANT. That is correct. It includes the military and economic programs.

Mr. PASSMAN. If you had left it just as we appropriated it, that would have moved the unobligated funds up to $1,099 million would it not?

Mr. TENNANT. Approximately.

Mr. PASSMAN. So far as the committee and the Congress are concerned, we have to refer to that $688 million as being obligated because it is not carried on hand in a completely unobligated status. Is that right?

Mr. TENNANT. This is correct, sir.

Mr. PASSMAN. We can call it an authorization, or anything we want to, but so far as Congress is concerned we come to completely unencumbered, unobligated funds that move into the technically unobligated but figuratively obligated status, reducing the unobligated funds?

Mr. SCHEINMAN. Mr. Chairman, by breaking it out you have reduced the figure you refer to as the pipepline.

Mr. PASSMAN. What you have on hand intact that you have a right to obligate or disburse out of is the pipeline, is it not?

Mr. TENNANT. That is correct.

Mr. SCHEINMAN. What I meant was the $688 million was not in addition to the unexpended balance referred to.

Mr. PASSMAN. I have never said that it was. I say it is in three parts, the part that is unobligated, the part that is not technically obligated but is figuratively obligated, and the part that is obligated for firm projects.

Mr. SCHEINMAN. I might also say that in fact there is no advantage to the Agency of obligating no-year funds at any particular point of time.

Mr. TENNANT. Mr. Chairman, while the funds do move in the categories you have expressed, it is based on the action of the Administrator and the Development Loan Committee who approve each loan. That action is the basis of the recordings on the Agency accounts.

Mr. PASSMAN. You are not disbursing but you are pulling funds out of the clean, clear category of so much on hand unencumbered, and nobody understands it better than you do. You have three categories. You do not disagree with that fact?

Mr. TENNANT. No, sir.

Mr. PASSMAN. Are you willing to say the total of unobligated funds amounts to $1,099 million? I yield to you to make that statement.

Mr. TENNANT. I cannot make that statement.

Mr. PASSMAN. You want to keep it in the gray zone?

Mr. TENNANT. If you want to put it that way.

Mr. PASSMAN. Thank you.

ASSISTANCE TO AIRPORT CONSTRUCTION AND FACILITIES IN CHILE

Mr. MINSHALL. I would like the total amount of dollars we are putting in airport construction and related facilities in Chile. How much is in all three airports?

Mr. MOSCOSO. For the two that are designed the mounts are $10.5 million and $3.2 million, that is $13.7 million, and $300,000 for airport design, or $14 million.

Mr. MINSHALL. For how many airports?

Mr. MOSCOSO. For two.

Mr. MINSHALL. What is it for the third?

Mr. MOSCOSO. We do not have that.

Mr. MINSHALL. I notice in the blue book, at page 254, you have an emergency airport for Santiago. Why do you need an emergency airport?

Mr. MOSCOSO. The Concepción Airport would provide an alternate in emergencies.

Mr. MINSHALL. Why do you need an alternate? What is the need for that?

Mr. MOSCOSO. This is a dual role that an airport plays. For example, Dulles is an airport for the District of Columbia but there is also Friendship. In bad weather when you cannot use Dulles you use Friendship. You try to have an alternate in case of bad weather.

Mr. MINSHALL. Why could not the others be used for that?

Mr. MOSCOSO. The other will be a jet airport.

Mr. MINSHALL. Will not the others be jet airports, too?

Mr. MOSCOSO. Yes.

Mr. MINSHALL. Why do you need a third one?

Mr. MOSCOSO. We are talking about the Concepción Airport. That is the alternate.

Mr. MINSHALL. You are not very clear. You have in your blue book on page 252 that there will be new airports in Chile at Pudahuel, Santiago, at Concepción and at Balmaceda.

Mr. MOSCOSO. Yes.

Mr. MINSHALL. How far apart are Concepción and Santiago?

Mr. MOSCOSO. About 325 miles.

Mr. MINSHALL. We do not have an emergency airport at Toledo.

Mr. MOSCOSO. This will be an airport for the Concepción area and also will help handle Santiago aircraft if there should be a closing down of that airport.

Mr. MINSHALL. Are weather conditions such that one could be closed down because of bad weather and the weather would be clear at the other?

Mr. MOSCOSO. It could happen. For instance, Dulles may be closed and Friendship open and the distance there is a little less than 35 miles.

Mr. MINSHALL. How much is this so-called emergency airport going to cost?

Mr. MOSCOSO. This is not an emergency airport. It is an airport for the city of Concepción, a rapidly growing industrial area, but it will have a dual purpose because it will not only serve as an airport for Concepción but will provide emergency landing facilities.

Mr. MINSHALL. I wish you would put in the record some part of your feasibility report when they justify that rather than call it an emergency airport.

Mr. MOSCOSO. We will be glad to.

Mr. MINSHALL. It seems to me that the aid program is getting to be pretty fancy when they finance emergency airports.

Mr. MOSCOSO. It happens it will also serve as an emergency airport, but it is primarily to serve the city of Concepción, which is the most rapidly growing industrial area in the country.

Mr. MINSHALL. Why do you not just build it there, then, to serve both cities?

Mr. MOSCOSO. I will be glad to supply information on that for the record.

(The information follows:)

CONCEPCIÓN AIRPORT

Concepción, 325 miles south of Santiago, has a population of approximately 150,000 and is one of the fastest growing cities in Chile. It is the location of Chile's only steel mill, Huachipato; Chile's largest coal mines, Lota and Schwager; the largest textile mills, Tome; and glass, paper, and pulp plants. The area is making a strong bid for first place in Chile's industrial development. The Concepción Airport is considered necessary not only to provide essential air facilities for this important seacoast industrial area, but also as a satisfactory alternate for the Santiago Airport which is approximately 1,800 feet higher and 325 miles to the north. Alternate airports for Santiago now are Lima, Peru; Buenos Aires, Argentina (both seacoast); and La Paz, Bolivia, weather permitting.

Mr. MINSHALL. Does Chile have any jet airports today?

Mr. MOSCOSO. They have expanded the present airport at Santiago at the expense of some great hazards to the population.

Mr. MINSHALL. This other airport at Santiago is a brand new one?

Mr. MOSCOSO. Yes. They will have to abandon the old one.

Mr. MINSHALL. What is wrong with it?

Mr. MOSCOSO. It is right in the middle of the city.

Mr. MINSHALL. So is Washington National Airport.

Mr. MOSCOSO. That is why they do not bring jets here.

Mr. MINSHALL. They can?

Mr. MOSCOSO. They can, but they do not do it.

Mr. ANDREWS. What is the minimum length runway a jet can land on safely?

Mr. MOSCOSO. It depends on the temperature and the altitude. In Bolivia the air is so rare and it is so cold you do not have to have as long a runway. In other words, if it were warm the runway would probably have to be 1,000 or more feet longer than it will be and it will be 13,000 to 14,000 feet.

Mr. ANDREWS. Is that about the average?

Mr. MOSCOSO. The average in the United States is about 7,900 or 8,000 feet. If it is in the South they have to build them longer.

Mr. ANDREWS. What is the length at Dulles?

Mr. MOSCOSO. At Dulles it is probably 12,000 feet. It once took me 1 full year to find out from FAA what the length of the jet runway should be at San Juan and this was because one frame builder would give a length and FAA would give another length. In view of the cost per foot it is important to get the correct number of feet.

COLOMBIA

Mr. PASSMAN. Do you have a program for Colombia in fiscal 1964?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. What amount are you asking for Colombia for 1964?

Mr. MOSCOSO. $———.

Grants and loans.

Mr. PASSMAN. When you talk about loans you are talking about credits?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. What is the total?

Mr. MOSCOSO. $———

Mr. PASSMAN. That is the total not counting the Export-Import Bank?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. The book shows $——— and when you put all the spigots together it is $———.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Would Colombia be eligible for Latin America regional funds.

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Would they also be eligible for interregional funds?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Are they eligible for supporting assistance?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Are they eligible for the President's Contingency Fund?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Are they eligible for the Social Progress Trust Fund?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Are they eligible for the many funds in the United Nations?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Are they eligible for Inter-American Development Bank funds?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Are they eligible for funds from the International Development Association?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. There are some 12 other funds. Will you put them all in the record?

Mr. MOSCOSO. Yes.

(The information supplied follows:)

FUNDS FOR WHICH COLOMBIA IS ELIGIBLE

In addition to the sources listed above, Colombia is eligible for funds from the various organs of the United Nations including ECOSOC, ILO, UNTA, etc., the Export-Import Bank, International Bank for Reconstruction and Development, and the International Finance Corporation.

AID LEVELS AND BUDGET DEFICITS

Mr. PASSMAN. What is the total amount that you have given this country since the inception of the program?

Mr. MOSCOSO. $374.8 million excluding the Export-Import Bank.

Mr. PASSMAN. How much did you give to this country, in total, in fiscal 1960?

Mr. MOSCOSO. $27.3 million. That includes economic and military.

Mr. PASSMAN. What amount did you give them in 1961?

Mr. MOSCOSO. $103.3 million.

Mr. PASSMAN. That sum apparently enabled them to move their deficit up to $90 million from $10 million.

What amount did you give them in 1962?

Mr. MOSCOSO. $81.8 million.

Mr. PASSMAN. That sum enabled them to move their deficit up to $135 million.

FISCAL YEAR 1963 PROGRAM LEVELS

In fiscal 1963 what amount did they get?

Mr. MOSCOSO. They got $93.7 million from AID and $8.5 million from the Social Progress Trust Fund.

Mr. PASSMAN. What is the total?

Mr. MOSCOSO. $102.2 million.

Mr. PASSMAN. What total did you ask for last year?

Mr. MOSCOSO. We asked for $4 million in——

Mr. PASSMAN. The total, please?

Mr. MOSCOSO. We asked for $44 to $64 million.

Mr. PASSMAN. They got how much?

Mr. MOSCOSO. $93.7 million.

Mr. PASSMAN. Is this more than double the request?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Double $44 million is $88 million?

Mr. MOSCOSO. Yes, but if you take the higher range, $64 million——

Mr. PASSMAN. You said the lower range was $44 million and you gave them $93 million out of this one spigot. All the spigots was how much?

Mr. MOSCOSO. Excluding the Export-Import Bank and the military——

Mr. PASSMAN. Leave the military in. What is the total?

Mr. MOSCOSO. $136.7 million.

Mr. PASSMAN. So that is double the double?

Mr. MOSCOSO. That includes the Export-Import Bank.

Mr. PASSMAN. Excluding the Export-Import Bank?

Mr. MOSCOSO. $133.3 million.

Mr. PASSMAN. That is double the high range, even?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. In the future we intend to put these sums together. What you ask for on this page was big enough, but when we put it all together it is tripled.

Mr. MINSHALL. Did you include the Peace Corps?

Mr. MOSCOSO. Yes.

Mr. MINSHALL. What about food for peace?

Mr. MOSCOSO. Yes, that was included.

Mr. PASSMAN. You will put all the other spigots in the record, will you not?

Mr. MOSCOSO. Yes; the international agencies, excluding the International Bank for Reconstruction and Development, and the International Finance Corporation, amounted to $21 million in fiscal year 1963.

Mr. MINSHALL. Do you happen to know offhand how much Colombia is getting for the Peace Corps?

Mr. MOSCOSO. Yes. They are getting $2.8 million.

Mr. MINSHALL. What are they doing over there, do you know?

Mr. MOSCOSO. Primarily working in the rural areas helping to build schools and train teachers and helping agricultural extension, et cetera.

Mr. MINSHALL. How many Peace Corps volunteers are there?

Mr. MOSCOSO. I do not have that figure.

Mr. ANDREWS. They did not receive $2.8 million from the Peace Corps?

Mr. MOSCOSO. That is the amount of money paid out by the Peace Corps to maintain the Peace Corps men there.

Mr. ANDREWS. All they get are the services and equipment?

Mr. MOSCOSO. Yes. They do not get any money.

BUDGETARY SUPPORT

Mr. PASSMAN. Is it not true we have had direct budgetary support to Colombia in the last 3 years?

Mr. MOSCOSO. We have helped them finance their budget.

Mr. PASSMAN. We have given them budgetary support?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. And with the large sums plus the budgetary support instead of their budget situation getting better it is getting worse. They had a $10 million deficit when we started and they went to $90 million and then to $135 million. What is the estimated deficit for 1963, do you know?

Mr. STERNFELD. We do not have it.

Mr. PASSMAN. Which indicates they are not supplementing their budget with tax collections. Despite the budgetary support we have given them, their deficit continues to increase.

CONSORTIUM FOR COLOMBIA

Page 49 of the justifications indicates a consortium is being arranged to provide external support for Colombia in the amount of $220 million annually for the next 4 years and the United States is expected to contribute $———.

I hope I have read that item incorrectly.

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. For the consortium arrangements, the other members usually make good hard loans, but not Uncle Sam.

Why is the U.S. contribution such a high proportion of the total for the consortium?

Mr. MOSCOSO. It is about ——— the external requirements.

Mr. PASSMAN. Yes, but we are only one nation.

Mr. Moscoso. The rest of it is supposed to be contributed by the international lending agencies and other nations.

Mr. PASSMAN. In reality the U.S. contribution may be 90 percent because they will get much of the balance from organizations to which we make large contributions.

Mr. Moscoso. There will be a substantial contribution from European countries.

Mr. PASSMAN. But they are dipping into organizations to which we make substantial contributions.

Mr. Moscoso. I do not have the figures here.

Mr. PASSMAN. It looks like the United States will put up 50 percent of the consortium's total but you dip into other organizations for which we are putting up 40 or 50 percent, so that, in fact, we are contributing most of it.

Mr. Moscoso. The bulk will come from the World Bank, Mr. Chairman.

Mr. PASSMAN. Did you say the World Bank?

Mr. Moscoso. IBRD, which is the World Bank.

Mr. PASSMAN. There might be some coming out of the Social Progress Trust Fund?

Mr. Moscoso. Yes.

Mr. PASSMAN. We might be putting up 80 percent?

Mr. Moscoso. No.

TAX MEASURES

Mr. PASSMAN. What is the status of the tax measures that are being considered by a special session of the Colombian Congress? In 1962 the tax measures were being considered by the Colombian Congress. Now we are in 1963. Go to your book, on page 50, and tell us how they are getting along with this debate.

Mr. Moscoso. The tax measures in question are now being considered. They are still considering it.

Mr. ANDREWS. How long have they been considering the tax measures?

Mr. Moscoso. Since January 1963.

Mr. ANDREWS. What tax changes have occurred in Colombia since the Bogotá Conference? When was that conference held?

Mr. PASSMAN. In 1960.

Mr. ANDREWS. That is 3 years. I would like to know what tax reform legislation has passed and how much tax collections have increased.

Mr. Moscoso. Law 81 of 1960 consolidating tax provisions, modifying the tax structure, and making technical improvements. Then in 1961 regulations were issued for the income tax.

Mr. PASSMAN. The internal revenue of the country in 1961 was $330 million and in 1962 it was $330 million. It did not increase one dime 1962 over 1961. What is the situation for 1963?

Mr. STERNFELD. I am sorry, we do not have that.

Mr. PASSMAN. The tax collections in the 2 years after Bogotá were not increased but they are now debating a tax bill?

Mr. Moscoso. That is right.

Mr. PASSMAN. And this is an AID estimate. I do not say you would purposely inflate it, but the actual may be below that sum. I imagine you will protect your interest.

Mr. MOSCOSO. Our interest, Mr. Chairman, is your interest.

Mr. SCHEINMAN. We have done everything we can to provide information for the benefit of the committee and we have taken your suggestions for improvement very seriously.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. ANDREWS. May I ask one other question about these taxes?

According to your best information, Mr. Ambassador, and the information contained in this book, no more taxes are being collected now than at the time of the Bogotá treaty. Is that correct?

Mr. MOSCOSO. That is correct, Mr. Andrews, but may I remind you of one thing?

Mr. ANDREWS. Yes.

Mr. MOSCOSO. You must remember that the principal product of this country is coffee and we have been drinking some cheaper coffee for some time compared to the price we had to pay before. If the price had remained at the level it was before, all of us probably would have contributed to the wealth of Colombia to the point it would not be necessary to give them as much aid.

Mr. ANDREWS. If you get into the real of "ifs," if our production of steel could go from 55 percent to 100 percent we would have less unemployment in this country.

Mr. MOSCOSO. That is right, but we have other things.

Mr. ANDREWS. We do not have time this afternoon to listen to all the things that could have happened "if" other things had happened.

At the Bogotá Conference did they not set down as a condition precedent that before money went from the United States that those countries, including Colombia, would increase taxes and do something in the field of land reform?

Mr. MOSCOSO. Yes.

LAND REFORMS

Mr. ANDREWS. What has Colombia done in the field of land reform since this conference?

Mr. MOSCOSO. Colombia is moving ahead with a land reform program. They have been debating the tax reform bill since January of this year and we hope it is approved.

Mr. ANDREWS. They have had trouble with the Government. The Government that existed at the time of the Bogotá Conference toppled?

Mr. MOSCOSO. No, it did not topple. There was a democratic election held and a peaceful change, but the new Government is of a different party and this bill is being debated in the Congress.

CONDITIONS PRECEDENT TO U.S. AID

Mr. ANDREWS. But we have gotten no further than the debate stage in an effort for Colombia to meet the condition precedent to our assisting them?

Mr. MOSCOSO. I do not recall my saying this was a condition precedent.

Mr. ANDREWS. I am telling you what they told us.

Mr. PASSMAN. We read it in the record time and time again. The Foreign Affairs Committee chairman said: "We will not ask for any money to be appropriated until they have passed these reform measures."

They were maybe beginning to tighten up but when we started disbursing this money it became clear they made up their mind that they did not have to pass these laws in order to get this money. If you tell people, "You will have to do this in order to get the money," and you start giving them money before they do it, it stands to reason it will be more difficult for you to withhold money in the future.

You do not disagree with my observation, do you?

Mr. MOSCOSO. There is an old Spanish saying that a musician you have already paid does not play as well.

Mr. ANDREWS. That is a good expression.

Mr. PASSMAN. Now they are debating tax measures but they are not passing them. Why do you not wait until they pass them and implement them before giving them this money?

Mr. MOSCOSO. I think, Mr. Chairman, we do not differ on the objectives. I am just as anxious as you are to see these people pay more taxes. The difference is how you are going to get it. I think the business of raising taxes anywhere in the world, including in the United States, is a difficult job.

Mr. ANDREWS. And unpopular, too.

Mr. MOSCOSO. Very unpopular.

Mr. ANDREWS. But no government can help itself unless it levies and collects taxes.

Mr. MOSCOSO. But this is a very stable society. You probably saw in the paper this morning where the former dictator, Pinilla, is trying to overthrow the regime of President Valencia, and one argument he is using is that he is making some of the wealthy people worry that they will have to pay more taxes.

Mr. PASSMAN. We have agreed that some of these countries accumulate a bunch of tax claims and then pass legislation forgiving them.

Mr. ANDREWS. Mr. Ambassador, Mr. Minshall touched on this question with reference to Chile. You have it blacked out on page 46, which means it is classified, but I do not know why it should be. It says that ———.

Mr. MOSCOSO. Yes.

Mr. ANDREWS. That is in reference to Chile. Do you not have a statement similar to that in the book with reference to Colombia?

Mr. MOSCOSO. I hope next year we will.

Mr. ANDREWS. I understood your statement a moment ago to be that Colombia had not done any of these things required at the Bogotá Conference?

Mr. MOSCOSO. I did not say that.

Mr. ANDREWS. Except debate in Congress. They have introduced a bill and are debating it.

Mr. MOSCOSO. And they have approved an agrarian reform program.

Mr. PASSMAN. We have asked for a list.

Mr. MINSHALL. Off the record.

(Discussion off the record.)

U.S. ASSISTANCE TO TAX ADMINISTRATION

Mr. MINSHALL. What are you specifically doing to help them collect taxes in Colombia?

Mr. MOSCOSO. We have a tax administration program to provide advisory services and to train the employees.

Mr. MINSHALL. How many people are involved in this program?

Mr. MOSCOSO. We have one technician and we will have an Internal Revenue Service group going in.

Mr. MINSHALL. How big a group?

Mr. MOSCOSO. I do not know how many people.

Mr. MINSHALL. Are you doing the same thing in Chile?

Mr. MOSCOSO. Yes.

Mr. MINSHALL. How long have you been doing it in Chile?

Mr. MOSCOSO. Two years.

Mr. MINSHALL. Do you have any results from that?

Mr. MOSCOSO. Oh, yes.

Mr. MINSHALL. The chairman brought out you had not increased the internal revenue. I believe it was $330 million and had not changed.

Mr. MOSCOSO. In the case of Chile it has increased.

Mr. MINSHALL. I am talking about Colombia.

Mr. MOSCOSO. You are right. I hope next year this will change.

COLOMBIAN TAX BILL

Mr. STERNFELD. Mr. Minshall, the bill before their Congress calls for the reestablishment of a national gasoline tax, it calls for the establishment of a supplementary income tax on excess expenditures applicable to Colombian nationals, resident aliens with rates from 5 to 25 percent, and it has a tax stamp for individual traveling abroad on income and property declarations.

Mr. MINSHALL. That is fine, but what are they doing about the bill? Are they filibustering?

Mr. MOSCOSO. This is a democracy and they are debating it.

Mr. MINSHALL. What are the changes for its passage?

Mr. MOSCOSO. The chances are very good that they will take action and if not we will have something in here like we have on Chile.

Mr. PASSMAN. It has been established that in Chile they are increasing the deficit every year and you are pouring money into Chile by the tens of millions of dollars, are you not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. They are making the conversation and we are giving the money.

Mr. MOSCOSO. In Chile they have approved in one house a tax bill.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

NEED FOR SELF-HELP EFFORTS IN LATIN AMERICA

Mr. PASSMAN. There has been very little improvement made in Latin America. We know this program so far is a failure and until we recognize it as a failure because they are not doing their part, this thing will never succeed. Nobody, I believe, wants to see this phase

of the program succeed more than I do. However, these people are holding back because they know they do not have to do these things in order to get our money. So far as I am concerned, I will do everything I can to try to convince them that they have misjudged the mood of the Congress and of the American people.

Mr. Moscoso. In many instances, Mr. Chairman, the argument that is used by those who do not like us is that all we are doing is redressing something that has been done by the exploiters that have taken the oil or other natural resources out. I wish it were as simple as that.

Mr. PASSMAN. These people know there never has been a country on the face of the earth as generous as the United States is. They can look on the record and see that we have given billions of dollars of the wealth of America to other nations. Yet the nations to which we have given the most aid appear to be the weakest. Your predecessor, the present Ambassador to Spain, pointed to Cuba and the sugar subsidy. It was the highest subsidized nation on the face of the earth, and look where they are. And look at Laos, as another example.

Mr. Moscoso. In spite of the fact we have been generous you will recall that just a few years ago the Vice President of the United States suffered a great amount of indignity in Latin America because of great animosity against the United States.

Mr. PASSMAN. And this animosity appears to be just as great today, notwithstanding all the aid we have given.

Mr. Moscoso. I am going to quote something, Mr. Chairman, which is very true. This is from the person we quote the most in the English language.

To the noble mind, rich gifts wax poor when givers prove unkind.

Sometimes, Mr. Chairman, the style is more important than the amount we give.

Mr. PASSMAN. If they are not willing to help themselves, I think we ought to come home.

Mr. Moscoso. I agree with you on that. They have to help themselves. Otherwise, we should not help them.

Mr. PASSMAN. They are not doing much of it.

Mr. Moscoso. They are doing some, but not as much as we would like them to do.

Mr. PASSMAN. Very little, comparatively.

Mr. Moscoso. But it is moving ahead, Mr. Chairman.

Mr. PASSMAN. Do you agree that what they are doing is very little compared to what we expected and what they promised?

Mr. Moscoso. It is very little compared to what you might have expected, but knowing these people a little bit better than you, Mr. Chairman, I say this is about as fast as you are going to get them to move as of this moment. I think they are moving much faster.

Mr. PASSMAN. Nations have become prosperous for literally thousands of years based upon trade. Is that right?

Mr. Moscoso. That is right.

Mr. PASSMAN. Giving away your wealth, hoping to cure the ills of all the other peoples of the world, is a brandnew concept in foreign policy as we think of time; is it not?

Mr. Moscoso. Yes; helping the less developed countries.

Mr. PASSMAN. It is a concept that is not working successfully.

As far as I am concerned, this program will fall of its own weight if we do not tighten it up.

COST OF DEVELOPMENT LENDING

I think Mr. Scheinman's example today as to how we could borrow money at 3½ percent and lend it at three-fourths of 1 percent and in 40 years wind up with a profit, is the best example I ever heard of, of how the aid program operates.

Mr. SCHEINMAN. Certain assumptions are made.

Mr. PASSMAN. I imagine so, because you have to borrow at 3½ percent, lend it for 40 years, at three-fourths of 1 percent, and when you finally collect it back you wind up with a profit, according to your reasoning.

(Off the record.)

Mr. PASSMAN. We know we are borrowing the money at 3½ percent. We are lending it at three-fourths of 1 percent. At the end of 40 years we show a profit, you state, of $17,033. If that is the formula you people are using and the basis for the justifications you have worked up to get this money, we had better adjourn this thing and go on out to St. Elizabeths as a body.

Mr. ANDREWS. I think by any table or machine you use to calculate it, the interest on a million dollars at 3½ percent would be $35,000 a year. Forty times that is $1,400,000. By any machine or any formula that you use to figure three-fourths of 1 percent interest on a million dollars for a year, it is $7,500. You multiply that by 40, and you come up with $300,000. That is the interest for 40 years at three-fourths of 1 percent on a million dollars.

Mr. SCHEINMAN. There are a couple of matters involved in this.

Mr. ANDREWS. There are bound to be a lot of matters. If you subtract the $300,000 from the $1,400,000, you still come out $1,100,000 behind the game.

Mr. SCHEINMAN. There are a couple of matters involved in the calculation. Not all of the money in the U.S. Treasury is borrowed.

Mr. MINSHALL. A lot of it is.

Mr. PASSMAN. Everything you give away is borrowed.

Mr. ANDREWS. Every time you have a deficit—and we have had 26 in the last 31 years—it is borrowed money.

Mr. SCHEINMAN. They took the proportion of the million dollars which was borrowed and the proportion which was paid in as taxes, and that affects the computation. In addition, sir, the amortization of the loan and the payback of the principal affects the calculation.

Any million dollars which the U.S. Government uses—you cannot identify whether that particular million dollars was borrowed or paid in taxes.

Mr. PASSMAN. This is the last obligation we incurred, the give-away program.

We are spending $100 billion a year. We are paying interest on more than $300 billion.

I do not know what you were trying to prove.

Mr. SCHEINMAN. We have agreed to submit an insert based on your hypothetical suggestion.

Mr. TENNANT. You asked us to compute on the basis of 3½ percent.

Mr. PASSMAN. Please do so.

FISCAL YEAR 1963 DEVELOPMENT GRANT PROGRAM FOR COLOMBIA

Page 259 of the project book indicates that you have executed a development grant program of $5.962 million. How much did you justify for the development grant program last year?

Mr. MOSCOSO. $4 million.

Mr. PASSMAN. You justified $4 million, but you executed a program of $5.962 million. That is almost a 50-percent increase.

Mr. STERNFELD. Sir, the program was executed at $6.3 million.

Mr. PASSMAN. Page 259 indicates you executed a development grant program of $5.962 million. You asked for $4 million.

That is almost a 50-percent increase.

What did you finally do?

Mr. MOSCOSO. $6.3 million.

Mr. PASSMAN. That is more than 50 percent over what you requested.

Are you familiar with the antideficiency law?

Mr. MOSCOSO. Yes; it is a different operation.

Mr. PASSMAN. You bet it is a different operation.

FISCAL YEAR 1963 SUPPORTING ASSISTANCE

Why did you program $175,000 for commodities under the supporting assistance appropriation for this country in 1963?

Mr. MOSCOSO. The same explanation pertains here, Mr. Chairman, that I mentioned in the case of Chile. During the Cuban crisis in October, urgent emergency requests were made for antiriot equipment, and so forth, and we provided it to them.

NATIONAL PLANNING-AGRICULTURE PROJECT

Mr. PASSMAN. Did you request and justify the $75,000 that you obligated for the National Planning-Agriculture project, on page 264?

Mr. STERNFELD. At page 155 of last year's book.

CUBAN COMMUNIST EFFORTS IN LATIN AMERICA

Mr. MINSHALL. Mr. Moscoso, you mentioned Cuba a minute ago. How much has the influence of Cuba under the Communist regime been felt since last October throughout Latin America?

Mr. MOSCOSO. The Cuban expert is sitting to my right, here.

Mr. MINSHALL. Would you answer that?

Mr. COTTRELL. I think the most serious impact of Cuba involves the people they have trained in Cuba and sent to all Latin American countries, adding to the present Communist apparatus in those countries.

Mr. MINSHALL. It is no doubt they are using it as a base for communism, for the training of saboteurs in large volume.

Mr. COTTRELL. That is quite right.

Mr. MINSHALL. What countries are feeling the most impact of this?

Mr. COTTRELL. The Cubans have indicated Venezuela and Guatemala are their two priority pojects. They are working on others, probably less in Mexico and Brazil than in most.

Mr. MINSHALL. How about Central America?

Mr. COTTRELL. Guatemala.

Mr. MINSHALL. What are they doing in Guatemala?

Mr. COTTRELL. There are guerrilla bands up in the hills. So far, the Government has been able to control them.

Mr. MINSHALL. What are they doing?

Mr. COTTRELL. The guerrilla bands?

Mr. MINSHALL. Yes.

Mr. COTTRELL. They are organizing to try eventually to overthrow the Guatemalan Government, as do all guerrilla bands. They have not been causing much damage to date.

Mr. MINSHALL. But they have shown a tremendous increase—is that a fair adjective to use—or a very marked increase?

Mr. COTTRELL. I would say very marked since last October. That is a good way to describe it.

Mr. MINSHALL. They are using it not only for radio propaganda, but printed material as well.

Mr. COTTRELL. They are sending propaganda all over the hemisphere and are sending men. We haven't any evidence they are exporting arms yet. We have evidence that they are delivering cash to various organizations.

Mr. MINSHALL. Have you any evidence of their influence in Haiti?

Mr. COTTRELL. No. The evidence that the Cubans are active in very slim. I believe the reason is that they know we are extremely touchy about Haiti, and it might cause a reaction on our part. So far, up to recent days, Castro has trimmed his policy so he would not exacerbate the situation.

Mr. MINSHALL. How much has it increased the cost of our aid program in these countries to try to overcome this influence of Cuba?

Mr. COTTRELL. I do not think you could measure it very accurately.

Mr. MINSHALL. It has increased the cost, has it not? You have had to redouble your efforts in some quarters.

Mr. COTTRELL. I am not aware of any specific loans that have been given in Latin America that directly related to stopping the Cuban influence.

Mr. MINSHALL. I do not refer to that, but I mean you have had to increase your effort.

Mr. MOSCOSO. It is partly as a result of the desire to see there is no further increase in the influence of Castro communism in the whole region.

Mr. MINSHALL. I hope you can leave most of this in the record.

Mr. COTTRELL. This is quite all right.

U.S. ASSISTANCE TO PLANNING IN AGRICULTURAL SECTOR—COLOMBIA

Mr. PASSMAN. You did not identify this project in 1963. Go to your page again.

Mr. STERNFELD. The project on page 155.

Mr. PASSMAN. Page 155 shows a project, 514-A-19-AG, "Agriculture Management and Planning," begun in fiscal 1953. On this project in 1963, obligation, zero; unliquidated, zero. It is a brandnew project with a brandnew obligation.

Mr. STERNFELD. The project took a different shape from the project justified before the committee on page 155.

Mr. PASSMAN. But you have a different project number, a different name for the project, and you do not show that you had any prior obligations or liquidations, do you?

Mr. STERNFELD. That is right.

Mr. PASSMAN. We are running into this kind of thing all along the way.

Tell us how much has been spent on the old project, and what you did with the amount of money that you had on hand unliquidated when you came before the committee last year, if this is the same project.

Mr. STERNFELD. Sir, the reason for the difference—I will admit it is not a good reason—is that the preparation of this page would have been much more accurate if they had merged the project called Agricultural Management and Planning, begun in 1953, with this project called National Planning—Agriculture. The objective was the same. The change that took place was in a shift from direct hire U.S. technicians to operating on the basis of a contract, working with the same objective of trying to improve the agricultural planning in the country of Colombia.

The project sheet, Mr. Chairman, you are right, does not give you the total picture——

Mr. PASSMAN. It is a new project, new name, new number, new amount. You do not even show that you ever had a prior year contract, and instead of obligating——

Mr. STERNFELD. Sir, I admit we did that.

Mr. PASSMAN. But the book is so loaded with this kind of stuff. Twenty men put together, spending full time at the job, could never tear apart what you people have mixed up here. You change the name, change the numbers, and show there never has been an expenditure.

Tell us how much you spent on the old project before it was concluded, or whether it was canceled and how much you deobligated on the old project.

Mr. STERNFELD. According to the information I have in front of me here, the old project, we obligated $706,000.

Mr. PASSMAN. How much did you have unliquidated?

Mr. STERNFELD. The book which I have in front of me says at June 30, 1962, $10,000 was unliquidated.

Mr. PASSMAN. He is pointing out a different figure there. How much is it not?

Mr. STERNFELD. At June 30, 1962, the actual unexpended balance turned out to be $18,000.

Mr. PASSMAN. $18,000, not $10,000. What did you do with that money?

Mr. STERNFELD. I would have to check the record to see whether that has been completely liquidated.

Mr. PASSMAN. If not, it should be on this page.

Mr. STERNFELD. That is correct.

Mr. PASSMAN. You have these kitties buried all through this aid program. I wish that Congress would help you bring it under control.

Find out the facts and give us something on this item, please.

(Information supplied follows:)

AGRICULTURAL MANAGEMENT AND PLANNING PROJECT

The unliquidated amount for the "Agricultural management and planning" project was $18,000 on June 30, 1962. Of this amount, $11,000 was expended in fiscal year 1963: $9,500 for technician salaries and $1,500 for participant training costs, and the cost of converting this project to contract status. The remaining $7,000 was deobligated.

FINANCIAL DEVELOPMENT PROJECT

Mr. PASSMAN. Did you justify the $75,000 that you obligated last year for the "Financial development" project, on page 266?

Incidentally, on this new project, indicate what it will cost to complete the thing.

Mr. STERNFELD. $356,000.

Mr. PASSMAN. So, it is a million dollars if you combine them.

Did you justify last year the project on page 266?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. You did not justify it.

Project the cost of this one to conclusion.

Mr. MOSCOSO. $1,058,000.

EDUCATION PROJECTS

Mr. PASSMAN. I note that you plan to initiate the secondary educational project in 1964 at a cost of $153,000. What will that project cost to completion?

Mr. MOSCOSO. $253,000.

Mr. PASSMAN. With an unexpended balance of $1,600,000 in the "Primary education" project, on page 270, why are you requesting additional funds in the amount of $264,000 for fiscal 1964?

Mr. MOSCOSO. This is the secondary education program.

Mr. PASSMAN. Gentlemen, you have on hand and have been carrying over since 1952, $1,600,000; have you not?

Mr. MOSCOSO. This is a contruction program.

Mr. PASSMAN. When did the project start?

Mr. STERNFELD. 1958.

Mr. PASSMAN. How much have you expended on the project from the inception of it, going into its seventh year?

Mr. STERNFELD. $2,720,000.

Mr. PASSMAN. What will it cost to complete it?

Mr. STERNFELD. Since the inception of the program, $5,920,000.

PUBLIC SAFETY PROJECT

Mr. PASSMAN. Did you justify last year the $440,000 that you obligated for the "Public safety" project, on page 271?

Mr. STERNFELD. No, we did not.

Mr. PASSMAN. What will it cost to complete this project which you started but did not justify?

Mr. MOSCOSO. The cost of the project to completion, $1,600,000.

Mr. PASSMAN. Did you justify last year the $206,000——

Mr. MOSCOSO. Mr. Chairman——

CIVIC ACTION PROJECTS

Mr. PASSMAN. Did you justify last year the $206,000 that you obligated to the "Civic action-well drilling program," on page 273?

Mr. MOSCOSO. No, sir; this was not justified.

Mr. PASSMAN. What will that project cost to complete?

Mr. MOSCOSO. $326,000.

Mr. MINSHALL. Why did you not justify it a year ago?

Mr. STERNFELD. The civic action program, Mr. Minshall, was initiated after the justifications were submitted to the Congress. A joint DOD and AID team went down to Colombia, where there have been great difficulties with the banditry problem.

Mr. MOSCOSO. One of the great problems in Colombia is that in spite of the democratic position, there are bandits, which is the only description one can give it, because these are people who not only steal but also kill.

Mr. PASSMAN. They have been there for hundreds of years, have they not?

Mr. MOSCOSO. We are helping the Colombian Government to eliminate it.

Mr. PASSMAN. It is nothing new, is it? It has been going on.

You did not justify the project, but this is not the exception. This is the rule. You have the law on your side. It is that broad.

Mr. MOSCOSO. You are entering a stage in Colombia where you want to maintain as much tranquillity as possible so you can do the developmental job. One of the main sources of instability in that country, which is pretty stable otherwise, has been these outcroppings of violence in the remoter parts of the country.

Mr. PASSMAN. How is a well-drilling project related to bandits?

Mr. MINSHALL. Is it to water the bandits?

Mr. MOSCOSO. No. It is to provide water to the population so they will not join the bandits.

Mr. PASSMAN. That conclusion seems to be pretty farfetched. You did not justify it, anyway.

Did you justify the $216,000 obligation in fiscal 1963?

Mr. MOSCOSO. This was not justified. This is civic action, too, and civic action was not justified.

Mr. PASSMAN. That was not justified, either.

Did you justify the $400,000 that you obligated last year for the civic action program?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Why do you need $700,000 for the Tolima Highway project, on page 275, which is an increase of approximately 75 percent for 1964?

Mr. MOSCOSO. This provides the necesary goods for the completion of the 42-mile segment of the highway between Palmira and Tolima. This includes gasoline, cement——

TAX ADMINISTRATION PROJECT

Mr. PASSMAN. Did you justify the $150,000 that you obligated last year to the tax administration project, on page 276?

Mr. MOSCOSO. No, it was not justified.

Mr. PASSMAN. Can you project the cost of this thing?

Mr. MOSCOSO. The cost to completion, $1,500,000.

TECHNICAL SUPPORT COSTS

Mr. PASSMAN. I note that you obligated $400,000 in 1963 for the technical support project, on page 277. Did you justify that one?

Mr. MOSCOSO. We justified $191,000.

Mr. PASSMAN. You justified less than half of it?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Project the cost of that project to completion, if you will.

(The information supplied follows:)

TECHNICAL SUPPORT COSTS

Technical support costs are continuing costs until it is decided to close out the mission. At this time no date has been established.

Mr. MINSHALL. Why did you not justify all of these? For the same reason you gave me in response to my earlier query? Because of the bandits?

Mr. MOSCOSO. No.

Mr. MINSHALL. Why did you not justify this one?

Mr. MOSCOSO. What I mentioned had not been justified was civic action programs which were started.

Mr. MINSHALL. The rest of them you just used the law?

Mr. MOSCOSO. I suppose this was used as an increment in the whole program. The Alliance for Progress is a new program.

Mr. MINSHALL. I understand this.

Mr. MOSCOSO. And this is the technical support component of the increments of the program.

Mr. PASSMAN. When you started this program years ago, would you not have been happier if we had said we are going to appropriate sufficient money to do this, but you will have to justify it and we will appropriate the funds, and you would then go do your project?

Mr. MOSCOSO. Perhaps if it had been done right when it was started——

Mr. PASSMAN. It would not have been messed up like this.

Mr. MOSCOSO. We never gave enough, and we gave it so reluctantly it did not do the good.

Mr. PASSMAN. We did not give enough?

Mr. MOSCOSO. Yes, sir.

ILLUSTRATIVE NATURE OF AID REQUEST

Mr. PASSMAN. We have given over $100 billion since the end of World War II; about $124 billion, if you include the interest on the money we borrowed to give away.

These programs are illustrative; is that correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You can justify them but substitute a different set of programs altogether?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. You could, under the law, ignore every program, everything that you have justified in the book, and spend the money and obligate it for different purposes; could you not?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You could justify a highway in Argentina and build a brick building in Algeria and be within the law; could you not?

Mr. MOSCOSO. That is right, but not with Alliance for Progress loan funds.

Mr. PASSMAN. Under the development credits, known as development loans, you do not know what projects, what countries, or for what purposes the funds will be used, until you get the money; do you?

Mr. MOSCOSO. That is right.

NEW PROJECTS PROPOSED FOR FISCAL YEAR 1964

Mr. PASSMAN. Do you have any new projects on page 278, proposed for initiation in fiscal 1964?

Mr. STERNFELD. Higher education, under education——

Mr. PASSMAN. That is a new project?

Mr. MOSCOSO. Higher education, $97,000.

Mr. PASSMAN. Any others?

Mr. STERNFELD. Civic action is new, $48,000.

Mr. PASSMAN. Higher education—what is the figure?

Mr. STERNFELD. $97,000.

Mr. PASSMAN. The cost to completion is what we want.

Mr. STERNFELD. I don't have the figure here.

Mr. PASSMAN. It could be many millions of dollars?

Mr. STERNFELD. I don't think it would be.

Mr. PASSMAN. You are starting something here. Higher education could shoot the moon; could it not?

Mr. STERNFELD. Not in the way of development grants, Mr. Chairman.

Mr. PASSMAN. How much do you have in this bill for that category under "Development grants?"

Mr. STERNFELD. Under "Higher education?"

Mr. PASSMAN. In the total. You can spend it for anything you want.

Mr. STERNFELD. Our request for Latin America is $100 million of new development grant funds.

Mr. PASSMAN. Can you give us any idea of what you are getting us into with this project?

Mr. MOSCOSO. This is going to be used to give planning assistance to the universities——

Mr. PASSMAN. Higher education. What will be the cost?

You think it would phase out at about $400,000?

Mr. STERNFELD. That is right.

Mr. PASSMAN. How about civil action? To what spending point will you take that one?

Mr. STERNFELD. I don't have it, sir.

Mr. PASSMAN. This is communication network. That could get to building a complete telephone and wireless system; could it not?

Can you get us an estimate from downtown and give it to us?

Mr. STERNFELD. Yes, sir.

(The information requested follows:)

CIVIC ACTION—COMMUNICATIONS NETWORK

The total cost to complete this project will be $48,000. These funds will purchase receiver-transmitter sets, antennas, and spare parts sets. These are required to supplement the operatoin of two MAP-provided point-to-point communications networks. The first network, in the Llanos region which covers most of the eastern two-thirds of the country, will serve 11 communities with a population of 240,000. The second network will be in the Amazonas area and will serve 11 communities with a population of 140,000.

The networks will provide communications between these areas and the major cities of the country, thereby assisting in the maintenance of internal security.

Mr. MINSHALL. What kind of communications network is this?

Mr. MOSCOSO. This is in order to get relief quickly to these areas where these bandits strike upon a village.

Mr. MINSHALL. Are these field phones?

Mr. MOSCOSO. Yes.

Mr. MINSHALL. You can buy an awful lot of field phones for $48,000.

Mr. MOSCOSO. It is a big country.

Mr. MINSHALL. It is a lot of field phones.

You can buy these second-hand from the Army-Navy store.

Mr. PASSMAN. That may not be it.

Mr. MINSHALL. They are perhaps not good enough.

Mr. MOSCOSO. We will check it, sir.

DEVELOPMENT PROGRAM LOAN FOR COLOMBIA

Mr. PASSMAN. I note, on page 280, the development program credit in the amount of $60 million which is going to generate Colombian pesos.

Is this a matter of budgetary support?

Mr. MOSCOSO. It is not, sir. This will be used to provide the essential imports into Colombia and the pesos generated will be used for labor union housing cooperatives, $10 million——

Mr. PASSMAN. Does this money go into the budget of the country? Is this government credit?

Mr. MOSCOSO. The bulk of it will go into a private investment fund.

Mr. PASSMAN. Will it go into the Treasury and then out?

Mr. MOSCOSO. Private investment fund which will be handled by the commercial banks of Colombia.

Mr. PASSMAN. It will have nothing to do with their budget?

Mr. MOSCOSO. The $30 million will not.

Mr. PASSMAN. With reference to the $60 million, please.

Mr. MOSCOSO. Well, there will be $20 million going to the capital projects which are in the Colombian development budget.

Mr. PASSMAN. The budgetary support part will be $20 million?

Mr. MOSCOSO. That is right.

Mr. PASSMAN Am I correct there?

Mr. MOSCOSO. As part of their development program.

Mr. PASSMAN. I know, but everything goes into something. We are trying to be factual.

The $20 million will be budgetary support, and out of the budget they could spend it for designated projects. Is that right?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Have we not established there is budgetary support?

Mr. STERNFELD. Budgetary support of a development type——

Mr. PASSMAN. I want to be sure we understand this is budgetary support money being paid into the budget.

They will do something with the money. They will be public works projects?

Mr. MOSCOSO. Public works.

(The following additional information was supplied later:)

U.S. CONTROL OVER THE USE OF LOANS MADE TO SUPPORT THE COLOMBIAN DEVELOPMENT PLAN

A $60 million loan was made in December 1962, to assist the Colombian Government in carrying out its long-term economic development plan. This loan was made for the following purposes:

	Million
Loan to the Bank of the Republic to create a private investment fund for relending to private business firms	$30
Loan to labor unions which will provide 50 percent matching funds from their own resources and construct housing units to be sold to their members	10
Support of the Colombian development budget	20

The Bank of the Republic has established an account into which are deposited the peso equivalents of the dollars disbursed under this loan.

The United States controls the uses to which these funds are applied (1) by requiring specific agreements with the country as to the projects to be financed before withdrawals from the peso account are authorized, and (2) by auditing the expenditure of these funds to insure compliance with existing agreements.

The agreement between the USAID and the Government of Colombia provides that the $20 million loan supporting the Colombian development budget will be allocated as follows:

Purpose	*Millions*
Ministry of Finance—Primarily for geographic surveys	$1.42
Ministry of Agriculture—To support specific agricultural research projects and the Agrarian Reform Institute	5.47
Ministry of Education—Construction of primary schools	3.12
Ministry of Public Works—Road construction	9.77
Ministry of Communications—Purchase and adaptation of telegraphic equipment	.22

Mr. Minshall?

CIVIC ACTION PROGRAM

Mr. MINSHALL. Why this emphasis on civic action?

Mr. MOSCOSO. Because there are a considerable number of bandit groups and because it has been found that some of these bandit groups have been infiltrated by Castro Communists.

Mr. MINSHALL. Don't you contemplate——

Mr. MOSCOSO. The civic action program is designed primarily to utilize the military more as a civilian police force.

Mr. MINSHALL. That is what they do in all of these Latin American countries. You have one in Guatemala, for example?

Mr. MOSCOSO. That is right. We give them more utilization.

Mr. MINSHALL. This is primarily because of the Castro influence?

Mr. MOSCOSO. And also to give——

Mr. MINSHALL. Is it primarily because of that?

Mr. MOSCOSO. Yes, but also as a means of utilizing this manpower in the development projects of the country and in the development program of the country.

Mr. MINSHALL. Perhaps if we got rid of Castro we can cut down considerably on the Alliance for Progress program.

Mr. MOSCOSO. I am afraid Castro is not the cause of this.

Mr. MINSHALL. What is the cause?

Mr. MOSCOSO. Proverty, misery, and——

Mr. MINSHALL. You said a moment ago that because of the Castro influence you had to start these civil action programs.

Mr. MOSCOSO. That is one of the reasons.

Mr. MINSHALL. Were it not for Castro we would not have need for these programs?

Mr. MOSCOSO. We still would.

Mr. MINSHALL. Not to such a degree?

Mr. MOSCOSO. Perhaps not to such a degree but you still want to do it because you want to bring up the military in Latin America to the level of democratic comportment such as we have in the United States.

Mr. MINSHALL. You think every country should have a good standing army whether or not they need it?

Mr. MOSCOSO. No.

Mr. MINSHALL. What did you just say?

Mr. MOSCOSO. Every country should have a standing army?

Mr. MINSHALL. Yes.

Mr. MOSCOSO. I didn't say they should have a standing army.

Mr. MINSHALL. What do you mean by military? I am not trying to put words in your mouth. What did you mean?

Mr. MOSCOSO. By what, sir.

Mr. MINSHALL. By saying we should have a strong military.

Mr. MOSCOSO. Strongly democratic military.

Mr. MINSHALL. What do you mean by that?

Mr. MOSCOSO. That they should comport themselves——

Mr. MINSHALL. What does military mean if it does not mean army and armed forces?

Mr. MOSCOSO. Let us start all over again, Mr. Minshall. The purpose of a civic action program is multiple. One is to instill a better appreciation of the problems and the democratic way of solving problems in these countries, to get the military to participate actively in the solution of those problems.

This we did right here in the United States many years ago when the——

Mr. MINSHALL. CCC?

Mr. MOSCOSO. That is right, with the Army Engineers. You utilize well-trained people, better trained than the average person in some of these underdeveloped countries.

It is also a form of creating a better image of the military in the minds of some of the citizens of these countries who feel that the military have been their oppressors. That may have been so many years ago and it is still so, but not in most of the countries, and in order to allow the military to do the useful work they can do in preserving the peace and stability of a country we are helping them to design these civic action programs.

In the case of Castro communism, in some countries, we have had to intensify these programs for the additional purpose of getting the army out into the countryside to assist——

Mr. MINSHALL. The Castro influence is especially strong in Colombia?

Mr. MOSCOSO. No; but it is in Venezuela and Guatemala.

DOMINICAN REPUBLIC

Mr. PASSMAN. The next country is the Dominican Republic. In fiscal 1964 the estimate is $———.

Can you give us the amount from all spigots?

Mr. MOSCOSO. $——— for all spigots.

Mr. PASSMAN. I am looking at the block figures. You say the Alliance for Progress grant and "Supporting assistance" is $———. You do not mention other figures.

Mr. MOSCOSO. On page 11 you will see——

Mr. PASSMAN. I refer to this page. Am I correct? You show $———?

Mr. MOSCOSO. Yes, and a footnote.

Mr. PASSMAN. How much will it be?

Mr. MOSCOSO. $———.

Mr. PASSMAN. How much have we given this country since the inception of the program?

Mr. MOSCOSO. $90.5 million.

Mr. PASSMAN. Over what period have we given this $90.5 million?

Mr. MOSCOSO. Since 1946.

Mr. TENNANT. Since fiscal 1963.

Mr. PASSMAN. How much?

Mr. MOSCOSO. $90.5 million.

Mr. PASSMAN. Does that go through the Trujillo regime and the present regime?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Did we give aid every year under the Trujillo regime?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Then when they killed Trujillo we started giving it to his successor?

Mr. MOSCOSO. Yes.

Mr. STERNFELD. We stopped aid and then again aid——

Mr. PASSMAN. You had to find out to whom to make checks payable?

Mr. MOSCOSO. That is something that I——

Mr. PASSMAN. Is that a fair enough description of the situation?

Mr. MOSCOSO. I think the less said about the Dominican Republic and the lack of intervention in the past, the better. One of the problems is precisely that.

Mr. PASSMAN. How much aid have we given this present regime? Please put the figure in the record.

(The information requested follows:)

U.S. GOVERNMENT AID TO THE DOMINICAN REPUBLIC SINCE THE INAUGURATION OF PRESIDENT BOSCH

AID ASSISTANCE

AID assistance to the Dominican Republic since the inauguration of President Juan Bosch totals $25,200,000.

In fiscal year 1963, $3,644,000 was obligated for the grant technical assistance program. Approximately $2,500,000 of that amount was obligated after the inauguration of President Bosch. In addition, the grant of $22,750,000 was signed with the Bosch government.

Total, AID assistance	$25,200,000
Other U.S. Government assistance:	
A. Food for Peace (Public Law 480):	
1. Title III (approximate value foods shipped last quarter fiscal year 1963	2,382,000
2. Title II (feed grains for small farmers for hog and poultry production)	345,000
3. Title IV (sale of 10,000 metric tons of corn)	785,000
Total, Public Law 480	3,512,000
B. Military assistance, total	700,000
Grand total	29,412,000

SUPPORTING ASSISTANCE

Mr. PASSMAN. In view of the fact that the Dominican Republic's gold and foreign exchange earnings are increasing, and that it has a favorable trade balance, why are we programing $——— in supporting assistance as a cash transaction for budgetary support?

Mr. MOSCOSO. The $——— supporting assistance is to assist the Dominican Republic in diversifying their agricultural economy from sugar——

Mr. PASSMAN. The book says "cash transaction." That is direct budgetary support.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. The money goes into their budget?

Mr. MOSCOSO. Yes, to be used for agricultural diversification.

Mr. PASSMAN. Did you justify the $23 million for supporting assistance that you allocated in 1963 to this country?

Mr. MOSCOSO. No, sir.

USE OF CONTINGENCY FUNDS FOR SUGAR SETTLEMENT

Mr. PASSMAN. Did we give them some kind of money other than a sugar settlement while the claim was pending in court? Was there not a suit pending in court which had not been settled?

Mr. MOSCOSO. There is still a private suit pending in the courts.

Mr. PASSMAN. Does it represent the amount we have already given them?

Mr. MOSCOSO. That is not right. The suit formerly presented by the Government of the Dominican Republic has been withdrawn. The suit still pending is that of the South Puerto Rico Sugar Co.

Mr. PASSMAN. You testified to the correctness of it, that the suit (off the record).

We agreed last year there should be a congressional authorization before we gave them this money. That would be the normal procedure.

Mr. MOSCOSO. Yes.

Mr. PASSMAN. You recall the discussions last year about the desirability for an authorization?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You did not wait for congressional authorization but made the grant of $23,925,000 out of the supporting assistance fund; is that correct?

Mr. TENNANT. It was funded from the contingency account for supporting assistance purposes.

Mr. PASSMAN. So, instead of getting an authorization through the Congress, which would have been normal, you made an allocation out of the Contingency Fund?

Mr. MOSCOSO. No.

Mr. PASSMAN. I refer to the suggested authorization.

Mr. MOSCOSO. We made an authorization out of supporting assistance——

Mr. PASSMAN. I refer to a congressional authorization to establish this as a bona fide claim against the United States. Instead of waiting for the Congress to approve an authorization, and the Congress to work its will, you made a grant out of the President's Contingency Fund in the amount of $23,750,000.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. This is given to them and there is no going back on this, is there? This is closed business?

Mr. MOSCOSO. Mr. Chairman, I am afraid I will have to ask your permission to state some of the background of this.

Mr. PASSMAN. Is this closed business with them, that we have given them this out of the grant category?

Mr. MOSCOSO. Closed in what sense?

Mr. PASSMAN. That we have settled the claim, whether we thought it was valid or not.

Mr. MOSCOSO. The Government has withdrawn their claim in court.

Mr. PASSMAN. You have not answered my question.

Mr. MOSCOSO. You asked if they had——

Mr. PASSMAN. Last year we discussed the desirability of having a congressional authorization on this matter, which would have been normal procedure. This would have established it as a Government liability because of the sugar quota.

Prior to the consideration by the Congress of an authorization for this purpose, you gave them $23,750,000 in grants out of the President's Contingency Fund?

Mr. MOSCOSO. At the time that this was done Congress was not in session. This was——

Mr. PASSMAN. We discussed this last year. Let us start all over.

Mr. MOSCOSO. At the time the grant was made the Congress was not in session.

Mr. PASSMAN. Please explain this claim.

Mr. MOSCOSO. This is a claim that the people of the Dominican Republic felt they had because a special import excise was imposed on all of the "Cuban windfall" sugar which came into the United States from the Dominican Republic from October 1960 through March 1961.

Mr. PASSMAN. Under Trujillo.

Mr. MOSCOSO. Yes, the tax was applied during the time that Trujillo was still alive.

Mr. PASSMAN. He was carrying on a dictatorship there of which we did not approve.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Instead of giving them the subsidy, the same amount per pound as we were giving some others, we penalized the Dominican Republic?

Mr. Moscoso. We penalized Trujillo's regime.

Mr. PASSMAN. That was our ruling, "You are a dictator and you are not entitled to this and therefore we will not give you the subsidy." Is that correct?

Mr. Moscoso. Yes.

Mr. PASSMAN. At a subsequent date, when the dictator was killed, and his brothers maybe took hundreds of millions of dollars out of the country, the new regime came in. It was felt we had some moral obligation to reimburse them for the penalty we had assessed against the Trujillo regime, and it was an amount of approximately $23,750,000?

Mr. Moscoso. That is right.

Mr. PASSMAN. We agreed that the normal procedure for such a situation as this would be to introduce legislation in the Congress establishing a valid claim.

Mr. Moscoso. But the——

Mr. PASSMAN. Mr. Moscoso, the Congress is not in session all the time.

We agreed there should be legislation introduced in the Congress to establish a valid claim and give Congress a right to say yes or no. Is that right?

Mr. Moscoso. We were not dealing with normal conditions, Mr. Chairman.

Mr. PASSMAN. Is it not true that we discussed this matter?

Mr. Moscoso. That is right.

Mr. PASSMAN. We thought we should go through a legislative process?

Mr. Moscoso. Yes.

Mr. PASSMAN. But the Dominican Republic decided they would go into court and get a decision. Is that right?

Mr. Moscoso. Yes.

Mr. PASSMAN. Congress adjourned and went home. Instead of waiting for the Congress to reconvene, or instead of waiting for the court to hand down a decision, you gave them a $23,750,000 grant. We had given the money already and therefore they withdrew the suit and the resolution in the Congress died.

Have I stated the facts?

Mr. Moscoso. You have not said everything.

Mr. PASSMAN. Have I stated the things that we discussed and the procedure by which we gave them the money? They withdrew the suit, the resolution died, and we gave them $23,750,000 out of the President's Contingency Fund and it has been settled. Is that right?

Mr. Moscoso. An election was taking place in December——

Mr. PASSMAN. I want to know whether what I cited is accurate.

No resolution was enacted by Congress as discussed between the two of us?

Mr. Moscoso. It was not enacted.

Mr. PASSMAN. You did make the grant, and there was no congressional authorization?

Mr. Moscoso. That is right.

In the first place, we have, as you stated, a case in which a whole people, not just a regime, felt that they were being made to suffer for the sins of a dictatorship.

Mr. PASSMAN. I did not say such as that.

Mr. Moscoso. That is what I said.

I am saying that that is what the people of the Dominican Republic felt. They felt they were being chastized for something which was done by a dictatorship which we had in part supported, and that it was not fair that after this man had been killed, and there was no reason for further chastisement, because the reason for it disappeared, that they should continue to be penalized for not having been paid for the sugar.

Mr. PASSMAN. Beginning from the time the new regime went in I would go with you. I refer, however, up to the time Trujillo was assassinated.

Mr. Moscoso. Elections were scheduled for December in the Dominican Republic and the fact this money had been withheld from the Dominican Republic——

Mr. PASSMAN. Under Trujillo?

Mr. Moscoso. The tax was applied during Trujillo's regime, yes. But the Dominicans did not quarrel when we retained the money as a chastisement against Trujillo. It was when Trujillo died that this penalty, according to their way of thinking, was not justified and they sought to recoup the lost funds.

Mr. PASSMAN. But a lot occurred prior to the election of the new regime?

Mr. Moscoso. That is right.

Mr. PASSMAN. Was the assassinated dictator's brother running the country?

Mr. Moscoso. No, we had a junta running it for a year.

Mr. PASSMAN. Was this with the concurrance of the dictator's son?

Mr. Moscoso. No, the junta took over in January 1962. The dictator's son left the country.

Mr. MINSHALL. I am not clear why it was so urgent, while we were not in session, to pay the money pronto.

Mr. Moscoso. (Off the record.)

Mr. PASSMAN. They are not asking us to reimburse them for the hundreds of millions Trujillo stole and shipped out of the country, are they?

Mr. Moscoso. No.

Mr. PASSMAN. But it would seem to be just as sensible if they should do so.

The Trujillo dictatorship just about stripped everything out of the Treasury of the Dominican Republic?

Mr. Moscoso. Yes, they did.

Mr. PASSMAN. And if we had paid this money before the change in government they would have taken that, too.

Could you tell us if any part of the $23,750,000 we gave them as a grant accrued after the new government of Bosch was inaugurated?

Mr. Moscoso. No.

Mr. PASSMAN. Then I was right from the beginning, except I was limiting it to the old man and his son.

Mr. STERNFELD. Do you mean if the funds were given to them?

Mr. PASSMAN. No. Did we continue to assess the penalty after the new regime?

Mr. Moscoso. That is what I understood you to say. No, we did not.

Mr. PASSMAN. Then we are both right.

PERSONNEL STRENGTH—U.S. MISSION TO DOMINICAN REPUBLIC

How many technicians did you have on board on June 30, 1963?

Mr. MOSCOSO. 35.

Mr. PASSMAN. How many did you justify last year?

Mr. MOSCOSO. We justified four.

Mr. PASSMAN. That is running about true to form. That is about a 700-percent increase.

Mr. MINSHALL. Would it be appropriate to ask why the increase?

Mr. MOSCOSO. We did not know what the program was going to be, Mr. Minshall. We just started the program.

Mr. PASSMAN. This is as loose as it can be.

Mr. STERNFELD. We had four people at that time.

Mr. MOSCOSO. We did not know what the program was going to be. When the book was prepared, the country had just become free.

Mr. MINSHALL. What about next year? Do you know what the program will be next year?

Mr. MOSCOSO. Yes, we have a better idea now.

Mr. MINSHALL. You think it will stay at 35?

Mr. MOSCOSO. We hope so, yes.

Mr. PASSMAN. If you should go to 140 you still would be within the law?

Mr. MOSCOSO. Yes.

PARTICIPANT TRAINING PROGRAM

Mr. PASSMAN. You had $450,000 to finance a participant program of 150. However, you allocated $745,000 to the participant program to finance 422 participants. Is that correct?

Mr. MOSCOSO. 422 participants. Yes, that is correct.

PROJECTS INITIATED IN FISCAL YEAR 1963

Mr. PASSMAN. The project book indicates you initiated seven projects in 1963. Would you prepare a table showing the names of the projects, the amount allocated in 1963, the estimate for fiscal 1964, the cost to complete each project, and then give the grand total?

Mr. MOSCOSO. Yes.

(The information follows:)

Projects initiated in 1963, continuing into fiscal year 1964 and later years

Project title	Obligations, fiscal year 1963	Estimated obligations, fiscal year 1964	Estimated cost to completion
Vocational education	228,000	200,000	988,000
Adult education	41,000	140,000	491,000
Establishment of agricultural institutions	253,000	545,000	2,263,000
Government planning and administrative reform	477,000	414,000	1,791,000
Public safety	265,000	220,000	965,000
Manpower development and labor administration	60,000	160,000	530,000
Private enterprise development	7,000	131,000	383,000
Total	1,331,000	1,810,000	7,411,000

Mr. PASSMAN. Do you have, on page 294, any new projects proposed for initiation?

Mr. STERNFELD. These are all projects which have been initiated in 1963.

COST OF PROJECTS TO COMPLETION

Mr. PASSMAN. Will you add the projects on page 294 and project all of that information?

Mr. STERNFELD. Yes.

(The information requested follows:)

Cost to completion of projects under $100,000, fiscal year 1964

Project title	Obligations, fiscal year 1963	Estimated obligations, fiscal year 1964	Estimated cost to completion
Resource conservation and development	131,000	40,000	365,000
Livestock development	43,000	60,000	208,000
Education planning and administration	40,000	80,000	295,000
Total	214,000	180,000	868,000

Mr. PASSMAN. Thank you, gentlemen. We shall adjourn until 1 p.m. Monday.

MONDAY, AUGUST 12, 1963.

UNEXPENDED BALANCES

Mr. PASSMAN. The committee will come to order.

Ordinarily during the course of the year, near the beginning of a new fiscal year, we ask the Controller to give us a list showing the amount of funds on hand at a given period and getting an estimate as closely as possible as to what sums will be unexpended as of June 30. The first such estimate came out on July 25. A later set of figures was submitted on August 8. It is my understanding that there will be another one submitted in September for the final closing; is that correct?

Mr. TENNANT. That is correct, sir.

Mr. PASSMAN. Realizing in each case that these are estimates, and the figures could be up or down, but as I had previously broken the figures apart on the first statement, which was preliminary for June 30, submitted on July 25, that statement is being issued with the indication it is a preliminary tabulation, and that subsequent statements may indicate a smaller amount of unexpended funds in the pipeline.

On Friday I asked the Controller if the unobligated funds in the amount of $515 million, purely unobligated funds, would remain approximately the same. He said they would, and that the technically unobligated funds, but figuratively obligated, in the amount of $688 million, which was for reservations made and being carried as an obligation, as the committee thinks of obligations pending the signing of contracts, would not substantially change.

GENERAL MOTORS CURTAILING OPERATIONS IN INDIA

It is my understanding that General Motors started operations out in India in 1924, and along the way India demanded excess taxes, gross discrimination against them, to the point that they were forced to greatly curtail their operations in India, even closing up some of their plants. My informant on this matter has indicated to me that India is about the only country on the face of the earth that General Motors ever seriously curtailed operations, or practically pulled out of, on account of rank discrimination against foreign investment.

I wish that you would ascertain whether or not India is actually discriminating against foreign capital, especially General Motors, in a manner such as I have indicated.

CHILEAN EXCHANGE RATE

"Best buys for your dollar. Escudos in Chile."

This article is from the Chicago Daily News foreign service.

What exchange rate did you use the other day when we were discussing the escudo?

Mr. STERNFELD. 1.4.

Mr. PASSMAN. This article was in yesterday's paper. When we were trying to establish the inaccuracy of the estimates—and certainly we understand when you make an estimate it could be up or down—we had quite an exchange on the escudo. We were dealing with dollar equivalents in both instances. Did you happen to see this item?

Mr. MOSCOSO. The official market rate now is 1.845 and the free market rate is a little less than that now. It is about 3.02.

Mr. PASSMAN. You show 1.4 here.

Mr. MOSCOSO Yes, sir; that was the average rate in 1962.

Mr. PASSMAN. What is the real rate?

Mr. MOSCOSO. As of June the official market rate was 1.845.

Mr. PASSMAN. Are we giving any aid that generates escudos? If so, at what rate do we deal on?

Mr. MOSCOSO. The official rate.

Mr. PASSMAN. Are we dealing on a rate of 1.4, whereas the real rate is 3.3?

Mr. MOSCOSO. We are getting the highest official rate, the highest rate legal in the country, 1.845.

Mr. PASSMAN. Of course we were getting the highest official rate in Laos, too. We accepted that squeeze until it almost choked us to death.

This is for Sunday, April 11, 1963, the Washington Post: "Best buy for your dollars is in escudos in Chile."

Mr. CONTE. Is that in the open market?

Mr. MOSCOSO. Free market.

Mr. PASSMAN. The free market rate is 3.3. We deal on a rate of about 1.4. We are getting the same type of treatment in Chile that we got in Laos.

Mr. STERNFELD. In 1962 the official rate fluctuated from 1.05 to 1.660, the last quarter.

Mr. PASSMAN. You can peg that rate at any exchange you want to, and we can support it on that basis, but the facts are this is just about

the prevailing dollar exchange rate by which you can buy and sell in Chile, is it not, 3.3?

Mr. STERNFELD. I presume the reporter has the accurate data there.

Mr. PASSMAN. You know what happened out in Laos. We got hooked in on one of those deals out there, supporting the kip at about three times its real value.

If we are supporting the escudo at about three times its actual going value of what they buy and sell for down there, then we want to know the facts. Will you find out for us?

Mr. MOSCOSO. Yes, we will.

Mr. PASSMAN. Do you realize that if this is the going rate, whether it is black market, gray market, or green market, by which you can buy goods and sell goods then this is certainly an expensive arrangement, is it not?

Mr. MOSCOSO. Yes, it would be.

Mr. STERNFELD. We will get this.

(Information supplied follows:)

CHILEAN EXCHANGE RATE, THE OFFICIAL RATE AND THE MARKET RATE

According to the U.S. AID mission in Chile the latest "market rate" for the escudo is 3. This is confirmed by the First National City Bank in New York and the published quotation in the New York Times. The market rate is currently down from the high of 3.9 reached in April–May.

AID loans for imports from the United States currently provide that these commodities generate sales proceeds (which become part of Chile-owned currencies) at the official rate because this is the effective rate at which the central bank sells the foreign exchange to importers for commodity imports. We have been informed by our mission that transactions at this rate average $35 million per month as compared to transactions of $400,000 to not over $1 million per month at the "market rate."

If AID required deposits of local currency at the higher market rate at this time the central bank would have to create additional local currency to the extent of the difference from the official bankers rate. This would be an inflationary creation of money undermining the basic approach with which AID joins the Government of Chile, the IMF and Treasury to contain inflation and promote financial stabilization. Of course AID constantly reviews the size of the "brokers market" and is ready to adjust this approach as the situation demands.

Mr. PASSMAN. Thank you.

And any other similar instances that you can think of.

AMOUNT OF AID TO NIGERIA

How much aid are we giving to Nigeria in 1964?

Mr. TENNANT. It is in a range for 1964. This is the classified category. The bottom range is $1,035,000.

The top range is $———.

Mr. PASSMAN. That is the one-spigot deal, is it not?

Mr. TENNANT. I am sorry. I read the wrong line. The correct range is from $——— to $———.

Mr. PASSMAN. That is a big difference.

COMMUNIST INFLUENCE IN VENEZUELAN SCHOOLS

I am going to give this item to the distinguished Administrator—"Caracas Schools Red-Infiltrated."

(The clipping follows:)

DEMOCRACY THREATENED: CARACAS SCHOOLS RED INFILTRATED

(By Louis R. Stein)

CARACAS, VENEZUELA.—Communist terrorism is a lesser threat to democracy in Venezuela than Red infiltration of the public school system.

"Since the Communists began their declared war of sabotage on American industry and against their own government," a foreign businessman explained, "insurance companies here have paid out around $4.5 million in claims.

"Yet many of us Americans are less concerned by the attacks than we are of tolerance of Communists in the university."

As this businessman and others have given the matter much thought explain it, sabotage only destroys what is present, the physical target of the saboteur.

SOW SEEDS

But Communist indoctrination of high school and college students sows noxious seeds that will plague this oil-rich South American nation of 8 million persons for generations to come.

Communist terrorism is costing Venezuela. Heavy insurance company payments on policies that include coverage of vandalism and sabotage losses have moved insurers to ask the Government for permission to delete such coverage from future policies. The insurance companies would prefer to write separate insurance for acts of sabotage and collect additional premiums from the American companies that have suffered most from destructive attacks.

What worries most Americans and some Venezuelans are the Marxist-Leninist influences on the country's students.

President Romulo Betancourt recognizes that the school system has been heavily infiltrated by Communists. Since he started his crackdown several years ago, some 1,600 Communist high school teachers have been fired from public secondary schools. Yet little has been done to clean them out of Caracas ultramodern, 240-year-old Central University.

An estimated 60 percent of the university's 5,000 registered students are Communists, according to some observers. Virtually all students are exposed to the Reds for whom the university campus is a safe haven from arrest by police.

HEADS REDS

Not all Central University teachers are Communists. A number of American businessmen here teach at the university in their spare time. But a prime example of an influential, tolerated Communist is D. F. Maza Zavala, who heads the list of Reds at the university's school of economics.

Maza Zavala is also editor of the anti-American newspaper El Venezolano. El Venezolano appears to be financed by Cuban Communist funds. It carries virtually no advertising and it mouths the Communist Party line wrapped in extreme nationalism.

Maza Zavala has obtained Iron Curtain graduate scholarships for several outstanding students of economics and has installed them as university professors on their return from Russia.

Mr. PASSMAN. Does that seem to be the trend?

Mr. MOSCOSO. I think that has been reversed, particularly in the secondary schools but it is one of the very frightening things, I agree.

COMMODITY PROCUREMENT FROM AID FUNDS

Mr. PASSMAN. Using whatever pipeline figure you had for June 30, based upon the estimate that you furnished to us on July 25, the amount that you had withdrawn out of the pipeline at that date, can you tell us the total amount of that money which went for commodities for exports overseas, goods and commodities?

Mr. TENNANT. Mr. Chairman, the figures that we pulled together for you early in July were taken from cable reports. The cable reports

only had a one-line figure for expenditures. The breakout of those expenditures is virtually impossible before we get into final figures. The detail documents go through a computer process. There are various mechanical runs which have to be processed.

It would take some time to break it out.

Mr. PASSMAN. If you would, take what you have posted as of June 30, according to your July 25 estimate, so that we may know what part of the $3.5 billion that you drew out of the pipeline last year represented American commodities exported, goods that went out of the country.

Mr. TENNANT. I understand your question, sir, but to get the specifics on source of expenditures would require detailed reports out of the military and the economic which I do not have at the moment. They have not been produced as yet.

Mr. PASSMAN. Out of three and a half billion dollars—I do not know how accurate these figures are, but I do not think we are too far-off—about $1 billion, I believe, represents actual commodities. Then you have $2,500 million which furnishes a monthly pay check to about 62,000 military personnel and civilians in the mutual security part of AID, foreign nationals and participants. Now if we have built this thing into something that is a fancy payroll of $2,500 million annually, a monthly payroll to 62,000 individuals, participants, nationals or American citizens, plus airplane tickets, plus tips, plus hotels abroad, plus representation allowance—if that is what we have gotten into we want the record to show it. We are not going to ask you to break it apart, travel, tips, representation, and food, but we do want to subtract commodities from the total in order to know whether or not this is possibly a payroll bonanza, and so forth.

Mr. TENNANT. I believe I gave you an insert on that type of categorization for some prior years.

Mr. PASSMAN. Please make another check on the matter. I want to give you the benefit of the doubt, because I used the figure of $1 billion for commodities. I am afraid it is not going to sound very favorable for the program if we say the actual aid is $1 billion, the rest is to furnish a paycheck to 62,000 Americans, foreign nationals, or participants, including hotels, rooming, et cetera, abroad. Just have a check on these figures and let us know.

Mr. TENNANT. I will check on it, sir.

(NOTE.—Additional information may be found beginning on p. 2625.)

USE OF DEOBLIGATED FUNDS

Mr. PASSMAN. You have certain funds that during the year the Agency deobligates. Do you have the total amount for Latin America that you deobligated in fiscal year 1963?

Mr. MOSCOSO. Yes, sir; we have.

Mr. TENNANT. As of April 30, 1963, the most recent figure I have with me, sir, the total deobligations in the annual accounts for Latin America, at that time, was $10,728,000, consisting of——

Mr. PASSMAN. That is the latest date you have?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. How about the comparable worldwide figure?

Mr. TENNANT. Worldwide on that date was $51,966,000.

Mr. PASSMAN. That is not for military aid, just economic?

Mr. TENNANT. Yes. That is supporting assistance and development grants.

Mr. PASSMAN. That is just the economic part of it?

Mr. TENNANT. That is right.

Mr. PASSMAN. You can take deobligated funds and start new projects and allocate money to them, can you not?

Mr. TENNANT. Within the terms of the legislation.

Mr. PASSMAN. We understand there is legislation. We have already agreed it is a blank check. You can do whatever you want to. You can take these deobligated funds and start new projects or allocate money to old projects. These are completely loose funds are they not?

Mr. TENNANT. If approved——

Mr. PASSMAN. Can you do either or both?

Mr. TENNANT. Yes, if approved by the committee.

Mr. PASSMAN. Did the Attorney General rule it was unconstitutional for the committee to exert such authority?

Mr. TENNANT. Yes, sir.

The Administrator as I understand it——

Mr. PASSMAN. He said he would do this whether or not——

Mr. TENNANT. My understanding is he made a commitment to you——

Mr. PASSMAN. That is right. The Attorney General ruled this kind of authority on the part of the committee is unconstitutional.

Mr. CONTE. Mr. Chairman, the law was unconstitutional or the procedure?

Mr. PASSMAN. That it was unconstitutional for the committee to exact of the Executive a requirement to report to the committee before they reobligated the funds.

Mr. CONTE. The law said that.

Mr. PASSMAN. That was an act of Congress.

But the Attorney General said it was unconstitutional. It is not a question of whether you obligate funds out of deobligated funds or whether you obligate from elsewhere. We are interested in seeing that the money is prudently spent. We established several years ago, several times, that you took deobligated funds and started many new projects, so we had language in the bill to the effect that you could not so use deobligated funds. Do you remember that situation?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. Then we turned you loose for a year. The committee felt that you made a worse mess of it than you had in previous years so we tightened it up again.

By compromise we agreed that we would not put the language back as such but you would have to give the committee notice before you could obligate deobligated funds.

Again, we were interested in saving money so I had certain correspondence in this connection with the AID Administrator.

Mr. SCHEINMAN. The legislation states that the purpose must relate to a project previously justified to the Congress. That was the restriction——

Mr. PASSMAN. Was that restriction what the Attorney General said was unconstitutional?

Mr. SCHEINMAN. No, sir.

Mr. PASSMAN. I am going to read my letter to the Administrator and his letter to Chairman Cannon.

This letter is dated March 26, 1963:

Hon. DAVID E. BELL,
Administrator, Agency for International Development,
Washington, D.C.

DEAR MR. BELL: This will acknowledge your letter of March 22, 1963, with reference to the reobligation of deobligated funds from prior years, appropriations as set forth in your letter of January 31 to Chairman Clarence Cannon for which I thank you very kindly. I hasten to confess that your letter to me leaves me confused. The purpose of my telephone call to you was to be reassuring to the Agency that the committee desired to cooperate and be as reasonable as possible because this is your first year to handle this complex program, but I should like to explain my position by borrowing a bit of slang from an old saying, "It would appear that you are trying to put the monkey on my back rather than giving me an opportunity to cooperate in a most understanding way." Please note the following, which is an excerpt from your letter of March 22:

"As indicated on the telephone, we are quite prepared to follow this method of disposing of the matter if you prefer it. I wish to again state, however, as I did in your conversation, that we are also quite prepared to proceed in accordance with the arrangement discussed at the subcommittee meeting on March 20; that is, to withdraw both the January and March letters, submit more information on all proposed uses of deobligated funds and to be prepared to justify the proposed actions of a subcommittee on April 8, which would be followed by speedy decision by the subcommittee and the full committee." I say place the monkey on my back because you indicated I preferred to serve my purpose, not your purpose or our mutual purpose. As far as I am concerned it was to be a mutual understanding and not something I preferred. Furthermore, I am equally as confused by the fact that your letter indicates that you have deleted certain projects and you did not mention the amount of money that you would reobligate. Undoubtedly you understand this would create confusion. Therefore, the matter is back in your hands. If you are willing for there to be an understanding based upon the fact that this Agency is new with you, please supplement your letter of January 31 to Chairman Cannon by stating what portion of the $8,621,000 deobligated you will reobligate and what part you will not reobligate.

I must admit that I am somewhat sensitive about this foreign-aid matter because it has been almost a career with me to try to understand this worldwide spending program since I have been a Member of Congress. If I may have your cooperation I will proceed to discuss with the members of the subcommittee and later the full committee the two letters as we discussed them over the telephone, but unless you can indicate what amount of the $8,621,000 you will reobligate and the amount you will not obligate before June 30, then I will have to proceed with the hearings, especially if you are going to indicate you are doing this to please me and that it is not a mutual agreement for better understanding. Awaiting your immediate reply and with best wishes,

Sincerely yours,

OTTO E. PASSMAN,
Chairman, Subcommitte on Foreign Operations,
Committee on Appropriations.

This is Mr. Bell's letter to Chairman Cannon, dated March 27:

DEPARTMENT OF STATE,
AGENCY FOR INTERNATIONAL DEVELOPMENT,
OFFICE OF THE ADMINISTRATOR,
Washington, March 27, 1963.

Hon. CLARENCE CANNON,
Chairman, Committee on Appropriations,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Since submitting to you my letter of January 31, subsequently augmented by my letter of March 19, subsequent events have altered the necessity for the use of deobligated funds with respect to certain of the projects listed on the attachement to my January letter. I now find that, taking account of the relative urgency of the different projects we are carrying forward,

and in the interest of the minimum use of obligational authority both newly appropriated by the Congress and deobligated from prior year funds, it will be preferable for us to withdraw our proposal to apply deobligated funds to three of the projects on the list attached to our January letter:

Yemen: Technical support, project No. Z-99-ZA.

Laos: Rural medical and health program, project No. P-99-AA.

Indonesia, Reequipment of MOBRIG, project No. S-71-AB.

Furthermore, current requirements for the use of deobligated funds for certain of the other projects have been reduced.

Accordingly, I should like by this letter to amend the list attached to my January letter by striking from it the three projects listed above, and by reducing the proposed use of deobligated funds for certain of the remaining projects. You will note that the result of these changes is to reduce our proposed use of deobligated funds from $8,621,000, to $4,916,000. We will not reobligate in the remainder of this fiscal year $3,711,000 of the $8,621,000 of deobligated funds which we had previously expected to obligate.

Sincerely yours,

DAVID E. BELL.

At a subsequent date they obligated $3,711,000, or about that much, out of another fund. Then when I called their hand, they said, "You misunderstood. We meant we would not obligate it out of deobligated funds."

Mr. SCHEINMAN. Mr. Chairman, with respect to the statement of Mr. Bell's, that $3.7 million of deobligated funds would not be reobligated, I understand that that is actually the fact and that that $3.7 million of deobligations has not been reobligated.

Mr. PASSMAN. Did you obligate out of another fund about the same amount for one of the same projects?

Mr. SCHEINMAN. Well——

Mr. PASSMAN. Please answer my question.

Mr. SCHEINMAN. It is not the same amount.

Mr. PASSMAN. Did you take a project for which Mr. Bell said he would not reobligate funds and obligate a similar amount out of another fund?

Mr. SCHEINMAN. Yes, sir.

Mr. PASSMAN. Thank you.

Mr. SCHEINMAN. I would like to point something out.

Mr. PASSMAN. My point is that we had an understanding with Mr. Bell as far as I am concerned.

You did take money out of another fund and obligate to this project for which Mr. Bell said he would not use the money out of the deobligated funds, did you not?

Mr. SCHEINMAN. Yes, sir.

Mr. PASSMAN. Thank you.

Mr. SCHEINMAN. May I say another word if you would permit me?

Mr. PASSMAN. Yes.

Mr. SCHEINMAN. Using NOA does make a difference because Mr. Bell agrees with the chairman that the whole intent of this exercise was to use funds in a most prudent manner. By using NOA, rather than deobligation, sir, you reduce the total amount of money that is used in the program.

Mr. PASSMAN. You do what?

Mr. SCHEINMAN. You reduce the total amount of money used in the program.

Mr. PASSMAN. If you take it out of a fund where the money would lapse——

Mr. SCHEINMAN. Yes——

Mr. PASSMAN. If you take this money out of the contingency fund you wind up in the contingency fund—is that where it came from—with $117 million unobligated——

Mr. SCHEINMAN. Well——

Mr. PASSMAN. If you wind up in the contingency fund at the end of the year with $117 million unobligated if you had not obligated funds for this project out of the contingency fund, then you would have had that much more on hand unobligated, would you not?

Mr. SCHEINMAN. In the contingency fund?

Mr. PASSMAN. Would you not have had that much more on hand?

Mr. SCHEINMAN. In the contingency fund, sir.

Mr. PASSMAN. Am I correct?

Mr. SCHEINMAN. These funds were not taken from the contingency fund.

Mr. PASSMAN. They were taken from the contingency fund.

Mr. SCHEINMAN. There was a preprograming of NOA which reduces the amount of money.

Mr. PASSMAN. I am going to establish that the money was taken from the contingency fund.

Mr. SCHEINMAN. I am sure, Mr. Bell can explain it to the committee. If you use NOA funds programed for another purpose——

Mr. PASSMAN. Mr. Bell told us he was going to obligate $4,910,000, that he did not plan to reobligate the $3,711,000.

This letter would lead you to believe that the taxpayers were saving $3,711,000.

Mr. SCHEINMAN. That is correct, sir.

I believe that is the case.

FUNDING OF MOBILE BRIGADE PROJECT IN INDONESIA

Mr. PASSMAN. Did you obligate funds out of the contingency fund for the same project out in Indonesia?

Mr. SCHEINMAN. I do not believe——

Mr. PASSMAN. Did you?

Mr. SCHEINMAN. I do not believe funds used for that project for the purpose for which it was proposed to use deobligated funds came from the contingency fund.

Mr. PASSMAN. Let us see where the money came from.

Mr. ANDREWS. Where did the money come from?

Mr. SCHEINMAN. I understand it was a reprograming of NOA supporting assistance.

Mr. ANDREWS. It is a spigot the chairman referred to.

Mr. SCHEINMAN. You reduce the program you would have expended the money for; therefore, the $3.7 million is actually saved. If you use deobligations you could have your NOA money and the other.

Mr. PASSMAN. You have this police brigade in Indonesia, do you not?

Mr. TENNANT. As I recall, the mobile brigade in Indonesia, consisted of two segments.

Mr. PASSMAN. Did you take any money out of the President's contingency fund and obligate it to the mobile brigade in Indonesia subsequent to March?

Mr. SCHEINMAN. Yes.

Mr. PASSMAN. Subsequent to March?

Mr. TENNANT. I believe it was subsequent to March.

Mr. PASSMAN. How much was involved?

Mr. TENNANT. There were two elements, one out of the contingency and one out of supporting assistance.

Mr. PASSMAN. Let us get the amounts, if you will. Was it $2.7 million in one instance?

Mr. TENNANT. $2.7 million sounds right.

Mr. PASSMAN. And the other instance?

Mr. TENNANT. Around $2.5 million?

Mr. PASSMAN. What is the total amount?

Mr. TENNANT. $4.8 million for the two segments.

Mr. PASSMAN. Figure again and see if you are right there.

Mr. TENNANT. $2.7 million and $2.1 million totals $4.8 million.

Mr. PASSMAN. Subsequent to the time that Mr. Bell discussed deobligated and reobligated funds for the motor brigade—I believe that is the name of it in Indonesia—mobile brigade—you did obligate funds, one segment out of the President's contingency account, one out of supporting assistance, for both segments of this project; is that correct?

Mr. SCHEINMAN. That is correct.

Mr. TENNANT. I am not sure both were after March 25. I just do not remember the testimony in that detail.

Mr. PASSMAN. It is important that you find out if you can.

Mr. TENNANT. Mr. Chairman, I think on a more basic point, I would like to say that I am quite sure that Mr. Bell had no intention of misleading the chairman or the committee and that he would be glad to write you a memorandum explaining his interpretation of that memorandum.

Mr. SCHEINMAN. In fact, sir, the procedure that was followed did reduce the total amount of money which was spent insofar as the American taxpayer is concerned.

Mr. PASSMAN. The record, I think, speaks for itself. We are going to establish from previous testimony in the hearings, and what the Controller just said about both segments, that did take new money, either out of the President's contingency or supporting assistance, or out of both of them, for this project.

ECUADOR

The next country in this area is Ecuador, for which the fiscal year 1964 estimate is $———. This is the one spigot, is it not, or is this the total?

Mr. MOSCOSO. This is AID, loans and grants.

Mr. PASSMAN. If you will, let us put all segments together.

Mr. MOSCOSO. We have the figure here: $———.

Mr. PASSMAN. The book shows $——— but that is only a partial amount. When you add the other spigots it is how much?

Mr. MOSCOSO. Including the military, Public Law 480, titles III and IV, $———.

Mr. PASSMAN. You have all of the other sources, such as the Latin American area, the regional account, the interregional account, and Ecuador is eligible for money out of those accounts?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. As well as the Social Progress account?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. And the Inter-American Development Bank?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Also the International Development Association?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. And all of the funds in the U.N.?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Mr. Controller, the many other spigots that might be appicable, would you just list them in the record at this point?

Mr. TENNANT. Yes, sir.

(The information follows:)

SOURCES OF ECONOMIC DEVELOPMENT ASSISTANCE

Ecuador is eligible for funds from the following sources: IBRD, IDB, U.N. funds (including UNTA, ECOSOC, ILO, etc.), IFC, IDA, SPTF, development grants, development loans, supporting assistance, contingency funds, regional funds, interregional funds, Peace Corps, Food for Peace, Eximbank.

Mr. PASSMAN. What sum do you have to the credit of Ecuador unliquidated as of June 30?

Mr. MOSCOSO. $32,302.000.

Mr. PASSMAN. What has been the total aid to Ecuador since the inception of the program?

Mr. MOSCOSO. Excluding Export-Import Bank, $162,300,000.

CHANGES OF GOVERNMENT AND U.S. AID

Mr. PASSMAN. Have you had any change in government in this country recently?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Did you suspend aid or did the aid program continue?

Mr. MOSCOSO. It was suspended for a brief period of time, until the new government was recognized by the U.S. Government on July 31.

Mr. PASSMAN. We accepted the prior government as a friendly government?

Mr. MOSCOSO. Yes; and the present government also.

Mr. PASSMAN. Was this just a friendly changeover election?

Mr. MOSCOSO. No. This was a difficult internal situation which was widely publicized.

Mr. PASSMAN. That is really a quick way to get new officials in.

We do not advocate that type of procedure; do we?

Mr. COTTRELL. No. U.S. policy is to favor the democratic regimes. It believes the aspirations of people can be satisfied through democratic regimes. And when military governments take over, we press them for restoration of the democratic regimes at the earliest possible moment.

Mr. PASSMAN. There have been 18 or 20 chiefs of state assassinated since we started this aid program.

Mr. COTTRELL. It is one of the difficult problems we have to deal with.

Mr. PASSMAN. There have been a lot of governments overthrown since we filled the till with something to rattle. The outsiders want to be the insiders.

I hope our policy in the future would be that we are not quite so willing to start the aid program back the following day.

Mr. COTTRELL. One of the purposes of our aid program is to create stability which will reduce the frequency of this kind of takeover.

ECONOMIC SITUATION

Mr. PASSMAN. On page 57 of the justifications you say "current situation," and I quote:

> Ecuador's ability to improve social and economic conditions under the Alliance is weakened by (*a*) traditional regional autonomy and geographic separation; (*b*) chaotic public administration, ———; (*c*) fiscal mismanagement—nearly two-thirds of the tax revenues of the country go to over 750 autonomous agencies and the military, both essentially outside the control of the Central Government budget. Government investment activities are small and scattered. There is no development plan. Central Government budget deficits have been substantial since 1960. They were covered by U.S. budget support loans of $8 and $7 million respectively in fiscal years 1962 and 1963. A $12 to $15 million deficit is forecast for calendar year 1963. Income distribution is so unequal that less than 10 percent of the population receives 90 percent of the recorded income. Wages are low. The Government's inability to meet commitments for contributions to local costs of projects and the lack of implementation know-how have prevented the initiation of new capital development projects and caused delays in the expenditure of funds already in the pipeline.

That makes me wonder why we are giving aid to Ecuador

That kind of comment makes me wonder why we are giving aid to Ecuador, regardless of whether a duly elected person, or a military junta, is in power.

Mr. MOSCOSO. One of the purposes of the program is to see if these conditions can be remedied. I must say that one of the reasons for the takover was the public administration situation.

Mr. PASSMAN. Why did you not wait until reforms had been brought about? You supported the old Government.

Mr. MOSCOSO. In the case of the older Government, we were trying to see if those situations could be remedied. When we did support them, we made that support conditioned upon their compliance with certain reforms they agreed to make.

Mr. PASSMAN. Under the old Government, you had a more expensive program than you have now.

Mr. MOSCOSO. Yes; it was $18.1 million in fiscal year 1963.

Mr. PASSMAN. What do we really mean? What are we trying to do?

Mr. MOSCOSO. I must say all indications seem to be that this present Government is going to address itself to these changes, hopefully with better luck than the previous administration.

Mr. PASSMAN. They have been making that kind of statement for 17 years, since we started these programs. But we support any government that comes in. If it gets worse, we still support them. It does not appear there is very much progress being made.

TOTAL AID TO ECUADOR

Mr. MINSHALL. Mr. Moscoso, how many years, and how much in total have we put in our foreign aid program in Ecuador today?

Mr. MOSCOSO. $160.3 million, excluding the Export-Import Bank.

Mr. MINSHALL. When did that start?

Mr. MOSCOSO. 1946.

Mr. MINSHALL. We have sown very richly and reaped very poorly.

Mr. MOSCOSO. There has been——

Mr. MINSHALL. 160 million bucks down the drain; it is just that simple.

Mr. MOSCOSO. I would not say that.

Mr. MINSHALL. Where did it go? What do we have to show for it?

Mr. MOSCOSO. I think there have been some improvements.

Mr. MINSHALL. Even with the new administration since 1961, you say on the cover sheet for Ecuador:

(Off the record.)

Mr. MINSHALL. What has he accomplished?

Mr. MOSCOSO. He was not elected President.

Mr. MINSHALL. He is there in charge. Are you not dealing with him?

Mr. MOSCOSO. No, sir.

Mr. MINSHALL. Who are you dealing with?

Mr. MOSCOSO. A military junta headed by Colonel Castro.

Mr. MINSHALL. What progress are you making with them?

Mr. MOSCOSO. Much better progress than we ever made with Arosemena.

Mr. MINSHALL. You would not want to leave the impression we have $160 million worth of value for the money we have invested, would you?

Mr. MOSCOSO. No, sir.

Mr. MINSHALL. How much do you think we have gotten for $160 million?

Mr. MOSCOSO. It is a very difficult thing to calculate; how many people have not died because of that assistance, how many people have learned how to read and write, how many more bushels of wheat and corn has been produced.

Mr. MINSHALL. The fact remains you have not gotten anywhere.

Mr. MOSCOSO. What we had before is not the type of program we have today. We have a truly developmental program today. I hope some day whoever sits in front of the committee will be able to spell out exactly what the results have been of the input of money in each of the countries—what have been the actual results. It is going to be extremely difficult, however, to attribute all that to our aid program because the countries themselves are putting in money.

Mr. MINSHALL. How hopeful are you that you can come back with a substantially better report?

Mr. MOSCOSO. If I were not hopeful, I would not be here.

Mr. MINSHALL. I hope you are here so we can quote you.

BUDGET AND FISCAL PROCESSES

Mr. ANDREWS. Mr. Ambassador, on page 57, discussing fiscal management, you state:

> Nearly two-thirds of the tax revenue of the country goes to over 750 autonomous agencies and the military.

Mr. MOSCOSO. That is right.

Mr. ANDREWS (continuing):

Both essentially outside the control of the Central Government budget.

Do you mean these are nonessential expenses?

Mr. MOSCOSO. No; they are essential, Mr. Congressman.

The trouble is in Ecuador, for a diversity of reasons, they have operated many Government programs utilizing the public corporation device, and there is a proliferation of public corporations which get their funds directly from some tax which is imposed and collected specifically for that particular corporation.

The funds, therefore, do not go through the central budgetary procedure. As you can see, this makes for a very cumbersome and a very difficult program to control.

One of the first things that Mr. Cardenas, the new Development Minister, is addressing himself to is to correct that situation.

Mr. ANDREWS. Do you see any hope?

Mr. MOSCOSO. I do.

CIVIC ACTION PROGRAMS

Mr. ANDREWS. On the next page you state that one of our aims down there is ———.

(Off the record.)

Mr. MOSCOSO. That is right.

Mr. ANDREWS. ———.

(Off the record.)

Would you explain that?

Mr. MOSCOSO. Yes, sir. A number of the projects you will see when we go into the details of the program are precisely designed to do such a thing. We have civic action roads and housing, and so forth.

Mr. ANDREWS. It seems as if we are constructing roads in every country, not only in your area, but all other areas.

Mr. MOSCOSO. We have a strong civic action program, $560,000.

CHANGES OF GOVERNMENT

Mr. PASSMAN. When did the new government take over in Ecuador?

Mr. MOSCOSO. The new government took over on July 11.

Mr. PASSMAN. When did the Arosemena government go into power?

Mr. MOSCOSO. Around November 1961.

Mr. PASSMAN. How many governments have you had there in the past 3 years?

Mr. MOSCOSO. Three governments.

The Velasco government, the Arosemena government and the military junta.

BUDGETARY SUPPORT AND PURCHASE OF GOLD

Mr. PASSMAN. I notice that in the fourth quarter of 1962, either October, November, or December, Ecuador purchased $3.2 million of our gold.

I am sure there is going to be a good reason for it, but I just wondered if this matter had been brought to your attention.

Mr. MOSCOSO. We do not have it here.

(Information supplied later follows:)

ECUADOR GOLD PURCHASE

The gold was purchased in accordance with previous agreements between Ecuador and the IMF. As explained below, there was no change in Ecuador's reserves as a result of this transaction.

In April 1961, Ecuador purchased with sucres $5 million from the IMF for balance-of-payments purposes. Under the Fund's automatic repurchase procedure, Ecuador was required to repurchase with dollars the $5 million worth of sucres in the spring of 1962. Ecuador made this repurchase. Later in the year the IMF required Ecuador to substitute gold for $3.2 million of the $5 million previously paid to the Fund. To make this substitution, Ecuador purchased the gold from the U.S. Treasury with dollars, turned the gold over to the IMF and received the equivalent amount in dollars from the IMF.

Mr. PASSMAN. I assure you this is the U.S. Treasury statement. You recognize it as such?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. This is Ecuador, $3.2 million.

How much aid did we give them in fiscal year 1963, the same year they got $3.2 million worth of our gold?

Mr. MOSCOSO. $36.3 million.

Mr. PASSMAN. I believe maybe they could spare $3.2 million for our gold.

Mr. MOSCOSO. That was not disbursements.

Mr. PASSMAN. If you give a government money to pay for the same items they would pay for out of their treasury, that releases money to them to do with whatever they please, whether it is buying gold or just matching their friends for it.

I note that this country received $7.3 million for supporting assistance in fiscal year 1963, of which $7 million was in the form of cash transactions.

Was that $7 million for budgetary support?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. That is the year they bought this $3.2 million of our gold?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. The last half of calendar 1962 was the first half of fiscal year 1963. Is that correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. They bought $3.2 million worth of U.S. gold in the last quarter of calendar 1962, which was in the first half of fiscal year 1963.

Mr. STERNFELD. That is correct.

Mr. PASSMAN. How much did you justify for the supporting assistance program for Ecuador last year?

Mr. MOSCOSO. It was not justified.

Mr. PASSMAN. Again, a blank check.

Mr. ANDREWS. Before you get away from that gold question, could we have a little more explanation of what happened?

Did I understand that we gave them $7 million in budgetary assistance?

Mr. PASSMAN. A cash transaction.

Mr. ANDREWS. Just how was that handled?

Mr. MOSCOSO. You mean the gold transaction?

Mr. ANDREWS. Yes.

Mr. MOSCOSO. I do not know about that.

Mr. ANDREWS. We did give them cash?

Mr. MOSCOSO. We made the funds available under certain conditions, that they would approve amendments to their income tax law and provide for other administrative reforms. Until those reforms were made, we did not make the money available. As a matter of fact, we held back on the second piece of it and did not make it available until they had performed.

Mr. PASSMAN. This goes into their treasury, does it not?

Mr. MOSCOSO. We are still holding back about $2 million.

Mr. PASSMAN. That is in some $30 million of unliquidated funds. You always have unliquidated funds out of a current year's allocation.

Mr. MOSCOSO. This was——

Mr. PASSMAN. How much have you disbursed on this allocation? You only made it in fiscal year 1963.

Mr. MOSCOSO. $5 million.

Mr. PASSMAN. You did not justify it, did you?

Mr. MOSCOSO. No, sir; it came from the Contingency Fund.

Mr. PASSMAN. When did you credit the funds to Ecuador?

Mr. MOSCOSO. This was signed in September 1962.

Mr. PASSMAN. That is just about the same month——

Mr. MOSCOSO. They received the first amount on November of 1962, the $3 million.

Mr. PASSMAN. That is the same quarter in which they purchased $3.2 million of our gold, is it not?

Mr. MOSCOSO. Yes, sir.

Mr. ANDREWS. Does anyone have the date on which they purchased the gold and the date on which they were given that money in cash?

CHANGES IN ECUADORAN GOLD HOLDINGS

Mr. STERNFELD. The information we have is that the Government of Ecuador had $20 million worth of gold in the first quarter of 1961. In the fourth quarter of 1962, when the chairman indicates they purchased the gold from us, they still only had $19.2 million in gold. That is the level they have maintained all through 1962 until February of 1963 they had $19 million in gold, and the latest report that the International Monetary Fund put out shows in June they still only had $19 million in gold.

Mr. PASSMAN. They did not sell any of that gold to us?

Mr. STERNFELD. They did not.

Mr. PASSMAN. I think, Mr. Administrator, you might want to check into the situation. The chances are it is sort of a surprise to review the treasury statement which shows that at the same time we were giving them a cash transaction, they pulled out money and bought our gold.

Mr. MOSCOSO. Do you know what date that purchase was made?

Mr. PASSMAN. At about the time they got your check they bought the gold. It was in the fourth quarter. It could have been October, November, or December.

Mr. MOSCOSO. That was about the time——

Mr. PASSMAN. We were giving the money.

Mr. MOSCOSO. No.

Mr. PASSMAN. You do not really give money, of course. It is a credit at the U.S. Treasury from which they can debit, credit, open accounts, or transfer over. Also, of course, this gold does not really leave the country. It moves from one vault to another.

Mr. MOSCOSO. I know you know that very well.

Mr. PASSMAN. All this is bookkeeping. It is ledger transactions. This day you have this, tomorrow that. You do not send them money, but it has the same effect.

Mr. ANDREWS. I understand the Ambassador's testimony to be that during the fourth quarter of calendar 1962 we gave them $3 million.

Mr. MOSCOSO. We advanced $3 million.

Mr. ANDREWS. And they bought during that same quarter——

Mr. MOSCOSO. Not in cash. We made a letter of credit——

Mr. ANDREWS. It is the same thing.

Mr. MOSCOSO. Goods went down there in the same amount.

Mr. PASSMAN. It is the same thing. You credit to them downtown.

Mr. MOSCOSO. Right.

Mr. ANDREWS. They could have bought gold or anything they wanted with it.

Mr. PASSMAN. If you make a cash transaction to the budget of a country, it goes in with their other total assets accruing to their budget, whether it is a letter of credit, or whether it is actually a check coming in. It accrues to the budget.

Mr. MOSCOSO. You are right.

Mr. PASSMAN. So, when they are ready to buy gold, if you have put in sufficient money to meet their commodity request, then that releases to them the money they collect in taxes or from other sources to buy our gold, or do with as they want to; is that correct?

Mr. MOSCOSO. That is correct.

Mr. SCHEINMAN. I think the committee made it clear for the record.

Mr. PASSMAN. Let the record show that I thank Mr. Scheinman.

AGRICULTURE DEVELOPMENT PROJECT

In connection with the agricultural development project, on page 299, I note that the major portion of the unliquidated fund as of June 30, in the amount of $250,000, is for approximately 21 participants. Why is the cost for participant training so high in Ecuador?

Mr. STERNFELD. This is not only the cost connected with the cost of participants. The cost of the participants is around $5,000 each. There are other expenses in the pipeline associated with the commodities and local expenses.

Mr. PASSMAN. You said:

> The major portion of the pipeline estimated for June will consist of funds obligated but not expended for approximately 21 participants who will terminate their training in fiscal year 1964.

Mr. STERNFELD. It is $110,000.

Mr. PASSMAN. That is not the major portion of the $250,000.

Mr. STERNFELD. $130,000 would have been the major portion, therefore it is a slight exaggeration if we said "major portion."

Mr. PASSMAN. Do you want the record to show that exaggeration?

Mr. STERNFELD. It is that way and I do not see why it should not be said.

TEACHER TRAINING AND MATERIALS PRODUCTION PROJECT

Mr. PASSMAN. I note that you obligated $410,000 to the teacher training and materials production project, on page 303. How much did you justify for this project last year, and what sum did you request?

Mr. STERNFELD. A project last year——

Mr. PASSMAN. Please answer my question.

I note that you obligated $410,000 to the teacher training and materials production project, on page 303. How much did you request and justify for the project last year?

Mr. STERNFELD. That project had $600,000 last year.

Mr. PASSMAN. Under what heading?

Mr. STERNFELD. Page 199, heading, "School construction, teacher training, and literacy education."

Mr. PASSMAN. That is a lot of difference?

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. Let us see if you requested any money for this project as such.

Mr. STERNFELD. It has the same number.

Mr. PASSMAN. But for a different purpose. It was $800,000 last year, "School construction, teacher training, and literacy education."

Here it is teacher training and materials production.

Last year, how much did you have for construction?

Mr. STERNFELD. We did not go ahead with the construction element of that.

Mr. PASSMAN. How much was that?

Mr. STERNFELD. I do not have the figures here.

Mr. PASSMAN. Go up to the top of the page there and see if you do not find it under "Other costs."

Mr. STERNFELD. That would be right.

Mr. PASSMAN. Subtract $380,000 from $600,000. What does that leave?

Mr. STERNFELD. $220,000.

Mr. PASSMAN. But you obligated $410,000, did you not?

Mr. STERNFELD. That was the estimate.

FORDWARD FUNDING OF UNIVERSITY PROJECTS

Mr. PASSMAN. I note that you have $1.5 million unexpended as of June 30 under the "Assistance to universities project," on page 304.

In view of the fact that you have this very large unexpended balance, why do you need an additional $950,000 for fiscal year 1964, especially since the contracts were signed in February of the 1963 calendar year?

Mr. STERNFELD. Our calculations, by the three main contracts here, show that $1,735,000 is necessary to continue to fund these university projects on a 2-year basis.

Mr. PASSMAN. I shall read from page 304 of the justifications:

Need for additional funds. Agreements obligating $1.5 million to assist Central and Catholic Universities of Quito were signed in May 1962, but expendi-

tures did not commence until after the University of Pittsburgh contract of $1.1 million, and the St. Louis University's contract of $400,000 were signed in February of 1963. Present funding will finance these contracts for 2 years.

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. You are actually going to have 4 years' funds on hand, are you not, under this arrangement?

Mr. STERNFELD. No. Under this arrangement, we will be spending moneys in 1964.

Mr. PASSMAN. And 1965?

Mr. STERNFELD. That is correct, but in order to fund these contracts through——

Mr. PASSMAN. You are requesting money for fiscal years 1966 and 1967?

Mr. STERNFELD. It is a forward funding of 2 years.

Mr. PASSMAN. You have money for 1964 and 1965 and you are asking money for 1966 and 1967. Is it that simple?

Mr. STERNFELD. We are asking for funds that will carry us partially through some of these contracts until December 31, 1965.

Mr. PASSMAN. That is fiscal year 1966?

Mr. STERNFELD. That is right, 2 years forward funding.

Mr. PASSMAN. Do you mean forward funding from previous forward funding? You have money from 1963, 1964, 1965, and 1966 under this, do you not?

Mr. STERNFELD. Sir?

Mr. PASSMAN. Present funding will finance these contracts for 2 years; is that correct?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. This would mean fiscal years 1964 and 1965. The contracts were signed in February of 1963. You are moving into fiscal year 1964 to spend your money; is that right?

Mr. STERNFELD. That is right.

Mr. PASSMAN. That is, fiscal year 1964 and 1965?

Mr. STERNFELD. That is right.

Mr. PASSMAN. So what you are asking for here could go into fiscal years 1966 and 1967, could it not?

Mr. STERNFIELD. Moneys could go into as late as December 31, 1965.

Mr. PASSMAN. Do you mean you are going to spend more money in 6 months, almost, than you spent in two and a half years previously?

Mr. STERNFELD. No.

Mr. PASSMAN. How much is this project costing per year?

Mr. STERNFELD. It cost $750,000.

Mr. PASSMAN. You are funded for fiscal years 1964 and 1965?

Mr. STERNFELD. Yes.

Mr. PASSMAN. That gives you $700,000 at this inflated estimate, which would take you all the way through 1966. Then, it appears, you would have $250,000, to go over into fiscal year 1967; is that correct?

Mr. STERNFELD. We would expect to——

Mr. PASSMAN. With your own words, $250,000 would lapse over into 1967?

Mr. STERNFELD. If we were to maintain the rate of fiscal year 1963, $750,000.

Mr. PASSMAN. You have already said you have money. You say present funding will finance these contracts for 2 years. You signed the contracts in February. You said that you had funds available for fiscal years 1964 and 1965.

You have $1.5 million on hand unexpended. You say you are spending $750,000 a year.

Mr. STERNFELD. $750,000 is the figure.

Mr. PASSMAN. Your additional request for $950,000 will fund you for all of fiscal year 1966, will it not, on that basis?

Mr. STERNFELD. It will.

That is the case if you would maintain——

Mr. PASSMAN. $750,000 a year is what you said previously. On that basis, you would have $200,000 to apply to fiscal year 1967, would you not?

Mr. STERNFELD. That is correct.

Mr. MINSHALL. You made your point.

Mr. PASSMAN. I had to roll them five times.

Mr. STERNFELD. I would be glad to provide you the cost of each of the contracts.

Mr. PASSMAN. Your record says you have funding for 2 years and that breaks out at an average of $750,000 a year. You are asking for $950,000. This money on hand takes you through fiscal years 1964 and 1965. Then you would have money for 1966 with $200,000 lapping over into 1967.

Mr. STERNFELD. That is assuming——

Mr. PASSMAN. That you spent what the book says, $750,000 a year.

Mr. STERNFELD. That is, the needs are not such as to——

Mr. PASSMAN. Do you want to contradict what you have said?

Mr. STERNFELD. On the basis of calculating $750,000 a year, you are right.

Mr. PASSMAN. You have on hand, unliquidated, $1.5 million. Your book says it is good for 2 years; does it not?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. On that basis you would need $750,000 per year, but you are asking for $950,000, which would fund you through a part of fiscal year 1967 on the basis of $750,000 a year.

Mr. STERNFELD. If you did not expand the contract——

Mr. PASSMAN. Who said you are going to expand it? You say you have a 2 years' supply of money. You do not say anything about expanding the contract.

How much did you justify for this project last year?

Mr. STERNFELD. $300,000.

Mr. PASSMAN. You justified $300,000, but you obligated $530,000?

Mr. STERNFELD. Right.

ECONOMIC AND SOCIAL DEVELOPMENT PLANNING PROJECT

Mr. PASSMAN. Why do you need $180,000 for contract service for the economic and social development planning project, on page 307?

Mr. MOSCOSO. This is to lend support to the planning board of Ecuador.

Mr. PASSMAN. What kind of planning board?

Mr. MOSCOSO. This is the Ecuador National Planning Board.

Mr. PASSMAN. What do they plan?

Mr. MOSCOSO. They are planning the economic and social development of the country.

HOUSING DEVELOPMENT PROJECT

Mr. PASSMAN. How much money are you requesting under the housing development project, on page 308, to finance two long-term U.S. technicians?

Mr. STERNFELD. $50,000.

Mr. MOSCOSO. We are asking for $92,000, which will finance two long-term and eight short-term technicians.

Mr. PASSMAN. You have $92,000 for U.S. technicians. Why would you need these short-term technicians?

Mr. STERNFELD. The need for short-term technicians is that they are specialists.

Mr. MOSCOSO. Specialists in their particular field.

Mr. PASSMAN. In what field or fields?

Mr. MOSCOSO. Loan procedures, city planning, and setting up and management of mutual savings banks.

Mr. PASSMAN. You have housing development, same project and same page, and you have $92,000 planned for U.S. technicians. Why are you asking $51,000 for contract services?

Mr. MOSCOSO. The U.S. technicians are going to assist in the development of the savings and loan asociations.

Mr. PASSMAN. In what activities will the other people assist?

Mr. MOSCOSO. In city planning and the loan procedures, and in the management of the mutual savings banks. One is for setting them up, the other is to show them how to run them.

Mr. PASSMAN. Should you not teach them something about running these banks before you set them up?

Mr. MOSCOSO. You try to do both things simultaneously.

Mr. PASSMAN. Where do these people get their training before they go out into the field?

Mr. MOSCOSO. In the case of the savings and loan specialists these are usually people who have had experience in savings and loan associations.

Mr. PASSMAN. Have they been fired and need another job?

Mr. MOSCOSO. Not exactly.

Mr. PASSMAN. Do you have to hire them away from building and loan associations?

Mr. MOSCOSO. Quite a few are supplied to us by the building and loan associations themselves.

HOUSING TECHNICIANS

Mr. PASSMAN. Give us the names of these people, where you recruited them. the building and loan associations they worked with, and in what capacities.

Mr. MOSCOSO. I will be glad to do that.

Mr. STERNFELD. This is proposed for 1964. It has not been done yet.

Mr. PASSMAN. How much did you obligate in fiscal 1963?

Mr. MOSCOSO. $128,000.

Mr. PASSMAN. You asked for $4,000?

Mr. STERNFELD. That is right.

Mr. PASSMAN. How much did you obligate for contract services?

Mr. STERNFELD. $4,000.

Mr. PASSMAN. How about the U.S. technicians, how much?

Mr. STERNFELD. $93,000.

Mr. PASSMAN. How many do you have on board?

Mr. STERNFELD. We would have to check that.

Mr. PASSMAN. Can you tell us on this project the names of these individuals and give us brief biographies?

Mr. STERNFELD. Of the direct-hire technicians and contract technicians on this project in fiscal year 1963?

Mr. PASSMAN. Yes.

Mr. STERNFELD. Right.

(The information supplied, follows:)

HOUSING TECHNICIANS, ECUADOR

DIRECT HIRE

Basine, Joseph B., housing adviser

Born 1904. Northwestern University, B.S. 1928; New York University, J.D. 1936; assistant credit manager, 1936–39; office credit manager, 1939–42; department stores; Office of Price Administration, 1942–46; owner, export service 1946–48; real estate developer, 1948–61.

Jordan, George R., housing adviser, construction

Born 1906. Northwestern University, 1926–27; Massachusetts Institute of Technology, 1928–31; various engineering jobs, 1928–34; self-employed, 1934–36, 1937–38, 1947–48; engineer, Department of Agriculture, 1936–37; engineering inspector, Department of the Interior, 1939; supervisor, training program, 1940–41; assistant job superintendent, National Capital Housing Authority, 1941–46; president, construction company, 1948–54; 1954 to present, engineer and housing adviser, AID—Trinidad, Ghana, Korea, Ecuador.

Zenger, Carl R., housing adviser, aided self-help

Born 1924. University of California, 1945; University of Oregon, bachelor of architect, 1951; USMC, 1942–45, 1950–51, overseas; structural engineer, timber company, 1951–52; architect draftsman, engineering company, 1953–54; private architect, 1954–57; since joining AID in 1957 has served as housing adviser (aided self-help) in Nicaragua and Ecuador. Received Commendable Service Award, 1960.

Easson, George B., housing adviser, finance

Born 1913. Mortgage service adviser, Williamsburgh Savings Bank, New York, 1933–59 (retired); town assessor, 1960–62; 1962 to present, AID.

CONSULTANT

Davila, Horace E., organization and management, savings and loan associations

Assistant manager, theater, 1937–43; U.S. Army, 1943–45; Manager, FHA Loan Department, Banco de Santurce, Santurce, P.R., 1946–48; examiner, Reconstruction Finance Corp., San Juan, P.R., 1948; president, 1st Federal Savings & Loan Association of Puerto Rico, Santurce, P.R., 1948 to present.

Donahue, Frances M., establishment of mortgage deposit insurance fund

University of Washington, B.A., 1930; bank teller, 1930–36; real estate and insurance company 1936 and 1944; assistant secretary-treasurer, Olympia Federal Savings & Loan Association, Olympia, Wash., 1936–44; executive secretary, Capital Savings & Loan Association, Olympia, Wash., 1944–51; senior vice president, Federal Home Loan Bank of San Francisco, 1951–53; president, Citizens Federal Savings & Loan Association, San Francisco, Calif., 1953 to present.

CONTRACT TECHNICIANS

Bermudez, Juan J., investment specialist

Born 1928. University of Puerto Rico, B.B.A., 1949; assistant vice president and loan officer, savings and loan association, 1949 to present. Short-term savings and loan adviser, Ecuador—AID, 1963.

Martorell, Carlos S., loan officer

Born 1936. The Citadel, B.A., 1958; supervisor, bank, 1958–60; loan officer, savings and loan association, 1960 to present. Short-term savings and loan adviser, Ecuador, AID, 1963.

PERSONNEL AND PARTICIPANT TRAINEES CONCERNED WITH FOREIGN AID PROGRAM

Mr. PASSMAN. I am using the figure of 62,000 for personnel in the AID program, including the participants. How many are there, actually?

Mr. TENNANT. The total amount of personnel, plus participants and including the equivalent of administrative support costs, 64,536. This includes——

Mr. MINSHALL. From what spigot is this?

Mr. PASSMAN. It is all the personnel employed by the AID program, whether it be in military or AID or foreign nationals, or participants or contract services—it would mean university people.

Mr. MINSHALL. This is still one spigot?

Mr. PASSMAN. This is all of AID. The total number of personnel who get a paycheck from Uncle Sam, in one category or another.

Mr. MINSHALL. Does this include the Peace Corps?

Mr. PASSMAN. No.

Mr. MINSHALL. This is one spigot then.

Mr. ANDREWS. What is the total number?

Mr. PASSMAN. Approximately 64,500.

Mr. TENNANT. We provided an insert.

Mr ANDREWS. 64,000 is the right figure?

Mr. PASSMAN. It is 64,536.

Mr. ANDREWS. I remember that 3 years ago it was about 45,000.

Mr. SCHEINMAN. It is still approximately that, without including participants, which are not employees of the agencies.

Mr. PASSMAN. They get money.

Mr SCHEINMAN. Being brought over for training. They are not employees of the agency.

Mr. ANDREWS. What we had in mind is the total number of people being paid to carry on this work.

Mr. SCHEINMAN. About 42,500.

Mr PASSMAN. How many participants are in the program, Mr. Controller?

Mr. TENNANT. Participants were included in the figure I gave you.

Mr. PASSMAN. All under this bill?

Mr. TENNANT. Some 22,827 participants under military and economic programs

Mr. PASSMAN. This leaves 42,500 paid employees of one type or another, either foreign nationals or Americans, including contract services?

Mr. TENNANT. This also includes locals, foreign nationals paid from cooperative country trust funds.

Mr. PASSMAN. They are being paid, are they not?

Mr. TENNANT. Yes, sir.

COST OF PARTICIPANTS

Mr. PASSMAN. What is the total cost for the 22,000 participants?

I believe they get a check for board, room, for pocket money, travel, health, medical care.

Mr. TENNANT. Part of these participants are in the military program and——

Mr. PASSMAN. How about AID?

Mr. TENNANT. In 1963, our estimates were $34 million for the total cost of the participants.

Mr. PASSMAN. How much is that per participant?

Mr. TENNANT. For fiscal year 1963 there were 8,092 participants programed for $34 million for an average cost per participant of $4,220.

Mr. PASSMAN. These are foreign students, or people we bring in. Do they get a regular allowance for their room and board, spending money, and so forth?

Mr. TENNANT. They get a per diem allowance for that type of expenditure.

Mr. PASSMAN. Would it include such things as medical care, meals and lodging, and a little spending money?

Mr. TENNANT. I do not think we take care of medical care, or spending money. The per diem is for food and lodging.

Mr. PASSMAN. The average grade in civil service is between a 4 and a 5, would you say? Take all from top to bottom. We are trying to help you make a good record.

Mr. TENNANT. I would concede that, subject to check.

Mr. PASSMAN. This means the participants are getting more than the employees in the first two brackets of grade 4 of the Federal Government. In fact, they are getting more than all brackets in grade 4.

Mr. TENNANT. These figures I have given you include the cost of travel.

Mr. PASSMAN. We want to show what the participants are costing. They are traveling at our expense. They are eating at our expense. They get spending money and they get lodging, and the average cost per participant is above the salaries of all three brackets in GS–4.

CREDIT UNIONS AND COOPERATIVE DEVELOPMENT PROJECT, ECUADOR

Did you justify the $169,000 last year that you obligated for the credit union project, on page 309?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Could you tell us what it will cost to complete this project?

Mr. MOSCOSO. $1,346,000.

Mr. PASSMAN. That is a lot of money not to be justified, at least on an illustrative basis.

You do have to delegate a lot of your authority to subordinates?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. In your area, if we were to split it up, I do not know whether we could say you have a total of 16,000 employees, or only

8,000, and you have to delegate authority, I recognize, and I am sincere when I say that I know you personally cannot keep up with all this. It is so complex you just would not have that much time. So you have to leave it up to your subordinates.

It would appear to me that maybe you should lay the law down. Unless there is some really special reason for an exception, not as many projects in the future should be started as in the past without at least an illustrative program being justified to Congress.

CIVIC ACTION PROJECT

On what day in June 1962 did you obligate the $560,000 for the civic action project, on page 310?

Mr. Moscoso. We do not have it. We will have to supply it for the record.

Mr. PASSMAN. It is on page 310. You obligated the money in June and on June 30 you had the same amount in the unliquidated column. You did not spend a dime. It that correct?

Mr. STERNFELD. That is correct.

BUDGET SUPPORT LOAN

Mr. PASSMAN. What is the present status of the budget support credit, on page 313, and the industrial credit, on page 318?

Mr. Moscoso. We disbursed the first part of the budget support loan.

Mr. PASSMAN. Is this the one you suspended?

Mr. Moscoso. Yes, until they complied.

Mr. PASSMAN. How much do you have on hand undisbursed?

Mr. Moscoso. $2 million.

Mr. PASSMAN. Do you propose to deobligate that money?

Mr. Moscoso. No, sir. They have met all the conditions and we expect to disburse the final $2 million.

Mr. PASSMAN. "The country team continues pressing for compliance," it says here.

Would that statement mean you want them to comply so you can spend the money?

Mr. Moscoso. The last paragraph says:

> The Government of Ecuador met two of the three conditions and received a second disbursement on May 3, 1963. The final condition, the issuance of a fiscal year code, was fulfilled prior to June 30 and AID is now arranging for payment.

Mr. PASSMAN. This says, "The country team continues pressing for compliance." Has the compliance come about since the printing of this book?

Mr. Moscoso. It was written in February.

INDUSTRIAL CREDIT LOAN

Mr. PASSMAN. Here is one here, an industrial credit item, which is truly in the status of unobligated funds, but carried as obligated funds for reasons that they need new money for the future. Date approved, February 1, 1962; date signed, July 29, 1962.

Now, more than a year later you have a $5 million credit on hand. It is one of the 40 years, no interest, 10-year grace period type of credit arrangements. What is the status of this item?

Mr. Moscoso. The conditions were met in May of this year, Mr. Chairman, and applications are now being processed for $600,000 in subloans under the industrial credit loan.

Mr. PASSMAN. What kind of conditions were you asking them to meet?

OPERATIONS UNDER CONTINUING RESOLUTION

While you are looking up that information, may I ask you, under your continuing resolution that the Congress passes each year pending the new appropriation, you spend, or can obligate funds in accordance to the amount appropriated in the previous year, or the amount of expenditures—which one?

Mr. TENNANT. I believe the resolution refers to the rate of obligations in the previous year or the budget estimate, whichever is lower. I would have to check the language.

Mr. PASSMAN. Please do so.

Mr. TENNANT. Our continuing resolution has different language at different times.

Mr. PASSMAN. I am just trying to understand.

If you show in one preliminary report that you spend $3.5 billion out of pipeline and if that holds good at a subsequent date, then you abide by the continuing resolution and you can obligate at that level, but if at a subsequent date you find your withdrawals from the pipeline jumped up to $3.8 billion, then could you obligate out of the continuing resolution up to that amount, $3.8 billion?

Mr. TENNANT. The continuing resolution is based on the rate of obligations rather than the withdrawals from the pipeline, sir.

Mr. PASSMAN. The rate of obligations?

Mr. TENNANT. Yes.

Mr. PASSMAN. So, if you had available last year $3.9 billion, and you obligated $3.5 billion, then your continuing resolution would be based upon $3.5 billion, but if you obligated $3.7 billion, then your continuing resolution would be based upon $3.7 billion, would it not?

Mr. TENNANT. I believe that is correct, sir; I would like to check the specific language of the resolution.

Mr. PASSMAN. Do check the language, sir. It makes a lot of difference.

INDUSTRIAL CREDIT LOAN

Did you ever find the answer to the question about the industrial credit?

Mr. Moscoso. I have every loan paper except that. I will be happy to supply that for the record. They have complied.

(Information subsequently supplied follows:)

INDUSTRIAL CREDIT LOAN—CONDITIONS PRECEDENT

In addition to the usual conditions precedent to disbursement under AID loans, such as a legal opinion from the Attorney General of Ecuador and a letter of information concerning the status, operations, affiliations, assets, and policies of the borrower, the National Securities Commission was required to:

1. Establish a separate department with adequate professional and clerical staff to carry out the AID financed program.

2. Hire two experts approved by AID; one to act as loan administrator, the other as full-time engineering consultant. These experts are charged with reviewing the engineering, economic, and financial data supporting industrial

credit applications, and determining the feasibilty and soundess of the projects submitted for financing.

3. Submit a list for approval by AID of the types and products of industrial enterprises to be financed under the loan.

Mr. PASSMAN. Are you personally familiar with that situation, or have you been notified they have completed?

Mr. MOSCOSO. They complied, and the conditions were met in May of this year, 3 months ago. I was notified.

Mr. PASSMAN. Who notifies you when they meet the conditions?

Mr. MOSCOSO. In the process, every month, I have a meeting with Mr. Sternfeld and Mr. Glaesaner, who is the head of our loan division, and we go over all of these pending loans to see which loans conditions have been met. When we find some of these loans have been too tardy in meeting conditions, we send wires to our missions that deobligation should be made if the conditions are not met promptly.

DEOBLIGATION FROM ECONOMIC FUNDS

Mr. PASSMAN. Earlier you mentioned about the worldwide deobligated funds out of the economic part of the nonmilitary program. This total was $51,966,000. That represents about 12 percent of the total appropriation, does it not?

Mr. TENNANT. Approximately; yes, sir. That was April 30.

Mr. PASSMAN. Whatever is obligated or deobligated in subsequent months applies to that figure, does it not?

Mr. TENNANT. It would be added to this.

Mr. PASSMAN. Thank you.

Mr. Natcher?

TAX REFORMS IN ECUADOR

Mr. NATCHER. I notice from the justifications that four-tenths of 1 percent of all landowners control almost half of the arable land and that agricultural wages are incredibly low with some laborers not receiving even the 15 cents a day minimum required by law.

Mr. Ambassador, what are you doing now from the standpoint of those who own the majority of the land in this particular country applying taxes and attempting to get them to pay their share of the cost of maintaining their government?

Mr. MOSCOSO. We have pressed quite hard for tax reforms and although some results have been attained not all of those we would like to see have been achieved.

In November 1961, they approved a law modifying the basic customs law. On December 15, 1961, they enacted a new inheritance tax with increased rates and improved enforcement procedures.

In 1962, decree law No. 32 was approved regarding banana exports. It is desirable and this gives incentives to increase the export of bananas.

On July 18, 1962, there was a law which created a commission for administrative and fiscal reforms to revise the entire income tax legislation.

In August 1962, decree law No. 39 enacted a new income tax with rates from 20 to 40 percent on corporate income; flat rates according to source of income range from 26 to 33 percent, with progressive rates on total income from 10 percent to 43 percent. That is the law to

which we tied the disbursements of the supporting assistance loan. We delayed disbursing until they issued the regulations to implement the law.

Then decree law No. 47 enacted a new tax incentive for industry and the budget law introduced new taxes on imports and corporate pay, and a professional license tax.

This is still not enough and the new government recognizes as much.

Mr. NATCHER. That is all, Mr. Chairman.

Mr. PASSMAN. Is this one of the countries in which they build up a lot of tax liabilities and then pass legislation for starting all over again?

Mr. MOSCOSO. I do not know, Mr. Chairman. I do not think so. I think the country you have in mind is Chile.

Mr. PASSMAN. Would you find out, please?

Mr. MOSCOSO. We will be glad to find out.

(Information supplied follows:)

TAX PENALTY AMNESTIES IN LATIN AMERICA

No case is known where any country in Latin America has provided forgiveness to delinquent taxpayers of past taxes due. However, tax penalty amnesties are common, and on occasion discounts are provided for advance payments of taxes. Amnesties are intended to elicit voluntary declaration and payment of past taxes. Ordinarily, the amnesty legislation provides that if delinquent taxpayers identify themselves and declare their past taxes within a specified period of time, penalties for late payment or failure to file a declaration will be wholly or partially waived. Ordinarily, these penalties are substantially increased for those taxpayers who fail to voluntarily avail themselves of the amnesty. The most recent instance of a tax amnesty coupled with increased penalties subsequent to the forgiveness period was in 1962, in Argentina. Through this device the tax administration identified some 450,000 taxpayers who had previously evaded the tax rolls or collections.

Mr. PASSMAN. What is the maximum penalty for not paying taxes in this country?

Mr. MOSCOSO. We will be glad to find that out.

Mr. PASSMAN. You do not have that information?

Mr. MOSCOSO. We do not have it now.

(The requested information follows:)

TAX PENALTIES IN ECUADOR

Under the provisions of the income tax law the penalties are as follows:

1. Delinquency: 5 to 70 percent.
2. Failure to file return:
   A. Taxable returns, 2 percent monthly up to 50 percent.
   B. Nontaxable returns, $5 to $100.
3. Fraud: 50 to 100 percent of tax. In aggravated cases the penalties may be increased to 250 percent.

Mr. PASSMAN. Mr. Andrews?

REFORMS IN ECUADOR

Mr. ANDREWS. Mr. Ambassador, you say the very complexity of the problem and the ——— represent serious hindering factors to meaningful reforms.

Mr. MOSCOSO. That is right, sir.

Mr. ANDREWS. I imagine that is an understatement of conditions?

Mr. MOSCOSO. It is probably not at this time.

Mr. ANDREWS. It is not?

Mr. MOSCOSO. No; for the simple reason that the new military group which has come in seems to be reform minded. They are youthful-thinking people and they recognize that if Ecuador is going to live up to its responsibilities, it is going to have to do much better insofar as taxes and reforms are concerned, particularly land reforms.

Mr. ANDREWS. What do you base your hope on for change?

Mr. MOSCOSO. On the men I know in that group, particularly Mr. Cardenas whom I have known for quite a number of years and who is a very able, sincere, and honest official.

Mr. ANDREWS. The confidence that you have is the fact they will pass these reform laws?

Mr. MOSCOSO. It seems to me, Mr. Andrews, that perhaps the mere fact that it is a military government might make it a little easier for some of these reforms to be approved.

Mr. ANDREWS. Present day conditions have existed since the dawn of history in that country?

Mr. MOSCOSO. I hate to say this, but as you are well aware, a democratic constitutionally elected government should be willing and able to do these things but they have not shown ability to do enough up to now.

Mr. ANDREWS. I said, present day conditions have eixsted since there has been a country there, have they not? There have not been many changes, have there?

Mr. MOSCOSO. There have been some changes but I would say not enough.

Mr. ANDREWS. I think you are very optimistic if you think you are going to cure those problems that have existed through the years in a period of a short time.

What is your best guess as to when the reforms you think they need will be achieved?

Mr. MOSCOSO. Within the next 18 months to 2 years, I think they will be able to do so. They are already studying a new electoral law and I am quite sure that they will want to have these reforms underway before the new elections are held.

LAND REFORMS

Mr. ANDREWS. You state four-tenths of 1 percent of all landowners control almost half of the arable land and agricultural wages?

Mr. MOSCOSO. It is incredible, Mr. Andrews; very bad.

Mr. ANDREWS. I hope your faith in the future is justified.

Mr. MOSCOSO. By the way, they have done some, but not enough, distribution of land. Twenty-three thousand acres were distributed betwen 1961 and 1963, but I am the first one to admit this is not enough.

PUBLIC ADMINISTRATION REFORM

Mr. ANDREWS. You state further that Government investment activities are small and scattered. There is no development plan?

Mr. MOSCOSO. This is because of the situation I mentioned earlier in which most of the investment is done by these autonomous agencies, over which the Government has little or no control. One of the things

they are trying to do in this administrative reform is to put the bulk of these operations under regular agencies of Government.

Mr. ANDREWS. Just what kind of operations are they? Describe one for us.

Mr. Moscoso. They have a public corporation to handle water and sewage, for such and such a city. That public corporation handles its own funds and if they do not receive adequate revenue from rates they will get a tax allocation which does not have to be reviewed by the parliament. They get a special fund automatically and, of course, that does not permit the Government to decide whether or not they should either be getting better rates so they could become self-supporting or operate more efficiently so they can meet their expenses with the revenue they now have.

Mr. ANDREWS. That is an open invitation for fraud and crookedness, is it not?

Mr. Moscoso. Right.

AGRICULTURAL DEVELOPMENT AND LAND REFORM

Mr. ANDREWS. Just what have you done to help the low-income laborer who receives 15 cents a day minimum wage which is required by law? What projects have you undertaken and developed that help him?

Mr. Moscoso. We have an agricultural development project in which technical assistance to the agricultural sector is being given.

Mr. ANDREWS. If the land is in the hands of four-tenths of 1 percent of the population, how are you helping that little fellow?

Mr. Moscoso. We are trying to help the fellow who already has some land, the little fellow, to at least better his income from this land. I agree with you that until such time as there is a major land reform, it is going to be difficult to increase the income of most of these people.

There is also a program for colonization of unused land. Some of these lands are Government owned and some are owned by private individuals. There is a pretty substantial colonization program, in which we and the Inter-American Development Bank are participating.

Mr. ANDREWS. How is the title transferred from a private owner, or from the Government, to a little farmer under that program?

Mr. Moscoso. We will be glad to provide that for the record.

(The information follows:)

TRANSFER OF TITLES UNDER THE COLONIZATION PROGRAM

From the Government

A provisional title is granted to the farmer with the condition that he—

1. Cultivate at least one-fourth of his lot for 5 years;
2. Dedicate himself immediately and permanently to the maintenance and improvement of his lot;
3. Meet his amortization payments;
4. Receive prior approval of the National Colonization Institute before he rents any part of the lot or puts animals on the lot; and
5. Take care of and maintain works of a cooperative nature.

From private owners

The terms of the sale are worked out between the vendor and the farmer. However, the National Colonization Institute assists in facilitating the transfer of title and provides technical assistance.

Mr. ANDREWS. I am interested in your efforts to help the little man down there. I do not like to hear that we give the Government money, and then shortly thereafter the Government buys gold from us.

Mr. MOSCOSO. I made a note about that gold purchase.

Mr. ANDREWS. You are not helping that man down at the bottom of the ladder when things like that occur.

VOCATIONAL EDUCATION AND HOUSING

Mr. MOSCOSO. We are also giving assistance in vocational education. This ought to help substantially.

Mr. ANDREWS. What do you teach them to do in these programs?

Mr. MOSCOSO. Develop new skills. There are evening shop courses for some trained men and there are some courses in auto maintenance, metal trades, and things of that kind.

Mr. ANDREWS. Is there a market for those laborers once they are trained?

Mr. MOSCOSO. Yes; definitely.

Mr. ANDREWS. What are the wages?

Mr. MOSCOSO. The wages are unconscionably low.

Mr. ANDREWS. For trained mechanics?

Mr. MOSCOSO. Yes; but much better than the wages of rural workers.

Mr. ANDREWS. You say the minimum wage for an agricultural worker is 15 cents a day and some are not getting that?

Mr. MOSCOSO. Right. I do not know what the going rate will be for mechanics but it will be maybe $1.50 a day. Those are the kinds of situations we are combating with this program. We also have housing, of course. I grant you that the people who need these houses are in an extremely low-income category, while the people who can afford them are not the very lowest on the income scale.

INCOME LEVELS

Mr. ANDREWS. In this country, do you have, as you have in many countries, two classes, the very rich and the very poor?

Mr. MOSCOSO. We have the very rich, which is a very small thin crust, a very large group of people who are very poor, and a very, very small middle class.

Mr. ANDREWS. How about the middle income group?

Mr. MOSCOSO. A very small group.

Mr. ANDREWS. I wish you would put the figures on that in the record.

Mr. MOSCOSO. I could give you an estimate for the record on the middle class.

Mr. ANDREWS. Very few of them?

Mr. MOSOCO. Very few; I would estimate it at less than 8 percent.

Mr. ANDREWS. You either have the very rich or the very poor?

Mr. MOSCOSO. That is right. We are generalizing, Mr. Andrews, of course.

Mr. ANDREWS. I understand.

Mr. MOSCOSO. There are certain countries, for instance, Mexico——

Mr. ANDREWS. I am talking about Ecuador now.

Mr. MOSCOSO. In the case of Ecuador, that is the situation. They also have about 50 percent of their population outside the money

economy. These are Indians who do not even know Spanish but who talk the Indian language.

Mr. ANDREWS. How do they live?

Mr. MOSCOSO. Subsistence.

Mr. ANDREWS. Live on the land?

Mr. MOSCOSO. Live on the land, and they grow enough food to feed themselves and to exchange with their neighbors who will probably grow some wool or other things they do not have. They weave their own cloth, et cetera.

Integrating these people into the economy is one of the great problems these countries are facing.

Mr. ANDREWS. Will those Indians own their land?

Mr. MOSCOSO. In some cases, yes; very small pieces of land. The minifundia can be just about as bad as the latifundia.

CREATION OF MIDDLE CLASS

Mr. ANDREWS. Is your ultimate purpose in this program to try to bring the low-income group up to a middle class?

Mr. MOSCOSO. Create a middle class. That is the problem of the whole Alliance, and that is the whole purpose of Alliance.

Mr. ANDREWS. This is one of the worst countries you are working on?

Mr. MOSCOSO. I think you are right in that.

Mr. ANDREWS. How long do you think it will take to accomplish your mission?

Mr. MOSCOSO. The minimum, I believe, will be well over 10 years to accomplish a meaningful change in the situation.

ACCOMPLISHMENT OF AID PROGRAM

Mr. ANDREWS. I believe you stated you have already spent $162 million there. Was that the figure?

Mr. MOSCOSO. Yes, obligated. Unfortunately, Mr. Andrews, most of that was spent on isolated assistance programs which were not related to a total development effort.

Mr. ANDREWS. You do not have much to show for it either?

Mr. MOSCOSO. That is what we are trying to do now, have a comprehensive program addressed to raising the standard of living of the people. All of the projects have to converge upon that particular objective.

Mr. ANDREWS. You do not have too much to show for the $162 million?

Mr. MOSCOSO. We have something to show, Mr. Andrews, but quite frankly not as much——

Mr. ANDREWS. What, for instance?

Mr. MOSCOSO. —as all of would like. Undoubtedly, people are a little healthier because we have had a malaria program for quite a little while.

Mr. ANDREWS. How much did that cost?

Mr. MOSCOSO. Cost to completion?

Mr. ANDREWS. To date?

Mr. MOSCOSO. 1962, $1.160.000; and obligations in 1963, $445,000. We have $250,000 unliquidated.

Mr. ANDREWS. That is the smallest program from a dollar standpoint of any you have, and you have done more good with it; is that right?

Mr. MOSCOSO. It would be very difficult to say that.

Mr. ANDREWS. I understood you to say that.

Mr. MOSCOSO. I think it has done some good.

Mr. ANDREWS. I asked you to put your finger on something you did down there that resulted in a good for the people and that was the first thing you mentioned. We find it cost less than any other program.

Mr. MOSCOSO. The Agricultural Servicio has probably done some good.

Mr. ANDREWS. You still have——

Mr. MOSCOSO. If you take a look at the agricultural production index, you will see that in 1959 it went from 132 to 148 in 1962.

Mr. ANDREWS. You still have four-tenths of 1 percent of the people owning the land though?

Mr. MOSCOSO. That is right.

Mr. MINSHALL. Would the gentleman yield?

Mr. ANDREWS. Yes.

Mr. MINSHALL. With your agricultural program and your malaria program, you have less than 3 or 4 percent of the entire program in Ecuador; do you not?

What happened to the rest? What have you done with the other 95 percent?

Mr. MOSCOSO. There is a substantial amount of Public Law 480 funds. We have spent about $22 million in Eximbank. There has been a substantial amount of road construction; these are roads there, and you can see them.

Mr. MINSHALL. How much have you spent on the roads?

Mr. MOSCOSO. I do not have that broken down by categories. Authorized for 274 miles of the Ecuadorian national highway system has been $12.6 million.

Mr. MINSHALL. There is still a lot of this money we spent in Ecuador you have left unaccounted for, and you freely admit that most of it has gone down the drain?

Mr. MOSCOSO. I would not say gone down the drain. I would say it is not visible.

Mr. MINSHALL. In the rathole?

Mr. MOSCOSO. No; if you educate a person it will probably be difficult to see the visibility of that education until you run a survey or a census. What would have to be done would be to take the number of literates over the years and see how the number has increased.

Mr. MINSHALL. Let us see how it has gone.

Mr. MOSCOSO. We will have to supply that for the record.

Mr. MINSHALL. Thank you, Mr. Andrews.

(The requested information follows:)

LITERACY RATE IN ECUADOR

Literacy rates in Ecuador:
1942: 10 years of age and above, 48 percent.
1962: 10 years of age and above, 60 percent.

Mr. ANDREWS. You have a pretty good literacy rate, which is nearly 60 percent?

Mr. Moscoso. That is right.

This 60 percent, Mr. Andrews, as you know, is for literates among the group that you can census. It is probably the urban people who are part of the moneyed economy.

BUDGETARY SUPPORT

Mr. ANDREWS. How much money have you given the Ecuadoran Government since the inception of this program?

Mr. MOSCOSO. Last year, $8 million; and this year we gave them $7 million. The $8 million was disbursed and we have not disbursed more than $5 million of the $7 million.

Mr. ANDREWS. I want to go back for a period of 10 years and find out how much cash you have given them.

Mr. MOSCOSO. We have authorized $8 million and $7 million.

Mr. ANDREWS. No more than that?

Mr. MOSCOSO. That is right; the last 2 years only.

Mr. PASSMAN. Would the gentleman yield?

Mr. ANDREWS. Yes.

Mr. PASSMAN. What has been the total amount of aid to Ecuador?

Mr. TENNANT. $160 million, including the Export-Import Bank, mutual security, and Public Law 480, through fiscal year 1963.

Mr. ANDREWS. I would like to know if, in the last 2 years, you have given them $15 million in cash?

Mr. MOSCOSO. Right. $15 million authorized.

Mr. ANDREWS. Have somebody check and insert in the record the total amount of cash out of the $162 million that has been given to the Ecuadoran Government.

Mr. TENNANT. Yes, sir.

(The information follows:)

BUDGETARY SUPPORT

Of the $162 million aid authorized for Ecuador to date, only $15 million, in the two loans discussed above, was in the form of budgetary support to the Government of Ecuador.

Mr. ANDREWS. I am impressed by what you said, that in your opinion—I took it to be your opinion—that the greatest good we have gotten out of this program came out of the malaria control project.

ASSISTANCE TO ROAD CONSTRUCTION

Mr. MOSCOSO. No, no. I would say, Mr. Andrews, that there is also quite a bit of good out of the educational efforts we have been conducting there. There still remains quite a bit of roadbuilding to be done, to create a national highway network.

Mr. ANDREWS. Is this the country where they built a road that led to nowhere, or to a mountain and came to a dead end?

Mr. MOSCOSO. No.

Mr. PASSMAN. That was Peru. They just went into a mountain.

Mr. ANDREWS. Dead end?

Mr. PASSMAN. Yes.

Mr. ANDREWS. What type of roads are you building there, Mr. Ambassador?

Mr. MOSCOSO. These are primarily roads in which we are participating with the World Bank. This is a joint effort with the World Bank and ourselves.

Mr. ANDREWS. Are they hard-surfaced roads?

Mr. MOSCOSO. Yes, surfaced roads.

Mr. ANDREWS. How many miles did we build?

You may supply that for the record.

Mr. MOSCOSO. Yes, sir.

Mr. ANDREWS. The number of miles under construction.

Mr. MOSCOSO. Yes.

Mr. ANDREWS. And the number you plan for construction in the future.

Mr. MOSCOSO. Right.

Mr. ANDREWS. Tell us briefly where these roads lead and where they come from.

Mr. MOSCOSO. Yes.

Mr. ANDREWS. Do they connect cities?

Mr. MOSCOSO. Yes; from city to city. One of them is from Quito to Quevedo and the other one is from Macara, a border town, to Loja.

Mr. ANDREWS. Are they built under contract?

Mr. MOSCOSO. Yes.

Mr. ANDREWS. American contractors?

Mr. MOSCOSO. I could not tell you, I regret.

Mr. ANDREWS. Supply that for the record, also.

Mr. MOSCOSO. Yes, sir.

Mr. ANDREWS. How much does it cost per mile to build those hard-surfaced roads?

Mr. MOSCOSO. I would have to supply that for the record.

(The information supplied follows:)

ROAD PROJECTS IN ECUADOR

Purpose

The road building program in Ecuador is designed to facilitate the economic development of those areas of the country which are now inaccessible. These roads become the focal point of settlement and cultivation of new lands, and also promote trade and commerce between these areas and urban centers of Ecuador.

Contractors

Bidding on all roads financed by AID in Ecuador has been open to American bidders. Morrison-Knudsen, an American firm, built one sector of the Quito-Quevedo Road. It is intended to make bid sectors of any future roads, financed by AID of a size attractive to American contractors. All of the road construction was supervised by American consulting engineers, TAMS American Corp., and Rader & Associates.

A breakdown of the AID roadbuilding projects in Ecuador

Loan number	Year of loan agreement	From—to (geographic)	(In millions of dollars)				Number of miles	Cost/mile [1]	Percent completed
			AID	IBRD/IDA	IDB	GOE			
1. DLF 44	March 1959	Loja to Macara	$4.7			$1.1	122	[2] $36,000	71
2. (a) DLF 102	November 1959	Quito to Quevedo	5.3	$11.0		5.4			
(b) AID 016	Not yet signed	Duran to Cochancay	2.7	[3] 3.4		[3] 3.0	335	[4] 92,000	76
		Bahia to Santo Domingo							
3. Proposed	([5])	Santo Domingo to Esmeraldes					110	[——]	([5])
		Quevedo to Duran					125	[——]	([5])
		M. J. Calle to Machala	[——]	[——]	[——]	[——]	80	[——]	([5])
		Cojabamba to Chicales					90	[——]	([5])
		Maintenance	[——]	[——]		[——]			

[1] Variation of cost is caused by variations in terrain and by status of construction when financing commenced.
[2] This road will be constructed for a lower expenditure than originally estimated and a small surplus is expected.
[3] Not yet available
[4] Exchange rate has changed from 15.15 to 18.18/dollar since commencement of construction, and this cost computed at average of 16.66.
[5] Not available.

NOTE.—Materials in brackets confidential.

Mr. ANDREWS. That is all, Mr. Chairman.

ECUADORAN GOLD PURCHASES

Mr. PASSMAN. Mr. Administrator, we do not have any control over the purely internal affairs of the budgets of the aid-recipient governments with respect to their own tax collections that go into the budget, do we? I am talking about revenues they collect themselves from their people, such as tobacco tax, liquor tax, and income tax.

Mr. MOSCOSO. In some countries we are making it one of the conditions of our loans that the country must have a certain current account surplus and devote it to development projects.

Mr. PASSMAN. Secretary Dillon has stated categorically that we do not have any control over the internal affairs of nations budgets?

You may have all types of stipulations but you and I know that no government has the right to go directly into the office, to go to the books of another government and talk to the controller and say, "You collect this from your people in the way of this type of tax and you can spend it here or you cannot spend it here."

Mr. MOSCOSO. The International Monetary Fund does precisely that.

Mr. PASSMAN. They may accept a certified audit but I want to refer again to Secretary Dillon's statement on that matter.

Also, I want to say again that when we give nations money, credit them to buy commodities or other things they would otherwise spend their own money for, that releases to them their money to do with as they please, and that fact has been well established.

The same country we have been discussing bought $3.2 million worth of our gold. We do not know for what purpose they bought it or to whom they sold it, but we know they bought it. They did not sell it back to us and our gold account has been reduced by just that amount.

Mr. PASSMAN. Mr. Conte?

AGRARIAN REFORM

Mr. CONTE. Mr. Ambassador, continuing with what Mr. Andrews was asking you about in regard to reform, have they done anything whatsoever constructive that you can mention here today in regard to agrarian or land reform, anything at all?

Mr. MOSCOSO. They have distributed approximately 23,000 acres of private land.

Mr. CONTE. Out of how many?

Mr. MOSCOSO. I do not have the figure.

Mr. CONTE. What kind of land was it, fertile land?

Mr. MOSCOSO. About 1 percent of the total was agricultural land.

Mr. CONTE. That amounts to 1 percent?

Mr. MOSCOSO. Less than 1 percent of the total land.

Mr. CONTE. Less than 1 percent?

Mr. MOSCOSO. Yes, sir.

Mr. CONTE. That is not very much?

Mr. MOSCOSO. No.

Mr. CONTE. If we do not get them to move pretty soon on land reform, we might as well get out of there? That is the key?

Mr. Moscoso. We have the promise of the new government that that is one of the things they are going to address themselves to right away. The Inter-American Development Bank is helping them to organize their agrarian reform agency and hopefully they will do a little better. I think legislation is going to be required.

Mr. CONTE. I think so, too.

Do you think they will go before the legislature this year?

Mr. Moscoso. We have the promise of the Minister of Development that this is one of the things they are going to press for. Since this is a government run by a military junta and since the junta is committed to undertake these reforms, I hope they can be accelerated.

Mr. CONTE. I feel very strongly that unless they move here, we might as well get out of there.

USE OF DEOBLIGATED ECONOMIC AID FUNDS

Mr. Controller, I want to straighten out in my mind a question the chairman asked with regard to the deobligation. This is a little bit confusing to me.

Under the original program before all of this transmittal of letters and all, what was their request to deobligate? How much?

Mr. TENNANT. Prior to the exchange of correspondence?

Mr. CONTE. Prior to the exchange of correspondence.

Go ahead.

Mr. TENNANT. We had requested legislation to permit us to deobligate as in fiscal year 1962, but the Congress passed fiscal year 1963 legislation limiting the use of deobligated funds to projects presented to the Congress. In January Mr. Bell sent some correspondence to the committee. In that correspondence and a subsequent request he included proposals to reobligate in the magnitude of $40 million. I do not have my copies of that correspondence here today.

Mr. CONTE. It is around that.

Mr. TENNANT. Then there was a committee hearing followed by some further correspondence.

The first proposal was $8 million. Yes, the January 31 letter was around $8 or $9 million.

Mr. CONTE. $4,910,000 is now planned to be obligated leaving unobligated $3,711,000 of the $8,621,000 of deobligated funds which you had originally intended to reobligate?

Mr. TENNANT. That is right.

Mr. Bell indicated he would effect some savings against that first listing of January 31 and estimated those savings would be $3,711,000.

FUNDING OF INDONESIAN MOBILE BRIGADE PROJECT

In Indonesia, there was considerable discussion in the hearings on the major item in question. Mr. Janow explained in detail how the transactions occurred with respect to this item. Part of the transaction was funded out of the contingency fund, but as I understood Mr. Janow, that was not the transactions described in the January 31 letter.

There was another transaction funded under supporting assistance rather than deobligations. This was the transaction described in the letters.

Mr. SCHEINMAN. Mr. Conte, the list presented to the chairman in January listed a number of projects.

Mr. CONTE. I remember that

REOBLIGATION OF DEOBLIGATED FUNDS

Mr. Rhodes had that letter in the hearing and that was when we requested there be a hearing. We wanted to find out just what was going to be deobligated and reobligated.

We did not want to buy anything in the dark.

Mr. SCHEINMAN. My recollection is——

Mr. CONTE. Now, I want to know whether this money was deobligated and whether any of this money was reobligated?

Mr. TENNANT. Yes, sir.

Mr. CONTE. How much?

Mr. TENNANT. Total reobligations were $31 million. I think we had originally requested about $40 million in reobligations. We reobligated $31 million or a savings of about $9 million. These figures are rounded estimates which show the approximate size of the activity.

Mr. CONTE. You did not use $9 million at all?

Did it lapse?

Mr. TENNANT. It is in the unobligated balance as of June 30, 1963. Yes, it will lapse, sir, unless you reappropriate some portion of the unobligated balances. If one takes into account total deobligations, considerably more will lapse in addition to the $9 million we have been talking about.

Mr. PASSMAN. Is $20,966,000 the figure?

Mr. TENNANT. From the April figures. It will be higher than that for June.

PROPOSED USE OF DEOBLIGATED FUNDS DURING FISCAL YEAR 1964

Mr. CONTE. What is the policy of the Department as of today? Are they going to come up here when they want to deobligate and reobligate under that old law or are they going to follow the ruling of the Attorney General that this law is unconstitutional? Is someone going to test that law?

Mr. TENNANT. On the question of law, that was in existence for fiscal year 1963——

Mr. CONTE. It is still in existence.

Mr. TENNANT. It is in the fiscal year 1963 Appropriation Act.

Mr. CONTE. Right.

Mr. TENNANT. We have proposed different language in the Appropriation Act for fiscal year 1964.

Mr. CONTE. Right.

Mr. TENNANT. With respect to the 1963 item, as I understood Mr. Bell's correspondence, he indicated he was perfectly willing to come up and describe every use and he would not invoke the "unconstitutional" issue.

Mr. CONTE. In other words, he would seek the permission of the committee before he deobligated and reobligated?

Mr. TENNANT. Before he reobligated, that is correct.

For fiscal year 1964, we suggested somewhat different language. In effect, our proposal suggests that any deobligation would be used

in the same manner as new money. As you will see in the light-gray book, we have taken into consideration estimated deobligations in computing our request for new appropriations.

Mr. PASSMAN. Would that be without justification to Congress?

Mr. TENNANT. We would only use it for the project——

Mr. PASSMAN. Would it be without justification to Congress?

Mr. TENNANT. They would be justified, sir, in our normal manner.

Mr. PASSMAN. These are illustrative programs and estimates only?

Mr. TENNANT. These books are our best estimates at the time we come to you, sir.

Mr. CONTE. In other words, it could be——

Mr. TENNANT. It would be either justified——

Mr. CONTE. Assuming that for Ecuador you had a highway project and if you deobligated money from some other account, you could reobligate it for this highway project under the assumption you had justified the project to this committee?

Mr. SCHEINMAN. On the assumption we had reduced our request for NOA by the estimate which we have prepared for fiscal year 1964 deobligations.

For the first time this year our request for funds has taken into account the estimated deobligations for 1964 and our 1964 program has been reduced when we come to the Congress by an estimate. If you add up all of the projects justified to the committee, it is substantially in excess of the request for appropriations which we are making to the Congress.

Mr. CONTE. Where does it show that you reduced your program?

Mr. TENNANT. In the light-gray book.

Mr. SCHEINMAN. We have reduced our appropriation request.

Mr. CONTE. That is what I am saying.

Mr. PASSMAN. If you had not had money to reobligate, you would have had to ask for more money; is that what you mean? Is that correct?

Mr. STERNFELD. Yes, sir.

Mr. TENNANT. Here in the light-gray book we have come to a total program for 1964 and shown the resources we need to meet that program. The resources are made up of estimated recoveries in 1964, carryover of prior year obligations, if allowed by the committee, estimated receipts, in the Development Loan and Alliance for Progress loan accounts, and new obligational authority. In effect, we are treating the deobligations the same way the military has treated recoupments in the last few years; that is, as a resource which we estimate will accrue during the budgetary year.

Mr. SCHEINMAN. Therefore, inherent in our presentation to the committee in the justification of these projects is a justification of the use of 1964 deobligations, as well as new obligational authority.

Mr. CONTE. Thank you.

ILLUSTRATIVE NATURE OF PROGRAMS PRESENTED TO CONGRESS

Mr. PASSMAN. Under the present legislation you have an illustrative program.

These are illustrative projects, are they not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. You could legally vacate every project in this book and substitute different projects, could you not?

Mr. TENNANT. I think that——

Mr. PASSMAN. Is that correct?

Mr. MOSCOSO. That is what I understand.

Mr. PASSMAN. It is correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. On your development credits, or so-called development loan account, you do not know to what countries or what projects you are going to allocate the funds until you get the money, do you?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. If you plan a highway project in Venezuela you could legally take that money and build a brick office building elsewhere, could you not?

Mr. MOSCOSO. Insofar as we are concerned——

Mr. PASSMAN. I am speaking of worldwide. You are asking for deobligated funds to be put back into the regular account, are you not, in your new legislation?

Mr. TENNANT. Yes, sir; in the comparable account.

Mr. PASSMAN. If you can spend it anywhere you want to out of your regular appropriation, then you could spend the deobligated funds anywhere you want without any justification to the Congress?

Mr. TENNANT. That is the extreme.

Mr. PASSMAN. I know; but legally you have that right, do you not?

Mr. MOSCOSO. I understand we do have the right.

USE OF DEOBLIGATED FUNDS

Mr. PASSMAN. Some of us are seriously apprehensive about the wisdom of a program in Indonesia. We realize Mr. Bell has several pages listing the deobligated funds which he was going to spend. Do you remember that matter?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. There was one project in particular that did not set very well with the committee and that was the Mobile Brigade in Indonesia. Rather than cause Mr. Bell a lot of trouble, since he was new in the AID—but now, for clarification: In prior years, or for many years under the AID program, you could take deobligated funds and do whatever you wanted to with the money, start new projects or anything, could you not?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. One year Congress tightened up that law and said you could not spend the deobligated funds to start new projects. Is that correct?

Mr. TENNANT. You eliminated the authority completely.

Mr. PASSMAN. It was only by compromise last year that the authority was restored but it was clearly understood that before the agency could reobligate these deobligated funds they would notify the Committees on Appropriations, House and Senate; is that correct?

Mr. TENNANT. That is correct.

ATTORNEY GENERAL'S RULING

Mr. PASSMAN. Subsequent to that time, the Attorney General of the United States ruled that such a requirement was unconstitutional, did he not?

Mr. SCHEINMAN. He ruled the constitutionality referred to the provision that no objection is entered by the committee——

Mr. PASSMAN. What is the difference? The executive had to report to Congress under this arrangement, and the Attorney General said such a requirement was unconstitutional; is that right?

Mr. SCHEINMAN. As to the legislative proviso that the committees would have the ability to veto.

Mr. PASSMAN. That was the part which was unconstitutional, then, according to the Attorney General, that Congress could not veto the executive reobligating these funds; is that right?

Mr. SCHEINMAN. That is right; not merely the reporting requirement.

Mr. PASSMAN. It amounts, however, to the same thing.

What would be the use of reporting if Congress did not have the right to veto, unless we had a lot of extra time?

Mr. SCHEINMAN. The Congress requires——

Mr. PASSMAN. At a subsequent date the Attorney General's ruling was accepted, but the Agency agreed that, in a spirit of cooperation, it would report to the Congress and discuss these things. So far, am I correct?

Mr. SCHEINMAN. Yes, sir.

FUNDING OF INDONESIAN PROJECT

Mr. PASSMAN. Then we decided we wanted to let Mr. Bell do whatever he wished with the deobligated funds, with the specific exception of this $8,621,000.

It was my assumption, referring to Mr. Bell's correspondence, that when he said that of the $8,621,000 the agency planned to reobligate $4,910,000 and did not plan to reobligate $3,711,000 of the $8,621,000 in deobligated funds which he had originally intended to reobligate. The Mobile Brigade in Indonesia was one of these projects which was especially discussed.

Subsequent to all of this, Mr. Bell did, or the AID Agency did, obligate funds to both sections of the Mobile Brigade in Indonesia out of the President's contingency fund and/or new obligational authority of the supporting assistance account; is that correct?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. We want you to give the committee a list of all of the funds you obligated out of the contingency fund and out of supporting assistance to the Mobile Brigade, as well as the dates.

There would not be any use for this letter from Mr. Bell in which he said, in effect, "We are going to obligate this and release this," if then he is going to turn around and obligate money for the same project, or projects, out of some other funds.

Mr. SCHEINMAN. Sir, you will find that Mr. Bell referred in his letter to the minimum use of obligational authority.

Mr. PASSMAN. Minimum use is not even mentioned in his letter, either to Chairman Cannon or to me.

Mr. SCHEINMAN. I have read it.

Mr. PASSMAN. If you read the letter, what you said is not even in this letter, is it?

Mr. SCHEINMAN. In correspondence with you——

Mr. PASSMAN. I am talking specifically about this letter.

I shall make available to you, if you wish to receive it, a copy of all of this correspondence. I am always willing to try to reconcile these things, but I think cooperation must work both ways.

Mr. RHODES. Mr. Chairman, would you yield?

Mr. PASSMAN. Yes.

JUSTIFICATION OF FUTURE USE OF DEOBLIGATED FUNDS

Mr. RHODES. I think it should be said that in the future if the committee is to be advised on reobligation and deobligation of funds, there should be more than just a letter. There should be at least an illustrative presentation of the new purpose to be served, similar to the type of information presented in the hearings we have on regular appropriations.

This is just one member of the committee speaking but it seems to me this would have avoided a lot of this misunderstanding.

Mr. SCHEINMAN. I think it is extremely unfortunate that this whole situation occurred.

Mr. PASSMAN. I agree wholeheartedly with the gentleman, that a presentation should be made to the committee. So many of these projects go into the millions of dollars and there has been no illustrative presentation at all before the committee. Is that true?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. We have discussed many of them today and I think you should have some type of illustrative program if you are going to start any program that you have never discussed with the committee, or with the Congress, on an illustrative basis, whether out of deobligated funds or any other funds.

It appears to me that you would wish to discuss such matters with Congress.

Mr. TENNANT. I believe we might say, with respect to the misunderstanding, that apparently occurred with respect to the use of deobligations, Mr. Bell did indicate he was willing to have a hearing on every transaction.

I think if he thought the committee did not want to put money in this particular project, he would not have done so. I gather there has been some misunderstanding and we would be glad to——

Mr. PASSMAN. If you read this letter you would gain the impression that the Agency was going to save this much money, but then if you turned around and used the funds to do the same thing out of some other appropriation, then there was no real purpose that I can ascertain of ever getting into this matter at all.

Mr. TENNANT. I was not here during that hearing, nor was I a party to the conversations.

Mr. RHODES. Mr. Chairman?

Mr. PASSMAN. Yes.

Mr. RHODES. It seems to me there would be a good purpose served if we could get the relationship as to the project which you present

on a little different basis than just an illustrative basis. That is, it should have more sanctity, maybe better understanding. It should be similar to a letter of intent, at least. Maybe then we would get away from the use of this word "illustrative."

Mr. SCHEINMAN. The word "illustrative" is the chairman's word insofar as the Agency is concerned.

The purpose as was described here——

Mr. PASSMAN. The chairman has been mentioned so will you yield?

Mr. RHODES. Yes.

Mr. PASSMAN. The Agency's people have been using the word "illustrative" long before you ever became associated with the program Mr. Scheinman. I did not create it. I had to back and retwist my tongue in order to say the word, in fact.

Mr. SCHEINMAN. I retract it. What I meant was the word "illustrative" means our best estimate at the present time.

Mr. PASSMAN. Do not blame me for the use of the word.

Mr. SCHEINMAN. It means the best estimate at the present time of what we are planning to do.

Mr. PASSMAN. Do not try to rewrite the language of the Agency unless you have the right to change what they have said in the past as to what they tell you is illustrative.

"We may or may not spend it for this purpose," they say, "but this time, in all probability, we shall, but we might not."

Mr. TENNANT. That is correct.

Mr. PASSMAN. Thank you.

Mr. RHODES. This would also entail the necessity for keeping us even more completely informed as to changes in plans, I should think. This should be done.

Mr. SCHEINMAN. I think that personally——

Mr. PASSMAN. Would the gentleman agree that if we ever do away with the double standard for money for this program and put it upon the same basis, or justification, as we do with American projects, it would be a better program?

Mr. RHODES. Absolutely.

Mr. PASSMAN. There is a double standard. The agencies justify money for American projects but not for foreign projects.

Mr. SCHEINMAN. Any expression of view with respect to our relationship and information we provide, not just for the committee in formal hearings but throughout the year would receive very serious consideration.

Mr. RHODES. That is the reason I wanted it in the record.

Mr. PASSMAN. Would it not be a good idea if the gentleman from Arizona would include in his request, if it is a request, for them to give consideration that no project be started if they do not have an illustrative presentation, with the hope that they might work to end that project, once started, if they did not have positive justification for it?

Mr. RHODES. That would certainly be a very fine goal toward which to work, Mr. Chairman.

Mr. TENNANT. One point that possibily should be mentioned:

The development loan category is not presented in the books on a project-by-project basis. It is on a banking basis.

Mr. PASSMAN. I am talking now about all of this fuzzy mess in the field of all of these accounts. I am not too sure, either that the same kind of thing should not apply to development credits.

I do not understand why the Congress should not require the Agency to come in with a set of plans.

For example, to say, "We want so much for this nation and here is what we are going to do with it."

PRESENTATION OF DEVELOPMENT LOAN REQUEST

Mr. RHODES. As a matter of fact, Mr. Chairman, I am very much displeased with the presentation of the development credit projects, or lack of projects. It seems to me there ought to be a better way of doing it than the way you have been doing it.

We do not have a really good idea of what you are going to do in the way of development loans when we appropriate the money.

Mr. PASSMAN. These people have answered specifically, time and time and time again, that they do not know what countries will get the money or for what projects the money will be used. I do not not know how a check could be any blanker than this one is.

Mr. RHODES. That is right.

This is the point I am trying to make.

There has to be a better way of doing this than the way we are doing it. If we put all of our minds to work on this, maybe we will be able to find a solution.

Mr. TENNANT. We will bring this exchange to Mr. Bell's attention.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. RHODES. Thank you.

Mr. PASSMAN. Mr. Minshall?

ASSISTANCE TO AIRPORTS IN LATIN AMERICA

Mr. MINSHALL. Mr. Director, the other day you placed much emphasis on the need for airports in several of these countries. You discussed the airports proposed and under construction in Colombia.

Mr. MOSCOSO. Chile.

Mr. MINSHALL. One of which was an emergency field not 75 miles from one of the others in operation?

Mr. MOSCOSO. This is not an emergency field.

Mr. MINSHALL. Your report said it was an emergency field.

Mr. MOSCOSO. It is serving as an emergency field just like Dulles is as an emergency field for Friendship.

This is the airport for the city of Concepción, the fastest growing industrial area in Chile, and it will also serve as an alternate airport.

Mr. MINSHALL. Be that as it may, do you consider airports essential in this part of the world? What are you doing in the way of airports in Ecuador?

Mr. MOSCOSO. We have no airport——

Mr. MINSHALL. Why not?

Mr. MOSCOSO. No requests have been made while I have been in the Agency.

AERIAL PHOTOGRAMMETRIC MAPPING PROJECT

Mr. MINSHALL. How about this photogrammetric program you have going there that the Air Force did not finish?

Mr. MOSCOSO. This is for surveying, mapping.

Mr. MINSHALL. How far along is that program?

Mr. MOSCOSO. I understand it was having some work done by the Air Force. The Air Force is doing some photogrammetric work there and in the meantime the equipment for the rest of the program has been ordered and is starting to come in.

Mr. MINSHALL. What is the purpose of this whole program? A lot of this is mapping of completely unsettled areas where you are going to move everybody out and relocate them?

Mr. MOSCOSO. This program will provide base maps for use in the construction of roads in some of these unsettled areas.

ASSISTANCE TO ECUADORIAN ROAD PROGRAM

Mr. MINSHALL. Tell us something about the road program in Ecuador. What is the basis of the need for this? When did you start the roads? Give us some background. How many miles have been constructed and what kind of roads are they?

What will be the traffic load on them when you do complete them? Would it be a truck a day or two trucks a day, or what will it be?

Mr. MOSCOSO. This road program is part of a joint well-backed program of highways.

Mr. MINSHALL. How much have you put into the program? How much has been programed and how many miles of road are constructed? How many miles are to be constructed? Give us the general picture.

Mr. MOSCOSO. The entire program, from inception in 1957 to completion, will cost AID, IBRD, IDB, and the Government of Ecuador approximately $90 million.

Mr. MINSHALL. If you cannot find it right now, get some basic background on this and supply it for the record, will you please?

Mr. MOSCOSO. Yes, sir. This is a program which has been prepared by the World Bank and in which we are participating.

(Note: Information supplied may be found on p. 2469.)

Mr. MINSHALL. Where do the roads go from and to where?

How many miles are constructed? Is this through jungles, mountains or what?

Mr. MOSCOSO. Loan No. 44 is for a highway which will connect the town of Loja to the town of Macara, and it is a 128-mile segment of the Pan American Highway.

Mr. MINSHALL. That is the one you describe on table, page 314.

Mr. MOSCOSO. That is right. There is another section of another road which is from Quito, the capital city, to Quevedo.

Mr. MINSHALL. This is 128 miles of road. How many other miles have you constructed?

Mr. MOSCOSO. We are supplying this for the record for Mr. Andrews. We will be glad to do the same for you.

Mr. MINSHALL. Don't do it twice. I did not know he had asked the question.

I want it clear what I do want. I want the total dollars you are putting in this, total mileage, cost per miles, where the roads are going, et cetera. I want the detail.

Mr. MOSCOSO. We will have everything in there.

Mr. MINSHALL. I also will give you a little longer range project, to do this for all of the countries in your area on the roads. I would like airports as well.

Mr. MOSCOSO. Roads and airports.

Mr. MINSHALL. Airports, transportation facilities.

Mr. MOSCOSO. All of those in all of that detail?

Mr. MINSHALL. If it is not too much trouble. If not, do it in outline form.

Mr. MOSCOSO. It will consist of a lot of pages, but we will be glad to supply it.

Mr. MINSHALL. Mr. Merrill has suggested do it just for one country and submit the rest for the committee use.

Mr. MOSCOSO. All right.

EFFORTS TO SPREAD COMMUNISM FROM CUBA

Mr. MINSHALL. Mr. Secretary, when we were meeting last week, I think it was last Friday, the subject of Cuba came up and in response to some questioning you stated very clearly that there was no doubt about the fact that Cuba was being used as a base for the exportation of communism and subversion and propaganda of all types, especially as related to the countries of Venezuela and Colombia and Guatemala.

Mr. COTTRELL. I think I said Venezuela and Guatemala were two of the prime targets.

Mr. MINSHALL. Yes. Is that situation in Cuba going to improve or is it deteriorating?

Mr. COTTRELL. Their efforts will probably increase. They have stated very recently, both Castro and Guevara, that they intend to encourage the revolutionary elements in every Latin American country.

Mr. MINSHALL. What are we going to do to stop this?

Mr. COTTRELL. We have done several things. Several months ago we met with the ministers of government of the Central American countries and Panama to work out ways and means of impeding their progress in Central America. We have worked bilaterally with the other countries of South America.

Mr. MINSHALL. We are swatting flies when we do that. Why don't we go after the source?

Mr. COTTRELL. The effort we are making is to impress upon each one of these countries the danger to its existence by the machinations of the Cubans and the local Communist Parties. The internal security of each of these countries, of course, depends on their efforts with our help.

Mr. MINSHALL. I am glad you brought that out because this morning on a TV show, on channel 4——

Mr. RHODES. "Today."

Mr. MINSHALL. The "Today" program, they had a guest on the program. He was one of some 50 correspondents who recently visited Cuba, wining and dining them for a few weeks. This was a colored chap, by the name of Lumack, or something like that. He seemed

knowledgeable on the subject. He categorically stated that the present measures we are using against Cuba are in fact totally ineffective. He further stated to sit back and think there is going to be an uprising or rebellion to throw Castro out from inside Cuba is a lot of poppycock. I could not agree with him more.

Mr. COTTRELL. We have judged in our military planning it would take substantial military casualties if we mounted an invasion of Cuba this time.

Mr. MINSHALL. I beg to disagree on that. At the time of the October crisis I had the pleasure of serving on the Defense Appropriations Subcommittee and the top people from Secretary McNamara on down testified in top secret briefings.

(Discussion off the record.)

Mr. MINSHALL. That is all I have, Mr. Chairman.

Mr. PASSMAN. It is a serious matter.

CHILEAN EXCHANGE RATE

The official exchange rate of the escudo in Chile to the dollar is 1.4?

Mr. MOSCOSO. As of now it is 1.82.

Mr. PASSMAN. The book says 1.4.

Mr. MOSCOSO. Yes.

Mr. STERNFELD. It has changed to 1.8 now.

Mr. PASSMAN. If I owned, or should acquire, escudos at the going exchange rate of 3.3, could I get them exchanged at a rate of 1.8?

Mr. MOSCOSO. Those escudos are mostly, or rather the dollars——

Mr. PASSMAN. The question is, If I might wind up with a million dollars in escudos, or if I wind up with a million escudos and I want to exchange them for dollars could I get them exchanged at the 1.8-to-1 escudo?

Mr. MOSCOSO. You would have to have a license.

Mr. PASSMAN. A license to convert from escudos to dollars?

Mr. MOSCOSO. Because in order to get the official rate it has to be for imports acceptable to the Government of Chile.

Mr. PASSMAN. What if I wind up with a million escudos and say I want to exchange them for dollars?

Mr. MOSCOSO. There is a free market and that can be done only for capital purposes as I understand it.

Mr. PASSMAN. When are we going to have a reevaluation of this exchange rate? You know what happened along the same lines in Laos. Are we going to get an up-to-date report?

Mr. MOSCOSO. Yes. We are going to give you one, Mr. Chairman.

HAITI

Mr. PASSMAN. In the justifications you are requesting $—— in supporting assistance for Haiti, are you not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Is that sum holding firm?

Mr. MOSCOSO. No.

Mr. PASSMAN. You have no request for Haiti at this time?

Mr. MOSCOSO. These are continuing projects, that primarily pertain to——

Mr. PASSMAN. Then you do have a project continuing in Haiti and you are going to ask for $——— in supporting assistance?

Mr. MOSCOSO. It it malaria eradication.

Mr. PASSMAN. I am talking about the amount of money that you are requesting.

Mr. MOSCOSO. It will probably be less than $———.

Mr. PASSMAN. Presently you are requesting $——— for Haiti.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. So far as you know that figure will remain relatively firm?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. If you plan any reductions, how much will they be?

Mr. MOSCOSO. There would be about $160,000 or $170,000 reduction.

Mr. PASSMAN. Why would you ask for $——— if you knew before you finished the hearings you were going to actually reduce it to $———?

Mr. MOSCOSO. When this was published Mr. Chairman, back in February, the mission was still operating. Now we have closed it down, as you recall in the announcement made on August 2.

Mr. MINSHALL. Mr. Chairman—as to the mission being removed from Haiti, why did that cut down on the amount of money you plan to spend?

Mr. MOSCOSO. We are only going to have four technicians to handle the malaria program. The reason why we are continuing it is twofold.

Mr. MINSHALL. What did the mission do that took so much more?

Mr. MOSCOSO. We had at that time the possibility of construction of an airport.

Mr. MINSHALL. That was $2.7 million.

Mr. MOSCOSO. It has been deobligated. It was $2.8 million.

Mr. MINSHALL. It is out the window now or have you suspended it?

Mr. MOSCOSO. We have ordered deobligation of the $2.8 million for the airport.

Mr. MINSHALL. When did you do this?

Mr. MOSCOSO. A week or so ago.

Mr. MINSHALL. You have ——— left in your proposed program now?

Mr. MOSCOSO. That is right. I think there will be less than that.

Mr. MINSHALL. How much have you cut it down aside from the airport?

Mr. MOSCOSO. It will be about $160,000 less.

Mr. MINSHALL. Thank you.

Mr. PASSMAN. On page 161 of the justifications is the following statement:

(Off the record.)

Mr. MOSCOSO. That is right, sir

Mr. PASSMAN. Are you working up a ———?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. What does the ——— look like?

Mr. MOSCOSO. This is a ———, Mr. Chairman.

Mr. PASSMAN. If you are working up a ——— you are doing business with dollars; are you not?

Mr. MOSCOSO. (Off the record.)

Mr. PASSMAN. It takes dollars to do the job?

Mr. Moscoso. That is correct.

Mr. PASSMAN. You are working up a ———. Can you envision what this ——— may cost in fiscal year 1964?

Mr. Moscoso. (Off the record.)

ECONOMIC SITUATION IN HAITI

Mr. PASSMAN. But the country is presently in a lot of turmoil with a lot of unemployment. Their wealth, such as it is, is being dissipated?

Mr. Moscoso. There is so little wealth there.

(Discussion off the record.)

Mr. PASSMAN. What amount do you have unliquidated to the credit of Haiti?

Mr. Moscoso. $4,472,000.

Mr. PASSMAN. And what has been the total amount of aid to this little country?

Mr. Moscoso. $80.8 million, since 1946.

Mr. PASSMAN. And they are in worse shape now than ever; are they not actually?

Mr. Moscoso. Politically; yes.

Mr. PASSMAN. You said there is but little wealth in the country. Economically are they not about in the worst shape they have ever been?

Off the record.

(Discussion off the record.)

Mr. PASSMAN. What are some of the improvements, if any, from the time we started this $80 million aid program in 1946?

Mr. Moscoso. There have been some successes. For instance, Haiti has been made self-sufficient in rice. There is also a small winter vegetable industry.

Mr. PASSMAN. Do we take any of that credit?

Mr. Moscoso. Pardon?

Mr. PASSMAN. Are we entitled to any of that credit?

Mr. Moscoso. We assisted in creating that situation. There has been vaccination for yaws.

Mr. PASSMAN. Give us the cost of those three programs.

Mr. Moscoso. The aid program has just barely kept even with the deterioration——

Mr. PASSMAN. That is what the record said, and that is what I am saying—$80 million and the situation is just about as when we started?

Mr. Moscoso. With some improvements.

Mr. PASSMAN. As you just read here it is just about keeping even, is it not?

Mr. Moscoso. Just enough to balance.

Mr. MINSHALL. I visited Haiti last fall and saw at first hand the conditions that exist and if there is any evidence that any of our money has helped it is certainly a well kept secret.

I was there 2 or 3 years prior to that. It looked the same last fall, if not worse. Have you been there lately?

Mr. Moscoso. I wasn't there last year. I was there almost every year before that.

Mr. PASSMAN. Are you not afraid that all over the world, in subsequent years as we go into these countries, that maybe you will find

the value has been just about nil, that they made just about as much progress without the aid, that they become complacent and are to a substantial degree substituting our wealth for their own initiative and effort?

Mr. Moscoso. You know we had——

Mr. PASSMAN. What is the population of Haiti?

Mr. Moscoso. About 4.3 million.

MEXICO

Mr. PASSMAN. The next country in this area is Mexico, for which the fiscal year 1964 estimate is $———; is that correct?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. An increase of approximately ——— percent.

Mr. Moscoso. That is right.

Mr. PASSMAN. ——— percent above the 1963 program; is that correct?

Mr. Moscoso. That is right.

Mr. PASSMAN. Thank you, sir.

(Short recess taken.)

Mr. PASSMAN. Of this ——— percent increase for Mexico, what is the amount you have on hand?

Mr. Moscoso. It is a larger increase. We obligated only $400,000.

Mr. PASSMAN. You are requesting $——— for Mexico, an increase of ——— percent above the 1963 program. So you say it is ——— percent.

Mr. Moscoso. If you add the social progress trust fund——

Mr. PASSMAN. Let us take the comparable figure.

Mr. Moscoso. $400,000.

Mr. PASSMAN. That would be possibly ——— percent increase?

Mr. Moscoso. That is right.

Mr. PASSMAN. What has been the total aid to Mexico since the inception of the program?

Mr. Moscoso. $199.7 million.

Mr. PASSMAN. How much do you have on hand unliquidated to the credit of Mexico?

Mr. Moscoso. $28,841,000.

Mr. PASSMAN. I note, on page 63, that the development credit estimate for Mexico is $———. Would that be in addition to the $——— million?

Mr. Moscoso. No. This is part of it.

Mr. PASSMAN. Page 65 indicates that development credits for fiscal year 1964 will initially be confined to a range of $15 to $20 million; is that correct?

Mr. Moscoso. Yes.

Mr. PASSMAN. In view of that fact, why are you requesting $———?

Mr. Moscoso. Because of the Government response——

Mr. PASSMAN. Because of what?

Mr. Moscoso. If they prepare a good program for the creation of these financial institutions we mention, and fully utilize the agricultural credits, and provide for a vast nationwide savings and loan system, we will consider additional lending for Mexico.

Mr. PASSMAN. Mexico is one of the most prosperous countries of Latin America, is it not?

Mr. Moscoso. It is one of those growing. They still have a per capital GNP of $317.

Mr. PASSMAN. It depends on what you can buy with the money.

What is the literacy rate in Mexico?

Mr. Moscoso. Fifty-six percent.

For the rural masses in Mexico, 20 million of the 37 million population has an income of $100 or less a year.

Mr. PASSMAN. I used to get a big bowl of red beans and rice for a nickel. However, I do not say they have a standard to be satisfied with.

Is this vastly increased and an indirect sort of payoff to Mexico to get them to go along with us?

Mr. Moscoso. No, sir.

Mr. PASSMAN. Why such a greatly stepped-up program? This program will be about ——— of the total program they have had for a period of 17 years. This is the largest increase of any aid program.

Mr. Moscoso. If the chairman will look at the 1962 program, you will see it is not so large. In other words, in 1962 we had $20.7 million, and now we are suggesting $———.

Mr. PASSMAN. Is that not when the President went there, in the last days of June, and you obligated a large amount? That was only $20 million.

Mr. Moscoso. President Kennedy went down there.

Mr. PASSMAN. Anyway, you requested only $20 million that year?

Mr. Moscoso. This is an opportunity, Mr. Chairman, first, to establish some very necessary institutions in Mexico; second, give them a further push into the hopeful plateau of self-sustaining growth. We are deriving from Mexico, already, certain technical assistance for certain of the Latin American countries. and we hope to put them on a self-sustaining growth basis which will not require any aid.

Mr. PASSMAN. Do we not have similar plans for the 100 nations in the program for fiscal year 1964?

Mr. Moscoso. Yes. We hope to accomplish this a little faster in Mexico.

Mr. PASSMAN. It is the same kind of hope we entertain for practically every nation on the face of the earth?

Mr. Moscoso. Yes.

Mr. PASSMAN. In 1959 how much aid did we have for Mexico?

Mr. Moscoso. $2.3 million.

Mr. PASSMAN. How much was it in 1958?

Mr. Moscoso. $19.3 million.

PURCHASE OF GOLD BY MEXICO

Mr. PASSMAN. Mexico bought $30 million of our gold in 1959.

What kind of an aid program did you have in Mexico in 1960?

Mr. Moscoso. We had $4.5 million.

Mr. PASSMAN. That year they bought $20 million of our gold.

What amount of aid did you have for Mexico in 1961?

Mr. Moscoso. We had $4.7 million.

Mr. PASSMAN. From 1959 through 1963, what was the total amount of our aid to Mexico? We want all spigots, excluding the Export-Import Bank.

Mr. Moscoso. $72 million.

Mr. PASSMAN. During that same time Mexico bought $50 million of our gold. There is no record I have that they have sold any of it back to us.

SOURCES OF ASSISTANCE AVAILABLE TO MEXICO

When we get over to the Export-Import Bank, I think that from 1946 to 1962, inclusive, they made total loans of $591 million; is that correct?

Mr. Moscoso. That is right.

And they have paid back $243 million.

Mr. PASSMAN. In addition, they are eligible for all these other spigots of foreign aid?

Mr. Moscoso. That is right.

Mr. PASSMAN. To name a few, they are eligible to get funds out of the Latin American region, the interregional account, the International Development Association, the Inter-American Development Bank, the Social Progress Trust Fund, all the U.N. agencies, and Public Law 480.

All the other spigots, would you list them, Mr. Controller?

Mr. TENNANT. Yes.

Mr. PASSMAN. I think Mexico is eligible for aid from all the 16 spigots.

(The information supplied follows:)

SOURCES OF ECONOMIC DEVELOPMENT ASSISTANCE

Mexico is eligible for funds from the following sources: IBRD, IDB, U.N. Funds (including UNTA, ECOSOC, ILO, etc.), IFC, IDA, SPTF, development grants, development loans, supporting assistance, contingency funds, regional funds, interregional funds, Peace Corps, food for peace, Exinbank.

Mr. Moscoso. They are still getting $200 million of outside assistance less than the plan requires in order to push them over the top.

U.S. PUBLIC DEBT AND INFLATION

Mr. PASSMAN. Certainly you know that we are falling far short for our plan in the United States, too. The annual budget deficit of the United States has averaged $9 billion a year for the past 30 years. We are now operating in reality with a public debt of $1,200,508 million, if we take the $305 billion in borrowed money and add to that amount the obligations through the 108 statutes that call for the payout of money for previously rendered services. From the year we adopted the Constitution in 1789, 174 years ago, every time we have collected a dollar in Federal revenue, and we have collected $1,200,508 million, we have created an obligation of $1.81.

So the fact that Mexico does not have all the money it needs for some plan is not something for us to get excited about.

We do not have all the money we need for our plan for fiscal year 1964 if we get into what we think we may get into and follow the recommendations from downtown. In the budget estimate, we are going to fall short about $10.5 billion on our plan next year.

So do not let it worry you unduly simply because Mexico does not have all the money they want for fiscal year 1964.

Mr. Moscoso. What worries me is they have a per capita income of $317.

Mr. PASSMAN. What can you buy with that income? In this country, at the consumer level, if you take the 1940 dollar, it will only buy 44 cents worth of our 1963 production of goods and services, which means that had a Congressman, for example, been getting $10,000 in 1940, he could have bought more goods and services then than $22,500 will buy in 1963.

Mr. ROONEY. I will not agree with that.

When I first came here at $10,000 a year, it cost me $3,000 or $4,000 a year of my savings in order to barely live.

Mr. PASSMAN. As far as the record is concerned, the 1940 dollar is now worth only 44 cents, at the consumer level. It has lost 56 cents in purchasing power since 1940.

I do not know whether $371 per capita would be the equivalent of $1,200 a year in America, or $1,800, but you do have to relate it to something. The value of the income depends upon what one can buy with it.

EXIMBANK LENDING TO MEXICO

You do not have any projection on what the Export-Import Bank may make available to Mexico in fiscal year 1964?

Mr. Moscoso. No. They have been averaging about $60 to $75 million annually. These are not development loans. These are primarily balance-of-payments standbys.

Mr. PASSMAN. They are still eligible to be financed by the Export-Import Bank for their imports from America?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. They have borrowed through the Export-Import Bank since 1946, $591 million.

Now you are starting a fantastically high aid program for Mexico.

DEVELOPMENT LENDING

I note, on page 63, that you anticipate making $——— worth of development credits available to Mexico during 1963; is that correct?

Mr. Moscoso. That is right, but negotiations were not completed.

Mr. PASSMAN. How can we reconcile this tremendous increase for 1964 with the experience you have had in Mexico?

Mr. Moscoso. I think they have met the criteria of self-help pretty well, Mr. Chairman.

Mr. PASSMAN. Mexico has quarreled with us about a lot of our programs for Latin America, have they not?

Mr. Moscoso. Insofar as economic aid is concerned?

Mr. PASSMAN. I am speaking overall. Is that right?

Mr. Moscoso. Yes.

TECHNICAL SUPPORT PROJECT

Mr. PASSMAN. Why do you need $300,000 for the technical support project for a country which has no development grant or supporting assistance projects to administer?

Mr. Moscoso. We have a number of technicians who are completing the phaseout of the technical assistance projects, and several to back-

stop the loan program, Public Law 480 program and third country training in Mexico.

Mr. PASSMAN. You obligated only $275,000 in fiscal year 1963; is that correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. And you had on hand unexpended $75,000. Now, if it is a phaseout program, why would you need $300,000 extra in this field?

Mr. MOSCOSO. We hope this will eventually drop further. We need personnel to see that the end use of those loans we have made is adequate.

Mr. PASSMAN. Do you have that kind of program in every country?

Mr. MOSCOSO. In those countries where we have loans, we want someone there to take a look at them.

Mr. PASSMAN. Do you have them in every country where you have this type of foreign aid program going?

Mr. STERNFELD. If we have loans, we would have some people.

Mr. PASSMAN. You are increasing the amount. I thought you said it was phasing out.

Mr. MOSCOSO The technical assistance program is phasing out.

Mr. PASSMAN. The estimate last year was $105,000. Am I making a statement of fact?

Mr. MOSCOSO. Yes. That was the figure for technical support rather than for the technical assistance program.

Mr. PASSMAN. Do you think you have about the same percentage of inflation in the program this year as you had last year?

Mr. MOSCOSO. No.

Mr. PASSMAN. According to the examination so far on Latin America, you have had quite a bit of inflation.

In the gray-matter area of your books for a country we were recently discussing, your firm plans actually were only for from $15 million to $20 million; is that correct?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. The figure you are estimating could be three or four times that much?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. This is a 400-percent inflation, using the low range; is that correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. In how many countries in your area do you have participants financed under the technical support project?

Mr. STERNFELD. We would have to check.

Mr. PASSMAN. Is that practice the exception rather than the rule?

Mr. STERNFELD. Yes, because we have only this one project, in Mexico.

Mr. PASSMAN. That is the exception rather than the rule?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. Are you going to spread that, or try to contain it? It makes it difficult to understand when you switch these things into a program different from those we have been examining.

Why do you need $73,000 for contract services in fiscal year 1964?

Mr. MOSCOSO. These are short-term technicians.

Mr. PASSMAN. For what period of time?

Mr. MOSCOSO. I do not know exactly how long they will be in, but I doubt if it is more than 3 to 6 months.

SUPERVISED AGRICULTURAL CREDIT LOAN

Mr. PASSMAN. I note that the supervised agricultural credit of $20 million which was signed on June 30, 1962, showed no disbursements whatsoever as of the time of the printing of the project book; is that correct?

Mr. MOSCOSO. That is what it says here, but there have been disbursements.

Mr. PASSMAN. The justifications here indicate there have been no disbursements on this credit.

Mr. MOSCOSO. In February, that is correct.

Mr. PASSMAN. How much have you disbursed against this credit?

Mr. MOSCOSO. $2 million.

Mr. PASSMAN. So there is $18 million of this credit on hand undisbursed.

Could this be one of those projects that was perhaps approved on June 20, and the contract was signed on June 30, the last day of the fiscal year?

Mr. MOSCOSO. No, sir. These are no-year funds. The dates are right.

Mr. PASSMAN. All I mentioned were the dates.

Mr. MOSCOSO. You said, "Was it the end of the fiscal year?"

Mr. PASSMAN. Unless they have changed the signs this morning, it is still the end of the fiscal year. You still agree with me?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Thank you.

AMISTAD DAM

Mr. ROONEY. Are there any funds included in this budget by way of grant or loans in connection with the construction, or pending construction of Amistad Dam across the Rio Grande River between the United States and Mexico?

Mr. MOSCOSO. No; there are not.

Mr. ROONEY. No connection there at all?

Mr. MOSCOSO. None.

Mr. ROONEY. The Mexicans are proposing, are they not, to stand almost 50 percent of the cost of the dam and powerplant?

Mr. MOSCOSO. I do not know of that project.

Mr. ROONEY. You are not familiar with that?

Mr. MOSCOSO. I am not familiar with that project.

Mr. ROONEY. Very well.

PARAGUAY

Mr. PASSMAN. I believe you are requesting $3.1 million for Paraguay for fiscal year 1964?

Mr. MOSCOW. That is right.

Mr. PASSMAN. Let us put together all the other spigots and see how far we go.

Mr. MOSCOSO. $———.

Mr. PASSMAN. The book shows $3.1 million, but when we get the other spigots it comes up to what total?

Mr. MOSCOSO. $———.

Mr. TENNANT. That includes the military.

Mr. PASSMAN. It does not include the Export-Import Bank?

Mr. MOSCOSO. No, sir.

SOURCES OF AID AVAILABLE TO PARAGUAY

Mr. PASSMAN. Are they eligible for funds out of the interregional account?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Are they eligible for funds out of the Latin American regional account?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Are they eligible for funds out of the Social Progress Trust Fund account?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Are they eligible for money out of the Inter-American Development Bank?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Are they eligible for money out of the International Development Association?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Are they eligible for money out of Public Law 480?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Out of all the other organizations?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Will you insert in the record, Mr. Controller, the remaining 16 spigots?

Mr. TENNANT. Yes, sir.

(The requested information follows:)

SOURCES OF ECONOMIC DEVELOPMENT ASSISTANCE

Paraguay is eligible for funds from the following sources: IBRD, IDB, U.N. funds (including UNTA, ECOSOC, ILO, etc.), IFC, IDA, SPTF, development grants, development loans, supporting assistance, contingency funds, regional funds, interregional funds, Peace Corps, food for peace, Export-Import Bank.

TOTAL AID TO PARAGUAY

Mr. PASSMAN. How much have we given Paraguay since the inception of the program?

Mr. MOSCOSO. $59.4 million.

Mr. PASSMAN. What sum do you have on hand unliquidated to the credit of this country?

Mr. MOSCOSO. $9,865,000.

Mr. PASSMAN. You have three times as much on hand as the book shows you need, but ——— the amount when we put the few spigots together you just mentioned? This is just about a year's pipeline?

Mr. MOSCOSO. Yes; there is $2.9 million Social Progress Trust Fund and Public Law 480 is——

Mr. PASSMAN. In addition to the figure stated?

Mr. MOSCOSO. No; included in the $9.8 million.

The figure for economic aid would be $5,978,000.

Mr. PASSMAN. Mr. Administrator, would you comment concerning your statement, on page 67 of the justifications, that you will be using the modest grant aid program to ——— ?

Mr. MOSCOSO. That has already happened, Mr. Chairman, I am happy to say. For the first time in many years——

Mr. PASSMAN. You paid them for doing it and they are staying put?

Mr. MOSCOSO. No.

Mr. PASSMAN. Is that not what the book says?

Mr. MOSCOSO. It is an educational job the Ambassador has been working on for quite a while and he has started to get some results now.

Mr. PASSMAN. This book says that the grant aid program is to——

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Was what you asked them to do something that was wrong or right?

Mr. MOSCOSO. I think this is right.

Mr. PASSMAN. Why do you have to give them money for doing it? Why do we not get all of our programs together and admit that our money is intended to get them to do what is right, in the first place?

Mr. MOSCOSO. I think this is classified.

Mr. PASSMAN. How many millions have you given to Paraguay since the inception of the program?

Mr. TENNANT. $59.4 million.

Mr. PASSMAN. What is the population of the country?

Mr. MOSCOSO. 1.9 million.

NATIONAL UNIVERSITY PROJECT

Mr. PASSMAN. How many participants do you plan to train at a cost of $189,000 under the national university project, shown on page 333?

Mr. STERNFELD. Forty-five participants.

Mr. PASSMAN. At a cost of $189,000?

Mr. STERNFELD. That is right.

Mr. PASSMAN. What type of assistance has UNICEF given to the medical school and the national university?

Mr. STERNFELD. UNICEF does provide——

Mr. MOSCOSO. Teaching aids and other items of that kind.

Mr. STERNFELD. Some commodity assistance for children relief.

ASSISTANCE TO POLITICAL FREEDOM IN LATIN AMERICA

Mr. PASSMAN. Earlier this afternoon we were discussing a program for one country and I believe it is stated about this way: The grant aid program was used to influence the government to permit significant freedom of action to political parties in opposition to the regime; is that correct?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. What we are advocating is something that is good and right, is it not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Do we have to make a gift to them in order to get them to do what is right?

Mr. MOSCOSO. No, sir. It is not a question of a gift.

We do not hand the government officials a gift so that they will——

Mr. PASSMAN. Let the officials take care of themselves. Here we are in many parts of the world giving special grants to people in order to get them to do what they are supposed to do, and these grants are in addition to regular planned programs.

(Off the record.)

Mr. ROONEY. Mr. Chairman?

None of this discussion in the last couple of minutes has to do with Paraguay, has it?

Mr. STERNFELD. That is right, sir.

Mr. PASSMAN. Thank you.

RURAL EDUCATION DEVELOPMENT PROJECT IN PARAGUAY

The estimate of $900,000 for the "rural education development projects" will complete the funding for this project; is that correct?

Mr. STERNFELD. That is correct.

Mr. MOSCOSO. That is right.

AGRICULTURAL DEVELOPMENT AND PRODUCTIVITY

Mr. PASSMAN. I note under the "Agricultural development and productivity project," on page 335, that you are requesting $30,000 for contract service to provide a contract adviser for the organization of farmer cooperatives.

Mr. MOSCOSO. That is right, organized rural production and marketing cooperatives.

Mr. PASSMAN. Do you not have funds requested in the interregional account for the same purpose?

Mr. STERNFELD. We have funds to help the establishment of cooperatives in Latin America; yes, sir.

Mr. PASSMAN. We are not in disagreement on this and we have established for the record that these figures in this book, in most instances, represent about one-third of the total amount of funds these people get.

We find you can get funds from about seven different sources to do the same kind of thing under any technical aid program, for instance.

TECHNICAL SUPPORT PROJECT

I note that under "Technical support project," on page 342, you are requesting an increase of $19,000 in fiscal year 1964, up to a total of $269,000 which you state represents the increased funding requirement resulting mainly from the absorption of a communications media project.

Will you comment on why the "Technical support project" has to finance this activity and when the other one will be absorbed?

Mr. STERNFELD. We are attempting to phase out the communications media project. This is to provide posters and other slides and items which will be useful in the implementation of the program. We have incorporated it in here to phase it out.

Mr. PASSMAN. It looks as if we are about to establish a $3.5 billion foreign-aid program with only about $1 billion in commodities.

The other $2.5 billion, it appears, is spent to pay for 64,500 personnel of all categories, including participants, involved in AID and that figure includes, of course, the cost of these people's food, travel, representation, entertainment, hotel bills, houses abroad, and so forth.

When we speak in terms of commodities exported through foreign

aid, do you take into account all of these small items? Is your record good enough to pick up under "Technical aid projects," for example. where you have hand tools or insecticides or various other small commodities?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. When we finally put together commodities, these items are included?

Mr. TENNANT. Yes, sir.

TELECOMMUNICATIONS LOAN

Mr. PASSMAN. Here is a DLF project, No. 91, "Telecommunications," approved June 24, 1959. The contract was signed May 26, 1961, and now it is going on 3 years and you have not disbursed even a dollar on this account. Can you tell us why this is so?

Mr. MOSCOSO. Yes, sir. The bids are coming in at the end of this week, August 15.

Mr. PASSMAN. This is going into the fourth year or into the fifth year, is it not? There have been no disbursements?

Mr. STERNFELD. $36,000.

Mr. PASSMAN. You have been carrying this in an obligational status for all of those years. Can you tell us whether or not, at this time, this afternoon, there has been any disbursement made against this account?

Mr. MOSCOSO. There have been some disbursements made, $36,000.

Mr. PASSMAN. When were the disbursements made?

Mr. MOSCOSO. After the date on which it was——

Mr. PASSMAN. It does not show a dime of disbursements here.

Mr. MOSCOSO. After the date in which the book was printed.

Mr. PASSMAN. $36,000 of $1 million for what purposes?

Mr. MOSCOSO. For the consulting engineers. There has been a lot of difficulty with the consulting engineers on this project.

Mr. PASSMAN. Why would not something like this just be deobligated and then you would start over?

Mr. MOSCOSO. If the bids are coming in on the 15th——

Mr. PASSMAN. What do you mean, "bids"?

Mr. MOSCOSO. Opening bids. We had difficulty with RCA and I.T. & T. and had to reject the bids because they did not meet the specifications. We had to go out for bids and if these bids are not acceptable, we will deobligate.

PERU

Mr. PASSMAN. The next country in this area is Peru for which you are requesting for fiscal year 1964, $———.

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Will you add to that sum all of the other figures, excluding the Export-Import Bank?

Mr. MOSCOSO. $———, including the military and Public Law 480.

Mr. PASSMAN. It would appear that there has been an increase in the program shown in the project book. It looks as if you have an increase of exactly ——— for the same purposes.

When we squeeze the other spigots, we get how much?

Mr. MOSCOSO. $———.

Mr. PASSMAN. Which is $——— more than shown in the book and that does not include Export-Import Bank, does it?

Mr. MOSCOSO. No, sir.

SOURCES OF AID AVAILABLE

Mr. PASSMAN. It does not include what Peru would be eligible for out of the interregional account?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. It does not include what they would be eligible for out of the Latin American regional account?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Neither does it include what they would be eligible for out of the Inter-American Development Bank?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. From the Social Progress Trust Fund?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Nor the International Developmental Association?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Or any of the funds in the United Nations organizations?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Would you put the other part of the 16 spigots in the record and give us a grand total, Mr. Controller?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. Thank you.

(The requested information follows:)

SOURCES OF ECONOMIC DEVELOPMENT ASSISTANCE

Peru is eligible for funds from the following sources: IBRD, IDB, U.N. funds (including UNTA, ECOSOC, ILO, etc.), IFC, IDA, SPTF, development grants, development loans, supporting assistance, contingency funds, regional funds, interregional funds, Peace Corps, food for peace, Eximbank.

Mr. PASSMAN. It certainly makes a lot of difference when you pick up all of these pages and put them together.

What amount do you have on hand unliquidated to the credit of Peru?

Mr. MOSCOSO. $62,318,000.

Mr. PASSMAN. How much did you have for Peru in fiscal year 1960?

Mr. MOSCOSO. $18.3 million.

GOLD PURCHASES

Mr. PASSMAN. I notice in the last quarter of that same year, 1960, they made a gold purchase of $15 million from the United States.

What was the amount of the aid program for Peru in 1959?

Mr. MOSCOSO. $55.2 million.

Mr. PASSMAN. They bought only $5 million of our gold that year.

How much aid did you have for Peru in fiscal year 1962?

Mr. MOSCOSO. $74.8 million.

Mr. PASSMAN. That year Peru only purchased $600,000 of our gold, but during the years the aid program was highest, beginning with calendar 1960, Peru purchased $20.6 million of our gold.

I note in your statement, on page 70 of the justifications, that unused economic assistance obligations in Peru are "excessive." Is that a typographical error?

Mr. MOSCOSO. No, sir.

POPULATION AND LITERACY RATE

Mr. PASSMAN. What is the population of Peru?

Mr. MOSCOSO. 11.6 million.

Mr. PASSMAN. What is the literacy rate?

Mr. MOSCOSO. Fifty percent.

I think this is an overstatement, quite frankly.

It is closer probably to 35 or 40.

This includes the Indian population.

Mr. PASSMAN. Check that information, please, and if it is actually different than indicated, supply it for the record.

(Information supplied follows:)

PERU LITERACY RATE ESTIMATION

The published literacy rate of 50 percent for Peru is based upon the 1940 population census. Other sources give varying estimates. At best all estimates are inflated because of the difficulty of taking an accurate census of the Indian and rural population.

GOLD AND FOREIGN EXCHANGE RESERVES

I think maybe we would like to show that Peru, since we really got the aid program going good, had $71 million in gold and foreign exchange in 1960 and it increased to $89 million, and in 1961 it went up to $129 million.

Mr. MOSCOSO. That is a mistake.

Mr. PASSMAN. In 1962, it went up to $140 million.

Mr. MOSCOSO. I am sorry, Mr. Chairman. That is a typographical error.

Mr. PASSMAN. All of them?

Mr. MOSCOSO. The last two, 1961 and 1962, at least are typographical errors.

We have the International Monetary Fund report here.

Mr. PASSMAN. You have so many records and reports and one says one thing and one another.

I do know I can take the U.S. Treasury statement where the amount of gold is shown that these countries are buying from us.

Mr. MOSCOSO. The end of the year figure for 1961 was $102 million and in 1962, $103 million, which represents about 2.5 months of imports.

Mr. PASSMAN. It has gone from $71 million in 1959 to $103 million in 1962?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. During the time our aid program appeared to be the heaviest, this country purchased $20.6 million of our gold?

Mr. MOSCOSO. Disbursements were very minor.

Mr. PASSMAN. I am talking about the gold they bought during those years.

I do not know when they draw it out but I know when you put it in.

What has been the total amount of aid from all spigots to Peru?

Mr. MOSCOSO. $287.7 million since 1946.

Mr. PASSMAN. I note under the basic agricultural institutional development project that you have $1 million in unliquidated obligations as of June 30, which is primarily for the funding of the University of North Carolina contract signed in August 1962; is that correct?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. In reality, you do not need $740,000 extra, do you?

Mr. MOSCOSO. Yes, sir; we do.

Mr. PASSMAN. Earlier today you heard the exchange to the effect that you are funding projects for which you have 2 years of money already on hand, such as this university project partially through 1967.

Will you tell us why, with this money on hand, you have made no disbursements and why you need additional money?

Mr. MOSCOSO. This is needed for additional contract operation in fiscal year 1964.

Mr. PASSMAN. You are not spending what you presently have to the credit of the University of North Carolina.

Mr. MOSCOSO. We spent close to $1 million in fiscal 1963.

We had $655,000 obligated and unliquidated $134,100 which gives us a total of about $1 million, so about $1 million was spent.

Mr. PASSMAN. You have all of the money that you obligated in 1963 with $345,000 of the money you obligated in 1962; is that a fair statement?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Thank you.

Mr. MOSCOSO. May I do it the other way?

Mr. PASSMAN. Have I made a statement of fact that you have all of the funds you obligated in 1963 and $345,000 of the funds you obligated in 1962; you estimate $1 million on hand unliquidated on June 30, 1963; is that correct?

Mr. MOSCOSO. What you have is——

Mr. PASSMAN. Have I stated it correctly?

Mr. MOSCOSO. $341,000 plus $655,000, plus $996,000 spent——

Mr. PASSMAN. You have not confirmed it either way.

Am I making a statement of fact, that on June 30, 1963, you had all of the funds that you obligated in fiscal 1963 on hand, plus $345,000 of the funds you programed in 1962; is that correct, Mr. Controller?

Mr. TENNANT. I do not believe that is correct.

Mr. PASSMAN. Do you have on hand $1 million unliquidated?

Mr. TENNANT. I think the question——

Mr. PASSMAN. You have on hand $1 million unliquidated to this contract as of June 30, 1963?

Mr. TENNANT. That is correct.

Mr. PASSMAN. How much did you obligate to the project in fiscal year 1963?

Mr. MOSCOSO. $655,000.

Mr. PASSMAN. Thank you.

I think the record will make the case.

Mr. TENNANT. I think the issue is which transactions were obligated in which year.

Mr. PASSMAN. You have only one contract, Mr. Controller, and that is shown on page 347, the "Basic Agricultural Institution Development Contract," and I gave you the number of the project.

Is this not the one to the University of North Carolina?

Mr. Moscoso. Mr. Chairman, I am a novice at this, but may I try it this way?

We are actually disbursing about $1 million for this contract and if we obligated $825,000 and add to that the million dollars we have unliquidated, we will have $1,825,000 for 2 years which is forward funding which is the usual thing in university contracts.

Mr. PASSMAN. Earlier, you said you had on hand for certain contracts funds for 2 years, based upon an expenditure of $750,000 annually, and then you are asking for $950,000, which would fund the contract for 1966, with $200,000 lapping over into 1967.

What is the total cost of this project if the project is carried to completion?

Mr. MOSCOSO. $4,732,000.

Mr. PASSMAN. Is all of this to go to the University of North Carolina?

Mr. MOSCOSO. No; not necessarily.

Mr. PASSMAN. Do you know?

Mr. MOSCOSO. You have technicians, participants, and other commodities.

Mr. PASSMAN. Give us something for the record as to how you are going to bring the commodities down, and so on.

Mr. STERNFELD. Until completion?

Mr. PASSMAN. Yes; break it out.

Mr. STERNFELD. Yes, sir.

(The information requested follows:)

COST TO COMPLETION OF BASIC AGRICULTURE INSTITUTIONAL DEVELOPMENT PROJECT

AID's basic agriculture institutional development program (527–AB–11–AB–2) began in 1962 and is scheduled for completion in 1967. It is estimated that a total of $4.7 million will be required, broken down as follows:

University of North Carolina contract	$4,100,000
Commodities (vehicles, medicines, feeding and mixing equipment, animals, scientific apparatus, fertilizers, etc.)	457,000
U.S. technicians (1 per year at $20,000)	100,000
Participants (average of 20 per year for a 5-year period, total of 100)	75,000
Total	4,732,000

Mr. PASSMAN. How many breeding animals and what type of feeding equipment do you plan to procure at a cost of $50,000?

Mr. MOSCOSO. We do not have that detail, Mr. Chairman.

Mr. PASSMAN. You do not have that detail here?

Mr. MOSCOSO. We have it in the mission.

Mr. PASSMAN. Put it in the record, please.

(The information follows:)

BASIC AGRICULTURE INSTITUTIONAL DEVELOPMENT PROJECT—COSTS

Under AID's basic agriculture institutional development program in fiscal year 1964, $50,000 has been proposed in commodities. The following is an estimate of the breakdown including transportation:

5 bulls	$5,000
50 heifers	30,000
Medicines (vaccines, etc.)	5,000
Feeding and mixing equipment	10,000

PROGRESS IN MAKING LAND AND TAX REFORMS

Mr. PASSMAN. I note that you are programing $480,000 for the agrarian reform project, shown on page 350.

I am wondering why, in view of your statement on page 72 of the justifications, the Government has been reluctant to take effective steps on essential land and tax reforms. You indicate no effective action has been taken yet on those matters. Am I making a statement of fact?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. I am reading from your book.

Mr. MOSCOSO. It is from the book, it is correct.

Mr. PASSMAN. Does the doctor confirm what I said as being the fact?

Mr. STERNFELD. As of February 1963.

Mr. PASSMAN. We are examining on your justifications, as you have presented them to this subcommittee.

Mr. STERNFELD. That is right. The situation has changed since then, sir.

(Additional information supplied follows:)

LAND AND TAX REFORMS PROGRESS SINCE MARCH 1963 IN PERU

Since March of 1963 the Government of Peru has begun to implement the recommendations of the U.S. Internal Revenue team on tax administration reform. Peruvian funds have been provided to establish an intelligence division within the tax superintendency, an inservice training school within the tax division, and to codify the tax laws. During the month of August, the Caja de Depositos y Consignaciones, a private Peruvian company that had been collecting the Government taxes, was replaced by a Government agency.

Also since March of 1963 the agrarian reform program in Peru has been stepped up. The Institute for Agrarian Reform has been given the necessary authority to begin observations in colonization projects and land tenure reform, and a very high level organization, presided over by the President of the Republic, the National Office of Agrarian Reform and Promotion, has been created. Some 350 titles have been handed over to farmers in La Convencion Valley, with active preparations being made to hand over more titles. A total of 200,000 acres in the Departments of Pasco and Junin have been expropriated, with the consent of the owners, and compensation promised, for distribution to the local farmers. The new Government in Peru has promised full support to agrarian reform with compensation to the owners as provided for by the Peruvian Constitution.

Mr. PASSMAN. This is a country of which you said earlier that you had "excessive" unused economic assistance obligations.

Mr. STERNFELD. That is right.

Mr. PASSMAN. What progress has been made since the printing of this book?

Mr. MOSCOSO. Quite a number of things—constitutional government has been elected and has taken over.

Mr. PASSMAN. A new government has been elected and taken over?

Had we been supporting the other regime with a full-fledged aid program?

Mr. MOSCOSO. No, sir. Last year we did no lending in Peru.

Mr. PASSMAN. You had an aid program in Peru last year.

Mr. MOSCOSO. Yes, a continuation of what we were doing.

Mr. PASSMAN. You still disbursed funds out of these accounts to Peru last year, did you not?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. How much had we given Peru through December 31, 1962?

Mr. TENNANT. I do not have it immediately, sir.

Mr. PASSMAN. Give it to us through 1962.

Mr. TENNANT. Through 1962, $476.4 million.

That includes the Export-Import Bank.

Mr. PASSMAN. Take the Bank's loans out.

Mr. TENNANT. Approximately $260 million, excluding the Bank.

Mr. PASSMAN. Now we are into the new regime and they have a new government. They have a new set of officials. What else is good about it that has happened since February?

Mr. MOSCOSO. Before the elections were held the military junta that was in power set up an agrarian reform program.

Mr. PASSMAN. They got it on the statute books?

Mr. MOSCOSO. Yes.

They did not implement it. We hope the new government will implement it.

Mr. PASSMAN. They have not done so yet. So far we are dealing with paper.

Are there any tax reforms? Do they have legislation pending?

Mr. MOSCOSO. This is a wire that arrived this morning from Lima, and it says that "Daily newspapers announced promulgation of the supreme decree of August 9 which will lead to expropriation of 78,417 hectares.

Mr. PASSMAN. How much is that?

Mr. MOSCOSO. That is close to—about 200,000 acres.

Mr. PASSMAN. That is about the size of some of the big ranches in this country, is it not?

Mr. MOSCOSO. Yes, but this is a small country.

Mr. PASSMAN. I know, but you are not talking about a lot of land there.

Mr. MOSCOSO. This is the beginning.

Mr. PASSMAN. How about the tax reforms?

Mr. MOSCOSO. Agrarian Reform Institute charged with responsibility carrying out expropriation——

Mr. PASSMAN. From whom did they expropriate the land?

Mr. MOSCOSO. Several owners.

(Additional information supplied follows:)

LAND EXPROPRIATION IN PERU

The Government of Peru has recently expropriated 200,000 acres of cultivated and pasture land in the Departments of Pasco and Junin as part of its land reform program. An average of 12 percent was taken from a number of haciendas, with prior consent of the owners, one of which is the U.S.-owned Cerro de Pasco Corp.

As required by Peruvian law, the Peruvian Government has promised prompt and just compensation for the expropriated lands.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. How about the tax measures? Do they have any legislation pending to increase taxes?

Mr. MOSCOSO. There are 17 different laws approved changing the tax structure of Peru since 1960.

BUDGETARY SUPPORT

Mr. PASSMAN. What has been the amount of our cash transactions to Peru since 1960 from AID?

Mr. STERNFELD. Are you talking about cash transactions?

Mr. PASSMAN. What we refer to as budgetary support. We want to find out if this gets in the budget and they take it as a domestic revenue.

Do you want to supply the information for the record?

Mr. STERNFELD. I think that would be best.

(The information follows:)

BUDGETARY SUPPORT TO PERU, 1960–63

Budgetary support loans made to the Government of Peru between the years 1960 to 1963 have amounted to $1.2 million. In September 1961 a dollar repayable loan of $6 million was made to the Government of Peru for roadbuilding and self-help projects to relieve excessive unemployment in the Department of Puno, defined as an emergency area by the U.N. In September 1962, $4.8 million of this loan was withdrawn and deobligated.

DOMESTIC REVENUE

Mr. PASSMAN. Let us look at total domestic revenue. In 1960 it was $309 million.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. That year they had a budget surplus of $4 million?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. In 1961 domestic revenues were $396 million, with a budget surplus of $11 million.

Now they picked up the old American way in 1962. Domestic revenues were $405 million but they went into a budget deficit of $13 million; is that right?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You are up 1962 over 1961 by $9 million.

Mr. MOSCOSO. But 1961 over 1960 was close to $90 million.

Mr. PASSMAN. 1961 over 1960 was $87 million; is that right?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. How much was our aid during those 3 years?

Mr. MOSCOSO. Disbursed?

Mr. PASSMAN. Let us go by what you credit to the nation.

Mr. TENNANT. $148 million.

Mr. MOSCOSO. $148 million.

Mr. PASSMAN. I think that is good enough for the record.

PUBLIC SAFETY PROJECT

I note your statement, on page 359, in connection with the public safety project, that the internal security threat will undoubtedly expand during the period of uncertainty surrounding elections this year; is that correct?

Mr. MOSCOSO. That is what the book says.

Mr. PASSMAN. In view of the fact that the President has assumed his office without any violence, is this $250,000 for riot control equipment necessary?

Mr. COTTRELL. I would say yes, because not only had they envisaged seeing the election through without disturbance, but there is a con-

tinuing, again, Communist element in Peru that needs of internal security still exist. I think in general these public safety programs are money very well spent.

HOUSING AND URBAN DEVELOPMENT PROJECT

Mr. PASSMAN. Would you comment concerning your request for $40,000 to assist in the promotion and service campaign under the housing and urban devlopment project?

Mr. MOSCOSO. There are no details on that. I will be very happy to get the detail and give it to you.

(Information supplied follows:)

PROMOTION AND SERVICE CAMPAIGN

Under AID's housing and urban development project (527–AD–89–AC–2), $40,000 has been proposed for local expenses. These funds are to be used to allow the Peruvian Credit Union Federation expand its advisory services to its member associations, engage in an informational and promotion campaign, and hire additional administrative personnel for better service and efficiency.

The primary function of AID's housing and urban development project (527–AD–89–AC–2) is mobilizing domestic savings for economic development by instilling the habit of saving in the Peruvian public. For this reason $40,000 has been requested for local expenses which will be used to assist the Peruvian Credit Union Federation expand its advisory, informational and promotional services to its member associations. Assistance of this type will help them increase their membership and capitalization.

TECHNICAL SUPPORT PROJECT

Mr. PASSMAN. How much did you request last year for the technical support project?

Mr. STERNFELD. $251,000.

Mr. PASSMAN. What sum did you obligate?

Mr. MOSCOSO. $515,000.

Mr. PASSMAN. That is no different than a lot of the others. And all along the way we find that the obligation not infrequently has been three or four times the amount of the last year's request. Yet the Congress cut the aid bill last year $1,032,400,000 under the budget request.

SAVINGS AND LOAN ASSOCIATION PROJECT

I note, on page 366, that you are having some trouble, or maybe a lot of trouble, trying to disburse $1 million which you programed as a credit to the savings and loan association in July 1960; is that correct?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. When do you expect to deobligate this item?

Mr. MOSCOSO. As soon as we are advised whether or not the Central Home Loan Bank is going to assume the maintenance of value.

Mr. PASSMAN. That is 1960, 1961, 1962, 1963, going into 1964, fiscal years.

Mr. MOSCOSO. We are deobligating the whole loan.

Mr. PASSMAN. I hope you find a lot more when you run through the books that you can deobligate, and I hope that some day the

Agency will stop obligating almost billions of dollars on such projects.

We established only a few days ago that wholly unobligated funds were $515 million; technically unobligated, an additional $688 million, which goes over into the gray matter as a reservation pending signing of the contract. Is my statement correct?

Mr. TENNANT. Yes, sir.

Mr. MOSCOSO. I think this will be found to be less and less.

Mr. PASSMAN. That item would not be in the $51 million that you deobligated through April, would it?

Mr. TENNANT. This transaction, no, sir.

Mr. PASSMAN. When you add to the $51 million of deobligated funds for the first 10 months of this year, would this be in that total?

Mr. TENNANT. This is after June 30, sir, in the no-year loan account.

Mr. PASSMAN. So we can look forward to some more usable funds in this deobligation category in fiscal year 1964?

Mr. TENNANT. Yes. We plan to take them into consideration in the same way we presented this year's budget.

Mr. PASSMAN. Your argument is if you did not have these funds you would have to ask for more money. Is that not what you are saying?

Mr. TENNANT. Yes.

Mr. PASSMAN. Thank you.

DEOBLIGATION OF FUNDS UNDER PUNO WORK RELIEF LOAN

What are the terms of the Puno work relief loan which you approved February 8, 1962? If I recall correctly this loan was made out of the contingency fund?

Mr. TENNANT. That is right. This loan has been deobligated.

Mr. PASSMAN. Is a contingency account intended to take care of emergencies when something unexpected comes up, and you move in then and make an obligation? That is the purpose I think.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Here is one in 1962, "Puno Work Relief" for $6 million, and you have deobligated how much?

Mr. MOSCOSO. We have deobligated $4,800,000.

Mr. PASSMAN. Was that deobligation in fiscal year 1963 or fiscal year 1964?

Mr. MOSCOSO. We deobligated $4 million in January 1963, and more recently we deobligated $800,000 more.

Mr. PASSMAN. That latter figure lacks a little of being a million. We will have, it appears, a lot of usable money out of these 1964 deobligated funds. This was out of the contingency fund?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. We shall now adjourn until tomorrow afternoon at 1 o'clock.

TUESDAY, AUGUST 13, 1963.

RELEASE OF DOLLARS IN RECIPIENT COUNTIES AS RESULT OF FOREIGN AID PROGRAM

I shall refer now to page 1201, part 3, the hearings of this subcommittee for fiscal year 1963. This is a colloquy between the distinguished Secretary of the Treasury, the Honorable Douglas Dillon, and myself.

(The information above referred to is as follows:)

USE OF DOLLARS IN FOREIGN AID PROGRAM

Mr. PASSMAN. If we credit dollars to nations around the world through the foreign aid program, either through the grant program or this so-called loan, to which you referred as development credits, and not loans—and I have gotten a lot of mileage out of that—if they utilized that dollar credit requisition their needs, then that releases the dollars which they earn from their exports to do with as they please?

Secretary DILLON. It could unless there is some specific arrangement to be sure that this credit is used for something over and above what they would not have otherwise done.

Mr. PASSMAN. You would not count their dollars and have an internal audit of their situation before you decide on giving a foreign aid grant or loan?

Secretary DILLON. No; but we are trying, as far as our interest in the foreign aid program is concerned, to help balance the payments. We are pushing very hard to try and minimize the dollar drain. It is not easy, but we are trying to devise new and surer ways all the time to reduce that dollar drain.

Mr. PASSMAN. I understand that all nations, even the new ones, earn some dollars from their exports. If we are giving to those nations through grants, or these so-called 40- or 50-year credits with no interest, at least that would make available to them dollar credits by which they could requisition what they need from our country?

Secretary DILLON. Yes. All I was saying was this: If you have a project to build a utility plant, an electric powerplant, unless you provided dollar aid for this specific project, the other dollars they earn from their exports, and so forth, would not be adequate to pay for this project, so they would not be able to do it all.

Mr. PASSMAN. I refer to their needing 1,000 trucks, for example.

Secretary DILLON. That is different.

Mr. PASSMAN. They normally would use their dollar earnings to buy trucks. If we credit them, and they buy the trucks with that credit, that releases their earned dollars to use as they see fit?

Secretary DILLON. That is right, and that is why we try to avoid that type of thing.

Mr. PASSMAN. That was my understanding, and you testified the same as you just did a year or two ago.

Secretary DILLON. I don't remember what I testified then.

Mr. PASSMAN. I argued all along that if you give these nations the dollars to buy what they normally buy with dollars they earn, it releases their dollars to do with whatever they please. We are certainly in accord there, are we not?

Secretary DILLON. I would say so.

SUNDRY EXPENSES OF MEETING OF INTER-AMERICAN DEVELOPMENT BANK

Mr. PASSMAN. We have asked the Controller for a report on the sundry items that substituted for the whisky allowance on the expense accounts under the Inter-American Development Bank annual meeting fund. Have you made this information available?

Mr. TENNANT. I believe we gave you an insert on that, sir.

We have that information here, Mr. Chairman. I think it was provided as an insert, but we can work from this copy.

(NOTE.—See page 2187 for information provided.)

Mr. PASSMAN. We want a copy of it now, please.

You have sundry expense, total. Where do we have a breakout of that information?

Mr. STERNFELD. That is a breakout of the sundry expense.

Mr. PASSMAN. "Construction of exhibit." What is that category?

Mr. MOSCOSO. This is a series of panels that were prepared showing what projects had been financed by what funds in what countries.

Mr. PASSMAN. Film of meeting and photographs, $2,253. There must have been a lot of filming and photographs taken.

Mr. ROSENSON. What they did was take a film of the meeting and photograph the various sessions for their permanent record.

Mr. PASSMAN. Is the local travel for taxicabs to and from night-clubs, or something of that nature?

Mr. ROSENSON. Nothing like that, sir. It is——

Mr. PASSMAN. What is it, then?

Mr. ROSENSON. It is an item of $185 for just what it says, local travel.

Mr. PASSMAN. What type of local travel?

Mr. ROSENSON. There may be many incidental types of local travel where the staff may need to acquire certain facilities or certain materials for the purpose of the meeting. It would be minor items like that, sir.

Mr. PASSMAN. "Installation of equipment and signs, $1,000." Of what does that item consist?

Mr. ROSENSON. They are signs such as "Offices," "Registration"——

Mr. PASSMAN. This was just a 1-week affair?

Mr. ROSENSON. Yes, sir.

Mr. PASSMAN. Was this program scattered all over the town or was it in one building?

Mr. ROSENSON. The meeting was in one building.

Mr. PASSMAN. This installation of equipment and signs was for that building; is that correct?

Mr. ROSENSON. That is correct.

Mr. PASSMAN. "Various other supplies and services, $2,332." What is that item?

Mr. ROSENSON. I asked for a breakdown of that, and they said that would be in about 30 different vouchers. That can be supplied if the committee so desires.

Mr. PASSMAN. This could be for a lot of different things, could it not? But it follows, nevertheless, that the expenses for this 1-week meeting in 1961 amounted to $143,358; in 1962, $207,501; in 1963, $201,624, and that is an estimate.

Mr. ROSENSON. That, sir, is practically final——

Mr. PASSMAN. Is it up or down from this figure?

Mr. ROSENSON. This is the estimated actual figure.

Mr. PASSMAN. This statement was made up several days ago; is that correct?

Mr. ROSENSON. Yes, sir.

Mr. PASSMAN. That is over a half million spending out of this progress trust fund, or, that is, the Inter-American Development Bank, for these three meetings down in Latin America, is that correct?

Mr. MOSCOSO. This is not social progress trust fund money, Mr. Chairman. It is Inter-American Development Bank, and it is the regular——

Mr. PASSMAN. It is the regular operation of the Inter-American Development Bank of which the social progress trust fund is one of the windows, is it not?

Mr. MOSCOSO. But the social progress trust fund——

Mr. PASSMAN. Is it one of the windows in this bank?

Mr. MOSCOSO. But it does not contribute to these expenses.

Mr. PASSMAN. From what source does this money come?

Mr. MOSCOSO. From the profits of the Bank—from the profits the Bank makes from its investments.

Mr. PASSMAN. They had one meeting before they had disbursed a dime out of either one of those funds. This came out of the capital, this first meeting in 1961, did it not, because you had not made any loans and no interest had accrued?

Mr. ROSENSON. Yes, sir.

Mr. RHODES. I am not too sure of that. You know they got a capital contribution from the U.S. Government long before they needed it, and reinvested it in Government bonds. You will remember they made about $2.5 million interest off the Government bonds they had for the first year. Do you remember that?

Mr. PASSMAN. I know that is true, but I think possibly that money went into another fund, but I am not certain.

Mr. RHODES. It may have. I don't know. It all came from Uncle Sam's taxpayers.

Mr. PASSMAN. Before they made any money whatsoever from any of the loans, the purpose for which the appropriations were made, they spent $145,000; is that correct?

Mr. ROSENSON. That would be the expenses of that meeting.

Mr. PASSMAN. Before they made any loans or made any profit from making the loans to the countries, for which purpose the fund was intended?

Mr. ROSENSON. I am not sure of the date.

Mr. PASSMAN. 1961 was the year you got the appropriation. And I think you testified that there had not been any liquidations. It is certainly getting off to a pretty fast start when they start utilizing their capital funds for these parties, or meetings.

UNOBLIGATED AND UNRESERVED FUNDS FOR LATIN AMERICA

Mr. PASSMAN. I shall read from the 1963 report of the House Foreign Affairs Committee, which accompanied the bill for Foreign Assistance:

> The committee has taken this action because it is dissatisfied with the rate of progress in implementing the development program for Latin America and believes that the Executive requested more funds than can be effectively utilized.

How much did you have in the clear, unobligated funds, in fiscal year 1963?

Mr. TENNANT. Military and economic——

Mr. PASSMAN. Alliance for Progress.

Mr. STERNFELD. $95 million, sir.

COMMITMENTS NOT FINALIZED INTO LOAN AGREEMENTS

Mr. PASSMAN. How much did you have technically unobligated, but over in the shaded area that figuratively we accepted as an obligation, because you had approved it, waiting for contracts to be signed? Do you have that information?

Mr. TENNANT. I believe I have that in the figures I gave you.

Mr. PASSMAN. Could you insert the information in the record?

Mr. TENNANT. Surely.

(The information supplied follows:)

DEVELOPMENT LOANS, LATIN AMERICA

Approved commitments not yet finalized into loan agreements as of June 30, 1963

Alliance for Progress account	$105,300,000
DLF corporate account, Latin America	11,700,000
Total	117,000,000

URUGUAY

Mr. PASSMAN. You are requesting for fiscal year 1964 the sum of $1,500,000 for Uruguay; is that correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. Let us put together the other spigots as rapidly as we can.

Mr. MOSCOSO. Also we will do some development lending.

Mr. PASSMAN. Let us put it all together, as you have done in previous days.

Mr. MOSCOSO. $——— from all spigots.

Mr. PASSMAN. Not including Export-Import Bank?

Mr. MOSCOSO. Not including Export-Import Bank and not including the Development Lending——

SOURCES OF AID FUNDS AVAILABLE TO URUGUAY

Mr. PASSMAN. This country is eligible for funds out of the Latin American regional account; is it not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Is Uruguay eligible for funds out of the interregional——

Mr. MOSCOSO. That's right.

Mr. PASSMAN. Out of the International Development Association?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. The Inter-American Development Bank?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. The social progress trust fund?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Are they eligible for funds out of all the international accounts in the United Nations?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Will you insert in the record the remainder of the 16 spigots, Mr. Controller, and then get the grand total? If you can, furnish an estimate as to how much they get, because you have a lot of money in those regional accounts.

(The information supplied follows:)

SOURCES OF ECONOMIC DEVELOPMENT ASSISTANCE

Uruguay is eligible for funds from the following sources: IBRD, IDB, U.N. funds (including UNTA, ECOSOC, ILO, etc.), IFC, IDA, SPTF, development grants, development loans, supporting assistance, contingency funds, regional funds, interregional funds, Peace Corps, food for peace, Eximbank.

UNLIQUIDATED FUNDS

Mr. PASSMAN. Could you tell us the amount of money that you have on hand unliquidated to the credit of Uruguay as of June 30?

Mr. MOSCOSO. $11,424,000, including the military.

TOTAL AID TO URUGUAY

Mr. PASSMAN. What does the total amount to in this country since the inception of the program?

Mr. MOSCOSO. $101,200,000.

Mr. PASSMAN. Excluding the Export-Import Bank?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. What is the population of this country?

Mr. MOSCOSO. The population is 2.9 million.

GOLD PURCHASES

Mr. PASSMAN. Did you have a foreign aid program for Uruguay in 1960?

Mr. MOSCOSO. $24.8 million.

Mr. PASSMAN. Did they get any cash at all that year, budgetary support?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Any grants that year?

Mr. MOSCOSO. There was some technical cooperation.

Mr. PASSMAN. How much was that account, please?

Mr. MOSCOSO. $100,000.

Mr. PASSMAN. What was the total amount that year?

Mr. MOSCOSO. $24.8 million, including the military and Public Law 480.

Mr. PASSMAN. In that year they purchased $3,800,000 of our gold.

Mr. MOSCOSO. Yes.

OBLIGATIONS, FISCAL YEAR 1963

Mr. PASSMAN. What amount did you request for this country last year?

Mr. MOSCOSO. We requested $1.5 million. Also we indicated development lending was anticipated.

Mr. PASSMAN. What sum did you obligate to the country, total?

Mr. MOSCOSO. We obligated $7.9 million.

TRADE WITH COMMUNIST BLOC

Mr. PASSMAN. Would you comment concerning your statement on the divider sheet that the (off the record).

Mr. MOSCOSO. I would have to have my political colleague speak to that.

Mr. COTTRELL. I want to know if this is an accurate statement. Would you read the statement again, Mr. Chairman?

Mr. PASSMAN. Would you comment on your statement on the divider sheet that—I will quote it verbatim—the last paragraph, beginning with (off the record).

Mr. COTTRELL. The latter part of it seems to be an economic question, but it strikes me that high Uruguayan costs would mean that in world markets the terms offered by the Soviet bloc might be attractive.

Mr. PASSMAN. So Uruguay, which has been a recipient of a very generous amount of our aid, $101 million, is now trading very freely with Russia, on account of this advantage they receive?

Mr. COTTRELL. They are trading. I don't know the extent of their trade.

Mr. PASSMAN. Our resources and wealth will never hold out to enable us to shut off all trade and substitute dollars in place of it for what Russian and the bloc may sell; is that correct?

Mr. MOSCOSO. We are not attempting to do that, Mr. Chairman.

Mr. PASSMAN. I do not know.

You made a statement here and you put it in the gray area. I would not know why, if it is a fact, you should have it classified? The membership is entitled to this information.

JUSTIFICATION OF AID TO URUGUAY

In view of your statement on page 75 of the justification, where you say (off the record).

Why are you programing any assistance to this country with such conditions existing?

Mr. MOSCOSO. To make it possible for the Uruguayan Government to undertake some of the structural reforms that they have not undertaken——

Mr. PASSMAN. What is the population of Uruguay?

Mr. MOSCOSO. 2.9 million.

Mr. PASSMAN. Would you not say that $101,200,000 is a lot of money already?

Mr. MOSCOSO. Of that, most has been in Public Law 480.

Mr. PASSMAN. That is for something to eat, is it not, and something they would have to spend their earnings to buy if we did not give it to them under this program?

Mr. MOSCOSO. These are loans.

Mr. PASSMAN. They are soft-currency loans, are they not?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. It is in the area of soft loans, and you have to be very liberal to call them loans in reality.

Mr. MOSCOSO. Title I.

Mr. PASSMAN. How much is the unliquidated actual loan commitments of the international organizations for which they would be called upon to repay in dollars? Do you have that information? Why did they put it in the justification books if they could not give the answer?

Mr. STERNFELD. We have in our books on page 77 the size of the commitments from the international agencies. We do not have here the actual amount——

Mr. PASSMAN. It is a large amount of unliquidated funds. We had a very substantial fund going in, and we do not have very much to show for it here, do we?

Mr. STERNFELD. We put in Public Law 480 and the food has gone into the country and has been consumed.

INCOME TAXES

Mr. PASSMAN. Do they have an income tax in Uruguay?

Mr. MOSCOSO. Yes; they have an income tax.

Mr. PASSMAN. When did they pass the law?

Mr. MOSCOSO. It was effective July 1, 1961.

Mr. PASSMAN. What has been the amount of the income tax collections for the first year?

Mr. MOSCOSO. We don't have it, Mr. Chairman.

Mr. PASSMAN. The law may be on the statute books, but you do not know whether it has been made effective, do you?

Mr. MOSCOSO. All I have here is information that according to the preliminary estimates, total collections under the regular budget were 36 percent higher in 1962 than in 1961.

Mr. PASSMAN. So if there was $1 in 1960 there would be $1.36 in 1961?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. Get the information for us, if you can.

Mr. MOSCOSO. I will locate it for the record, Mr. Chairman.

NOTE: Information supplied may be found on p. 2520.)

EMERGENCY ASSISTANCE

Mr. PASSMAN. I note, on page 76 of the justifications, that Uruguay received $10 million in management assistance pursuant to the Punta del Este Charter. Will you comment on this type of assistance?

Mr. MOSCOSO. That was a commitment for emergency assistance. They didn't receive it, but a commitment was made for assisting their development projects——

Mr. PASSMAN. Soft loans as we think of them?

Mr. MOSCOSO. Credits.

Mr. PASSMAN. Is that sum included in the $101 million?

Mr. STERNFELD. Yes, $6 million, but they have not received the balance of the $10 million request, Mr. Chairman.

Mr. PASSMAN. Is it to their credit?

Mr. STERNFELD. The commitment was made to them subject to the approval of the individual projects. As the statement on page 76 indicates, the only project that has currently been approved—and this is a project that was given priority—is the $6 million housing loan.

Mr. PASSMAN. Is the balance still committed to Uruguay?

Mr. STERNFELD. It is committed to them subject to their coming up with acceptable projects.

Mr. PASSMAN. Is it in an obligational status?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. Is the money committed to them?

Mr. STERNFELD. It is committed subject to the availability of funds and the availability of specific projects.

Mr. PASSMAN. In what year did you make the commitment?

Mr. MOSCOSO. Mr. Dillon made this condition—August 1961.

Mr. PASSMAN. Was that action taken after Bogotá?

Mr. STERNFELD. It was 1961, after Bogotá.

TOTAL AID GIVEN SINCE AUGUST 1961

Mr. PASSMAN. Tell us what we have given to this country, total aid, since that date, excluding the Export-Import Bank.

Mr. MOSCOSO. $10.7 million. This excludes military and Public Law 480, which is the bulk of it.

Mr. PASSMAN. That is not Export-Import Bank?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. You made a $10 million commitment for something we will not go too far into, but they did not meet what you people regarded as the criteria by which the agreement was made, but we did during that same period give them $10.7 million, excluding the Export-Import Bank, from all the spigots?

Mr. STERNFELD. We gave them military assistance and Public Law 480.

We gave them one loan of $6 million.

Mr. PASSMAN. That is the soft loan?

Mr. STERNFELD. The soft credit.

Mr. PASSMAN. You say that we made a commitment of $10 million. They did not meet the requirements so we did not make the money available, and you did not disburse it; is that correct?

Mr. MOSCOSO. They met the requirements when they presented a $6 million housing loan. They met the criteria and we made the loan.

Mr. PASSMAN. You just told us you had not disbursed this money.

Mr. STERNFELD. I said we had not given them the full $10 million.

Mr. PASSMAN. I then asked you, I think, how much of the $10 million have you obligated to the country.

Mr. MOSCOSO. $6 million.

Mr. PASSMAN. That sum is included in the $11,442,000 of unliquidated funds?

Mr. STERNFELD. That is correct.

Mr. MOSCOSO. That's right.

CROP PRODUCTION AND FORAGE PROJECT

Mr. PASSMAN. Did you justify last year the $133,000 that you obligated to the crop production project at page 376?

Mr. MOSCOSO. This was not justified.

Mr. PASSMAN. Therefore, you did not spend the $10,000—you carried over $125,000, but yet you are asking for $210,000 for fiscal year 1964; is that correct?

Mr. MOSCOSO. We are asking for $210,000 for 1964.

Mr. PASSMAN. Now will you tell us what this project will cost to completion?

Mr. MOSCOSO. $343,000.

Mr. STERNFELD. It will be completed in 1964.

Mr. PASSMAN. Your book says 1966.

Mr. MOSCOSO. That is correct, but the 1964 funds were to forward finance a 3-year contract. The need for additional funds is not anticipated.

Mr. PASSMAN. That is just another one of the thousands of irregularities we run into.

FARM MECHANIZATION PROJECT

Did you justify the $1,129,000 last year that you obligated to the farm mechanization project, at page 377?

Mr. MOSCOSO. This was not justified; no, Mr. Chairman.

Mr. PASSMAN. How much did you spend out of the $1,129,000 that you obligated that you did not request of the Congress?

Mr. MOSCOSO. $140,000.

Mr. PASSMAN. You obligated $1,129,000 and you want another $41,000 for fiscal year 1964.

Mr. MOSCOSO. This project will cost $1,270,000 and funding should be completed next year.

Mr. TENNANT. $140,000 was the amount spent.

PROJECT COORDINATOR FROM IOWA STATE UNIVERSITY

Mr. PASSMAN. What is the cost of your major contract with Iowa State University to provide a coordinator for all Iowa State experts assigned to Uruguay?

Mr. STERNFELD. Sir, the Iowa State contract covers three projects. It covers the projects "Professional training of agricultural specialists," "Crop production and forage," and "Farm mechanization and pilot production centers"——

Mr. PASSMAN. Please answer my question. I refer to page 377 of your justifications.

Mr. STERNFELD. The coordinator is included at page 375——

Mr. PASSMAN. What is the cost to provide this coordinator?

Mr. STERNFELD. I am sorry, we do not have the information on the cost of the individual coordinator.

(Information supplied subsequently, follows:)

COST OF COORDINATOR FOR FARM MECHANIZATION AND PILOT PROJECTION CENTERS PROJECT

The cost of the coordinator—base pay plus overhead—is $24,350 under the Iowa State University contract.

Mr. PASSMAN. When you do not have the answer we could save a lot of time if you would tell us so.

Mr. STERNFELD. I thought you asked for the cost of the total project.

AGRICULTURAL COOPERATIVE PROJECT

Mr. PASSMAN. Did you justify last year the $25,000 which you have obligated for the agricultural cooperatives project, at page 378?

Mr. MOSCOSO. No, sir; it was not justified.

Mr. PASSMAN. That is standard.

Tell us what it will cost to complete this project that started without your justifying it to Congress.

Mr. MOSCOSO. $175,000.

Mr. STERNFELD. The funding for this project should also be completed in 1964.

Mr. PASSMAN. Has the survey report been received by AID and if so, what is the conclusion as to the feasibility of the proposed project?

Mr. MOSCOSO. What page? No; this has not been received yet.

Mr. PASSMAN. How could you arrive at this $150,000 estimate?

Mr. STERNFELD. This is based on our experience in carrying out cooperative projects.

Mr. PASSMAN. It is purely a guess?

Mr. STERNFELD. It is an estimated obligation for fiscal year 1964 as indicated by the heading, sir.

Mr. PASSMAN. Is it in such projects as this one that you find the funds you can deobligate?

NEED FOR AGRICULTURAL ASSISTANCE

Mr. STERNFELD. No, sir; you will see all these that are not justified are in the agricultural field. We sent a new mission director down to Uruguay late last fiscal year—late fiscal year 1962. He examined the situation in Uruguay and came to the conclusion that unless we did something in the field of agriculture we would not be meeting the basic problems that exist in Uruguay.

Mr. PASSMAN. That was last year?

Mr. STERNFELD. This is for fiscal year 1963.

Mr. PASSMAN. You found that out $101 million late, did you not, in the general generosity area, because you have been giving them aid since 1946 and after you came before the Congress, you obligated $25,000 and got a man started on the project?

Mr. MOSCOSO. Mr. Chairman, I think we should be aware of the fact that the great bulk of the assistance to Uruguay has been in the form of Public Law 480.

Mr. PASSMAN. What does Public Law 480 provide, food?

Mr. MOSCOSO. It provides food; yes, sir.

Mr. PASSMAN. They eat there, the same as we do here?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. What difference does it make? It is $101 million.

TYPE AND AMOUNT OF AID GIVEN URUGUAY SINCE INCEPTION OF PROGRAM

Now let us break it out, if we can, all spigots for this aid. Start with Public Law 480.

Mr. TENNANT. Through fiscal year 1962——

Mr. PASSMAN. The same period that covers the $101 million that you gave us.

Mr. TENNANT. Public Law 480 was roughly $38 million.

Mr. PASSMAN. You said it was mainly Public Law 480, and out of $101 million, only $38 million was Public Law 480.

Mr. TENNANT. $38 million.

Mr. PASSMAN. $63 million was in other types of aid. Public Law 480 was not the majority of it. Put it in the record please.

(The information requested follows:)

Accumulative U.S. assistance to Uruguay, fiscal year 1946 to fiscal year 1963 (excluding Export-Import Bank)

	Millions of dollars
Development grants	4
Development loans	15
Social progress trust fund	10
Food for peace (Public Law 480)	38
Other economic	4
Military	30
Total	101

INSTITUTIONAL DEVELOPMENT PROJECT

Mr. PASSMAN. What is the estimated cost to complete the institution development project, at page 379, by the end of fiscal year 1966? There is a note that in 1962 obligations amounted to $3,000; in fiscal year 1963 it jumped to $46,000, and you propose to obligate $228,000 in fiscal year 1964.

Mr. Moscoso. The cost at completion of that project is $677,000.

Mr. PASSMAN. And it started off at $3,000?

Mr. Moscoso. That's right.

Mr. Chairman, in a project like this you begin by studying the problem and then gradually develop the solution to it.

Mr. PASSMAN. We just established that the project was starting in the field of agriculture, after $101 million had been credited to the country. Then you start off one technician at $25,000, and then you jump this thing up to where it is going to cost $175,000. And incidentally, this is for contract services.

How firm is the requirement for $200,000? I notice your statement, on page 379, to the effect that "if" sufficient acceptance can be gained within the national universities, AID will sign a contract with a U.S. university. Does this simply mean you are trying to get the universities to accept your aid? What success have you had with them?

Mr. Moscoso. This is one of the problems we find prevailing in Latin America——

Mr. PASSMAN. Why do you not leave them alone if you have to go in on bent knees to get them to take your aid?

Mr. Moscoso. I believe we agreed there was a need for U.S. involvement.

Mr. PASSMAN. And we said we were trying to do the same kind of thing in 100 nations of the world.

Have you had any success in getting the university to agree to accept this aid that we are offering?

Mr. Moscoso. Not yet. However, this project was requested by the leadership of the university, and the delay is caused by the lack of final approval by all elements of the university that are necessary to clear the project agreement.

Mr. PASSMAN. Thank you.

SECTOR AND FEASIBILITY STUDIES

Did you justify the $155,000 last year that you obligated for these sector and feasibility studies, the project at page 380?

Mr. MOSCOSO. That was not justified.

Mr. PASSMAN. What will it cost to complete the project?

Mr. MOSCOSO. $355,000.

Mr. PASSMAN. Could you give us an idea as to the collection of colleges or universities that you have this contract with, or the proposed contract?

Mr. MOSCOSO. No.

Mr. PASSMAN. You spent $75,000 on this item. You obligated $155,000 that you did not justify. You spent $75,000 of it, and now you want to supplement it with $200,000, for a total of $355,000. Just tell us for what you spent $75,000?

Mr. MOSCOSO. We don't have the information here, Mr. Chairman.

Mr. PASSMAN. Could you have one of your assistants get this information?

Mr. MOSCOSO. We will do that.

(The information requested follows:)

SECTOR AND FEASIBILITY STUDIES PROJECT

Our latest records show that in fiscal year 1963 the actual amount was $10,000 for contract advisors—two in transportation planning and one in electric power planning.

MANPOWER UTILIZATION PROJECT

Mr. PASSMAN. Did you justify the $10,000 last year for the manpower utilization project, found on page 381?

Mr. MOSCOSO. We did not justify it.

Mr. PASSMAN. You obligated and spent the money. For what purpose did you spend the $10,000?

Mr. MOSCOSO. This was just used for the bringing in of our expert in management to assist the Uruguayans in developing a program.

Mr. PASSMAN. For how long did you employ him?

Mr. MOSCOSO. We would have to check to see how long he was there.

(Information supplied later follows:)

MANPOWER UTILIZATION PROJECT

Our latest records show that in fiscal year 1963 this project amounted to only $2,000 for the training of a Uruguayan in a labor training course. The departure of the management consultant scheduled for fiscal year 1963 was delayed until fiscal year 1964 so that he could also assist in the organization and operation of a 3-day seminar in addition to providing advisory services to the Uruguayan Institute of Business Management (IDDE). The total cost of the management consultant is estimated to be about $2,800 for approximately 18 days including transportation and other expenses.

Mr. PASSMAN. The $10,000 would have to cover transportation and all other expenses, would it not?

Mr. MOSCOSO. Yes; that's right.

Mr. PASSMAN. You did not justify the project. You obligated $10,000 and you are asking for $140,000. What will it cost to complete the project?

Mr. STERNFELD. $455,000.

Mr. PASSMAN. Thank you.

PUBLIC SAFETY PROJECT

Are there any new illustrative projects in the program for Uruguay?

Mr. STERNFELD. Public safety.

Mr. MOSCOSO. Food and agriculture.

Mr. PASSMAN. Food and agriculture is new. Food and agriculture was not justified. Tell us about the new projects on this page.

Mr. STERNFELD. The only new project is public safety.

Mr. PASSMAN. What is the cost, please?

Mr. MOSCOSO. $100,000 to completion.

Mr. PASSMAN. When will it be completed?

Mr. STERNFELD. 1965.

FUTURE FORMAT OF JUSTIFICATION MATERIAL

Mr. PASSMAN. Have you given any further thought to the committee's suggestion that in subsequent years you have a page on every project?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Had you given other consideration to the advisability of having on every page a place where you can show the projected cost at completion?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Such a procedure would give us a much better picture.

Mr. TENNANT. We have agreed to do that.

Mr. PASSMAN. We are glad to know that you have so agreed.

Mr. MOSCOSO. We have agreed to do it.

Mr. PASSMAN. Mr. Natcher?

STABILIZATION PROGRAM IN URUGUAY

Mr. NATCHER. I note in the justification the statement to the effect that with the support of the International Monetary Fund a substantial stabilization program was established in 1959.

Mr. MOSCOSO. That's right.

Mr. NATCHER. Do you consider this program effective and one that has produced benefits?

Mr. MOSCOSO. The stabilization program?

Mr. NATCHER. Yes.

Mr. MOSCOSO. I would say up to now it has prevented further inflation.

Mr. NATCHER. You say "prevented further inflation."

I want to direct your attention now, to the divider sheet, here, beginning with the 1959 period. The cost-of-living index shows that in 1959 it was 140. For 1960, it was 194. For 1961 it was 237, and estimated for 1962 at 261.

Now, based on your answer that you made to my last question, give me some reason for this cost-of-living index increase, if it is not affected considerably by the stabilization program and the AID program that was inaugurated in Uruguay.

Mr. MOSCOSO. It hasn't worked as well as it should have. As a matter of fact, the IMF and the Government of Uruguay are now negotiating a new IMF agreement at this moment, because this didn't work as well as it should have.

Mr. NATCHER. Is this the history of this type of program in other Latin American countries? I have in mind the cost-of-living index increase. Does it automatically show the cost-of-living index going up as soon as the stabilization program is placed into effect?

Mr. MOSCOSO. Sometimes it does happen right at the beginning, but usually there is a tapering off and then the internal crisis is stabilized.

Mr. NATCHER. You don't have a tapering off here in Uruguay; it is a tapering up.

Mr. MOSCOSO. In this case it does not work that way. In many other countries that is the way it happens.

Mr. STERNFELD. Mr. Natcher, the purpose of the IMF stabilization agreement is just to hold this cost of living from going up. They put an actual ceiling on the issuance of credit. Now some countries don't live up to the agreements.

Mr. NATCHER. It was initiated in this particular country here in 1959.

Mr. STERNFELD. I would like to check the record, but I think Uruguay went off the agreement with the IMF in late 1960.

Mr. NATCHER. Now are you sure about that?

Mr. MOSCOSO. We are going to check the record on that.

Mr. STERNFELD. I will check the exact date, because there has been a whole series of problems in the last 6 months, to get a new agreement renegotiated between the IMF and Uruguay in order, again, to set a specific ceiling on the amount of credit that can be issued in the Uruguayan economy. So I presume that they would not be negotiating a new agreement unless the old agreement had lapsed, but I would have to check specifically to see the date of the lapse of the old agreement.

Mr. NATCHER. Do you agree with me that when you try to show the benefits and justify a stabilization program such as this particular program in Uruguay that you would have difficulty with cost-of-living index figures as shown in your justification?

Mr. MOSCOSO. In this particular case, yes, Mr. Natcher; but as we said before, this particular agreement probably didn't last long enough and was not complied with by Uruguay and that is the reason why a new agreement is now being negotiated.

Mr. NATCHER. Mr. Chairman, with your permission at this point in the record I would like for them to file a short statement showing any change in the agreement or any deviation from the program that was worked out in 1959.

Mr. MOSCOSO. We will, Mr. Chairman.

Mr. PASSMAN. Please do so.

(The information above referred to is as follows:)

URUGUAY'S STABILIZATION AGREEMENT WITH IMF

In December 1959 the Government of Uruguay began a stabilization program. A stabilization agreement with the International Monetary Fund was signed in June 1961, providing for drawings by Uruguay up to $30 million, under specified conditions. No drawings were made under that agreement, which lapsed June 6, 1962; but a new agreement involving the same amount was executed in October 1962, and at that time there was a drawdown of $15 million. Around the end of 1962, however, Uruguay had exceeded limitations imposed by the IMF on public and private credit. This violation of the stabilization agreement made Uruguay ineligible to draw the remaining $15 million. The Government of Uruquay and IMF are now exploring possibilities for negotiation of a new stabilization agreement.

POLITICAL SITUATION IN URUGUAY

Mr. GARY. What is the political situation in Uruguay?

Mr. COTTRELL. It is run by a national council of government, Mr. Gary, composed of nine members with a rotating presidency. The majority party has the power to elect four of the members they are allotted under the council. Three more members are automatically assigned by the opposition to the council, and one of the four of the majority party leaders, president in rotation. The present president is now a man by the name of Fernandez Crespo. At the present time, there is a split in the majority party. It is a stable government and has been stable for some years. It is based, I think, on the relative prosperity of Uruguay as compared to some of the countries such as Bolivia and others who are one-crop countries, so to speak, who have suffered from violent price fluctuations in their main product.

Mr. GARY. What is the attitude toward the United States?

Mr. COTTRELL. It is usually friendly and cooperative. I can't remember too many instances where, on a critical issue, Uruguay has caused us difficulty.

Mr. CONTE. Will the gentleman yield there?

Mr. GARY. Yes.

Mr. CONTE. Isn't Uruguay one of the few countries in Latin America that hasn't broken relationships with Cuba?

Mr. COTTRELL. That is true, and it does have relations with the Soviet Union.

Mr. PASSMAN. Is it also one of the countries that has substantial trade going on with the Soviet bloc?

Mr. COTTRELL. It is trading with the Soviet bloc.

Mr. PASSMAN. Are they not presently trading substantially with the Soviet bloc?

Mr. COTTRELL. The books show——

Mr. PASSMAN. The books indicate they consider that they have an advantage in trading with the Soviet bloc. Even though $101 million has been received by Uruguay they are still enjoying their trade relationships with the Soviet bloc.

Mr. Andrews?

ECONOMIC SITUATION

Mr. ANDREWS. Mr. Ambassador, what do you mean by the statement: "The economy has not progressed since international commodity prices fell at the end of the Korean war"?

Mr. MOSCOSO. The price levels have gone down considerably since the Korean war and they have suffered from the deterioration of the terms of trade. The things that they buy: equipment, machinery, and so forth have been going up at a faster pace than the things they sell.

Mr. ANDREWS. Why have the prices of the commodities that they sell gone down so?

Mr. MOSCOSO. They have not gone down, but they have not increased relative to the increased price of imports. In general, the prices of the things they buy, not only in Uruguay but generally in Latin America, have gone up about 26 percent, and the things they sell have gone up only 5 or 6 percent. This is due primarily to the fact that it is a very united and undiversified economy, depending primarily on wool exports.

Mr. ANDREWS. Do they not produce a lot of vicuna?

Mr. MOSCOSO. No, sir, not there; wool.

URUGUAY'S GOLD AND FOREIGN EXCHANGE POSITION

Mr. ANDREWS. Their gold and foreign exchange seem to be going up rather rapidly.

Mr. MOSCOSO. Right now, it is $194 million, Mr. Andrews, as of April 1963.

Mr. ANDREWS. The book shows $212 million.

Mr. MOSCOSO. This book, as you know, is prepared many months ahead. That is the 1962 figure. The 1963 latest figure is $194 million as of April 1963.

Mr. ANDREWS. Do you have any record of their having purchased any of our gold in the last 12 months?

Mr. MOSCOSO. No, we do not have it.

Mr. PASSMAN. The last purchase was made in 1960, according to this, $3,800,000.

Mr. ANDREWS. That is when the book shows the cost of living started up rapidly.

Mr. MOSCOSO. The sharpest increase was in 1959.

Mr. ANDREWS. Could there be any connection between their purchasing gold and the cost of living advancing?

Mr. STERNFELD. The purchase of gold would be a technique of trying to mop up some of that inflation and to increase their reserves.

Mr. MOSCOSO. Increase their reserves and take some of the paper currency out of circulation.

Going back to what Mr. Natcher was mentioning a while ago, in most of these stabilization programs which involve devaluation, you usually suffer a substantial increase in the things that you import, which pushes up your cost of living for a short while. If the government can hold the lid down on cost increases and labor demands, then you have a stabilization program that works. If they do not do it, then it does not work.

LITERACY RATE AND EDUCATION

Mr. ANDREWS. I notice they have a very high literacy rate in Uruguay.

Mr. MOSCOSO. Very high, 88 percent.

Mr. PASSMAN. Is that why they will not accept our project at that college?

Mr. MOSCOSO. No, Mr. Chairman. Here is a case where a well-organized student minority may stall a project desired by the university faculty.

Mr. PASSMAN. They have an 88-percent literacy rate, which is just about on a par with the United States, fairly close to it. We are trying to get them to accept our aid contract at this college, and so far you have not had any luck.

Mr. MOSCOSO. I do not think there is exactly a relationship between people knowing how to read and write and——

Mr. PASSMAN. But their literacy rate is high, and they have a university there which we are trying to get to accept an aid contract, and they have not agreed to accept it, have they?

Mr. MOSCOSO. That is right; but as I indicated, pressure groups often prevent projects desired by universities.

Mr. PASSMAN. Thank you.

BUILDING PROGRESS THROUGH MIDDLE CLASSES

Mr. ANDREWS. Mr. Ambassador, you have been telling us that your hope in this area is to build up a middle class of people.

Mr. MOSCOSO. That is right. I see your point, Mr. Andrews. This is a case of a stagnant middle class.

Mr. ANDREWS. I am going to read to you from your book.

Mr. MOSCOSO. I know it says there is a stagnant middle class that has not moved forward.

Mr. ANDREWS. You say: (Off the record).

This is a country which enjoys today the same thing that you have in mind for the other countries.

Mr. MOSCOSO. With a difference.

Mr. ANDREWS. You say that the trouble in the country today is (off the record).

Mr. MOSCOSO. That is right.

Mr. ANDREWS. I would like your comment on that.

Mr. MOSCOSO. Mr. Andrews, the difference is between the Uruguayan attitude toward change, which is typically European, by the way, and the attitude that you normally find in the United States with respect to change. This is really a middle-class country, but we are in favor of changes and we do everything possible to prevent the stifling of changes. We have the Federal Trade Commission, we have the Sherman Antitrust Act, and so forth. We do have a social security system, but it is not an excessive one, as in some of these countries. Some of the countries have suffered from an overdose of security, from an overdose of social welfare, from an overdose of monopoly thinking.

One of the things we are trying to do is to change their attitudes toward competition, toward private enterprise, toward the kind of freedom that has made this country great.

Mr. ANDREWS. How long have you had this big group of middle-class, middle-income people?

Mr. MOSCOSO. I would say this has been the case in the last 20 or 25 years.

INCOME TAXES

Mr. ANDREWS. Do they collect income taxes in Uruguay?

Mr. MOSCOSO. They approved an income tax law which was effective in July 1961.

Mr. PASSMAN. Is there any indications yet that there has been any tax collection? If so, how much?

Mr. MOSCOSO. We are going to get that for the record.

Mr. PASSMAN. Presently, you do not know whether or not they have complied or, if so, how much has been collected?

Mr. MOSCOSO. We will give that for the record.

(The information follows:)

URUGUAY INCOME TAX AND IMPROVEMENTS IN GOVERNMENT SERVICES

Uruguay's first personal income tax law was enacted November 30, 1960, but repealed in 1961 before becoming effective. A new law, effective January 1, 1962, was enacted December 7, 1961. Collections calendar year 1962 are being

made in 1963, and only a rough estimate of total collections can be made at this time. It is estimated that collections from the personal income tax in 1963 will total between 10 and 20 million pesos (equivalent to $606,061 and $1,212,121 at rate pesos 16.50 to $1).

Some improvements in services of the Government of Uruguay in 1961 and thereafter are: (1) Initiated in 1961 a national housing program, with emphasis on meeting a deficit of 60,000 units of low- and medium-cost housing construction. (2) Put into operation a national plan for pasture improvement in order to increase livestock production and exports. (3) Initiated action to provide water supply service to all communities with more than 150 inhabitants, thus including badly needed water services for rural communities. (4) Organized a commission for national development planning (CIDE), which completed in June 1963 a four-volume diagnosis of the national economy.

Mr. PASSMAN. My statement is correct, is it not, that so far you do not know whether they are complying, whether or not they have collected any income taxes?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Thank you.

Mr. ANDREWS. Did they have any form of income tax prior to 1961?

Mr. MOSCOSO. I do not know, Mr. Andrews. I think that was their first personal income tax law.

Mr. ANDREWS. Did that come about because of our suggestion?

Mr. MOSCOSO. I think that came about from the Act of Bogotá, which was primarily our effort, that is right.

Mr. ANDREWS. That is where the aid program for Latin America first got off the ground.

Mr. MOSCOSO. That is right.

Mr. ANDREWS. What has been the attitude of this big group of well-educated middle-class people toward income taxes?

Mr. MOSCOSO. I really do not know that anyone joyously embraces income tax.

Mr. ANDREWS. That is a fine statement. That is one of your best statements.

Mr. MOSCOSO. I think an educational job has to be performed. It has already been taken on, obviously, when they approved the first personal income tax which was effective July 1, 1961. In a way, this comes about from the commitments which were taken at Punta del Este and the Act of Bogotá, that more attention would be paid to the requirements of the lower income groups in these countries, and the only way to do it was by diversifying the economy and having the Government provide the services that are required by that low-income group.

Mr. ANDREWS. Have Government services improved since they started collecting income taxes in 1961?

Mr. MOSCOSO. I could not tell you, Mr. Andrews, quite frankly. If you want me to, I will put a statement in the record containing the information that the chairman asked, about how much they have collected and how the services have improved.

Mr. ANDREWS. I think that would be very enlightening.

Mr. PASSMAN. You were supposed to call Latin America last night to get some information we requested.

Mr. MOSCOSO. Mr. Sternfeld has that information whenever you want it, Mr. Chairman.

Mr. PASSMAN. I wish you would not cause us to have to ask you three times for it if you have it.

LANDHOLDINGS

Mr. ANDREWS. What about the landholdings in this country, Mr. Ambassador?

Mr. MOSCOSO. Land reform is not really the kind of political problem that you find in some places or the social necessity that you find in others.

Mr. ANDREWS. You do not have big holders?

Mr. MOSCOSO. Yes; but the size of the country is relative to the size of the population. They have 72,000 square miles and 2,900,000 people. The land is pretty good agricultural land. A good percentage of it is good agricultural land. So, there has not been that tremendous pressure. If anything, there is need for more growth in order to bring into production some of the lands which are not being used now. So, there is no great pressure of population on the land.

Mr. ANDREWS. I would say, from looking over your data, that it is a right progressive country.

Mr. MOSCOSO. It is a progressive country, but still not sufficiently mobile. There has not been sufficient dynamism in the economy.

Mr. ANDREWS. Political or economic?

Mr. MOSCOSO. Both. I think one thing has reflected on the other.

POLITICAL SITUATION IN URUGUAY

Mr. ANDREWS. You may not want to put this on the record, but do you have much confidence in the present Government?

Mr. MOSCOSO. We have no reason not to have. They have had a very stable system, as Mr. Cottrell has mentioned. I think these changes will come about peacefully in due course.

Mr. ANDREWS. This statement in the shaded section says (off the record).

Mr. MOSCOSO. That is why we are trying——

Mr. ANDREWS. (Off the record.)

Mr. MOSCOSO. One of the cherished rights they have in Uruguay is freedom of the press and of association, and therefore, the Communist Party operates legally and the country becomes a battleground for ideological discussion.

They are rather proud of that. They feel that is one of their basic freedoms, and they would like to protect it. Of course, subversives, who are not exactly unmindful of these opportunities, try to create problems. That is one of the reasons we are strenuously trying to get the university over there to accept some assistance from U.S. universities.

PROGRAM LEVEL

Mr. ANDREWS. I judge from the relatively small program you have planned for next year in Uruguay and the conditions which exist there, you do not plan to stay there with your program too long.

Mr. MOSCOSO. No, sir, we do not.

Mr. PASSMAN. The program is not small. These books list only one part of it. What sum are you asking for Uruguay, according to the book we are reading here today?

Mr. ANDREWS. My book shows $1,500,000.

Mr. PASSMAN. Your book shows $1,500,000. Will you put in the other spigots, excluding Export-Import Bank?

Mr. MOSCOSO. (Off the record.)

Mr. PASSMAN. You have $11 million on hand unexpended; $101 million has been the total of the aid. We are looking at only one little spigot in these books.

Mr. MOSCOSO. But the bulk of the assistance we have been giving to Uruguay has been from Public Law 480.

Mr. PASSMAN. $38 million is not the bulk. It is only $38 million out of $101 million. Is that correct?

Mr. MOSCOSO. What I mean by "bulk" is that out of the various sectors, this is the largest one.

Mr. PASSMAN. Am I correct that it is $38 million out of the $101 million?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Thank you.

Mr. MOSCOSO. 38 percent.

Mr. PASSMAN. It is about 36¾ percent.

Mr. Rhodes?

URUGUAYAN ECONOMIC STRUCTURE

Mr. RHODES. This country appears to be very well endowed with natural resources, with apparently intelligent people, but a sort of welfare state. Is that not about what we have here?

Mr. MOSCOSO. A misunderstood version of a welfare state.

Mr. RHODES. I do not know what you mean by "misunderstood version."

Do they not have welfare activities which exceed the ability of the economy to support?

Mr. MOSCOSO. That is right. That is one of the basic problems.

Mr. ANDREWS. Many States in the United State have that same problem.

Mr. RHODES. Does your State have that problem?

Mr. ANDREWS. Yes.

(Off the record.)

Mr. RHODES. I think your comment about some of our States being in about the same situation was certainly well made. I know some of the States are in a situation in which they have welfare programs beyond the power of their economy to support.

I take it, however, we are doing what we can to get Uruguay to do as we say, not as we do.

Mr. MOSCOSO. We are trying to help.

Mr. RHODES. The program which we have, I notice, is completely grants. It appears to be mainly for agricultural cooperatives and institutional planning, sort of tidying up the economy? Is that about it?

Mr. MOSCOSO. We are trying, first, to get them to do a little more planning than they have done up to now, and develop the necessary statistics and know where they are headed.

One of the great difficulties in Uruguay is that very little is known about the economy. Their statistics are incredibly behind the times. I believe they have not had a census for about 40 or 50 years. That is the kind of thing in which we are trying to help them.

The second thing we are trying to do is to have them focus their attention on the very poor productivity of their agricultural sector, which is by far the most important sector of the economy.

Mr. RHODES. Are the Uruguayans mainly members of the white race?

Mr. MOSCOSO. Yes; by far.

Mr. RHODES. Do they have other races represented in the population?

Mr. MONOSCO. If they have, they are so minor that it does not show in the statistics.

Mr. RHODES. What is the lineage of these people?

Mr. MOSCOSO. Spanish and Italian.

Mr. RHODES. The southern part of Europe.

Mr. MOSCOSO. That is right.

Mr. RHODES. Do they have a rather highly developed tourist trade?

Mr. MOSCOSO. Yes; they do have. They have a tourist trade primarily with Argentina and some with Brazil.

Mr. RHODES. Punta del Este is a beautiful place, I understand; a good place to have conventions.

Mr. MOSCOSO. Yes.

Mr. RHODES. I guess that is all, Mr. Chairman.

Mr. PASSMAN. Mr. Conte?

INVESTMENT GUARANTEE AGREEMENT

Mr. CONTE. Mr. Ambassador, has the Congress in Uruguay voted for the investment guarantee agreement as yet? I know it was before the Congress.

Mr. MOSCOSO. It had not been ratified as of June 19, 1963.

Mr. CONTE. Is the Congress sitting now?

Mr. MOSCOSO. I do not know.

Mr. COTTRELL. Yes, it is.

Mr. CONTE. Will you check and see whether it has been ratified as of this date? You would have to go back to June.

Mr. MOSCOSO. We can find out.

Mr. MILLER. Mr. Conte, as of July 26, 1963, it had not been ratified, according to my understanding. We will check to see whether or not it has been since then.

(Information supplied follows:)

STATUS OF INVESTMENT GUARANTEE AGREEMENT WITH URUGUAY

As of August 16, 1963, Uruguay had not yet ratified the investment guarantee agreement.

URUGUAY'S SUPPORT OF THE UNITED STATES

Mr. CONTE. Recently they had a vote in the Organization of American States to investigate communism in Latin America, and Brazil voted against that and several countries abstained. Did Uruguay abstain?

Mr. MOSCOSO. Mr. Cottrell can answer that.

Mr. COTTRELL. I believe they did, but I can check it.

(Information supplied follows:)

URUGUAY'S SUPPORT OF THE UNITED STATES

Despite the fact that Uruguay has continued to maintain diplomatic relations with the Castro government, it has been very friendly toward the United States and has supported the United States on numerous occasions:

Uruguay was the host to the eighth meeting in January 1962 of consultation of Ministers of Foreign Affairs serving as the organ of consultation in the application of the Inter-American Treaty of Reciprocal Assistance. Uruguay was one of the legal majority of 14 which approved all resolutions on Cuba at that meeting. Uruguay's vote was the decisive 14th vote in the Council of the OAS on the resolution to call that meeting at Punta del Este on the Cuban problem.

Uruguay was the host to the special meeting of the Inter-American Economic and Social Council at Punta del Este in August 1961 which established the Alliance for Progress.

A. URUGUAY'S VOTING RECORD IN THE UNITED NATIONS

An analysis of important rollcall votes in the 17th U.N. General Assembly shows that on 21 votes where the United States and U.S.S.R. differed Uruguay's vote coincided with the United States in 13 instances, with the U.S.S.R. in 3 instances, with neither in 2, and Uruguay was absent during the remaining 3. In six of these votes involving clearly "East-West" issues Uruguay voted solidly with the United States.

In 10 rollcall votes at the Fourth Special Session of the U.N. General Assembly in May and June of this year, on the financial situation of the United Nations, the Uruguayan vote coincided with the United States vote and differed from the U.S.S.R. vote in all 10 instances.

B. URUGUAY'S POSITION ON IMPORTANT ISSUES IN THE ORGANIZATION OF AMERICAN STATES

1. Uruguay not only supported the convocation of the eighth meeting of Foreign Ministers to take up the Cuban problem but was host to the meeting which was held in Punta del Este in January 1962.

2. At the Punta del Este meeting, Uruguay voted in favor of all the resolutions including No. 1 which condemned the Communist offensive in America, No. 2 which calls for special vigilance against subversion and established the Special Consultative Committee on Security, No. 6 excluding the Castro government from participation in the inter-American system, and No. 8 which established an arms embargo.

3. Uruguay voted in favor of the resolution of October 23, 1962, of the Council of the OAS acting under the Rio Treaty calling for the withdrawal of Soviet offensive missiles and recommending all measures including use of armed force to prevent further shipments and to prevent those in Cuba from threatening the peace.

4. Uruguay voted in favor of the resolution of the COAS–OC of November 5, 1962, concerning the establishment of combined command arrangements for the naval quarantine of Cuba.

5. Uruguay voted for the approval of the statutes of the Special Consultative Committee on Security in the COAS on April 23, 1963.

6. Uruguay proposed candidates for election to the Special Consultative Committee on Security and one of it nationals is now serving as a member.

7. Uruguay voted in favor of the COAS resolution of July 3, 1963, in effect endorsed the so-called Lavalle Committee report and urging all governments to carry out its extensive recommendations for the control of Cuban-Communist subversive activities in the hemisphere.

Mr. CONTE. Your statement was that they were very friendly toward us and have gone along with us in all these votes, and yet in everything I have mentioned so far, they have been against us. I want the record to show I am not satisfied with Uruguay. Here is a sophisticated society, compared to the rest of Latin America, and they have been sitting on their hands and have not been moving at all. They

should move if they are to stay in this program, and move in the right direction.

I have no further questions.

POSSIBILITY OF INTERNAL UPRISING IN CUBA

Mr. MINSHALL. Before we turn to the next country, I wonder if I might ask the Secretary a question about Cuba.

Mr. PASSMAN. Yes, indeed.

Mr. MINSHALL. I noticed in this morning's Washington Post, August 13, the main article in the left-hand column on the front page, entitled "U.S. Builds Up Underground's Support in Cuba." It goes on to say we are building up a concentration of supplies and people who are going to invade Cuba.

I wonder if you would care to comment on this article. Did you read it?

Mr. COTTRELL. That an invasion was now what?

Mr. MINSHALL. The subtitle of this paragraph in the middle of the article, in bold print, is "Underground Operations." Then I quote exactly:

> With invasion now virtually out of the question, U.S. energies are being channeled entirely into underground operations, which, it is hoped, will eventually spark the ouster of Communist Premier Fidel Castro—

and so forth.

In view of the statement I made yesterday in which I quoted the gentleman who was on the "Today" program, a newspaper correspondent who had just left there, who said any idea of an internal uprising to overthrow Fidel Castro was ridiculous, I wonder if you could care to comment on this article.

Mr. COTTRELL. My comment on this article is that it was written by a reporter who was speculating on the subject.

Mr. MINSHALL. The reporter was Dan Kurzman. He might be speculating, but the State Department has been known to drop a few seeds once in a while.

Mr. COTTRELL. True. What would you like to know about the article?

Mr. MINSHALL. I would like your comment on it.

Mr. COTTRELL. I think you asked me why we did not go to the root of the problem, which would mean——

Mr. MINSHALL. That is right, but I am asking you this question today.

Mr. COTTRELL. —why we did not go to the root of the problem and eliminate the entire focal point of this infection, rather than meeting it on the fringes of Latin America.

Mr. MINSHALL. You say he is speculating in this article. Do you think this article has any basis in fact?

Mr. COTTRELL. I cannot confirm on the record that operations may or may not be going on with respect to underground operations in Cuba.

Mr. MINSHALL. Do you think there is any chance of our having an internal uprising in Cuba?

Mr. COTTRELL. (Off the record.)

Mr. MINSHALL. Of the states in your region, Mr. Secretary, how many still recognize the Castro regime, and how many are still dealing with it to any degree?

Mr. COTTRELL. Five still recognize Castro.

Mr. MINSHALL. Out of how many?

Mr. COTTRELL. Five out of twenty.

Mr. MINSHALL. For the record, what are they, please?

Mr. COTTRELL. These are Brazil, Bolivia, Uruguay, Chile, and Mexico.

Mr. MINSHALL. They are still carrying on commerce with Cuba and are still getting our foreign aid money?

Mr. COTTRELL. Right.

Mr. MINSHALL. That is all I have.

Mr. PASSMAN. Here are five countries in your area, 25 percent of them, still doing business with Cuba. These five nations have substantial foreign aid programs. Will you name the nations still doing business with Cuba?

Mr. COTTRELL. Brazil, Mexico, Bolivia, Chile, and Uruguay. This does not involve substantial trade, Mr. Chairman. These are diplomatic establishments.

Mr. PASSMAN. And trade, too. Uruguay, which we are presently discussing, has substantial trade, I believe, with the Soviet bloc.

Mr. COTTRELL. I said not substantial. I would be glad to supply for the record facts concerning the trade between those five countries and Cuba, which I think would be very helpful.

Mr. PASSMAN. Would you put in the record at this point the amount of aid that you have for these five countries which are still recognizing and doing business with Castro, the amount of aid you propose for fiscal 1964, the total amount that you have unliquidated to the credit of these five countries, and the total amount of aid that we have given to these five countries since the inception of the aid program, excluding the Export-Import Bank?

(The information supplied follows:)

Total U.S. economic and military assistance to Latin American countries recognizing Cuba (excluding Export-Import Bank loans)

[In millions of dollars]

	Amount unliquidated as of June 30, 1963	Obligations and loan authorizations		
		Accumulative, fiscal years 1946–63	Fiscal year 1963	Fiscal year 1964
Bolivia	56	308	72	(1)
Brazil	172	946	168	(1)
Chile	108	498	82	(1)
Mexico	29	200	24	(1)
Uruguay	11	101	19	(1)

[1] Classified.

Mr. PASSMAN. I thought you answered a question earlier that Uruguay had usually supported and voted with us in the United Nations and on other issues. It seems, however, that it has been just the opposite on some of the really important issues. They have been against us on several of those, have they not?

Mr. COTTRELL. I think Mr. Conte pointed out one instance.

Mr. PASSMAN. I think he pointed out three instances. Did you not, Mr. Conte?

Mr. CONTE. They have not broken relationships with Cuba. That is one. Another, they have abstained in the vote on investigation of Communist infiltration of Latin America. Third, they have not approved the investment guarantee agreement.

Mr. PASSMAN. That is three, and they are three of the most important issues that you could think of pertaining to the security of this country and this program.

MILITARY ASSISTANCE TO LATIN AMERICAN COUNTRIES RECOGNIZING CUBA

Mr. CONTE. This intrigues me in regard to not breaking relationships with Cuba. We have a military assistance program with Uruguay, have we not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Do we have a military aid program with the other four countries that still recognize Cuba?

Mr. COTTRELL. Yes, we have.

Mr. CONTE. This could be a very serious situation.

Mr. PASSMAN. Is that not a kind of dangerous situation?

Mr. COTTRELL. I did not say it was too dangerous.

Mr. PASSMAN. I said it was dangerous. You said we have a military program with them.

Mr. COTTRELL. Yes, I did.

Mr. PASSMAN. The fact of the business, you have a military program, I believe, with 70 nations for fiscal 1964. Is that correct, Mr. Miller?

Mr. MILLER. Your figures are usually correct, Mr. Chairman.

Mr. PASSMAN. Either 70 or 71.

Mr. MILLER. Seventy or seventy-one.

Mr. CONTE. If this is classified, then let us get 1963, which would not be classified, would it? Let us get the fiscal 1963 figures for military assistance to these five countries which have not broken relationships with Cuba, because this could be a very dangerous situation. We could be giving them military assistance and, in turn, they could be shipping it into Cuba.

Mr. PASSMAN. Let us make it cumulative and get it all.

Mr. COTTRELL. This is very farfetched, Mr. Conte.

Mr. MINSHALL. Not only the dollar amount but, if possible, I think we ought to put in exactly what kind of military equipment and gear we have been giving them.

(Off the record.)

(The information supplied follows:)

MILITARY ASSISTANCE FOR LATIN AMERICAN COUNTRIES WHICH RECOGNIZED CUBA AND CONTROL ON USE OF MATERIAL PROVIDED

Any country receiving U.S. assistance which permits shipment of military equipment to Cuba is subject under the Battle Act to termination of all military, economic, technical, and financial assistance from the United States. Prior to designation of Cuba as subject to the Battle Act, a similar restriction, under foreign aid appropriations legislation, was applied to any country which sold arms, ammunition, or implements of war or furnished military or economic aid to the Castro regime.

A worldwide system of reporting and control has been instituted to carry out these restrictions. Information developed by these reports and controls shows that no free-world country is furnishing military items or other assistance to Cuba. (This control operates within framework MAP requirement that recipients obtain prior U.S. consent for transfer MAP materiel.)

Total estimated deliveries/expenditures for the Latin American countries which recognized Cuba, Bolivia, Brazil, Chile, Mexico, and Uruguay, under the military assistance program from inception in each country through June 30, 1963, and key-end items delivered for the preiod from grant and direct distribution of excess stocks, are as follows:

Estimated deliveries/expenditures

[Amounts in thousands of dollars]

BOLIVIA

	Fiscal year 1963	Fiscal year 1958–63
Grant	1,566	4,539
Excess stocks (value at acquisition cost)	850	989
Credit assistance under 508 FAA	(1)	(1)
Direct sales under 507 FAA	(1)	(1)

Key end items, fiscal year 1958–63:	*Quantities each*	Key end items, fiscal year 1958–63—Con.	*Quantities each*
C–47 aircraft	(1)	Mortar, 60 mm	(1)
Truck, cargo, ¼ ton	(1)	Carbine, .30 caliber	(1)
Truck, ambulance, ¼ ton	(1)	Rifle, .30 caliber	(1)
Truck, ambulance, ¾ ton	(1)	Pistol, all types	(1)
Truck, cargo, ¾ ton	(1)	Machinegun, .30 caliber	(1)
Turck, cargo, 2½ ton	(1)	Machinegun, .50 caliber	(1)
Truck, dump, 2½ ton	(1)	Launcher, 3.5 inch	(1)
Truck, wrecker, 2½ ton	(1)		

BRAZIL

	Fiscal year 1963	Fiscal year 1953–63
Grant	16,914	157,509
Excess stocks (value at acquisition cost)	3,092	71,674
Credit assistance under 508 FAA		
Direct sales under 507 FAA	(1)	(1)

Key-end items, 1953–63:	*Quantities each*	Key-end items, 1953–63—Continued	*Quantities each*
L19 aircraft	(1)	Truck, cargo, ¼ ton	(1)
T33 aircraft	(1)	Truck, cargo, ¾ ton	(1)
C54 aircraft	(1)	Truck, cargo, 2½ ton	(1)
C119 F. & G. aircraft	(1)	Truck, dump, 2½ ton	(1)
AP transport	(1)	Truck, cargo, 5–10 ton	(1)
DD destroyer	(1)	Rifle, 75 mm	(1)
DE destroyer escort	(1)	Rifle, 106 mm. with mount	(1)
SS submarine	(1)	Howitzer, 105 mm	(1)
MSC–O minesweeper coast (old)	(1)	Mortar, 60 mm	(1)
LCM landing craft	(1)	Mortar, 81 mm	(1)
Tank, light	(1)	Machinegun, 30 caliber	(1)
Vehicle tank recovery	(1)	Machinegun, 50 caliber	(1)
Tractor, Ftrac Hspd 18 ton M5	(1)	Launcher, 3.5 inch	(1)

[1] Footnotes at end of table.

CHILE

	Fiscal year 1963	Fiscal years 1953–63
Grant	10,246	54,223
Excess stocks (value at acquisition cost)	2,388	20,612
Credit assistance under 508 FAA		
Direct sales under 507 FAA	(1)	(1)

Key-end items, fiscal years 1953–63:	*Quantities each*
T 33 aircraft	(1)
T 37 aircraft	(1)
C 47 aircraft	(1)
SA 16 aircraft	(1)
SS submarine	(1)
Tank light	(1)
Carrier, personnel armored	(1)
Truck, cargo, ¼-ton	(1)
Truck, ambulance, ¼-ton	(1)
Truck, ambulance, ¾-ton	(1)
Truck, cargo, ¾-ton	(1)
Truck, cargo, 2½-ton	(1)

Key-end items, fiscal year 1953–63—Con.	*Quantities each*
Truck, dump, 2½-ton	(1)
Truck, cargo, 5–10-ton	(1)
Rifle, 106 mm. with mount	(1)
Howitzer, 106 mm	(1)
Mortar, 60 mm	(1)
Mortar, 81 mm	(1)
Carbine, .30 caliber	(1)
Rifle, .30 caliber	(1)
Pistol, all types	(1)
Machinegun, .30 caliber	(1)
Machinegun, .50 caliber	(1)
Launcher, 3.5 inch	(1)

MEXICO

	Fiscal year 1963	Fiscal years 1958–63
Grant	407	798
Excess stocks (value at acquisition cost)	46	46
Credit assistance under 508 FAA	837	4,691
Direct sales under 507 FAA	(1)	(1)

Key-end items, fiscal years 1958–63: Primarily training assistance, no key-end items supplied.

URUGUAY

	Fiscal year 1963	Fiscal years 1954–63
Grant	2,496	27,900
Excess stocks (value at acquisition cost)	373	5,949
Credit assistance under 508 FAA		
Direct sales under 507 FAA	(1)	(1)

Key-end items, fiscal years 1954–63:	*Quantities each*
Cessna CH–IC aircraft	(1)
T 33 aircraft	(1)
C 47 aircraft	(1)
DE destroyer escort overhaul	(1)
Tank, light	(1)
Truck, cargo, ¼ ton	(1)
Truck, ambulance, ¾ ton	(1)
Truck, cargo, ¾ ton	(1)
Truck, cargo, 2½ tons	(1)

Key-end items, fiscal years 1954–63—Con.	*Quantities each*
Truck, cargo, 5–10 tons	(1)
Rifle, 75 mm	(1)
Mortar, 60 mm	(1)
Mortar, 81 mm	(1)
Carbine, .30 caliber	(1)
Rifle, .30 caliber	(1)
Machinegun, .30 caliber	(1)
Machinegun, .50 caliber	(1)
Launcher, 3.5 inch	(1)

[1] Classified.

Mr. RHODES. Why do you say that is farfetched, Mr. Cottrell?

Mr. COTTRELL. Because I do not believe it is conceivable that Uruguay, Chile, Mexico, or Bolivia would be shipping to Cuba arms supplied by us. This is my judgment.

Mr. ANDREWS. You have no way in the world of knowing, have you, Mr. Secretary? We have no embargo.

Mr. COTTRELL. This is a matter of my judgment.

Mr. ANDREWS. They can put this down in the hold of a ship going into Cuba.

Mr. COTTRELL. It is physically possible. In my judgment, it is farfetched. Russia supplies all the arms Cuba needs.

Mr. MINSHALL. The State Department never thought they would put missiles in Cuba.

Mr. COTTRELL. It was not the Chileans or Uruguayans or Mexicans that did that.

Mr. PASSMAN. I am not implying that it was, but they could come nearer getting them in from there than from any other source.

Mr. COTTRELL. Geographically.

(Off the record.)

Mr. MILLER. With respect to your question about observation, or one of the other members' question about observation of the articles, section 506 of the statute requires that they agree with respect to defense articles to permit continuous observation and review by and furnish necessary information to the representatives of the U.S. Government with respect to the use of such articles, and there are military missions in the Latin American countries which do observe these articles and comply with the statute.

POSSIBILITY OF ARMS SHIPMENT TO CUBA FROM LATIN AMERICAN COUNTRIES

Mr. PASSMAN. Are more ships from our so-called allies putting into Cuba than from Communist nations?

Mr. RHODES. I do not know about that.

Mr. PASSMAN. An article in the paper indicated that more allied ships actually unload in Cuba than from other countries. It looks as if it is our so-called friends who are taking advantage of us in this respect.

Mr. MILLER. Mr. Chairman, with respect to that question, section 107(a) of the appropriations act, as you know, prohibits the sending of Battle Act items, which would include defense articles under the military assistance program. We have no information to indicate that any country receiving aid has either sent a Battle Act item to Cuba or permitted ships of its registry, as far as countries within Latin America are concerned, to transport Battle Act items.

(Off the record.)

Mr. CONTE. Maybe we could say it is farfetched in regard to some of these countries sending large items of military arms to Cuba, but I do not think it would be very farfetched for these countries to send spare parts to Cuba. They have a lot of our equipment there that we gave to them before we broke relationships. The equipment has broken down right now, and is at a standstill. Maybe their conscience would not bother them too much to send spare parts to keep the equipment in operation.

Mr. MINSHALL. I know for a fact they are very short. In this program I referred to yesterday, they showed them making crankshafts and brake drums. They are in a crash program to catch up to keep the equipment we gave them operating.

You say it is doubtful. I think it is more logical than not that they are sending spare parts to Cuba.

Mr. COTTRELL. I said doubtful about arms. In fact, there essentially would be no reason for these countries to supply arms to Cuba.

The Russians will supply any arms they want. They have a blank check from the U.S.S.R.

I agree it would be tempting to black market operators in spare parts, and you probably could find a few firms——

RELATIONS OF LATIN AMERICAN COUNTRIES WITH CUBA

Mr. PASSMAN. These people are on a friendly basis with Cuba. They recognize them diplomatically. They abstain from voting or vote with them, and they are carrying on commerce with them. We are giving these nations military equipment. It could be that at some future date there might be a little firmer understanding between Castro and the leaders of these five nations, when the chips are down.

Mr. MOSCOSO. I think, Mr, Chairman, we have to refer back to the second Punta del Este Conference, where it was unanimously agreed that these nations understood that Cuba was under Communist domination.

Mr. PASSMAN. They still recognize them. They still are doing business with them. They still have commerce going on. They still exchange ambassadors.

(Off the record.)

RUSSIANS IN CUBA

Mr. MINSHALL. I should like to ask one further question of the Secretary. How much have the Russians built up their military in Cuba since last October?

Mr. COTTRELL. This is the numbers game again, and I hesitate to get into it, because you know the reason this numbers game exists is because nobody knows exactly how many Russians have gone in and how many have come out.

Mr. MINSHALL. You have been watching the ship movements, certainly. I hope you have. If not, I do not have complete confidence in our U–2 flights, either. They can move a lot of stuff in at night that we do not know about.

Mr. COTTRELL. Our general information indicates the Russians are in there for three different reasons. One, the troops that have been at four separate camps that serve no obvious purpose except perhaps to put down a revolt of the Cubans if it ever came about. Those apparently are thinning out.

The second group——

Mr. MINSHALL. How is that?

Mr. COTTRELL. Apparently thinning out in numbers. The original numbers are not there. I will not get into the numbers game with you on this. I am just telling you generally what our impression is, for whatever it is worth.

The second group of Russians in there are technicians on special sophisticated equipment. They are attempting to train the Cubans and turn over this sophisticated equipment to them. Some of it is quite elaborate, and it may take them some months or years, perhaps——

Mr. MINSHALL. What type of equipment are you referring to?

Mr. COTTRELL. I am talking about the SAM, surface-to-air missile sites, Mig-21's, and this type of thing. Apparently they are turning many of these things over to the Cubans as fast as they can train them.

A third type of technician in there is assisting in the changeover from the Western-based economy to a Russian-based economy in the economic field. There apparently are more Soviet bloc people, actually, than Russians in there now—Czechs, Rumanians, Bulgarians, and others.

Mr. MINSHALL. I gather from what you said, Mr. Secretary, the military threat as far as the Russian soldiers and equipment that they have in Cuba today, is not so paramount as using it as a base for the exportation of communism and subversion.

Mr. COTTRELL. I am more concerned with that point than any other; yes.

Mr. Chairman, if you will allow me equal time, I would like to add to that.

Mr. PASSMAN. Go right ahead.

LATIN AMERICAN REPRESENTATION IN CUBA

Mr. COTTRELL. I would like to mention on that other point, representation in Cuba, that we have been progressivly attempting to reduce the political links Cuba has with the Western World. They are now down to five Latin American missions in Cuba. We are not pretending that these five should not be eliminated also.

Mr. PASSMAN. Did we not——

Mr. COTTRELL. We did not buy off the others.

Mr. PASSMAN. Why continue those five in the foreign aid program if they cannot eliminate their trade with Cuba?

Mr. COTTRELL. In my opinion, all the Cuban missions in Latin American countries are focal points for infection of every one of these countries, and it does not help at all to have these Cuban missions in Latin America. I want to make clear that the administration is aware of this danger.

Mr. CONTE. This is important, I believe, Mr. Chairman.

PUBLIC LAW 480 ASSISTANCE TO LATIN AMERICAN NATIONS RECOGNIZING CUBA

How much Public Law 480 do we give to Uruguay?

Mr. TENNANT. About $38 million of Public Law 480 through fiscal year 1962.

Mr. CONTE. Could you supply for the record the Public Law 480 program for the other four countries that have not broken relationships with Cuba? This is another important facet. They have a food problem in Cuba today which is extreme. We could be sending wheat, corn, farina, and any of our surplus products to these countries, and they, in turn, could be selling them to the Cubans.

(The information supplied follows:)

Public Law 480 program to Latin American countries recognizing Cuba, 1954–63

[In millions of dollars]

Country:	Total
Bolivia	$52.5
Brazil	390.0
Chile	131.9
Mexico	46.2
Uruguay	37.8
Grand total	658.4
Sales of surplus commodities for dollars or local currencies	344.2
Voluntary relief agencies	144.9
Surplus commodities granted for disaster relief and economic development purposes	169.3

Mr. COTTRELL. No. Again, according to our information, this is not being done. There is very little trade between Cuba and any of the other Latin American countries.

Mr. PASSMAN. Would you say we do not believe it is being done? We have been fooled too often and gotten into too much trouble, even in Cuba, by the assumption that something was not being done. We do not believe it is being done. Would that be fair?

Mr. COTTRELL. No. I cannot quote the statistics, but I can get them for you, which I am sure will prove this point.

Mr. RHODES. May I ask another question about this? Mr. Cottrell, the country of Uruguay is an agricultural nation. What are they doing with $38 million worth of Public Law 480 products?

Mr. COTTRELL. They are importing edible oils and wheat.

Mr. RHODES. Do they not grow wheat in Uruguay?

Mr. COTTRELL. Some, but insufficient quantities.

Mr. RHODES. What are their agricultural products?

Mr. COTTRELL. Their normal source of supply of wheat is Argentina.

Mr. STERNFELD. Their export products are primarily meat and wool.

Mr. RHODES. So, they do not grow a lot of grain.

OIL SHIPMENTS INTO CUBA

May I ask Mr. Miller to play a little Battle Act game with me. We have been discussing the application of the Battle Act and whether or not it should have been invoked from time to time. It strikes me that there is one statistic which we do not have which I think maybe we should have. This is the amount of oil which has been shipped into Cuba in total since the enactment of the Mutual Security Assistance Appropriation Act for 1963. Let us have the total, and then let us have the amount of oil which has been shipped in, in free world bottoms, and the country supplying the bottoms.

Mr. COTTRELL. From what date, Mr. Rhodes?

Mr. RHODES. From the date of the enactment of the Mutual Security Appropriation Act of 1963, in October 1962.

Mr. MILLER. I believe we can give you a fairly precise estimate on that.

Mr. RHODES. If you can, put it in the clear. If not, provide it for our information.

Mr. MILLER. I would like to make one point to be very clear here, Mr. Chairman. We have no information whatsoever from intelligence sources or from any other source, that indicates any country in Latin America has shipped any arms or ammuntion or implements of war or given any economic assistance to Cuba within the last year.

Mr. RHODES. Of course, I hate to say this, Mr. Miller, but our Government did not think there were any missiles in Cuba, either, until we woke up one day and there they were. Until we can improve our techniques of determining what is happening as far as Cuba is concerned, you will not be very persuasive.

Mr. MINSHALL. I would like to say Roger Hilsman was the most surprised member of this group. He was then Chief of State Department Intelligence.

Mr. PASSMAN. I hope to see the final report you give to Mr. Rhodes on the number of ships going into Cuba.

Mr. RHODES. That is already in the record.

Mr. PASSMAN. Can it all be put in the record?

Mr. RHODES. I could not put it all in the record as to number of ships. It is still classified.

Mr. MILLER. We are working on that particular problem.

(The information will be supplied the committee.)

Mr. PASSMAN. I think I read in an article, or else in a statement from the Commerce Department, that there are actually more ships from friendly nations unloading in Cuba than ships from the other countries.

(Off the record.)

RATE OF EXCHANGE IN CHILE

Mr. PASSMAN. We were talking about escudos a day or two ago. At what rate are we supporting the escudo in Chile?

Mr. MOSCOSO. We are not supporting them.

Mr. STERNFELD. You mean what figure do we have in the book on the escudo?

Mr. PASSMAN. I mean, of course, the official rate of exchange for them, as shown in the book.

Mr. MOSCOSO. 1.4.

Mr. PASSMAN. Is that the rate upon which our aid is converted for the return payments?

Mr. MOSCOSO. No, sir; 1.847.

Mr. PASSMAN. So, you show in the book 1.4. It will be converted at 1.8, but the brokerage rate is 3 and the black market rate is 3.34.

Mr. MOSCOSO. The brokers' rate, Mr. Chairman, is a very, very thin market, $400,000 to $1 million per month.

Mr. PASSMAN. I do not care if it is as thin as cigarette paper. This information is what you gave to me, and I just want you either to say this is correct or tear it up. We asked you for positive information. You handed me something that is supposed to be positive.

You gave me this paper, showing the brokers' rate at 3, did you not?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. Then the commercial bank rate is at 1.847.

Mr. STERNFELD. That is right.

Mr. PASSMAN. The book rate which you show here is converted at 1.4, and we are exchanging on the basis of 1.8.

Mr. STERNFELD. 1.847.

Mr. PASSMAN. Have I read those items correctly?

Mr. STERNFELD. That is correct.

Mr. MOSCOSO. That is correct.

MIDDLE CLASS IN LATIN AMERICA

Mr. STERNFELD. I have a very simple statement to make to explain the number——

Mr. PASSMAN. Look at the divider sheet, page 75. I believe that primarily we are trying to build up a large middle class in all these countries, are we not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. On this sheet you have:

The crux of Uruguay's problem (off the record).

Why did you want to classify a statement of that type?

Mr. COTTRELL. This is not particularly a happy kind of statement to be read by our Uruguayan friends.

Mr. PASSMAN. Are they well fed?

Mr. COTTRELL. I suppose they are.

Mr. PASSMAN. Are they well educated?

Mr. COTTRELL. Yes. The statement under discussion is an unhappy choice of words.

Mr. PASSMAN. You people call that comment confidential, do you not, in your book?

Should I not be permitted to state publicly that Uruguay has a well-educated, well-fed middle class of people?

Mr. COTTRELL. There is a sentence that precedes that which is not appropriate for an open record.

Mr. PASSMAN. Did I read the comment correctly?

Mr. COTTRELL. You did.

Mr. PASSMAN. Do you want to declassify the latter part of the statement?

Mr. COTTRELL. The words are not something we would like the Uruguayans to read.

Mr. PASSMAN. You do have a program in Mexico this year?

Mr. COTTRELL. Yes.

Mr. PASSMAN. Previously we were discussing a country that had a well-educated and well-fed, middle-class people. Would I be violating the security of the United States by leaving that observation in the record?

Mr. COTTRELL. It would be inaccurate with respect to Mexico, because many are hungry.

Mr. PASSMAN. In Venezuela, Mexico, and 100 other nations, we have a program. We were discussing a nation which has a well-educated, well-fed, middle-class of people.

Mr. COTTRELL. Perhaps I am too sensitive.

CLASSIFICATION OF INFORMATION

Mr. PASSMAN. You run into a nation that is getting along all right, and you do not want the American taxpayer, as I interpret it, to know anything about it. Only in those cases where it looks as if they are in poverty do you put it all in there. But when we come to a nation

that has an 88 percent literacy rate, a middle class of people that is well educated and well fed, and you have a big aid program for them, you do not want the facts to show in the record.

Mr. MILLER. Mr. Chairman, with respect to the classification and the assessments we make, we try to make them as carefully and complete an assessment as is possible.

In this context, I think it would be a violation of the security of the United States.

Mr. MINSHALL. I have gone through the justifications on numerous occasions, and the directors of all these regions say they cannot understand why there is so much classification in them, and then you come out and make a statement like that. It is ridiculous.

Mr. PASSMAN. It is the most overclassified piece of monkey business ever presented to any committee of the Congress.

Mr. COTTRELL. I think it only fair to say you probably should be directing your wrath at me.

Mr. PASSMAN. I did not direct wrath at anybody. I am just trying to see if we can get something in the record which shows that some people somewhere are getting along pretty well.

Mr. COTTRELL. Just on the point of who is responsible for the gray, I think I should take more of the responsibility for State because these books are made up by AID, and our people look them over and look for sensitive areas and put them in the gray.

Mr. PASSMAN. If there is valid reason why a statement that people are well educated and well fed, and that they maintain a substantial trade relationship with the Russian bloc nations, should be classified, then I am not able to comprehend that reason.

PER CAPITA INCOME IN URUGUAY

Mr. ANDREWS. What is the per capita income of the 2.9 million people in Uruguay?

Mr. MOSCOSO. $450 per year.

Mr. ANDREWS. That is the per capita income?

Mr. MOSCOSO. Yes, sir. That is the best estimate we have.

VENEZUELA

Mr. PASSMAN. You are requesting $1,700,000 for Venezuela, according to the first page in the book.

Will you put all the spigots together and tell us the total amount, excluding the Export-Import Bank?

Mr. MOSCOSO. Including Public Law 480 and military assistance——

Mr. PASSMAN. All spigots, excluding Export-Import Bank.

Mr. MOSCOSO. $———.

Mr. PASSMAN. Your book shows $1.7 million, but in reality it is $———.

Are they eligible for aid from all the 16 spigots?

Mr. MOSCOSO. Yes, except ROCAP.

Mr. PASSMAN. Ordinarily we would examine on $1.7 million, as we look at the book, but when we put the grants and soft loan parts into it, it comes to $——— and, in addition, they are eligible for all the other accounts.

Mr. TENNANT. Those figures show on the next page.

Mr. PASSMAN. We have always examined from this page. We want the information so it can be projected. You could at least give one total figure like $———, and then give the detail. You know as well as I do, no person can go through all these books and pick up all these figures.

Could you tell us the amount you have unliquidated to the credit of this country as of June 30?

Mr. TENNANT. $48.963 million.

Mr. PASSMAN. Does that include all spigots?

Mr. TENNANT. Mutual security, military, and economic.

Mr. PASSMAN. It does not include what they can get out of all these other funds, the Inter-American Development Bank, IDA, and so forth?

Mr. TENNANT. No, sir.

Mr. PASSMAN. What has been the total amount of our aid to Venezuela since the inception of the program?

Mr. MOSCOSO. $188.5 million, excluding the Export-Import Bank.

COSTS OF PARTICIPANT TRAINING

Mr. PASSMAN. I note that in fiscal 1963 you programed 305 participants at $504,000. For fiscal 1964 you reduced the number of participants to 234 but the cost goes up to $587,000.

Mr. MOSCOSO. They will be under training for a longer period of time, Mr. Chairman.

Mr. PASSMAN. They will be employed at their posts or under training?

Mr. MOSCOSO. In training.

Mr. PASSMAN. You had $504,000 last year for participants?

Mr. MOSCOSO. Yes.

RURAL IMPROVEMENT PROJECT

Mr. PASSMAN. How much did you request for the rural improvement project, shown on page 387?

Mr. MOSCOSO. $261,000.

Mr. PASSMAN. How much did you obligate?

Mr. MOSCOSO. $441,000.

Mr. PASSMAN. Project the cost to completion, please.

Mr. MOSCOSO. $1,175,000.

MANPOWER TRAINING PROJECT

Mr. PASSMAN. How many participants do you plan to finance under the manpower training project, shown on page 388, Mr. Moscoso?

Mr. MOSCOSO. Seventy-one.

PUBLIC SAFETY PROJECT

Mr. PASSMAN. I note that you obligated $1,339,000 in fiscal 1963 for the public safety project, on page 390. Is that correct?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. How much did you request for this project last year?

Mr. MOSCOSO. $88,000.

Mr. PASSMAN. You requested $88,000 but you obligated $1,339,000?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Project the cost to completion.

Mr. MOSCOSO. $2,021,000.

Mr. PASSMAN. Mr. Rhodes?

POPULATION GROWTH

Mr. RHODES. The per capita GNP is going up slowly although it rose 4.2 percent in toto. Is this country having a birth rate explosion?

Mr. MOSCOSO. Yes, a 3.4 percent annual population growth.

Mr. RHODES. Is this birth rate explosion confined mainly to the cities or is this happening all over the country?

Mr. MOSCOSO. The cities get the natural increase plus the inflow of people from the countryside. Venezuela has one of the highest rates of urban growth of any country in Latin America; 70 percent of the people live in urban areas.

Mr. STERNFELD. Over half of that population is under the age of 18.

Mr. RHODES. They have a tremendous education problem, then?

Mr. MOSCOSO. They do have.

TYPE OF PROJECTS EMPHASIZED

Mr. RHODES. Mainly what does our AID go to?

Mr. MOSCOSO. Directed at the priority areas of education, agricultural development, and public administration. Public safety has now become an important concern of ours for obvious reasons. Headlines in the papers indicate why.

Mr. RHODES. You refer to the blowing up of the oil pipelines and the other acts of sabotage by Communists, Castroites, and so on?

Mr. MOSCOSO. That is right, continued harassment of U.S. investments.

USE OF LAND FOR AGRICULTURE

Mr. RHODES. Is there a lot of arable but unused land?

Mr. MOSCOSO. There is a lot of land available, but it is not very good. The part that could be used is subject to flooding, particularly in the Llanos during the rainy season which begins with the winter.

Most of the area south of the Orinoco is completely flooded.

Mr. RHODES. Is this a self-suporting country so far as foodstuffs are concerned?

Mr. MOSCOSO. It is not, but I think very soon they will be self-supporting in the sense they will be exporting some foods and importing others.

There are certain foods they cannot grow for themselves.

PUBLIC LAW 480 ASSISTANCE

Mr. RHODES. Is there a Public Law 480 program for Venezuela?

Mr. MOSCOSO. That is right.

Mr. RHODES. What is its magnitude?

Mr. MOSCOSO. Title 4, dollar sales. This is $11.4 million.

Mr. RHODES. Was that the figure for the last fiscal year?

Mr. STERNFELD. Yes, this is the figure for the sales agreement in force.

Mr. RHODES. Fiscal 1963?

Mr. STERNFELD. Yes, we project ——— for 1964.

Mr. RHODES. Actual $11 million for 1963 and projected at $——— for 1964?

Mr. MOSCOSO. Yes.

Mr. STERNFELD. We will check that. Our books show an estimated $11 million for 1963. Actual was $11.4 million in 1962.

(Information supplied follows:)

PUBLIC LAW 480 IN VENEZUELA

A title IV sales agreement for about $11 million was signed in fiscal year 1962 that was in effect during fiscal year 1963 and is valid for the first half of fiscal year 1964. However, by June 30, 1963, Venezuela had not made any purchases under this agreement.

The title III program in Venezuela was about one-half million in fiscal year 1962 and $2 million in fiscal year 1963. This program has been very successful in supporting the efforts of private groups which conduct active programs of self-help and cooperation in rural and urban slums. AID is assisting the expansion of these self-help programs.

DEVELOPMENT OF INDUSTRY

Mr. RHODES. The manufacturing index seems to be going up rather astronomically.

Mr. MOSCOSO. That is right.

Mr. RHODES. Is this the main thrust of the effort of the Venezuelans at the present time so far as economic development is concerned?

Mr. MOSCOSO. Yes; they started a strong program of stimulating local enterprise and they have been able to develop industry substantially.

UNEMPLOYMENT AND INCOME GROUPS

Mr. RHODES. There is a lot of unemployment, however, is there not?

Mr. MOSCOSO. There is a high unemployment rate. The reason is that even though petroleum represents very great investments, close to $2 billion, still it employs very few people—about 25,000 to 30,000 people at the most.

Mr. RHODES. Here again you have a very rich group and a very poor group.

Mr. MOSCOSO. That is right.

Mr. RHODES. Is there any type of middle class developing at all?

Mr. MOSCOSO. There is a small middle class developing, emerging as a result of the industrial development program. They do have a strong agrarian reform program. They also have done a very substantial job in trying to better their tax collections and improve their tax laws.

Mr. RHODES. The main effort so far as industrial development, is in the private sector?

Mr. MOSCOSO. That is right. It used to be in the public sector with the dictatorship.

Mr. RHODES. That is strange.

Mr. Moscoso. The dictatorship established a petroleum-chemical operation and a large steel mill. The steel mill, however, now is being managed by Koppers of Pittsburgh.

Mr. RHODES. That is all.

Mr. PASSMAN. Thank you, Mr. Rhodes.

VENEZUELAN TRADE BALANCES

I notice that Venezuela is the third largest oil producer in the world and it is rich in natural resources.

Mr. Moscoso. That is right.

Mr. PASSMAN. I also notice that a favorable trade balance was shown in 1959, the figure being $792 million.

Mr. Moscoso. That is right.

Mr. PASSMAN. In 1962 this favorable balance of trade went up to $1,255 million; is that correct?

Mr. Moscoso. That is right.

Mr. PASSMAN. That is fantastic for a nation of that size.

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. And here we are experiencing an alarming balance-of-payment deficit, and if we take out the things we apply through our foreign aid in the total as an export there is a question of whether we have a minus rather than a plus trade balance.

The favorable trade balance has gone up to $1,255 million and we are still giving them aid?

Mr. Moscoso. To be fair, you also would have to indicate how much of this is profit going to American companies.

Mr. PASSMAN. About the trade balance, where do you have notes in here to indicate that much of this is profit going to American firms?

Mr. Moscoso. I am sorry. If it is not in there——

Mr. PASSMAN. What are we to go by? We find something favorable, and immediately it is offset.

If we find a country that is well fed and well educated the information is confidential.

Will you try to get some information on this for us, please?

Mr. Moscoso. Certainly.

Mr. PASSMAN. Thank you.

(Information supplied follows:)

Profits of U.S. oil companies remitted from Venezuela

The "IMF Balance of Payments Yearbook" issued in November 1962 provides the most accurate figures presently available. Statistics for 1962 have not yet been published. "Investment income" of oil companies is given as a single figure including both United States and other non-Venezuelan companies, but the Minister of Finance of Venezuela estimates that U.S. companies account for about 75 percent of these figures, so that the following estimate may be made:

[In millions of dollars]

Year:	*Profits remitted to United States*
1959	320
1960	310
1961	365
1962	[1] 400

[1] Because of increased production, preliminary estimates indicate that it will be at least $400,000,000.

PURPOSE OF CONTRACT SERVICES

I notice on page 387 with regard to Venezuela, contract services—that means with a university, college, or trade school?

Mr. STERNFELD. Yes, sir; or a private firm.

Mr. PASSMAN. Contract services are required for local clerical personnel and for local transportation and travel of U.S. technicians.

Would you give us a little bit of explanation?

Mr. STERNFELD. That is an error, Mr. Chairman.

The error is that we do not provide local clerical personnel under contract services.

Mr. PASSMAN. What do you provide this for, then?

Mr. STERNFELD. Short-term technicians to help in the rural improvement project.

Mr. PASSMAN. How did this statement get in here—funds proposed for contract services for local clerical personnel and for local transportation and travel of U.S. technicians?

Mr. STERNFELD. A human error.

Mr. PASSMAN. How did you find out about the error?

Mr. STERNFELD. I read this in preparation for the committee examination and I had the same question.

Mr. PASSMAN. I had already passed this but thank you for thinking you would mention it.

Mr. Conte?

PETROLEUM INVESTMENT

Mr. CONTE. In your justification you show that the petroleum investment in Venezuela amounts to $2.4 billion and it amounts to 90 percent of the country's export trade in 1961. Is that correct?

Mr. MOSCOSO. That is $2.4 billion of petroleum products which made up 90 percent of 1961 exports.

Mr. CONTE. Therefore this is a very, very important item, a very important economic item to this country, is it not?

Mr. MOSCOSO. That is right.

Mr. CONTE. I am glad to hear that, Mr. Secretary, because I am just wondering why this administration persists in carrying out a foolish order that the past administration put in with regard to the mandatory restriction on crude and residual oil to this country under the guise of national security which is as phony as the day is long.

Mr. MOSCOSO. I wondered about that.

Mr. CONTE. Thank you. I have no further questions.

Mr. PASSMAN. Mr. Minshall?

HOUSING PROGRAM

Mr. MINSHALL. Mr. Director, I understand you have a substantial housing program in Venezuela. I would like to know how much you have already done in this regard and projecting it out how many units do you plan to construct and what will be the total cost?

Mr. MOSCOSO. There is a $30 million loan not only for housing, but also for community facilities and slum clearance. The Government of Venezuela will match that amount.

Mr. MINSHALL. How many units will that build?

Mr. MOSCOSO. About 20,000 housing units.

Mr. MINSHALL. That doesn't even scratch the surface, does it?

Mr. MOSCOSO. That is right.

Mr. MINSHALL. According to your book you estimate the shortage as 800,000. This will build 20,000 units. According to that you have a billion dollar program going if you do the job right.

Mr. MOSCOSO. We have already stated to the Venezuelan Government that they will have to finance this under hard terms.

Mr. MINSHALL. Do you call hard terms three-quarters of 1 percent?

Mr. MOSCOSO. I say that for future AID housing projects they will have to finance this under hard terms.

Mr. MINSHALL. What do you call hard terms?

Mr. MOSCOSO. Probably it will be between 3½ and 4 percent, and 20 to 25 years.

Mr. MINSHALL. Projecting that out, how does this come out? This takes care of 20,000 units.

Mr. MOSCOSO. That is right.

Mr. MINSHALL. You are still shy 780,000 units. Is that right?

Mr. MOSCOSO. We are not projecting it out, Mr. Minshall.

Mr. MINSHALL. Why do you get into it this far, then?

Mr. MOSCOSO. Because we set up the system this way. It is a very good system.

Mr. MINSHALL. Who will take care of the other 780,000 units?

Mr. MOSCOSO. Venezuela, the international lending agencies——

Mr. MINSHALL. No more help from us?

Mr. MOSCOSO. Perhaps we might give them loans but they will be on harder terms.

Mr. MINSHALL. That is all I have, Mr. Chairman.

Mr. PASSMAN. Thank you very much, sir.

Mr. ANDREWS. Who will determine the occupants for those 20,000 units?

Mr. MOSCOSO. This will be handled through the borrower, an organization called the Foundation for Community Development and Municipal Improvement.

Mr. ANDREWS. Will the tenants pay rent?

Mr. MOSCOSO. Yes; some. There will be more purchases. I will get you the information on how many will be rented and how many sold.

(The information supplied follows:)

VENEZUELA HOUSING LOAN

It is intended that all the housing units will eventually be sold to low-income occupants. In a small percentage of cases, perhaps 10 percent, houses will be temporarily rented with a portion of the rent applied to the eventual purchase price of the house.

Mr. MINSHALL. What does this come out as the cost per unit, Mr. Moscoso?

Mr. MOSCOSO. This will come out to around $4,000; $3,000 to $4,000.

Mr. MINSHALL. Pretty fancy establishment, is it not?

Mr. MOSCOSO. For a house?

Mr. MINSHALL. Remember the situation. These people are coming from shanty towns. You can build a pretty good shelter for $4,000.

Mr. MOSCOSO. The average family income of the tenants will be around $1,500.

Mr. MINSHALL. Describe these units. How many bedrooms? They are completely equipped with kitchen and all?

Mr. MOSCOSO. Very simple, plain, reinforced concrete construction, three- and four-story walkups. They will have an average of two bedrooms, dining room-living room combined and kitchen and bath.

Mr. MINSHALL. They are quite large units, then?

Mr. MOSCOSO. They are not large, not in relation to the population and to the number of people per family.

Mr. MINSHALL. How many will move into each of these units?

Mr. MOSCOSO. An average of 5.4 people.

Mr. ROSENSON. The average cost of the housing to be financed by the Inter-American Development Bank in the rural areas will run considerably less than the figure mentioned. It will run from $1,200 to $1,500. I have seen some of those houses.

Mr. MINSHALL. Two-bedroom units?

Mr. ROSENSON. That is right. They do a considerable part of the work themselves.

Mr. MOSCOSO. That would be the self-help housing projects which the Social Progress Trust Fund assists.

Mr. MINSHALL. How long will it take to complete these 20,000 units?

Mr. MOSCOSO. If the Government of Venezuela decides to continue the program it will take as long as it will take to meet that backlog of housing.

Mr. MINSHALL. Months, weeks, years?

Mr. MOSCOSO. About 20 years.

Mr. MINSHALL. Twenty years to build 20,000 units?

Mr. MOSCOSO. No.

Mr. MINSHALL. I don't follow you.

Mr. MOSCOSO. To build the necessary housing to meet the deficit. This project will take 2 to 3 years.

Mr. MINSHALL. They plan to give housing for all these 800,000 people?

Mr. MOSCOSO. I think the Venezuelan Government hopes to be able to do the complete job.

BRITISH GUIANA

Mr. PASSMAN. The next estimate is for $1,500,000 for British Guiana. This is a British territory?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Do you have to get Britain's permission before you can start an aid program in one of its territories?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Do you have much difficulty in getting Great Britain to agree to let us give aid to their territories and possessions?

Mr. MOSCOSO. I have had nothing to do with it but I understand there has been no difficulty.

Mr. PASSMAN. How much aid have we given this British territory since the inception of the program?

Mr. MOSCOSO. $4.9 million.

Mr. PASSMAN. What amount do you have to the credit of this British territory as of June 30?

Mr. MOSCOSO. $1.672 million.

Mr. PASSMAN. How firm is our fiscal 1964 program for this British territory which seems to be on the verge of going Communist?

Mr. MOSCOSO. Our estimate is pretty firm.

Mr. PASSMAN. If you cannot pull them back will you continue the program, anyway?

Mr. MOSCOSO. [Off the record.]

Mr. PASSMAN. I notice your statement that there has been no secret of Mr. Jagan's admiration for the Communist world. Is that right?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. That statement is not classified?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. I believe Cuba became an important buyer from British Guiana since Jagan's rise to power?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Why do we program any aid to countries trading with Cuba and who are at the point of going Communist, and especially if they are British possessions to start with?

Mr. MOSCOSO. We are trying to do several things there. We are trying to prevent them from going to the other side.

(Off the record.)

Mr. ROONEY. Four, are you not also trying to keep up the backs of the British so that they retain their interest in the country and not write it off?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. I note that your objective is to [off the record].

Is that correct?

Mr. MOSCOSO. Yes.

SOURCES OF AID AVAILABLE TO BRITISH GUIANA

Mr. PASSMAN. What do you have for them in all spigots for fiscal 1964?

Mr. MOSCOSO. That is all we have.

Mr. PASSMAN. They have no Public Law 480? Are they eligible for these other spigots we discussed earlier?

Mr. MOSCOSO. They are not members of any of these other groups, IDA, Inter-American Development Bank, nor the United Nations.

Mr. PASSMAN. They are eligible for assistance from IDA, I am sure.

Mr. MOSCOSO. As part of the British Empire they would be eligible.

Mr. PASSMAN. Would that fact not make them eligible for assistance from some of the others, any of these programs that the others——

Mr. MOSCOSO. They are not members of the Inter-American Development Bank.

Mr. PASSMAN. When you move out of Latin America would they not be eligible for aid out of the U.S. projects?

Mr. MOSCOSO. As part of the British Empire, yes.

Mr. PASSMAN. Will you comment relative to your statement on page 81 [off the record].

Mr. COTTRELL. This is to prevent another Cuba in that area, Mr. Chairman.

Mr. PASSMAN. We did not prevent the existing Cuba with billions of dollars. The Ambassador who represented this area at one time said Cuba, per capita, was the most American-subsidized country on the face of the earth.

Mr. MOSCOSO. If the reforms——

Mr. PASSMAN. They had the largest per capita American subsidy of any nation on the face of the earth, and yet we lost them.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. At least it indicates money alone will not do the job.

Mr. MOSCOSO. Reforms.

Mr. PASSMAN. You cannot say that giving money will stop them from going Communist.

Mr. MOSCOSO. Reforms and money.

CONTRACT TECHNICIANS

Mr. PASSMAN. Page 397 of the project book indicates you had 12 contract technicians on board as of June 30, 1963.

How many such personnel did you request in 1963?

Mr. MOSCOSO. None.

Mr. PASSMAN. How much did you obligate for this project in which you had not even an illustrative justification?

Mr. STERNFELD. Mr. Chairman, I cannot identify that as one specific project.

Mr. PASSMAN. Can you give us an idea?

Mr. STERNFELD. It is not contained in one specific project. These 12 contract technicians were on duty as of——

Mr. PASSMAN. You cannot give the total.

Mr. STERNFELD. They were on duty as of the close of the year spread among the projects we have here.

Mr. PASSMAN. You requested no funds but you obligated how much?

Mr. STERNFELD. We requested $209,000 for contractual services.

Mr. PASSMAN. You did not request funds for the project on page 397 for 12——

Mr. STERNFELD. That is the total program.

Mr. PASSMAN. You did not request any funds for this program? I refer to the technicians.

Mr. STERNFELD. That is correct.

Mr. PASSMAN. Can you tell us what it will cost to carry this project through to conclusion?

Mr. STERNFELD. What I can say is this: We justified $209,000 for contractual services and obligated $919,000.

Mr. PASSMAN. You were asked earlier how much you justified and you said none. Now you say you obligated how much?

Mr. STERNFELD. $919,000 for contractual services. Last year we indicated we would obligate $209,000.

Mr. PASSMAN. You obligated about triple what you indicated?

Mr. STERNFELD. Within the identical total of $1½ million.

Mr. PASSMAN. Do you have a Public Law 480 program for British Guiana?

Mr. STERNFELD. No, sir, other than a small title III program.

Mr. PASSMAN. Do you contemplate having one?

Mr. MOSCOSO. We don't have one except a title III program of less than $100,000.

Mr. PASSMAN. Mr. Rhodes?

Mr. RHODES. It seems to me that this is a country we should stay out of. I don't often make this statement. I made it once before in another area.

I see no reason for the United States to have any kind of a program whatsoever in a British possession with the Prime Minister an avowed Communist who is an enemy to our way of life and who would destroy us whenever he could.

Our presence can only be interpreted by the people who might otherwise be opposed to him as being in support of him and his government.

As one member of the committee I am definitely out of sympathy with any program whatsoever in this country.

Mr. COTTRELL. There are elements in that country that are anti-Communist.

We think it is important to put in a small program.

Mr. RHODES. You and I are in fundamental disagreement. I agree with the idea that we certainly should do all we can to bolster anti-Communist feeling, but this is not the way to do it.

Mr. COTTRELL. These projects are directed to the interior at very low level operations where you may find people who would support you.

Mr. RHODES. There are better ways. If we can't find a better way to do it than putting in an aid program, then we have wasted a lot of money in my opinion.

Mr. PASSMAN. I certainly concur in the views of the gentleman.

When we get into 104, or more, of the nations of the world, and in fiscal 1964 you are in 100, it looks as though our resources will run out before our objectives are reached, if they ever can be reached.

Mr. COTTRELL. Among the 100 nations, this one is in our backyard and it is pretty close.

Mr. MOSCOSO. We are trying to——

Mr. PASSMAN. Good luck to you.

Mr. MOSCOSO. I hope it will be good luck for all of us.

Mr. ROONEY. In view of the fact this country is in our backyard, is the purpose of expending any part of these funds to help Jagan and his party or what he represents in this country?

Mr. MOSCOSO. No. We are favorable to the democratic——

Mr. ROONEY. This is a country which has an unusually high literacy rate. Is that true?

Mr. MOSCOSO. That is right; 80 percent is the rate.

Mr. ROONEY. What we do there might very well become better known to the people of the country than if we were to spend a similar sum in a country such as Brazil?

Mr. MOSCOSO. It becomes quite well known what we are trying to do, and it is also known that we disapprove of the Jagan regime.

Mr. COTTRELL. There is a large opposition party.

Mr. RHODES. I don't know how naive we can get.

When you go into a country with a Communist government, the people of the country are naturally going to think that we are there in support of the government. We are working against our own best interests.

If I have anything to do with it, I will put a limitation on the bill or anything else that is necessary to keep us out of this country.

EFFECT OF LITERACY RATE ON ACKNOWLEDGMENT OF ASSISTANCE

Mr. PASSMAN. Earlier in the hearings, witnesses have said that some of the recipient countries, with people who were relatively well educated were reluctant to let their people know where the aid came from.

What is the situation in British Guiana, a British territory with a high literacy rate?

Mr. MOSCOSO. This is a country with a very strong and articulate opposition, an opposition that is just a hair's breadth away from gaining control of the Government, and that opposition has seen to it that we are mentioned as a friend of the Guianese people, of not being in any way in favor of the Jagan government, and Mr. Jagan also has seen to it that his own people recognize our point of view.

Mr. PASSMAN. Did I describe our exchange in the hearings correctly?

Mr. MOSCOSO. In many countries——

Mr. PASSMAN. Did we not have a direct exchange that some of the countries with the education and know-how were reluctant to let the people know this was American aid?

Mr. MOSCOSO. In some of them, yes.

Mr. PASSMAN. I thought that is what you said.

The better educated they are the more effort they use to keep the facts of our aid away from the people, according to the exchange we had earlier.

SINO-SOVIET AID TO BRITISH GUIANA

Mr. RHODES. Mr. Chairman, on the 12th of August, in the Washington Post, there was a column written by Rowland Evans and Robert Novak about British Guiana. The tone is quite critical of the State Department and the way we are handling ourselves in British Guiana.

Let me ask this question: Off the record.

(Discussion held off the record.)

Mr. RHODES. It stated in the column I just mentioned that the Russians are pouring money in to help the Jagan government and to bolster him.

Yet in your book here on page 82, where you have a spot for Sino-Soviet bloc assistance it is shown blank. Is the column wrong?

Mr. COTTRELL. (Off the record.)

Mr. RHODES. In instances where there has been aid from Cuba to any of these countries, do you include that under the general heading "Sino-Soviet bloc assistance?"

Mr. COTTRELL. This is the only example I know of.

Mr. MILLER. I don't believe statistics on that.

Mr. RHODES. In other words, it is all covert aid.

If you did know of any aid would it be properly included under the Sino-Soviet bloc?

Mr. MOSCOSO. It would have to be, yes.

Mr. RHODES. That is all.

LEVEL OF U.S. ASSISTANCE

Mr. PASSMAN. You did "beef up" the program beginning with the year that Jagan went in, did you not?

Mr. MOSCOSO. In an effort to get the people on our side.

Mr. PASSMAN. I knew it was an effort for something, but I did make a statement of fact—that year you "beefed up" the program? Is it going up substantially now?

Mr. STERNFELD. Staying the same.

Mr. PASSMAN. You went from a program of $400,000 to $200,000, $100,000, $200,000, but in 1960 you went up to $400,000, in 1961 it was $800,000, and in 1962 it was $1,500,000, and you propose $1,500,000 for fiscal 1963.

Mr. MOSCOSO. The same level as 1962.

Mr. PASSMAN. We did step up the aid program substantially when Jagan took over?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Mr. Minshall?

Mr. MINSHALL. I have no questions except I want to make the record clear that I concur in my colleague's views on British Guiana. It is ridiculous we should be pouring any funds into this country.

I will join Mr. Rhodes in any effort he makes to keep funds out of the program for British Guiana.

Mr. PASSMAN. I concur in the gentleman's views.

BRITISH HONDURAS

Next is British Honduras, another British possession.

You do not actually have a program for fiscal year 1964 but you indicate that you may have a Public Law 480 program to continue to demonstrate U.S. interest in the British possessions. Is that right?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. That is the same excuse you gave on the other. Do you have the same type of situation here?

Mr. MOSCOSO. We assist with some of our surplus.

Mr. PASSMAN. Would we be selling for cash?

Mr. MOSCOSO. This is title III. This would be community relief.

Mr. PASSMAN. I thought so.

Off the record.

(Discussion held off the record.)

Mr. PASSMAN. What do you propose to put in there in fiscal 1964?

Mr. COTTRELL. No aid program is contemplated for British Honduras in fiscal year 1964, with the exception of the title III surplus commodities program.

Mr. PASSMAN. You have been sitting here through these hearings and observing the perhaps hundreds of cases since the beginning where you started fantastically high programs which had not even been presented to Congress on an illustrative justification?

At least here you indicate that you might start a program.

Mr. COTTRELL. I may say here that we might, but I say we have made no decision to aid——

Mr. PASSMAN. You indicate that you might start one.

Mr. COTTRELL. This is indicated in the record, that is right.

Mr. PASSMAN. Do you agree with that statement, Mr. Administrator?

Mr. MOSCOSO. Public Law 480; yes.

Mr. PASSMAN. In many other instances you have started high-priced programs when you gave no such indication.

Mr. MOSCOSO. We already have a title III program here.

Mr. PASSMAN. Can you tell us how much you had for fiscal 1963, then?

Mr. STERNFELD. For fiscal 1963 we had $200,000.

Mr. PASSMAN. What has been the total amount of aid to this British possession of Honduras?

Mr. MOSCOSO. $2.9 million.

Mr. PASSMAN. Did you have to get the British Government's permission before you started this aid program?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Do you know whether or not you had any difficulty in obtaining that permission?

Mr. MOSCOSO. We did not.

JAMAICA

Mr. PASSMAN. Next is the area of Jamaica. Is that an independent nation now?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. You are requesting $700,000 for fiscal 1964?

Mr. MOSCOSO. Plus the ——

Mr. PASSMAN. Add the other spigots for the total.

Mr. MOSCOSO. $———.

Mr. PASSMAN. The record shows $700,000, but when you put together all the spigots you have $———.

Mr. MOSCOSO. That is right.

SOURCES OF AID AVAILABLE TO JAMAICA

Mr. PASSMAN. Is Jamaica eligible for all these other various aids set up in these special kitties, such as the interregional account, Latin American region, and so on?

Mr. MOSCOSO. They are not eligible for the Social Progress Trust Fund, the Inter-American Development Bank——

Mr. PASSMAN. Are they eligible for the interregional fund?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. The Latin American regional account?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. International Development Association?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. For all the funds in the United Nations?

Mr. MOSCOSO. They have become members of the United Nations; yes, sir.

Mr. PASSMAN. Will you figure out how much they can get out of the remainder of the 16 spigots?

Mr. TENNANT. The amounts?

Mr. PASSMAN. Indicate the other spigots.

(Information supplied follows:)

SOURCES OF ECONOMIC DEVELOPMENT ASSISTANCE

Jamaica is eligible for funds from the following sources: IBRD, U.N. funds (including UNTA, ECOSOC, ILO, etc.), IFC, IDA, development grants, development loans, supporting assistance, contingency funds, regional funds, interregional funds, Peace Corps, food for peace, Eximbank.

Mr. PASSMAN. What has been the total of aid to Jamaica since the inception of the program?

Mr. MOSCOSO. $16.8 million.

Mr. PASSMAN. What sum do you have on hand unliquidated?

Mr. MOSCOSO. $5.42 million.

Mr. PASSMAN. You have a substantial pipeline there. I note your classified statement, on page 83, that [off the record].

Maybe that is why you are classifying it.

I note also your classified statement, on page 83, that [off the record].

Would you comment on that statement, in view of the fact you have a development grant project which is estimated at $100,000 proposed for fiscal 1964 and you have also approved a credit of $2,200,000 in fiscal year 1962?

Mr. MOSCOSO. We are trying to get the Jamaican Government to go on the private money market to do their financing.

Mr. PASSMAN. You already have an approved credit for this project.

Mr. MOSCOSO. For the future.

Mr. PASSMAN. You will disburse this money for this project?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Why would you classify that fact?

(Off the record.)

Mr. MOSCOSO. We are dicussing finances.

Mr. PASSMAN. They do not know that you have obligated $2.2 million to this project?

Mr. MOSCOSO. Yes; they do.

Mr. PASSMAN. You have approved a credit of $2,200,000, almost 1 year ago, from which there have been almost no disbursements.

Is it for the community water supply project?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Why would you classify the fact?

(Off the record.)

Mr. MOSCOSO. This is the first phase of the program. This is a program designed to improve 60 water systems by 1967.

Mr. PASSMAN. Do they know you have approved this credit to them?

Mr. MOSCOSO. Surely. It was signed.

Mr. PASSMAN. You will disburse these funds on this project——

Mr. MOSCOSO. As soon as bids are opened and approved.

Mr. PASSMAN. When you approved it over a year ago, June of 1962, and that is just before we pull the curtain down for the fiscal year——

Mr. MOSCOSO. No; this is no-year money.

Mr. PASSMAN. You approved it on June 29.

Mr. MOSCOSO. You also said this is the end of the year.

Mr. PASSMAN. One day before the end of the fiscal year.

Incidentally, this date was a Saturday, I believe.

You signed a contract the 31st of August.

Mr. MOSCOSO. This is no-year money.

Mr. PASSMAN. No disbursements have been made out of this credit and you have not received bids on this to know what it will cost?

Mr. MOSCOSO. Bids were received; they were too high and were rejected.

The project is being announced for bids again.

Mr. PASSMAN. [Off the record.]

PROJECT ASSISTANCE TO JAMAICA

You have included $75,000 for feasibility studies under the technical support project, on page 408, have you not?

Mr. MOSCOSO. $75,000; yes, sir.

Mr. PASSMAN. Have you any new projects included on page 409?

Mr. MOSCOSO. These are old projects.

SURINAM

Mr. PASSMAN. I believe for the Dutch Colony, Surinam, there is proposed some type of a high priority development program for 1964. Is that correct?

Mr. MOSCOSO. There is no program of development grant but we contemplate the possibility of making them a loan.

Mr. PASSMAN. This would be one of those soft credits?

Mr. MOSCOSO. We have not received any project yet.

Mr. PASSMAN. Have you gotten the permission of the Dutch Government—this is the Netherlands?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Do you have their permission to go in there?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Did you have difficulty getting them to agree to have us spend money in their possession?

Mr. MOSCOSO. No, sir.

Mr. PASSMAN. Have you given any aid since you got their permission to go in?

Mr. MOSCOSO. Yes. We have given them $3,700,000.

Mr. PASSMAN. Have you anything on hand unliquidated to their credit?

Mr. MOSCOSO. $418,000.

Mr. MINSHALL. Off the record.

(Discussion held off the record.)

Mr. MINSHALL. I have no questions.

TRINIDAD AND TOBAGO

Mr. PASSMAN. The next estimate is $5,700,000 for Trinidad and Tobago. Is this estimate for one or two nations?

Mr. MOSCOSO. This is one country which has that joint name.

Mr. PASSMAN. It has its independence?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Would you give us the amount from all spigots? We deal here with $5,700,000 for Trinidad and Tobago.

Mr. MOSCOSO. $———.

Mr. PASSMAN. Are they eligible for all these other spigots of aid?

Mr. MOSCOSO. Except for the Inter-American Development Bank and ROCAP.

Mr. PASSMAN. This estimate, you indicate, is the result of the Hamilton-Williams agreement of November 1962 which undertakes to provide $10 million in fiscal 1963, $5 million in each of the 4 succeeding fiscal years. Is that correct?

Mr. MOSCOSO. In payment for the base, yes.

Mr. PASSMAN. We have no legal commitment to furnish this money out of AID beyond June 30?

Mr. MOSCOSO. Subject to congressional appropriation.

Mr. PASSMAN. There is no legal obligation as such?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. We will have discharged every legal obligation we have all over the face of the earth as of June 30. Is that right?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. Thank you. What is our responsibility to backstop the $30 million of supporting assistance, technical assistance? Should this not be a responsibility of Great Britain?

Mr. MOSCOSO. This is a base used by the U.S. forces and still is being used by the U.S. Navy.

GENERAL AND MISCELLANEOUS PROJECT

Mr. PASSMAN. I note that you have $11,500,000 in unliquidated obligations as of June 30, 1963, under the general and miscellaneous project on page 415.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You are requesting an additional $5 million in fiscal 1964?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. Have you any new projects proposed in the list shown on page 417?

Mr. MOSCOSO. No; there are no new projects. We are now phasing out this mission in Trinidad.

LATIN AMERICAN REGIONAL PROGRAM

Mr. PASSMAN. We proceed next to a program which is a supplement to all the other projects. I refer here to the Latin American regional program for which the fiscal 1964 estimate is $13,723,000. Is that right?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Let us add to that amount all the other spigots and regions.

Mr. MOSCOSO. $14,200,000.

Mr. PASSMAN. Is that all of it?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. This regional program is a supplement to the country programs that we have been discussing; is that correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. What sum did you have in the Latin American regional program, unliquidated as of June 30?

Mr. MOSCOSO. $10,629,000.

Mr. PASSMAN. What part of this is unobligated?

Mr. TENNANT. That is unliquidated obligations, sir.

Mr. PASSMAN. What do you have unobligated from funds you requested last year, if any?

Mr. TENNANT. None.

FISCAL YEAR 1963 REQUEST AND PROGRAM LEVEL

Mr. PASSMAN. I note, on page 419, that your 1963 program was $18,783,000; is that correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. How much did you request and justify to the committee and the Congress last year?

Mr. MOSCOSO. $8 million.

Mr. PASSMAN. But you obligated $18,783,000?

Mr. MOSCOSO. The exact figure is $17,987,000.

Mr. PASSMAN. You actually obligated more than twice as much as you justified to Congress?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. Was that action brought about by the fact that you recognized you were going to have nearly $1,100 million of unobligated funds and you had to get some of it in the gray area?

Mr. MOSCOSO. No, sir.

UNOBLIGATED BALANCES OF AID-PROGRAM FUNDS

Mr. PASSMAN. You have $515 million of purely unobligated funds, including the revolving fund?

Mr. TENNANT. That is correct, sir.

Mr. PASSMAN. And you have $688 million technically unobligated, but figuratively obligated, because it is held over in a reservation status waiting for the contracts to be signed; is that correct?

Mr. TENNANT. That represents commitments——

Mr. PASSMAN. This is in a reservation category, pending the signing of the contracts?

Mr. TENNANT. That is right.

Mr. PASSMAN. I have stated it correctly, have I not, that you have $515 million, including the revolving fund, completely unobligated, and you have $688 million over in the reservation category—commitments made by AID pending final signing of the contracts?

Mr. TENNANT. Yes, sir; that is correct.

Mr. PASSMAN. Thank you.

How much of this total would fall in that gray area?

Mr. MOSCOSO. None.

Mr. PASSMAN. But you did obligate more than double the amount that you justified?

Mr. MOSCOSO. We did.

Mr. PASSMAN. And you had on hand what amount as of June 30?

Mr. MOSCOSO. $10,629,000.

FISCAL YEAR 1963 NEW PROJECTS BEGUN UNDER INTERREGIONAL PROGRAM

Mr. PASSMAN. Would you indicate the number of new projects you started in fiscal year 1963 for which you did not request any funds from the Congress?

Mr. MOSCOSO. We will be glad to supply it.

Mr. PASSMAN. You have some of that information, do you not?

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. All right, let us have some of it, please.

Mr. MOSCOSO. Sixteen projects.

Mr. PASSMAN. Could you tell us the amount of money you obligated for the 16 projects you started for which you did not request funds?

Mr. MOSCOSO. $6,830,000.

Mr. PASSMAN. What will be the cost of completion of these 16 projects that you started out of funds you did not request the Congress to provide?

Mr. MOSCOSO. $10,855,000.

Mr. PASSMAN. Thank you.

ASSISTANCE TO PROJECT HOPE

Mr. PASSMAN. How much has Project Hope received in the form of assistance?

Mr. STERNFELD. Mr. Chairman, in the Latin America area we have only supplied in the fiscal year——

Mr. PASSMAN. I am talking about the total out of this region.

Mr. STERNFELD. We supplied $1,040,000. Project Hope has received grant aid in the past, not from Latin American regional funds.

Mr. PASSMAN. It must have come out of the contingency fund. Give us the worldwide cost, Mr. Controller.

Mr. TENNANT. I have a 1962 figure and a 1963 figure but you said a cumulative figure.

Project Hope

[In thousands of dollars]

Source of funds	*Cumulative obligations to June 30, 1963*
Asian Economic Development fund (fiscal year 1960)	2,333
Special assistance (fiscal year 1961)	291
Contingency fund (fiscal year 1961)	[1] 1,260
Supporting assistance (fiscal 1962)	979
Alliance for Progress grants (fiscal year 1963)	1,040
Total	5,903

[1] Of this amount, $1,000,000 is on a loan basis, of which $30,000 has been repaid.

SPECIAL INFORMATION GRANT TO PAN AMERICAN UNION

Mr. PASSMAN. What was the amount of the special information grant to the Pan American Union?

Mr. MOSCOSO. $1,600,000.

Mr. PASSMAN. Could you give us an idea of what that money was used for?

Mr. MOSCOSO. This has been used to develop an information program in the various nations of Latin America.

Mr. PASSMAN. Was that a program to familiarize the nations with the fact that they had an aid program, explaining it, and so on?

Mr. MOSCOSO. This is primarily a project to utilize the Latin Americans, themselves——

Mr. PASSMAN. To use the Latins to familiarize the Latins with the fact that there is an aid program?

Mr. Moscoso. That's right, and with the participation of funds by the Latins themselves.

Mr. PASSMAN. How much did you request for this project last year?

Mr. Moscoso. We didn't——

Mr. PASSMAN. You did not request any money?

Mr. Moscoso. We didn't.

U.S. INFORMATION ACTIVITY IN LATIN AMERICA

Mr. PASSMAN. Do you have any other type of U.S. agency operating in that area which might, with a fixed plan, impart this knowledge to the Latins?

Mr. Moscoso. Yes, sir.

Mr. PASSMAN. Would you name the agency for us?

Mr. Moscoso. A U.S. agency?

Mr. PASSMAN. Yes.

Mr. Moscoso. The USIA.

Mr. PASSMAN. Specifically what is their assignment in Latin America?

Mr. Moscoso. As I understand it, specifically, it is to provide information to Latin American nations with regard to the policies of the United States.

Mr. PASSMAN. Would the aid program be included?

Mr. Moscoso. Yes; it would.

Mr. PASSMAN. Is any other agency of the United States imparting that kind of information to the Latins?

Mr. Moscoso. I know of no other; no.

Mr. PASSMAN. Does the State Department have any type of educational program?

Mr. Moscoso. The cultural exchange program.

Mr. PASSMAN. How about the embassy offices?

Mr. Moscoso. The embassy offices might provide some information.

Mr. COTTRELL. The USIA section of embassies is charged with that responsibility, Mr. Chairman.

Mr. PASSMAN. You requested no money for this item last year?

Mr. Moscoso. No; we did not.

Mr. PASSMAN. Did you coordinate this program with USIA?

Mr. Moscoso. Yes; USIA is a member of the coordinating team, Mr. Chairman.

Mr. PASSMAN. They were familiar with this special grant and its purpose?

Mr. Moscoso. And they are participating in the way it is handled.

Mr. PASSMAN. Did you discuss this project with them before it was made final, and you had the cooperation of USIA in this new program?

Mr. Moscoso. We obtained their participation after we had initiated the——

Mr. PASSMAN. You got their permission and asked them to participate after you had initiated the project?

Mr. MOSCOSO. Yes. They participated in the discussions with other U.S. agencies—Treasury, AID, State—and the OAS when the idea of OAS activities under resolution E was first talked about.

Mr. ROONEY. Do you want him to tell you about the United Nations information activities and the Armed Forces radio network?

Mr. PASSMAN. Please do.

Mr. MOSCOSO. The United Nations——

Mr. PASSMAN. And the Armed Forces radio network.

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. There are six or seven different types of informational services available to familiarize our friends of Latin America with this aid program; is that correct?

Mr. MOSCOSO. To inform them of their responsibilities under the charter of Punta del Este.

EXPENDITURES UNDER SPECIAL INFORMATION PROGRAM

Mr. PASSMAN. How much did they liquidate out of this $1,600,000?

Mr. MOSCOSO. As of May 24, $609,000.

Mr. PASSMAN. How much are you requesting for fiscal year 1964 for this same project?

Mr. MOSCOSO. We are not requesting.

We hope that the Latin American countries will be able to finance this program.

Mr. PASSMAN. From what fund was this money obtained?

Mr. MOSCOSO. This is from the bilateral "Inter-American program for social progress" appropriation.

Mr. PASSMAN. How much had you disbursed out of this $1,600,000 at June 30, 1963?

Mr. MOSCOSO. $609,000.

Mr. PASSMAN. To what nations did you disburse the money?

Mr. STERNFELD. We can't identify them.

Mr. PASSMAN. You said it was for the Latins themselves. You programed $1,600,000 and you do not know to what nations you programed it?

Mr. STERNFELD. We can supply that.

Mr. MOSCOSO. We can supply the detail on that.

Mr. PASSMAN. Do you not have the information on this project now?

Mr. STERNFELD. We can supply that. We can call down and get the information.

Mr. PASSMAN. Submit it for the record.

(The information follows:)

OAS INFORMATION PROGRAM

The $1.6 million public information grant is being used for the following purposes:

(*a*) Funding of a headquarters staff responsible for planning and formulating activities as well as producing and distributing materials for use in all Alliance countries. Guidance and control of the information personnel attached to the national Pan American Union (PAU) offices is exercised from this office. The national offices, in turn, feed ideas and material into the national committees, under whose aegis national programs for the Alliance are carried out. This activity serves all countries jointly		$700,000
(*b*) Information materials and activities budgeted by the headquarters staff also serve the total area		240,000
(*c*) Funds directly applicable to the individual countries total $500,000. They are used to provide for the strengthening of staff and related expenses of the national committees and contributions to the joint operating funds. This contribution will amount to $7,000 each for Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, and Venezuela; and $4,000 each for Bolivia, Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, the Dominican Republic, and Uruguay.		
The following indicates the latest budgeted amounts:		
Estimated expenditures by countries (in U.S. dollars):[1]		
Argentina	33,000	
Bolivia	26,000	
Brazil	33,000	
Chile	33,000	
Colombia	33,000	
Costa Rica	26,000	
Dominican Republic	26,000	
Ecuador	33,000	
El Salvador	26,000	
Guatemala	26,000	
Haiti	26,000	
Honduras	26,000	
Mexico	33,000	
Nicaragua	26,000	
Panama	26,000	
Paraguay	26,000	
Peru	33,000	
Uruguay	26,000	
Venezuela	33,000	
		500,000
(*d*) Finally, general administrative costs account for the remaining amount		160,000
Total		1,600,000

[1] These amounts are scheduled to cover the incountry expenses from roughly July 1, 1962, through February of 1964.

APPENDIX I

Status of OAS-PAU budget by object class as of May 24, 1963

[In U.S. dollars]

	Object class	Budget	Outstanding subobligations
01	Salaries and personal service contracts	919,033.71	383,000
02	Per diem	43,359.45	1,500
03	Travel	55,979.14	13,300
04	Reproduction and contractual printing	17,530.41	4,000
05	Supplies and services	9,689.39	5,500
06	Communications	14,986.99	2,500
07	Equipment	72,556.34	27,000
08	Rental of office space	77,989.39	64,000
09	All other (not otherwise classified)[1]	387,975.18	220,600
	Grand total	1,600,000.00	721,400

[1] This figure includes $100,000 direct grants to each of the national committees to be used in engendering further local contributions; it also includes $228,000 for information materials to be originated in the Washington office, including printed matter, radio tapes, motion pictures, etc.

Mr. PASSMAN. I yield to Mr. Rooney.

PREVIOUS TESTIMONY ON SPECIAL INFORMATION PROGRAM

Mr. ROONEY. Mr. Moscoso, I should like to call your attention to testimony at page 978 of the appropriations hearings on the Department of State which were held exactly 5 months ago, to the day.

Mr. ROONEY. In connection with the money appropriated by the Congress last year for the Alliance for Progress, did they not transfer $6 million of that money to the Organization of American States?

Mr. MORRISON. That is Ambassador Morrison——

Mr. ROONEY. Did they or did they not?

Mr. MORRISON. They did. Of course that was spent the first year of the Alliance.

Mr. ROONEY. And did not AID give OAS a grant of $1,650,000 for an information program?

Mr. MORRISON. That is what I am trying to explain.

Mr. ROONEY. Explain? You have not even mentioned it. What you said—Is what you said preliminary?

Mr. MORRISON. No, sir. You asked what part of the additional cost goes to public information.

Mr. ROONEY. I did not think you had a dime until I read a press release of AID that said "AID granted $1,650,000 for an information program on behalf of the Alliance for Progress." It is dated back on December 6, 1962.

Mr. MORRISON. We had to submit a budget and the budget got approved about 2 weeks ago. I was trying to answer your question of this $1,650,000 you asked, what part goes to public information.

Mr. ROONEY. You said $75,000.

Mr. MORRISON. That is only part——

Mr. ROONEY. Why should you have any money in view of the fact you got $1.6 million from AID?

Mr. MORRISON. This information program involves three parts. First, the strengthening of the Pan American offices in each country. That is the only thing that comes out of the amounts we were talking about. I had not gotten into the grants, but I was trying to answer specifically about the increase from 1963 to 1964.

During this very time we are expanding the national offices of the Pan American Union in each country and giving them a public relations director and a secretary on a full-time basis. With the $1.6 million we provide a permanent, full-time staff for the 19 national commissions, plus a clearinghouse in the Pan American Union office in Washington, plus a program in each country.

Mr. ROONEY. Will this include radio?

Mr. MORRISON. It will include radio.

Mr. ROONEY. Television?

Mr. MORRISON. Television, newspaper ads, et cetera.

Mr. ROONEY. This is one of the most serious indictments of the U.S. Information Agency I have heard in a long time. What you have been saying backs up what I found in Poland last December. Our Polish program does not get to the Polish people. It gets only to a few long-hair, hard-core Communists in Warsaw and everybody knows it except the birds at the Polish desk of the Voice of America.

Mr. MORRISON. That is exactly what I am trying to say.

Mr. ROONEY. Then the VOA is no good.

Mr. MORRISON. I am not saying they are not good. I am saying VOA is not the way to sell the Alliance.

Mr. ROONEY. This is another aspect to this. VOA does not rate in the lineup of stations people in Latin America listen to.

Mr. MORRISON. I am not here to criticize anybody.

Mr. ROONEY. However you sure have done a splendid job of it.

Mr. MORRISON. It is not a program from which they get their news. The things I refer to would be said by a leader in Uruguay. But I want to explain the $1.6 million which is the result of a longtime effort on my part to get some funds. I had to start with nothing. I had a big job to do and had to start with nothing, except what we had already, and getting the interest of those in the Latin American field.

Mr. ROONEY. Mr. Ambassador, we will take very serious note of what you have said today.

Now, I have only read part of this testimony, Mr. Ambassador, and this testimony taken 5 months ago to the day—to wit, March 13, 1963—convinced the subcommittee handling funds for the U.S. Information Agency program that they had entirely too much money, and acted accordingly.

That is all, Mr. Chairman.

Mr. PASSMAN. Thank you very much, Mr. Rooney.

REDUCTION OF USIA FUNDS FOR LATIN AMERICAN OPERATIONS

Mr. MOSCOSO. Mr. Chairman, Mr. Rooney says that the U.S. Information Agency is going to get less money to do this propaganda job in Latin America, and quite frankly, I am very much concerned about that. I think that this vehicle of the OAS organization assisting in the propaganda effort of the Alliance is a very desirable one, and is one way of getting the information to the people, utilizing the people of the country themselves, which is something that we do not have available in other areas where we are trying to operate.

Mr. ROONEY. Now, Mr. Moscoso, you and I have been pretty much in agreement all along, but on this one I am in complete disagreement with you. I think that we have enough money spent for an effective public relations or public information program in Latin America and everywhere else in the world. If they will only do a proper job, with the money that they have, we wouldn't be discussing this here now. There was no reason at all to set up another information service among this Organization of American States, without even notifying either body, either the House or the Senate, of the Congress of the United States. I don't see that you are on good grounds here at all.

Mr. MOSCOSO. Well, don't you think it is a desirable thing to have nationals of these countries themselves do the propaganda job? You know that is where the Communists have the advantage over us.

Mr. ROONEY. They should be doing it on their own and they should be doing it not with American taxpayers' money, but with their own

money in a spirit of gratefulness for the beneficence of the American taxpayers.

Mr. MOSCOSO. We hope to be able to get them to support this program on their own, Mr. Rooney, but as no doubt you know, this is an educational job. I don't know whether we can do it right away.

SCOPE OF INFORMATION PROGRAMS IN LATIN AMERICA

Mr. ROONEY. Now, in addition to radio, Mr. Ambassador, you have binational centers and information libraries throughout all these countries in this area; do you not?

Mr. MOSCOSO. In some countries we have binational centers.

Mr. PASSMAN. And you have in addition to radio and television, films and motion pictures throughout these countries; is that correct?

Mr. MOSCOSO. Yes, sir.

Mr. ROONEY. And you teach engineering in all these countries. Now, don't you think this is going about far enough, instead of using more of the American taxpayers' money to set up a separate information program?

Mr. MOSCOSO. This is a program sponsored and made available through the nationals, themselves. In other words, the United States gets the benefit of this program, without——

Mr. ROONEY. I can't agree with you on this subject. I have done my best, and I have listened to you carefully all through your presentation, and I found myself in sympathy with your position in most instances. However, in this one we are as far apart as the North and South Poles.

Mr. MOSCOSO. I shall try to convince Mr. Rooney at another occasion.

Mr. ROONEY. I am sure you won't be able to, but you'll have the chance to try.

Mr. PASSMAN. Thank you, Mr. Rooney.

Mr. Administrator, I am certainly inclined to agree that the recipients of our generosity should know about it, but we received testimony in prior years—and I can assure you it is in the record—that we were not interested in these people knowing where the aid came from, so long as it led to helping the people. Are you familiar with that old philosophy?

Mr. ROONEY. I never heard of that philosophy.

Mr. PASSMAN. It is in the record. I can assure you of that fact.

So I am glad that today we want people to know where the aid is coming from. Of course, it was also said in prior years that we are not competing with Russia, and that we would never permit ourselves to be blackmailed into giving aid. It mattered not what the others were giving, we were told, we would not be blackmailed into giving aid by any threats that Russia might give the aid if we did not do so. That testimony, too, is in the record. So I repeat, I am glad we are now taking a different position, as you indicate today.

CHILD FEEDING PROGRAM

At page 424 you have a new project, child feeding, do you not?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. You obligated $1,500,000 last year. How much did you disburse?

Mr. MOSCOSO. $200,000.

(The following information was subsequently supplied:)

CHILD FEEDING PROGRAM OBLIGATIONS

Total fiscal year 1963 obligations for the child feeding program were $390,000. Orders were placed on May 24 and 29 with the General Services Administration (GSA) through the Government (Surplus) Property Resources Division for a total of $378,000.

Latest available records indicate that only $60,000 was disbursed for this project in fiscal year 1963.

Mr. PASSMAN. You have on hand $1.3 million, and you ask for $1.5 million, which would give you $2,800,000 to be disbursed in subsequent years?

Mr. MOSCOSO. That's right.

Mr. PASSMAN. Could you project the cost to complete this program?

Mr. MOSCOSO. This is $3 million.

Mr. PASSMAN. How much did you request for this program in fiscal year 1963?

Mr. MOSCOSO. This was not justified, Mr. Chairman.

Mr. PASSMAN. This is another one of those programs for which you did not request anything, but you have obligated $1,500,000.

The Congress cut the bill last year $1,032,400,000 below the budget estimate, yet around the world we find these fantastically high programs started that had not even been justified on an illustrative basis.

I know you have contract services. With whom are these?

Mr. STERNFELD. These are the contracts for the preparation of the text materials to be used in the school-lunch programs, Mr. Chairman.

Mr. PASSMAN. Text materials?

Mr. STERNFELD. Yes.

Teaching people how to mix milk, to develop menus for the school-lunch program—there are textbooks being prepared in Spanish for the child-feeding program by people here in the United States who have been dealing with this in our schools.

Mr. PASSMAN. How much of this item is actually in food itself; or, rather, in commodities?

Mr. STERNFELD. $1,200,000 is in commodities, but that does not include the food, itself. That includes stoves, cooking utensils, cubes, storage facilities——

Mr. PASSMAN. What they are getting here is a lot of conversation and a lot of paperwork and a lot of textbooks and some stoves and trucks? There's no food, itself, in this child-feeding program, in the $3 million.

Mr. STERNFELD. That is correct; no food, but——

Mr. PASSMAN. This is a child-feeding program, but there is no food in the child-feeding program.

Mr. STERNFELD. But the title III, Public Law 480, program is providing the food for the child feeding.

AGGREGATE PUBLIC LAW 480 ASSISTANCE TO LATIN AMERICA

Mr. PASSMAN. That program goes into probably hundreds of millions of dollars, does it not?

Mr. STERNFELD. I am sorry, I don't know the total of the title III program.

Mr. PASSMAN. Does it sound reasonable that in Latin America there are perhaps hundreds of millions of dollars in Public Law 480 aid going in?

Mr. STERNFELD. That does not sound reasonable.

Mr. PASSMAN. You had one little country for $38 million. The total wold be over $200 million, would it not?

Mr. STERNFELD. I think there was $150 million in 1963.

Mr. PASSMAN. I am talking about the aggregate amount.

Mr. STERNFELD. $156.5——

Mr. PASSMAN. The aggregate of Public Law 480 aid since the inception of the program.

Mr. STERNFELD. You are talking about all titles?

Mr. PASSMAN. The aggregate of all Public Law 480 aid all food programs.

Mr. STERNFELD. $156.5 million in 1961.

Mr. PASSMAN. I am talking about since the inception of the program.

Mr. STERNFELD. Since the inception of the program, $956 million.

Mr. PASSMAN. That is almost a billion dollars. How long has this program been going on?

Mr. MOSCOSCO. Since 1954.

CHILD FEEDING PROGRAM

Mr. PASSMAN. We give away about $1 billion worth of food to Latin America. Then you stick in the region $1.5 million that you did not justify to Congress, even on an illustrative basis, and you label it, or caption it, "child feeding," which certainly would draw the sympathetic understanding of people who would let it go at that, but there is not a cup of milk in this entire project. It is a lot of trucks and stoves and textbooks.

After you have disbursed maybe $800 million in food, then you are going to spend, here, money that you did not justify, up to $3 million, to teach them how to use the food in the future. Why do you not get some type of label other than one might attract sympathy? This is called "child feeding," but there is not an ounce of food in the $3 million.

Mr. MOSCOSO. It is supplied from another source.

Mr. PASSMAN. Why did you not say so? Why did you not say here, "Equipment in connection with the school lunch program"?

All this is a supplement to what you are getting out of the country programs. Do you have any of this kind of equipment, ranges, or anything, out of the country programs?

Incidentally, have you checked with the surplus property program to see if any of this equipment may be available?

Mr. STERNFELD. This material is being ordered through the General Services Administration, sir, and they check on availability. The procurement of this material is being done by the people in AID who are responsible for procurement of the excess property.

Mr. PASSMAN. In how many countries are you going to put this "child feeding" program which winds up to be ranges, textbooks, spoons, and trucks?

Mr. STERNFELD. By the end of the fiscal year, we would expect to cover almost all of the countries in Latin America, sir.

Mr. PASSMAN. But this is a one-time proposition. You are starting it in 1963 and closing it in 1964? Is that what you said?

Mr. STERNFELD. That is what we are planning.

Mr. PASSMAN. How did they manage to utilize the nearly billion dollars, let us say $800 million, worth of food that we gave them from 1948 through 1962?

Mr. MOSCOSO. We have not given them that. There is some confusion. There is some $600-odd million of that.

Mr. PASSMAN. Maybe you got local currency. One of these disguised things.

You pop up with a new project that you had not thought of for 17 years of the program, and all at once, in this regional program, we see "child feeding," $3 million, and we find that somebody is going to sell some ranges and some textbooks. But you have not had this kind of project since the inception of the program until now, have you?

Mr. STERNFELD. We expect to raise the level of the program from reaching 3,800,000 children eventually to get to 12 million to 14 million children.

Mr. PASSMAN. But you did not think of this program until we had given them, placed in their possession nearly a billion dollars worth of surplus commodities.

Mr. STERNFELD. That did not go for a child-feeding program.

Mr. PASSMAN. You do not think children got any of those commodities?

Mr. STERNFELD. If their parents purchased some of the wheat or cotton or butter in the market.

Mr. PASSMAN. You did not justify this project to Congress last year.

Mr. STERNFELD. That is correct.

Mr. PASSMAN. You have had these hot lunch programs and children's programs going on in Latin America for several years under Public Law 480, have you not?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. Thank you.

SUCCESS OF CHILD FEEDING PROGRAM

Mr. MILLER. Mr. Chairman, I think this program has been quite successful in Latin America.

Mr. PASSMAN. You did not even request any funds last year, but then you obligated $1,500,000 and you spent only $200,000, and it is a success.

I am not talking about the food not being a success. I am talking about this particular project, which you have not even really started yet. You have disbursed only $200,000 out of $3 million.

Could you tell us, please, when you obligated the $1,500,000 that you did not request of the Congress last year?

Mr. STERNFELD. I do not have the information, sir.

Mr. PASSMAN. How about the Controller?

Mr. TENNANT. I do not have that information, sir.

Mr. MOSCOSO. We will furnish it for the record.

(The information subsequently supplied, follows:)

CHILD FEEDING PROGRAM: DATE OF OBLIGATIONS

Obligations for the child feeding program were for $390,000. On May 24 and May 29 orders were placed with the GSA for the bulk of these funds, totaling $378,000.

Mr. ROONEY. Since you are talking about this program, it might be well if we inquired, for the purpose of the record, as to exactly how the program works.

Mr. PASSMAN. Put it in the record. Also, I want the record to show I am not objecting to a school lunch program for children.

Mr. ROONEY. I take it that this program does not contribute the entire lunch. It is supplementation of a lunch program, is it not?

Mr. MOSCOSO. That is right. It is a supplementary meal.

Mr. ROONEY. Tell us what you contribute to the meal, whether it is by way of flour——

Mr. PASSMAN. Not through this program, Mr. Rooney. We are dealing with a different program altogether.

Mr. ROONEY. You said something about school lunch programs.

I am asking that the record show exactly how they use this money in connection with the program in these countries in the Alliance for Progress.

Mr. MOSCOSO. We will be happy to supply that.

Mr. ROONEY. That is a fair inquiry, is it not?

Mr. PASSMAN. Yes.

Mr. ROONEY. Someone might think, from reading this record, that we are going down there and cooking up lunches for these youngsters, and I am sure that is not the program at all. We are supplementing a lunch by way of certain surplus commodities that we have.

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. Not with this $3 million.

Mr. ROONEY. Is that the reason you need the trucks and other equipment?

Mr. MOSCOSO. That is right, sir, to expand the program.

Mr. PASSMAN. You have had almost a billion dollar food program for Latin America under all phases of Public Law 480 aid, and the law that preceded Public Law 480. I endorse it and I support the school lunch program.

But, after it has been in effect for years, we find out today that you opened up another spigot and stated that you obligated $1,500,000 for a new regional program for which you did not request funds or justify funds last year. Am I correct?

Mr. MOSCOSO. Up to now, you are.

Mr. ROONEY. You have already said that. That becomes apparent from the record.

All I ask is that the record disclose exactly what this money is to be used for.

Mr. MOSCOSO. We will give the detail for the record.

Mr. PASSMAN. Of this program for which you had not requested funds of the Congress, which you had not justified even on an illustrative basis, you obligated $1,500,000. You do not know what date you obligated it. You do know that you disbursed only $200,000 of the money. You do not know when you disbursed that amount, but

you do state that you opened up the program in 1963 and plan to close it in fiscal 1964. Is that correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. Put all the information you want in the record on the school lunch program. I agree with Mr. Rooney it is a good program, but I am now dealing specifically with this project in the region.

Mr. ROONEY. Let us find out exactly what it is, and then we can determine whether it is good or bad.

Mr. PASSMAN. They said they did not know when they obligated the money or when they spent it.

Did you not tell us earlier you did not know these facts?

Mr. MOSCOSO. The date.

Mr. PASSMAN. You do not know the date you obligated or spent the money or for what purpose the $200,000 was for. I asked that question.

Mr. MOSCOSO. The $200,000 we are spending for the program was probably spent for the very commodities that we are mentioning here.

Mr. PASSMAN. But you do not know specifically, do you?

Mr. STERNFELD. We would have to check?

Mr. PASSMAN. I wish you would do that and find out what date you obligated the $1,500,000 that you did not request of the Congress for a new program in the regional part of the overall program, and what you obligated the $200,000 for, and in the event you are going to open this part of the program in 1963 and close it in 1964, what you will be able to accomplish out of this amount of money when you relate it to approximately $1 billion in commodities previously provided under different spigots of foreign aid.

Mr. STERNFELD. Mr. Chairman, this program is not related to the billion dollars worth of Public Law 480. If you wish, we can try to relate it to what we have put into school lunches and the child-feeding program.

Mr. PASSMAN. We want you to relate it to the school lunch programs.

Mr. STERNFELD. That is not a billion dollars in previous years.

Mr. PASSMAN. You yourself established that $900-and-some-odd million, or thereabout, had gone into Latin America through the Public Law 480 program. What has gone into the school lunch program? But you agreed to insert the information in the record, did you not?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. If you had had the information——

Mr. ROONEY. You might permit him to answer. I am becoming very much interested in it. I would like to hear it.

Mr. PASSMAN. I asked, and he said he did not have the information. They said they would insert the information in the record.

Mr. MOSCOSO. We will insert it.

(The information supplied follows:)

NATURE OF THE CHILD FEEDING PROJECT

Under the terms of title II and title III of Public Law 480, child-feeding programs have been carried out in Latin America for a number of years. Some programs are carried out under the sponsorship of a U.S. registered voluntary relief agency such as CARE, Catholic Relief Services, Church World Service, etc., while

some are conducted on a government-to-government basis. The majority of children are reached through programs carried out in schools, but many other children are reached in maternal and child-health programs (where distribution is made at health centers), through service to children's institutions (such as orphanages), etc.

The usual procedure is for the United States to provide supplementary foods from surplus stocks and to transport it to the port of entry into the cooperating country. The cooperating country always admits the food duty free and usually pays for the costs of offloading, handling, warehousing, internal transportation, food processing, and distribution. Mothers' groups, and other volunteer groups sometimes help to prepare the food. To the degree possible, the responsibility and the costs of running child-feeding programs are shifted more and more to the host country.

In Alliance for Progress countries, the total number of school-age children being reached was as follows:

	Millions
Fiscal year 1960	2.5
Fiscal year 1961	2.8
Fiscal year 1962	3.9

In fiscal year 1963, a decision was made to initiate a special effort to rapidly increase the number of Latin American children receiving a supplementary ration of U.S. food for peace commodities from 3.9 million to 12 or 13 million. Thus it was necessary to reach the children who were most remote from the major population areas. These are the children in greatest need; but they are also the most difficult to reach.

It is estimated that it would require $1,500,000 a year for 2 years in order to reach this target. The funds would provide trucks to transport the food to these remote areas; stoves, pots, and pans to prepare the food; cups, plates, and spoons to be used by the children; as well as for the preparation, printing, and distribution of educational and training materials.

Wherever possible, U.S. Government owned excess property is utilized. All of the trucks being provided for the program are being procured from this source—which costs about 15 percent of the open market acquisition price.

It is estimated that the number of children being reached is rapidly increasing. A regional workshop has been held for supervisors from all over Latin America, and workshops are beginning to be held in the individual countries. Three manuals, eight booklets, and seven posters on the use of foods and operation of child-feeding programs have been prepared and are being distributed throughout Latin America. Sponsors have been encouraged to undertake new or expanded programs on the understanding that help will be forthcoming in the form of equipment. This expansion could not have taken place and a continuing expansion could not occur without the provision of such help, which is being provided on a one-time basis.

Some of the pertinent cost figures may be of interest:

(*a*) The full market value of supplementary food rations for 9 million children for 1 year is $24.39 million; the cost of ocean transportation is $4.17 million. Therefore, the cost to the United States of providing supplementary feeding to Latin American children is about 1 cent a day per child. The dollar equivalent contributions of the Latin American countries totaled $13,211,000 in the past school year. This figure does not include salaries of administrators, teachers, food handlers and distributors or the value of work contributed by parents and other local voluntary workers.

(*b*) The cost to the project for procuring, rehabilitating, and shipping the first 66 vehicles is approximately $59,400. If these same vehicles were to be procured on the open market the cost of procurement and shipment would be over $330,000.

OAS TECHNICAL COOPERATION PROJECT

Mr. PASSMAN. I note from your statement, on page 429, in connection with the OAS technical cooperation project, that AID has been contributing funds on a ratio of 70 percent United States to 30 percent member countries, and that you propose gradually to lower your contribution as other countries contribute more. Is that correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. What countries are contributing the 30 percent as against our 70? You may give us the number now and put the names in the record.

Mr. MOSCOSO. Argentina——

Mr. PASSMAN. Just give us the number and put the names in the record, please.

Mr. MOSCOSO. Nineteen.

(The information requested follows:)

Contributions supporting OAS program of technical cooperation, program year 1963

[U.S. dollars]

Country	Pledge	Percent	Country	Pledge	Percent
Argentina	35,000.00	1.04	Honduras	5,000.00	0.10
Bolivia	(1)		Mexico	29,450.00	.90
Brazil	540,540.56	16.19	Nicaragua	(1)	
Colombia	153,847.50	4.61	Panama	6,000.00	.20
Costa Rica	6,750.37	.20	Paraguay	5,000.00	.10
Cuba	(1)		Peru	28,000.00	.80
Chile	272,270.00	8.15	United States [2]	2,200,000.00	65.90
Dominican Republic	7,000.00	.20	Uruguay	(1)	
Ecuador	4,500.00	.10	Venezuela	30,000.00	1.00
El Salvador	6,722.00	.20			
Guatemala	7,000.00	.20	Total	3,337,080.43	100.00
Haiti	(1)				

[1] These countries had not pledged their contributions for the 1963 program as of Aug. 19, 1963.
[2] The total U.S. obligation in fiscal year 1963 was $2,500,000, which included $300,000 for the calendar year 1962 contribution.

Mr. PASSMAN. Putting it on a percentage basis, if we break it out at an average, it means 19 nations are putting up 1½ percent each, and we are putting up 70 percent. Am I applying accurate arithmetic there?

Mr. ROONEY. No.

Mr. PASSMAN. If there are 19 nations putting up 30 percent and we are putting up 70 percent, what would be the average percentage of each nation? Let us so how far off I am?

Mr. MOSCOSO. Yes, that is about right.

Mr. PASSMAN. Mr. Rooney said no.

Mr. ROONEY. 1½ percent to the 70 percent, that would be the 19th part of 70 percent.

Mr. PASSMAN. What do you get, Mr. Director?

Mr. TENNANT. I did not compute it.

Mr. PASSMAN. I stated that 19 countries are putting up 30 percent of the total money, whereas we are putting up 70 percent. On a percentage basis, how much would that be per country, on the basis of 19 countries, ours being 70 percent of the total? Make it $100. We are putting up $70, and 19 countries are putting up $30. What percentage would that be for each country on that basis? About 1½ percent?

Mr. TENNANT. On an average, yes.

Mr. ROONEY. And what would be the percentage of the share in each of those countries?

Mr. MOSCOSO. You would have have to divide that.

Mr. PASSMAN. This is a regional account. It goes into a pot.

Mr. MOSCOSO. That is right.

Mr. PASSMAN. This is for the 19 Latin American countries?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. What we get is the satisfaction of knowing that we are generous, helping a friend. Is that right?

Mr. MOSCOSO. That is right.

Mr. STERNFELD. Mr. Chairman, I would like to volunteer some information to correct the page here. Page 429 shows actual through June 30, 1962. The figure should have read $14,300,000, and not the figure included in there. That is the project we have just been discussing.

Page 429, OAS technical cooperation. Under the estimated fiscal year 1963, the obligated figure should be shown as $2,500,000.

Mr. PASSMAN. How much are you requesting?

Mr. STERNFELD. We are requesting $2,300,000.

Mr. PASSMAN. How much did you request?

Mr. STERNFELD. Did we request last year?

Less than $2 million.

Mr. PASSMAN. "Less" could be anything down to six bits.

Mr. STERNFELD. I know we increased our amount, because other countries came in, and we maintained our percentage.

On this program, we requested $1,700,000.

Mr. PASSMAN. Could you project the cost of this thing to completion, since that figure has gone up? You had just a dash in this book; is that right?

Mr. STERNFELD. That is right.

Mr. PASSMAN. Let us go back and pick up this other figure.

Mr. STERNFELD. $29,100,000.

That is from the inception of the program in 1951.

Mr. PASSMAN. Thank you.

OAS–OECD TRAINING FREE WORLD FELLOWSHIPS

In connection with the OAS–OECD training free world fellowships, page 436, I am wondering whether this is the same project for which last year you indicated you had obligated $1,500,000 in fiscal 1962, and now you are requesting $300,000 for fiscal 1964?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. What happened to the $1,500,000 of 1962 obligations?

Mr. STERNFELD. $1.5 million was not obligated.

Mr. MOSCOSO. We obligated $610,000.

Mr. ROONEY. That was in 1963?

Mr. STERNFELD. It is on page 494. This is an estimate of the obligations that we made in 1962, and that amount was never obligated, sir.

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Mr. PASSMAN. In July of last year, I believe, you were justifying this figure.

Did you justify the $1,118,000 that you obligated for the American Institute for Free Labor Development project, on page 431?

Mr. STERNFELD. It was not in our presentation book, but in the testimony——

Mr. PASSMAN. Did you justify this project last year?

Mr. STERNFELD. Yes, we discussed this project with the committee on pages 162 and 163 of the hearings.

Mr. PASSMAN. How much did you justify?

Mr. STERNFELD. $250,000.

Mr. PASSMAN. How much did you obligate?

Mr. MOSCOSO. $1,118,000.

Mr. PASSMAN. What amount are you requesting for fiscal 1964?

Mr. MOSCOSO. $850,000.

Mr. PASSMAN. Project the cost of this project to completion, if you can.

Mr. MOSCOSO. $5 million.

Mr. PASSMAN. A rounded out, even figure of $5 million.

Thank you.

INTER-AMERICAN POLICE ACADEMY

I note that you obligated $475,000 in fiscal 1963 for the Inter-American Police Academy, although your justifications were for only $300,000, and that you estimate in fiscal 1964, $525,000. Is that correct?

Mr. MOSCOSO. That is correct.

Mr. PASSMAN. You did obligate more than you requested?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. What is the cost to complete this project by the end of 1969?

Mr. MOSCOSO. $4 million.

FORMAT OF JUSTIFICATION MATERIAL

Mr. PASSMAN. With reference to the proposed new format that we have agreed would be good, you are going to have it flash in your eyes the minute you turn the pages. You will start off by obligating—you have some projects as low as $2,000, but when you look up in the right-hand corner—it would cost too much to put it in red, would it not?

Mr. MOSCOSO. I think it would still be a good idea.

Mr. PASSMAN. It would cost too much to have a double run and get red up there?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. That would certainly call it to a person's attention. Have you your own machines down there?

Mr. MILLER. For printing this?

Mr. PASSMAN. Yes.

Mr. MILLER. For the project book.

Mr. PASSMAN. Do you have a two-color deal?

Mr. TENNANT. These project data sheets are typewritten on a paper mat and then duplicated and assembled by a contractor printer.

Mr. MILLER. We will be glad to get an estimate of the cost and see whether it is too much or not.

Mr. PASSMAN. Find out what it will be; and while you are doing it, find out what it cost to put all this "gray stuff," where you classify information in there, will you?

Mr. MILLER. We certainly will, sir.

Mr. PASSMAN. You know what I mean by the "gray stuff?"

Mr. MILLER. Yes, sir.

(Information supplied follows:)

ESTIMATE OF ADDITIONAL COST FOR PRINTING IN TWO COLORS

Based on the number of project sheets included in volumes III and IV and using the same process, it is estimated that it would have cost between $1,600 and $1,700 additional to print the data in two colors.

The gray shading in volumes I and II involves a total cost of about $5 for the material which, at the time of final review, is applied to the copy by AID personnel prior to printing. There is no additional printing cost involved.

LATIN AMERICAN POLICE ACADEMY PROJECTS

Mr. PASSMAN. How does this project differ from the proposed police academy that AID is planning to initiate here in the Washington area?

Mr. MOSCOSO. This is for Latin America in Panama.

Mr. PASSMAN. How does the project differ from the proposed police academy the Agency is planning to initiate in the Washington area in fiscal year 1964?

Mr. STERNFELD. (Off the record.)

That does not mean the Latin Americans are going to be trained in Spanish in the proposed academy.

Mr. PASSMAN. I asked you a simple question, how does this project differ from the proposed police academy that AID is planning to initiate in the Washington area?

Mr. SCHEINMAN. The only portion of the police academy testimony which was classified related to the background of the development of the plans for the academy. The fact of the Agency's proposal and the training programs which would be conducted in the Washington academy, were not classified.

Mr. PASSMAN. The gentleman from New York may review the record and the previous testimony of the previous witnesses with respect to the previously discussed academy?

Mr. SCHEINMAN. Yes.

Mr. MOSCOSO. I do not know the details of the academy.

Mr. PASSMAN. Will you please fill the administrator in on it?

Mr. SCHEINMAN. Yes.

My recollection is that at the time we discussed the Washington academy with the committee, the witness indicated that the academy in Latin America would provide training in the Spanish language.

Mr. MOSCOSO. This will be Spanish speaking.

Mr. PASSMAN. Please tell that man who came up here, he did not know what he was talking about; that security is not involved and his testimony was not classified; that he was mistaken.

REGIONAL BOOK PROGRAMS

How much did you request and justify last year for the regional book programs project, on page 435?

Mr. MOSCOSO. It had a different title last year.

Mr. PASSMAN. What was the title last year?

Mr. MOSCOSO. Regional technical aids center.

Mr. PASSMAN. What was the amount?

Mr. MOSCOSO. Regional technical aid center, $1 million.

Mr. PASSMAN. Again, what is the name of the thing this year?

Mr. MOSCOSO. The name is regional books program, but we mention the fact that this includes the regional technical aids center.

Mr. PASSMAN. You started this in 1957?

Mr. STERNFELD. Here again, sir——

Mr. PASSMAN. You started this program in 1957?

Mr. STERNFELD. That is correct.

Mr. PASSMAN. Did you phase it out under one name and open it up under another name?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. Did you change the name of the program?

Mr. STERNFELD. As you will note, we said that this program began in 1957. Again, I must indicate the book is in error in terms of the actual obligations to June 30, 1962, and the figure should read "$1,167,000."

Mr. STEED. Instead of what amount?

Mr. STERNFELD. $160,000.

Mr. PASSMAN. How much money did you request for the project under the old name that is applicable to the project under the new name?

Mr. STERNFELD. $1 million.

Mr. MOSCOSO. $1 million.

Mr. PASSMAN. How much did you obligate?

Mr. MOSCOSO. $1,100,000.

Mr. PASSMAN. Now project the estimated cost to the end.

Mr. STERNFELD. $5 million.

SEMINARS AND WORKSHOPS PROJECT

Mr. PASSMAN. How many seminars and workshops did you hold during fiscal 1963 at a cost of $250,000?

Mr. STERNFELD. We haven't the information here.

Mr. PASSMAN. Can you tell us how much just one of these seminars cost?

Mr. STERNFELD. We have the figures on the workshop here and we will have to supply——

Mr. PASSMAN. Would one of those workshops deal with the role of a woman in the economic development of Latin American agriculture?

Mr. STERNFELD. That is included.

Mr. PASSMAN. You are the people who administer this program?

Mr. STERNFELD. Yes, sir.

Mr. MOSCOSO. We haven't our files here, Mr. Chairman.

Mr. PASSMAN. Thank you.

Mr. CONTE. Do you have a workshop on electronics, data processing?

Mr. WEISSMAN. Census data.

Mr. PASSMAN. You will submit the information on the seminar and workshop?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. And a breakdown of costs?

Mr. STERNFELD. By project and by workshop.

Mr. PASSMAN. Give us the detail.

Mr. WEISSMAN. $57,710 for the data processing workshop.

Mr. CONTE. You did have it, then.

Mr. WEISSMAN. Bureau of Census, U.S. Department of Commerce.

Mr. PASSMAN. Will you put the other detail in the record?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. The number of seminars and workshops and the cost of each one.

Mr. MOSCOSO. That is right.

(The information requested follows:)

SEMINARS AND WORKSHOPS

Seminars and workshops for which fiscal year 1963 funds were obligated

Johns Hopkins University School of Medicine $53,100

A 2-month seminar, held in the spring of 1963, was attended by 12 key health ministry officials of 10 Latin American countries and 5 other oversea officials. Emphasis was placed on the country's educational facilities, organization, health facilities, and supplies. Through the "case method" an analysis of community needs, health demands, and health resources was made. Johns Hopkins staff is currently undertaking followup of the participants in their respective countries to assist them in analyzing and developing their health programs.

Audiovisual communications workshop 6,500

Fiscal year 1963 funds provided for the report and evaluation of a 4-month audiovisual workshop for 45 participants from 15 countries. The funds also provided for the transport of workshop supplies and materials.

This course, held February 5–June 5, 1962, at the University of Costa Rica in San Jose, trained key educational personnel from the Ministries of Education, Agriculture, Health, and Public Safety in techniques required to plan, produce, use, and evaluate audiovisual communication materials. It is intended that they, in turn, produce and teach the production and use of these materials in their respective fields. The training already had indicated its "multiplier" effect in that almost all of the participants have introduced training courses in their respective organizations to improve the teaching methods of technicians on their staffs.

National Rural Electric Cooperatives Association 10,000

The NRECA conducted in Washington a 6-day management institute in June 1963 for 12 Latin American leaders of rural electric cooperatives, emphasizing management functions, planning principles, and techniques. The management institute was a part of a total NRECA training program based at the University of Wisconsin. In addition, the NRECA is auditing the training given to oversea participants by several electric cooperatives, and is responsible for publication in Spanish of training manuals.

Training aids to expand agriculture credit, cooperatives, and related technical skills 53,700

The expansion of agriculture credit facilities and cooperative organizations is a major goal in most Latin American countries. In the past 18 months over 400 new credit unions have been organized in Latin American countries, resulting in an urgent need for trained personnel to administer them. 2 regional seminars were held; 1 dealing with agriculture credit and cooperatives met in Buenos Aires June 11–22, 1962, and was attended by 145 participants from 14 countries; a 2d seminar held in Rio de Janeiro, Brazil, May 27–June 9, 1962, dealt with marketing, storage, and processing of agricultural products and was attended by 52 participants from 14 countries.

These funds ($53,700) were used to translate, publish, and distribute reports of the seminars in English, Spanish, and Portuguese; and, for the production of a 16-millimeter film to be used in training activities in Latin America conducted by the Credit Union National Association of the United States

Seminars and workshops for which fiscal year 1963 funds were obligated—Continued

Role of women in urban development	$30,000
42 women leaders from 8 Latin American countries attended a 2-week workshop in Bogotá, Colombia, on this subject. This conference stimulated the organization of volunteer groups at the neighborhood level in concrete activities to promote improved health, housing, and school conditions in their areas. The workshop and AID's support of it received widespread publicity in the Latin American press.	
Funds for the workshop covered travel and per diem for all participants and workshop leaders; consultant fees for 2 U.S. experts; and general administrative costs.	
Bureau of the Census, U.S. Department of Commerce	53,710
A worshop on "Data Processing of Economic Censuses" was held in Costa Rica Feb. 11–Apr. 5, 1963. 26 technicians from 14 Latin American countries participated. The 2-month course provided the participants with improved and uniform techniques and methodology for the conduct of the censuses. These participants will have a major voice in economic census programs on which the Latin countries will spend about $10,000,000 for which they already have considerable responsibility.	
Total fiscal year 1963 obligations	207,010

TAX ADVISORY SERVICE PROJECT

Mr. PASSMAN. I note that you obligated $135,000 for fiscal 1963 for the tax advisory service project, on page 440, which appears to be the pay, per diem, and travel for the Internal Revenue Service employees. Is that correct?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Is this a supplement to the individual agents which AID sends to the individual countries?

Mr. MOSCOSO. This is the training program and not the cost of those people.

Mr. PASSMAN. We have gone through all of these countries and you have agents who go directly into the countries to train these people.

Mr. MOSCOSO. That is right. This is the training.

Mr. PASSMAN. Is this the cost of training agents you send into the country?

Mr. MOSCOSO. That is right.

Mr. FLYNT. What is the purpose of conducting the tax advisory service as set down on page 440?

Mr. MOSCOSO. The idea is to train more internal revenue agents and officers who will be utilized in Latin America.

We have created a reserve. We don't know exactly when they will be needed. We are training them so we can make them immediately available and already trained so we will not lose any time.

Mr. FLYNT. Those are U.S. Internal Revenue agents?

Mr. MOSCOSO. Yes. The Treasury Department established this reserve of people especially trained to be sent down immediately.

Mr. FLYNT. For what purpose would we have Internal Revenue agents operating in South America?

Mr. Moscoso. To lend the Latin American governments and their finance ministries assistance to improve administration and collection.

Mr. FLYNT. Is that not a function of the individual Latin American country rather than a function of the U.S. Government?

Mr. Moscoso. This is technical assistance. We don't collect taxes but teach them how to collect taxes.

Mr. FLYNT. Have they asked for this service?

Mr. Moscoso. Yes, very definitely.

Mr. FLYNT. When and by whom?

Mr. Moscoso. We shall supply that for the record. I was personally present one day when the president of a country requested this and we agreed to supply this service.

(Information supplied follows:)

Requests for tax administration assistance

IRS TAX ASSISTANCE

Requested by—	Service requested	Date	Duration
Bolivia	Review of proposed ADP installation	September 1962	1 month.
Chile	Tax administration survey	June 1961	3 months.
Do	Assistance in tax intelligency	September 1961	9 months.
Do	Review and assistance with ADP installation	January 1961	Less than 1 month.
Do	Initiation of tax modernization project	April 1962	2 years.
Do	1. Facilities management	January 1963	2 months.
Do	2. Position classification	February 1963	6 months.
Do	3. Tax audit assistance	April 1963	1 year.
Do	4. Intelligence assistance	do	2 years.
Do	5. Fiscal and facilities management	June 1963	1 year.
Do	6. Statistics and planning	do	3 months.
Do	7. Statistics and planning	do	1 month.
Colombia	Review of ADP installation	June 1962	Do.
Do	Initiation of tax modernization project	June 1963	2 years.
Do	Property tax administration survey	do	1 month.
Costa Rica	Survey of ADP installation	August 1962	1½ months.
Ecuador	Evaluation of request for tax administration assistance.	June 1962	1 month.
Do	Determination of staffing requirements for tax administration improvement project to be financed through an AID-GOE loan (project director and 114 man-months of service now pending).	May 1963	Do.
Guatemala	Survey of tax administration	March 1963	Do.
Honduras	do	June 1963	2 months.
Do	Tax auditor training	September 1963	4 months.
Do	Tax modernization project	November 1963	1 year.
Nicaragua	Preliminary planning for tax administration survey to be conducted in September 1963.	May 1963	1 week.
Do	Tax administration survey	September 1963	1½ months.
Panama	Training advice for tax auditors (assistance in organization and operation of internal revenue Department requested. First adviser leaving in September 1963 for a 2-year period).	April 1963	2 months.
Peru	Evaluation of ADP installation	February 1962	1 month.
Do	Survey of tax administration	April 1963	2 months.
Do	Review of progress with ADP installation	May 1963	1 month.
Venezuela	Evaluation of ADP installation	September 1962	2 weeks.

AID ASSISTANCE THROUGH CONTRACT

Requested by—	Service requested	Date	By whom
Costa Rica	Study of public register (recording of real property).	March 1963	J. L. Jacobs & Co.
Do	Establishment of procedures for real property tax administration.	June 1963	Do.
Panama Costa Rica Guatemala Honduras El Salvador Nicaragua	Aerial surveys for cadastral mapping as well as other uses. Group of countries working out area project.	1963–64	Undetermined at present.
Chile	Real property survey and mapping	February 1963	Areo Services, Inc.

AID DIRECT ASSISTANCE

Ecuador	Feasibility study of revenue improvement program to be financed by AID–GOE loan.	November 1962	AID with tax adviser.
Dominican Republic	Consultation concerning initiation of training program for tax personnel.	December 1962	Do.
Panama Costa Rica Guatemala El Salvador	Technical advice and assistance in improving real property tax administration.	1963–64	AID regional tax adviser.

Mr. PASSMAN. It is most impressive, is it not, when one of these people makes a request?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. With that kind of approach it does not take long to get an AID commitment, does it?

Mr. MOSCOSO. It doesn't take long for us to supply the service.

Mr. ROONEY. Do they ever volunteer to pay the transportation and keep of these Government employees, for instance, those from the Internal Revenue Bureau?

Mr. MOSCOSO. It may have happened and I don't know.

Mr. ROONEY. You perhaps would have a heart attack if you ever heard of that happening, would you not?

Mr. MOSCOSO. Not exactly.

Mr. ROONEY. You must be in very good health.

Mr. CONTE. I think the Ambassador may be able to straighten out the record. You said you had money here to train the agent to go down there to train agents to South America.

Mr. MOSCOSO. That is right.

Mr. CONTE. This agent already is trained?

Mr. MOSCOSO. That is right, but this is language capability and the fiscal systems of Latin American countries.

Mr. CONTE. Internal Revenue has some 60,000 agents of all kinds and types in the U.S. Government. Among that 60,000 there must be some who speak Spanish.

Mr. MOSCOSO. There perhaps are some, yes, but they do not know the tax system of these countries. This is highly specialized training they go through.

Mr. CONTE. All right.

Mr. MOSCOSO. Sometimes the Spanish-speaking agent may not be available.

Mr. CONTE. I just point that out. For I believe that amongst the 60,000 agents there must be a handful of Spanish-speaking agents in the U.S. Service, and also they are so keen and adapted in accounting procedure and law that it would not take them very long to pick up the tax system of that country on the airplane on the way down there.

Mr. MOSCOSO. No.

Mr. CONTE. Listen, from the testimony presented here there are not too many paying taxes down there so there can't be too many tax laws.

Mr. PASSMAN. What will it cost to complete this project?

Mr. MOSCOSO. $1,250,000.

Mr. PASSMAN. From start to finish?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. What is the number of U.S. agents involved?

Mr. MOSCOSO. There will be 25 in 1963.

Mr. PASSMAN. For all Latin America?

Mr. MOSCOSO. No. There also will be some State and local tax experts.

Mr. STERNFELD. We haven't the total figures here to completion.

Mr. PASSMAN. Can you get the information for us?

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. Put it in the record.

Have you an arrangement with the Internal Revenue Service to train internal revenue agents for Latin American countries?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Do you remiburse the Bureau of Internal Revenue?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. For their costs?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. Can you give us an idea as to the amount of money you have reimbursed the Internal Revenue Service for services provided?

Mr. MOSCOSO. Yes, sir.

Mr. PASSMAN. And whether or not it includes travel and all other expenses.

Off the record.

(Discussion held off the record.)

Mr. MOSCOSO. That is right.

Mr. ROONEY. If we have the total cost to the taxpayer for the salary, transportation, per diem, and all related costs it will give the complete picture. Then give an indication of the amount reimbursed to the Bureau of Internal Revenue for the salaries and whatever else is included.

Mr. MOSCOSO. We shall supply that.

(The information supplied follows:)

REIMBURSEMENTS TO INTERNAL REVENUE SERVICE FOR TAX ADMINISTRATION ASSISTANCE

In accordance with previous AID–IRS agreements, AID has reimbursed IRS for the salaries of agents temporarily assigned to Latin American missions as tax administration consultants or advisers. These reimbursements are as follows:

IRS salary costs:	
Fiscal year 1962	$10,783
Fiscal year 1963	37,050

Other costs, such as travel and per diem, were directly funded by AID as follows:

	Fiscal year 1962	Fiscal year 1963
Travel	$4,000	$4,500
Per diem	4,320	10,260
Other related	400	450
Total AID direct funded costs	8,720	15,210

On May 28, 1963, an interagency agreement was signed which provided that IRS would henceforth fund all the costs (salary, per diem, travel, and other) of tax administration assistance to Latin American countries subject to reimbursement by AID.

Mr. PASSMAN. I serve on the subcommittee with my distinguished colleague, Mr. Conte, which handles the money bill for the Internal Revenue Service.

I recall no discussion during our hearings where they specifically requested money for this purpose or whether they indicated they received such reimbursement.

The staff assistant to that subcommittee also is here and he does not remember anything of that nature.

Mr. ROONEY. That would be right in the committee print for Treasury and Post Office appropriations.

Mr. PASSMAN. There is nothing in there for this purpose so far as I know.

PROJECT FOR STRENGTHENING LOCAL GOVERNMENT

Would you comment briefly on your proposal for the new project entitled "Strengthening Local Government," for which you request $320,000 in 1964?

Mr. MOSCOSO. We are attempting to assist the Latin American governments in solving some of the problems of the local communities, particularly the municipal governments.

In Latin America we have a phenomenon which is almost unique there, and that is that there is a macrocephalic growth of the societies, usually one big city dominating the whole economy, and we are trying to develop the smaller cities and trying to give them the technical assistance which will permit them to solve some of the problems.

Mr. PASSMAN. We are dealing with a regional program which is a supplement to the country programs through which you fund project by project.

This is a side kitty from which you can draw additional personnel and supplementary funds to the country program?

Mr. MOSCOSO. Yes; because it is easier to do it this way.

Mr. FLYNT. Let us go off the record.

(Discussion held off the record.)

Mr. PASSMAN. Will you give us the cost of completion of this project?

Mr. MOSCOSO. $700,000.

INTER-AMERICAN COOPERATIVE FINANCIAL PROJECT

Mr. PASSMAN. You have an inter-American cooperative financial project, shown on page 442, for which you are requesting $250,000 for fiscal 1964; is that correct?

Mr. MOSCOSO. It was not possible to complete——

Mr. PASSMAN. I asked if you were requesting $250,000.

Mr. MOSCOSO. We are.

Mr. PASSMAN. Did you request any funds for this project last year?

Mr. MOSCOSO. No.

Mr. PASSMAN. You did not justify this project; you did not request funds for it.

How much did you obligate for the project last year?

Mr. MOSCOSO. Nothing.

Mr. PASSMAN. These books are really fouled up.

Mr. STERNFELD. This was an estimate made in February.

Mr. PASSMAN. You put on the books in February that you obligated $300,000.

Mr. STERNFELD. Estimated.

Mr. PASSMAN. You have not brought up new books, have you?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. You show you liquidated $100,000. What kind of a guessing game are you people running?

We find out now you obligated nothing and you did not disburse anything.

Mr. MOSCOSO. That is right.

Mr. MILLER. Mr. Chairman, we prepare these books in about February of the year. It is our understanding that this presentation will be made as quickly as possible, so we try to give the best estimates we can at that time.

Mr. PASSMAN. A lot of this stuff is just as phony as a $3 bill.

You say that you have a fine project here. You give it a nice, fancy name. You show when it was started. You say you obligated $300,000 and you spent $100,000, and you had unliquidated $200,000.

Now you say you did not have any such project—you obligated nothing, carried over nothing, and so on.

It leads me to think this thing is a guessing game from April to September.

However, I have reviewed it correctly so far as the information is concerned?

Mr. STERNFELD. That is right.

Mr. PASSMAN. It is running true to form.

What is the amount of the proposed AID credit to provide capital to this fund?

Mr. MOSCOSO. Nothing has been provided for this organization.

(Discussion held off the record.)

Mr. FLYNT. Before you leave page 442, in light of the colloquy that just took place, would we be correct in striking under "Estimated obligations, fiscal year 1963," the figure 300?

Mr. MOSCOSO. Yes.

Mr. FLYNT. And in the next column would we be justified in striking the figure of 200?

Mr. MOSCOSO. Yes.

Mr. ROONEY. Mr. Flynt, I think the purpose of the chairman in making his inquiry is this:

When these figures were set up at the beginning or the middle of fiscal year 1963, you expected at that time to obligate $300,000?

Mr. MOSCOSO. That is right.

Mr. ROONEY. And you would have paid off $100,000 of the $300,000?

Mr. MOSCOSO. That is right.

Mr. ROONEY. But in running your program you did not get to the point of doing either of these things?

Mr. MOSCOSO. That is right.

Mr. ROONEY. But, as the chairman says, why did you not volunteer this fact rather than require the question to be asked?

For one, as I sit here and look at this page, this is a program in existence. Nobody says anything. If the question were not asked by the chairman, we would all be deluded, if that is the proper word, into thinking that this is a going program when it yet has not even been started.

Is that your point, Mr. Chairman?

Mr. PASSMAN. It is.

Off the record.

(Discussion held off the record.)

Mr. ROONEY. Has as yet a contract been entered into with the Fund for International Cooperative Development?

Mr. MOSCOSO. No; there has not.

Mr. ROONEY. Again if we were to read page 442, we would be lulled into assuming that such a contract was already in existence. Is that a fair statement?

Mr. MOSCOSO. Yes.

Mr. STERNFELD. Part of the problem here is that we are in a position of having more up-to-date knowledge on these regional projects because they are operated out of Washington rather than these other projects which are obligated in the field, reports on the specific individual projects item by item are not contained as——

OUTDATED INFORMATION ON PROJECT DATA SHEETS

Mr. RHODES. How many more of these projects do you have which are in a similar position?

Mr. STERNFELD. I have tried to indicate as each project came along, where there was later information.

Mr. RHODES. But we don't get to considering every one of them individually.

Mr. PASSMAN. We spot check only.

Mr. RHODES. We spot check. It seems we should have some sort of information for the record as to which of the projects are different from the manner in which they are presented in this book.

Mr. PASSMAN. Is it not also true that we have run across scores of projects for which you did not request funds and you did not justify the projects to Congress, but you did obligate the funds?

Mr. MOSCOSO. Yes.

Mr. PASSMAN. In some instances you did make some disbursements from the funds?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. So that was a guessing game just like this, except that on some of those projects you disbursed funds but on some you did not. Is that a statement of fact?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Thank you.

Mr. Moscoso. I wanted to say that Mr. Merrill usually indicates those projects in which there has been such a discrepancy.

Mr. PASSMAN. We work this thing together, and a lot of this is just spot checking. Many times we flip over these pages and run into these projects as we go along.

We could not possibly go over 2,900 individual projects, or 2,400 projects and subprojects, in 100 nations, could we?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. We just spotcheck it. I would almost bet you that we could flip to almost any page in the book and there would be an irregularity.

Mr. RHODES. I am serious about this. It seems to me all the pages that are in this book, worldwide, at the end of the fiscal year should be reviewed by the agencies. In your area you should review it, and all the other regions should.

Before we mark up this bill we should have a full set of these pages which are up to date.

Mr. MOSCOSO. We have been trying to bring the regional projects up to date in this review.

AID PROGRAM JUSTIFICATION PROCEDURE

Mr. PASSMAN. All of these projects are illustrative?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. You can throw away every one and substitute new projects?

Mr. MOSCOSO. That is right.

Mr. PASSMAN. Even under the development credit program, you do not know what conutry or what projects will get what money until you get the money?

Mr. MOSCOSO. That is right.

Mr. RHODES. Most of these pages represent projects which are projects which were started previously. These are not illustrative but they are in being.

Where they are in being we should have accurate figures as to the amount of money which was actually obligated as of the end of the last fiscal year.

Mr. PASSMAN. I agree with the gentleman, but I wanted to say that if we ever establish the same type of standards for projects in the 100 nations to which we are giving aid in fiscal year 1964 that we have for projects in America, and you would justify these projects as such and then come get your money, we would not have all this confusion, would we?

Mr. MOSCOSO. I will accept that if you also can have a congressional delegation here from each of these countries.

Mr. PASSMAN. Do you mean we have waited all these years to start such a program and if you do not do it tomorrow the world will come to an end?

Wouldn't it be a better program if you came up here with specific data and justified the program, established the need for the money, and then get the money and carry out the program intelligently?

You don't disagree with that philosophy?

Mr. RHODES. I agree with it absolutely.

Mr. PASSMAN. If you do not do something of that nature this program will fall flat on its face.

Off the record.

(Discussion held off the record.)

TECHNICAL CONSULTANTS AND MISCELLANEOUS SUPPORT PROJECT

Mr. PASSMAN. I notice that you are requesting $130,000 for technical consultants and miscellaneous support projects, on page 444. You requested of the Congress and justified $130,000. Is that correct?

Mr. STERNFELD. $130,000.

Mr. PASSMAN. How much did you obligate to these projects?

Mr. MOSCOSO. $309,000.

Mr. PASSMAN. How much will it cost to finish this item?

Mr. MOSCOSO. $2 million.

I am not surprised about this, Mr. Chairman. We are starting a new program with a new approach in Latin America. This is not the old technical assistance program——

Mr. PASSMAN. You have thousands of projects in Latin America. This is just one.

AID BASIC RESOURCES CENTER PROJECT

Mr. PASSMAN. I notice, on page 445, that you obligated $20,000 in fiscal year 1963 to the basic resources center project. How much did you justify for this project last year?

Mr. MOSCOSO. It is not justified.

Mr. STERNFELD. And, sir, the actual——

Mr. PASSMAN. You did not justify anything, but you obligated $20,000?

Mr. STERNFELD. We obligated $5,000, sir.

Mr. PASSMAN. How much are you requesting for fiscal year 1964?

Mr. MOSCOSO. $350,000.

Mr. PASSMAN. You save $15,000, but you are offsetting it by asking $350,000. How much is the cost of this one at completion?

Mr. MOSCOSO. $750,000.

Mr. PASSMAN. From $5,000 to $750,000. And these figures are just about as reliable as a lot of the others we have gone over in the past.

Are there any new projects proposed for initiation in fiscal year 1964, on page 447?

Mr. MOSCOSO. No, sir.

LANGUAGE CHANGES

Mr. PASSMAN. Without objection, we shall insert in the record at this point the proposed language submitted by AID.

Mr. ROONEY. These are the proposed language changes are they, Mr. Chairman?

Mr. PASSMAN. Yes, sir.

(The information referred to is as follows:)

Foreign Assistance Appropriation Language for Fiscal Year 1964

PROPOSED LANGUAGE

[Deletions indicated by black brackets, new language by italic]

Item No.

TITLE I—FOREIGN [AID (MUTUAL SECURITY)] *ASSISTANCE* FUNDS APPROPRIATED TO THE PRESIDENT

1 For expenses necessary to enable the President to carry out the provisions of the Foreign Assistance Act of 1961, as amended, to remain available until June 30, [1963] *1964*, unless otherwise specified herein, as follows:

2 Development grants: For expenses authorized by section 212, [$225,000,000] *$257,000,000, to remain available until expended.*

3 *American schools and hospitals abroad: For expenses authorized by section 214(c), $20,000,000, to remain available until expended.*

3A American *schools and* hospitals abroad (special foreign currency program): For [assistance] *expenses* authorized by section 214[(b)] (d) [for hospital construction, $2,800,000], *$4,690,000*, to be used to purchase foreign currencies which the Treasury Department determines to be excess to the normal requirements of the United States.

4 [Investment guaranties: For expenses authorized by section 222(f), $30,000,000, to remain available until expended.]

EXPLANATION OF LANGUAGE

Item No.

The language which is proposed provides for appropriations to carry out the provisions of the Foreign Assistance Act of 1961, as amended (hereinafter referred to as the "FAA"). Most of these appropriations are requested pursuant to authorizations to be inserted in that act by the proposed Foreign Assistance Act of 1963 now pending before the Congress (hereinafter referred to as the "authorization bill"). Some are requested pursuant to continuing authorizations now contained in the FAA. In addition, there is set out below an explanation of the reasons for each of the proposed additions to, and changes in, the provisions of the Foreign Aid and Related Agencies Appropriation Act, 1963.

1 This language states that the requested appropriations are for purposes of carrying out the provisions of the FAA. The language specifies that these appropriations are to remain available until June 30, 1964, unless otherwise specified.

2 This language appropriates funds for development grants, and provides that such funds shall remain available until expended.

3 This language appropriates funds for American schools and hospitals abroad as authorized by the new section 214(c) proposed to be added to the FAA by the authorization bill.

3A This language provides a special appropriation for the purchase of excess foreign currencies as authorized by the new section 214(d) proposed to be added to the FAA by the authorization bill; $790,000 of this appropriation will be for the American University in Cairo and $3,900,000 for the children's hospital in Krakow, Poland.

4 This appropriation is omitted as unnecessary at this time. Under the proposed amendments to the investment guaranty provisions of the FAA contained in the authorization bill, existing reserves will be available to pay claims on a first-

FOREIGN ASSISTANCE APPROPRIATION LANGUAGE FOR FISCAL YEAR 1964—Continued

Item No.	PROPOSED LANGUAGE	Item No.	EXPLANATION OF LANGUAGE
			come-first-served basis. Since it is anticipated that existing reserves will be adequate to meet all claims likely to arise during fiscal year 1964, no new appropriation for this purpose is requested.
5	International organizations and programs: For expenses authorized by section 302, [$148,900,000:] *$136,050,000.* [*Provided*, That no part of any other appropriation contained in this Act, except funds appropriated under this Act for the contingency fund (not to exceed $10,000,000), may be used to augment funds or programs contained in this paragraph and no funds shall be transferred from funds appropriated under any other paragraph of title I of this Act to the contingency fund for the purpose of augmenting funds or programs contained in this paragraph.]	5	This language appropriates funds for voluntary contributions to international organizations and programs. The language omits a proviso prohibiting transfers from other appropriations under the FAA and limiting to $10 million the use of the contingency fund for voluntary contributions to international organizations and programs. The proviso is omitted because programs of international organizations are as subject to unanticipated, priority requirements as other programs. This appropriation does not preclude limited use of other appropriations for multilateral programs, but relates to contributions to the United Nations, its specialized agencies, and contributions to other worldwide agencies and programs.
6	Supporting assistance: For expenses authorized by section 402, [$395,000,000] *$435,000,000.*	6	This language appropriates funds for supporting assistance.
7	Contingency fund: For expenses authorized by section 451(a), [$250,000,000] *$300,000,000.*	7	This language appropriates funds for the contingency fund.
8	Alliance for Progress [, development loans: For assistance authorized by section 252, $425,000,000, to remain available until expended. Alliance for Progress, development grants: For expenses authorized by section 252, $100,000,000]: *For assistance authorized by section 252, including not to exceed $100,000,000 for grants, $650,000,000, to remain available until expended.*	8	This language appropriates funds for the Alliance for Progress and provides that such funds shall remain available until expended. It provides that not more than $100 million of the amount appropriated may be made available on a grant basis. The appropriation would be authorized under section 252 of the FAA as that section is proposed to be amended by the authorization bill. The amendment would add an authorization for an appropriation beginning with fiscal year 1964 of any unappropriated balances of funds authorized to be appropriated in any of the fiscal years 1963 through 1966.

9 *Inter-American social and economic cooperation program: For expenses authorized by section 2 of the Act of September 8, 1960 (70 Stat 870), as amended, $200,000,000 to remain available until expended.*

9 This language appropriates funds as authorized by an amendment proposed to be made by the authorization bill to Public Law 86–735 (an act to provide for assistance in the development of Latin America and in the reconstruction of Chile). The language also provides that the funds will remain available until expended.

Of the funds made available, $195.5 million will be used for the Social Program Trust Fund administered by the Inter-American Development Bank, and the balance will be used for various activities of the Organization of American States relating to the economic development of Latin America.

10 Development loans. For expenses authorized by section 202 (a), [$975,000,000] *$1,060,000,000*, to remain available until expended.

10 This language appropriates funds for development loans, and provides that such funds shall remain available until expended.

11 Administrative expenses: For expenses authorized by section 637 (a), [$49,500,000] *$57,250,000.*

11 This language appropriates funds for the administrative expenses of the Agency for International Development, which administers nonmilitary assistance under the FAA and carries out related functions under such laws as the Latin American Development Act (Public Law 86–735) and Public Law 480.

12 Administrative and other expenses: For expenses authorized by section 637(b) of the Foreign Assistance Act of 1961, as amended, and by section 305 of the Mutual Defense Assistance Control Act of 1951, as amended, [$2,700,000] *$3,025,000.*

12 This language appropriates funds for administrative expenses which are incurred for functions of the Department of State under the FAA and unrepealed provisions of the Mutual Security Act (e.g. sec. 408 relating to the North Atlantic Treaty Organization) or for normal functions of the Department of State which relate to such functions, and funds for administrative and other expenses which are incurred for functions of the Department of State under the Battle Act.

FOREIGN ASSISTANCE APPROPRIATION LANGUAGE FOR FISCAL YEAR 1964—Continued

Item No.	PROPOSED LANGUAGE	Item No.	EXPLANATION OF LANGUAGE
13	Military assistance: For expenses authorized by section 504(a) of the Foreign Assistance Act of 1961, as amended, including administrative expenses authorized by section 636(g)(1) of such Act, which shall not exceed [$24,500,000] *$25,000,000* for the current fiscal year, and purchase of passenger motor vehicles for replacement only for use outside the United States, [$1,325,000,000: *Provided*, That none of the funds contained in this paragraph shall be available for the purchase of new automotive vehicles outside of the United States] *$1,405,000,000*.	13	This language appropriates funds for military assistance as authorized by the amendment proposed to section 504(a) of the FAA by the authorization bill. In addition, the language provides that not to exceed $25 million of the amount appropriated may be used for administrative expenses of carrying out military assistance programs administered by the Department of Defense. It also authorizes the purchase of passenger motor vehicles, for replacement only, for use outside the United States. Finally it deletes the proviso prohibiting use of military assistance appropriations for the purchase of new automotive vehicles outside of the United States on the grounds that this proviso is generally duplicative of existing limitations in the FAA section 604(a) and in executive branch policy as stated in the President's memorandum to the Secretary of State of October 18, 1961 (26 F.R. 10543) as amended. Moreover, the proviso does not permit the flexibility necessary to make occasional exceptions to the general requirement when it may be in the national interest to do so.
14	Unobligated balances as of June 30, [1962] *1963*, of funds heretofore made available under the authority of the Foreign Assistance Act of 1961, as amended, are, except *for funds made available under authority of section 451(a) of said Act or* as otherwise provided by law, hereby continued available for the fiscal year [1963] *1964* for the same general purposes for which appropriated and amounts certified pursuant to section 1311 of the Supplemental Appropriation Act, 1955, as having been obligated against appropriations heretofore made under the authority of the Mutual Security Act of 1954, as amended, and the Foreign Assistance Act of 1961, as amended, for the same general purpose as any of the subparagraphs under "Economic Assistance", are hereby continued available for the same period as the respective appropriations in such subparagraphs for the same general purpose [: *Provided*, That such purpose relates to a project	14	This provision continues available in fiscal year 1964 for the same general purposes, balances of funds, except contingency funds, previously made available under authority of the FAA which are unobligated as of June 30, 1963. In addition, the language provides for the reobligation of obligated balances of economic assistance funds heretofore made available under the Mutual Security Act of 1954, as amended, and the FAA which are deobligated in fiscal year 1964. Under the language funds may only be reobligated for the same period as the respective new appropriations for the same general purpose. That part of the proviso which limits reobligation of such balances to projects previously justified to the Congress is deleted. This limitation is unnecessary because unlike prior years, the executive branch's request for new obligational authority in fiscal year 1964 takes into account estimated recoveries (deobligations) in

previously justified to Congress and the Committees on Appropriations of the House of Representatives and the Senate are notified prior to the reobligation of funds for such projects and no objection is entered by either Committee within 60 days of such notification].

GENERAL PROVISIONS

15 [SEC. 101. None of the funds herein appropriated (other than funds appropriated under the authorization for "International organizations and programs") shall be used to finance the construction of any new flood control, reclamation, or other water or related land resources project or program which has not met the standards and criteria used in determining the feasibility of flood control, reclamation and other water and related land resource programs and projects proposed for construction within the United States of America as per memorandum of the President dated May 15, 1962.]

16 [SEC. 102. Obligations made from funds herein appropriated for engineering and architectural fees and services to any individual or group of engineering and architectural firms on any one project in excess of $25,000 shall be reported to the Committees on Appropriations of the Senate and House of Representatives at least twice annually.]

17 [SEC. 103. Except for the appropriations entitled "Contingency fund" and "Development loans", not more than 20 per centum of any appropriation item made available by this title shall be obligated and/or reserved during the last month of availability.]

18 [SEC. 104. None of the funds herein appropriated nor any of the counterpart funds generated as a result of assistance hereunder or any prior Act shall be used to pay pensions, annuities, retirement pay or adjusted service compensation for any persons heretofore or hereafter serving in the armed forces of any recipient country.]

that year and has been reduced accordingly. Also deleted is the remainder of the proviso which stipulates that no funds shall be reobligated until the Committees on Appropriations have been notified and neither committee enters an objection within 60 days of notification. This requirement has raised serious constitutional questions and has created a situation making efficient management of the funds difficult.

15 Section 101 is omitted because section 611(b) of the FAA, which is a permanent provision of law, is substantially the same.

16 Section 102 is omitted because it is not clear that the reports required by this section have been of sufficient interest or use to the Congress to justify the administrative cost involved in their preparation.

17 Section 103 is omitted because it is not believed that this provision, which for the bulk of the funds shortens by an additional month the already too brief 8- or 9-month period which the executive branch traditionally has for programing and obligating funds, promotes effective or sound administration.

18 Section 104 is omitted because the executive branch has never made such a use of funds and does not intend to do so.

FOREIGN ASSISTANCE APPROPRIATION LANGUAGE FOR FISCAL YEAR 1964—Continued

Item No.	PROPOSED LANGUAGE	Item No.	EXPLANATION OF LANGUAGE
19	[SEC. 105. The Congress hereby reiterates its opposition to the seating in the United Nations of the Communist China regime as the representative of China, and it is hereby declared to be the continuing sense of the Congress that the Communist regime in China has not demonstrated its willingness to fulfill the obligations contained in the Charter of the United Nations and should not be recognized to represent China in the United Nations. In the event of the seating of representatives of the Chinese Communist regime in the Security Council or General Assembly of the United Nations, the President is requested to inform the Congress insofar as is compatible with the requirements of national security, of the implications of this action upon the foreign policy of the United States and our foreign relationships, including that created by membership in the United Nations, together with any recommendations which he may have with respect to the matter.]	19	Section 105 is omitted because it is not related to the foreign assistance program.
20	[SEC. 106. It is the sense of Congress that any attempt by foreign nations to create distinctions because of their race or religion among American citizens in the granting of personal or commercial access or any other rights otherwise available to United States citizens generally is repugnant to our principles; and in all negotiations between the United States and any foreign state arising as a result of funds appropriated under this title these principles shall be applied as the President may determine.]	20	Section 106 is omitted since the substance of this provision is already contained in section 102 of the FAA.

21 SEC. [107]*101.* (a) No assistance shall be furnished to any country which sells, furnishes, or permits any ships under its registry to carry to Cuba, so long as it is governed by the Castro regime, under the Foreign Assistance Act of 1961, as amended, any arms, ammunition, implements of war, atomic energy materials, or any articles, materials, or supplies, such as petroleum, transportation materials of strategic value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war, contained on the list maintained by the Administrator pursuant to title I of the Mutual Defense Assistance Control Act of 1951, as amended.

(b) No economic assistance shall be furnished to any country which sells, furnishes, or permits any ships under its registry to carry items of economic assistance to Cuba so long as it is governed by the Castro regime, under the Foreign Assistance Act of 1961, as amended, unless the President determines that the withholding of such assistance would be contrary to the national interest and reports such determination to the Foreign Relations and Appropriations Committees of the Senate and the Foreign Affairs and Appropriations Committees of the House of Representatives. Reports made pursuant to this subsection shall be published in the Federal Register within seven days of submission to the committees and shall contain a statement by the President of the reasons for such determinations.

21 The executive branch does not object to the enactment of this provision.

Item No.	PROPOSED LANGUAGE	Item No.	EXPLANATION OF LANGUAGE
22	[SEC. 108. Any obligation made from funds provided in this title for procurement outside the United States of any commodity in bulk and in excess of $100,000 shall be reported to the Committees on Appropriations of the Senate and House of Representatives at least twice annually: *Provided*, That each such report shall state the reasons for which the President determined, pursuant to criteria set forth in section 604(a) of the Foreign Assistance Act of 1961, as amended, that foreign procurement will not adversely affect the economy of the United States.]	22	Section 108 is omitted for several reasons. First the President's balance-of-payments message, actions by the Secretary of Defense, and recent policy determinations issued by the Administrator of AID emphasize the administration's determination to reduce offshore procurement with foreign assistance funds to a minimum. Over 80 percent of all procurement in fiscal year 1964 with foreign assistance funds will be from the United States. Second, reports of economic assistance grant obligations for procurement outside the United States will not provide the Congress with any meaningful information. Almost all grant funds are obligated on a basis permitting procurement in the United States and in underdeveloped countries. Thus, all obligations must be reported. However, since few of the commodities required can be obtained in the underdeveloped countries, more than two-thirds of these funds are actually used for procurement in the United States. Third, obligations of economic assistance loan funds almost always tie procurement to the United States. Even where an exception is allowed, reporting the obligation will not disclose to the Congress the actual source of the procurement, for funds obligated on a basis permitting offshore procurement may nevertheless be used for procurement in the United States. Fourth, the provision mistakes the determination required by section 604(a) which is that any permitted foreign procurement will not result in any adverse affects on the U.S. economy which outweigh the economic and other advantages of such procurement. The executive branch would not object to this provision if the word "obligation" were changed to "expenditure", and the proviso were corrected to accurately restate section 604(a). These changes would render the reports meaningful to Congress.

23 [SEC. 109. (a) No assistance shall be furnished to any nation, whose government is based upon that theory of government known as communism under the Foreign Assistance Act of 1961, as amended, for any arms, ammunition, implements of war, atomic energy materials, or any articles, materials, or supplies, such as petroleum, transportation materials of strategic value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war, contained on the list maintained by the Administrator pursuant to title I of the Mutual Defense Assistance Control Act of 1951, as amended.

[(b) No economic assistance shall be furnished to any nation whose government is based upon that theory of government known as communism under the Foreign Assistance Act of 1961, as amended (except section 214(b)), unless the President determines that the withholding of such assistance would be contrary to the national interest and reports such determination to the Foreign Affairs and Appropriations Committees of the House of Representatives and Foreign Relations and Appropriations Committees of the Senate. Reports made pursuant to this subsection shall be published in the Federal Register within seven days of submission to the committees and shall contain a statement by the President of the reasons for such determination.]

23 Section 109 is omitted because it duplicates section 620 (f) of the FAA and does not add to the restrictions contained in that section.

24 [SEC. 110. None of the funds appropriated or made available pursuant to this Act for carrying out the Foreign Assistance Act of 1961, as amended, may be used for making payments on any contract for procurement to which the United States is a party entered into after the date of enactment of this Act which does not contain a provision authorizing the termination of such contract for the convenience of the United States.]

24 Section 110 is omitted as unnecessary in view of executive branch policies and regulations.

FOREIGN ASSISTANCE APPROPRIATION LANGUAGE FOR FISCAL YEAR 1964—Continued

Item No.	PROPOSED LANGUAGE	Item No.	EXPLANATION OF LANGUAGE
25	[SEC. 111. None of the funds appropriated or made available under this Act for carrying out the Foreign Assistance Act of 1961, as amended, may be used to make payments with respect to any contract for the performance of services outside the United States by United States citizens where such citizens have not been investigated for loyalty and security in the same manner and to the same extent as would apply if they were regularly employed by the United States.]	25	Section 111 is omitted because those employees or contractors for whom security clearance is important as a consequence of the sensitivity of their positions would be given security clearances as a routine matter of administration in any event, so that the provision is not necessary. Also there have been cases, such as American-sponsored schools abroad, where a U.S. security clearance requirement applied to the faculty of the school would defeat the objectives of assistance by giving the impression that the faculty is controlled by the U.S. Government.
26	[SEC. 112. None of the funds appropriated or made available under this Act for carrying out the Foreign Assistance Act of 1961, as amended, may be used to make payments with respect to any capital project financed by loans or grants from the United States where the United States has not directly approved the terms of the contracts and the firms to provide engineering, procurement, and construction services on such project.]	26	Section 112 is omitted as unnecessary in view of preexisting executive branch policies and because it appears to be inappropriate to establish details of contractual policy in an appropriation act.
27	[SEC. 113. Of the funds appropriated or made available pursuant to this Act not more than $6,000,000 may be used during the fiscal year ending June 30, 1963, in carrying out section 241 of the Foreign Assistance Act of 1961, as amended.]	27	Section 113 is omitted because it would arbitrarily prohibit carrying out programs vital to the increased effectiveness of the foreign aid program. In addition, the section curtails programs without saving any money because it is only a ceiling on the exercise of a diversionary authority.
28	[SEC. 114. None of the funds appropriated or made available pursuant to this Act for carrying out the Foreign Assistance Act of 1961, as amended, may be used to pay in whole or in part any assessments, arrearages, or dues of any member of the United Nations.]	28	Section 114 is omitted as unnecessary because payment of another country's U.N. assessments, arrearages, or dues would not ordinarily be a proper purpose under the FAA and the United States would not pay assessed contributions of other members of the U.N. in any event.
29	SEC. [115] *102*. Foreign currencies not to exceed $200,000, made available for loans pursuant to section 104(e) of the Agricultural Trade Development and Assistance Act of 1954, as amended, shall be available during the current fiscal year for expenses incurred incident to such loans.	29	This language appropriates local currencies, not to exceed $200,000, available for so-called Cooley loans under section 104(e) of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) for expenses of administration of such loans.

30 SEC. *103. United States dollars directly paid to the United States under the Agreement Between the United States of America and Japan Regarding the Settlement of Postwar Economic Assistance to Japan are hereby appropriated, as authorized by section 618 of the Foreign Assistance Act of 1961, as amended, for the same general purposes as are set forth in any of the subparagraphs under "Economic Assistance" in this Act except the subparagraph entitled "Administrative Expenses", to the extent such dollars are available: Provided, that the total amount so appropriated for each such general purpose shall not be increased by the provisions of this section.*

31 [SEC. 601. No part of any appropriation contained in this Act shall be used for publicity or propaganda purposes within the United States not heretofore authorized by the Congress.]

32 [SEC. 602. None of the funds herein appropriated shall be used for expenses of the Inspector General, Foreign Assistance, after the expiration of the thirty-five day period which begins on the date the General Accounting Office or any committee of the Congress, or any duly authorized subcommittee thereof, charged with considering foreign assistance legislation, appropriations, or expenditures, has delivered to the Office of the Inspector General, Foreign Assistance, a written request that it be furnished any document, paper, communication, audit, review, finding, recommendation, report, or other material in the custody or control of the Inspector General, Foreign Assistance, relating to any review, inspection, or audit arranged for, directed, or conducted by him, unless and until there has been furnished to the General Accounting Office or to such committee or subcommittee, as the case may be, (A) the document, paper, communication, audit, review, finding, recommendation, report, or other material so requested or (B) a certification by the President, personally, that he has forbidden the furnishing thereof pursuant to such request and his reason for so doing.]

30 This language appropriates for purposes of part I of the FAA (economic assistance) the dollar receipts directly accruing to the United States under the recent Agreement Between the United States of America and Japan Regarding the Settlement of Postwar Economic Assistance. The language provides that the total amount appropriated in the appropriation act under the heading "Economic Assistance" will not be increased by this appropriation. Thus the effect of the provision is simply to permit the use of these Japanese settlement payments to the Treasury as a source of funds, to the extent available, for foreign economic assistance purposes without augmenting appropriations. This provision is authorized by section 618 of the FAA.

31 Section 601 is omitted because it does not clearly differentiate between improper activities and legitimate efforts to inform the American public in the national interest. The provision has inhibited the executive branch from taking actions to better inform the American people which, though legally permissible, were deemed inadvisable because of the lack of clarity in the language.

32 Section 602 is omitted as it duplicates section 624(e)(7) of the FAA which is a permanent provision.

Mr. PASSMAN. We want you to find out for us, Mr. Tennant, at what date does AID start posting your fiscal year 1964 withdrawals and list them on the U.S. Treasury statement. The Treasury statement hits my desk every morning and I do not know whether, by your accounting over there, that we are getting a double entry because you have substantial withdrawals. You have a substantial increase from the U.S. Treasury to the credit of foreign aid this year, over and above last year.

The statement you submitted to me on July 19 is a preliminary statement, and at that time you gave me your best estimates; is that correct?

Mr. TENNANT. They were the best estimates based on preliminary information——

Mr. PASSMAN. Will you please call us and inform us as to what date the U.S. Treasury starts posting withdrawals from the new fiscal year, because it comes on the first day. You get your Treasury statement and you will find by the fifth day of July you had substantial withdrawals from the U.S. Treasury. Is that not correct?

Mr. TENNANT. Yes, sir. The checks that are issued and dated in July are charged to the new year transactions.

Mr. PASSMAN. Then what I said is correct?

Mr. TENNANT. I take no issue with what you said, sir.

Mr. PASSMAN. I wanted to be accurate.

If you obligated last year, we shall say, $3,500 million, then we come into the new fiscal year and the Congress has not passed your money bill, you operate on a continuing resolution, do you not?

Mr. TENNANT. That is correct, sir.

Mr. PASSMAN. And if you obligate $3,750 million, you can withdraw on your continuing resolution, on the basis of having obligated $3,750 million. And if you obligated only $3,480 million, on a continuing resolution would you not withdraw one-twelfth of that amount each month?

Mr. TENNANT. We obligate at that rate, that is correct.

Mr. PASSMAN. If you do not get an authorization bill enacted until October, and you come along and get an appropriation bill in November or December, and you have operated 5 months of the fiscal year at this withdrawal rate, there might be arguments against cutting the bill too low, because you have used up 5 months of the 12 months of your fiscal year. Am I stating this matter correctly?

Mr. TENNANT. Yes, sir. The——

Mr. PASSMAN. Then, on the lower appropriation, would you be handicapped in the last 7 months?

Mr. TENNANT. Well——

Mr. PASSMAN. Say that you operate at a high obligation rate for 6 months, then you wind up and get a lowered appropriation bill, then you say, "Look what you have done to us. Now you are forcing us to operate almost on nothing for the last 7 months, because under this continuing resolution we operated at this level and you give us this level. Look what a mess you have gotten us into." You throw us into a jam in conference and that is why I am particularly anxious this year for this thing to be unmistakably accurate. I have corre-

spondence coming and I would be happy to discuss the matter with you, using any of the three or four sets of figures that I have.

We thank you, gentlemen, very much.

We know you are trying to do a creditable job. It is a complex and difficult program. We are going to cooperate with you in every way that we can. However, there is a lot of money involved between the asking price and the taking price; that is the money that is needed and the amount that you ask for. We are going to do our very best to reconcile those differences.

Mr. Moscoso. On behalf of all my colleagues, I want to thank you and the members of the committee for the patience you have shown in hearing us out. I hope we will have the funds necessary to carry out this program.

Mr. PASSMAN. I hope you have the funds to carry out the necessary program, but not the type of program you envision here in these illustrative programs.

The committee will now adjourn until tomorrow.

MONDAY, AUGUST 19, 1963.

FINANCIAL SUMMARY

WITNESSES

EDWARD F. TENNANT, CONTROLLER, AGENCY FOR INTERNATIONAL DEVELOPMENT, DEPARTMENT OF STATE
LEIGH MILLER, LEGISLATION PRESENTATION COORDINATOR

SUBCOMMITTEE ON BOKARO STEEL MILL

Mr. PASSMAN. The committee will come to order.

Mr. NATCHER. Mr. Chairman, as you know, the panel selected by you to make an investigation into the matter of a steel mill in Bokaro, India, has completed its mission. I want you and the members of the committee to know that it has certainly been a pleasure serving on this panel with our colleague, Mr. Andrews, of Alabama, as the chairman.

I have always considered him one of the able Members of the House, Mr. Chairman, and I want you and the other members of the committee to know that he has certainly conducted this investigation in an excellent manner. I believe that the report that will follow will please the members of the committee.

Thank you, very much.

Mr. PASSMAN. I think this was an exceptionally able panel and that George Andrews presided with dignity and effectiveness. Each member of the panel deserves sincere commendation.

Mr. Conte?

Mr. CONTE. Mr. Chairman, I want to join my colleague, Mr. Natcher, in commending our able chairman, Mr. Andrews, for the job he did. He conducted the hearings with wonderful decorum, and he was fair to all witnesses that appeared before the committee. And when the hearings are printed I am sure that the chairman, members of this

committee, and the Members of Congress will feel that he has performed a great service for the Congress. Regarding the method of examination, I think it was a real, high level legal type cross-examination of the witnesses.

I think it will present you with a good case and I am very grateful.

Mr. PASSMAN. We knew, of course, that the work of the panel was in very good hands.

Mr. Rhodes?

Mr. RHODES. I just want to associate myself with your remarks as to the appointment of this subcommittee. I think it was a very good thing to do. And the reports I have had of the conduct of the hearings indicate that the material which was adduced and the manner in which the hearings were conducted reflect credit on the Congress, the Appropriations Committee, and this subcommittee.

I think all the members, especially the gentleman from Alabama, are to be congratulated.

And I also want to add a word of praise for the ranking minority member, the gentleman from Massachusetts, Mr. Conte. He has been very much interested in this whole Bokaro situation ever since it came up. I am pleased that he was a member, and a very effective member of this subcommittee.

Mr. ANDREWS. Thank you, gentlemen.

Mr. CONTE. Thank you. I appreciate your very kind remarks.

Mr. PASSMAN. With regard to the Bokaro proposal or otherwise, this subcommittee is going to move upon the basis of facts. And when you move on facts you need have but little fear about the outcome.

Mr. MILLER. Mr. Chairman, I might say in this connection that the Executive Branch is very pleased to have as thorough investigation and review of the data as we have had for this program. And should any other information be desirable or necessary for the subcommittee or the group formed within the subcommittee, we should be most happy to supply it.

Mr. PASSMAN. Thank you, Mr. Miller.

OPERATIONS UNDER CONTINUING RESOLUTION

We do not know just when we will formally conclude these hearings. From time to time there will probably be brief hearings, and after we get an authorization bill the committee will wind up its hearings and prepare to mark up and otherwise move through the normal procedures toward finally getting an appropriation bill enacted.

You are presently operating under the authority of a continuing resolution, are you not?

Mr. TENNANT. Yes, sir; we are operating under a continuing resolution, Public Law 88–55, dated June 29, 1963.

SECTIONS OF FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED, BASED ON NO-YEAR AND FISCAL YEAR AUTHORIZATIONS AND APPROPRIATIONS

Mr. PASSMAN. Could you cite the sections of the bill that operate on an annual authorization and an annual appropriation—that is, a 1-year authorization and a 1-year appropriation—and then the sections of the bill where you have no-year funds and no-year authorization, and insert that information in the record?

(The information supplied follows:)

Sections of the Foreign Assistance Act of 1961, as amended, based on no-year and fiscal year authorizations and appropriations

No-year authorization:	
Development loans	Sec. 202(a)
Development grants	Sec. 212 (including American schools and hospitals abroad (special foreign currency program).
	Sec. 214(b).
Investment guarantees	Sec. 222(f).
Investment surveys	Sec. 232.
Alliance for Progress	Sec. 252.
Supporting assistance	Sec. 402.
Military assistance	Sec. 504(a).
No-year appropriation:	
Development loans	Sec. 202(a).
Alliance for Progress loans	Sec. 252.
Investment guarantees	Sec. 222(f).
Fiscal year authorization:	
International organizations	Sec. 302.
Contingency fund	Sec. 451(a).
Administrative expenses	Sec. 637.
Fiscal year appropriation:	
Development grants	Sec. 212(a) (including American schools and hospitals abroad (special foreign currency program).
	Sec. 214(b).
Investment surveys	Sec. 232 (continued available from fiscal year 1962).
Alliance for Progress grants	Sec. 252.
International organizations	Sec. 302.
Supporting assistance	Sec. 402.
Contingency fund	Sec. 451(a).
Military assistance	Sec. 504(a).
Administrative expenses	Sec. 637.

Do you construe the continuing resolution as being broad enough to permit you to obligate or allocate funds out of those funds for which there is no pending authorization?

Mr. TENNANT. Assuming that the authorization existed in the prior year, and an amount is proposed in the budgetary year, we would assume that the continuing resolution does permit financial activity in that category.

STARTING NEW PROJECTS UNDER CONTINUING RESOLUTION

Mr. PASSMAN. What would you do about starting new projects for which you had no funds in the previous year, let us say, start a new project with development grants, or a new project under the President's contingency fund?

Mr. TENNANT. The language of the resolution talks about projects and activities. Our general approach has been to interpret this language fairly generally. We would start, and in fact, from time to time, we have started essential projects, but only where the activity was what we consider a continuing activity, as, for example, in the development loan fund where we consider the total banking operation to be a continuing activity.

Mr. PASSMAN. Even though it would be for an entirely new project that Congress had not appropriated funds for previously?

Mr. MILLER. The language speaks of it as being continuing projects or activities. So that if there has been a continuing activity conducted in the fiscal year 1963——

Mr. PASSMAN. What do you mean by "continuing activity?"

Mr. MILLER. It depends, of course, on the circumstances, Mr. Chairman. It depends upon which category, in effect, we are talking about. Each one of the appropriations categories has a little different analysis that would go with it. For instance, the development fund, as I understand it, historically has been interpreted for each new loan—of course, it could be viewed as a new project, but the continuing resolution has, in fact, sanctioned the continuance of the activity of the loan fund, and since——

Mr. PASSMAN. Are you not actually saying that since the development loan fund is an activity making these credits available to these nations, you could go into a nation where you previously had no development credits out of the development loan fund and make a commitment, or an allocation, upon the basis of the continuing resolution language?

Mr. MILLER. It is my understanding, Mr. Chairman, that in the past under the old Development Loan Fund which started in 1958, and we have since 1961 in the Foreign Assistance Act, treated the development loan activity as one activity in toto.

Mr. PASSMAN. If, we shall say, in "Randolphville" you did not have any type of development credit project in fiscal 1963, this being a continuing activity you could go into "Randolphville" and make a commitment for fiscal 1964 under the authority of the continuing resolution; is that your interpretation?

Mr. MILLER. If it meets the criteria.

Mr. PASSMAN. If it meets the criteria, you could, under the continuing resolution, go into a nation in which the previous year you did not have a development credit transaction?

Mr. MILLER. Yes.

Mr. PASSMAN. Now, on the development grants or supporting assistance would the same situation apply? Would there be the same type of answer? You referred to it as an activity. Could you start a project in "Randolphville," we shall say, for a drainage canal, when in fiscal 1963 and prior years you had not had a drainage canal, if in fiscal 1964 you decided that it was proper to have a drainage canal?

Mr. MILLER. To take both these things you are talking about, supporting assistance and development grants——

USE OF CONTINGENCY FUND UNDER CONTINUING RESOLUTION

Mr. PASSMAN. Also, under the President's contingency fund?

Mr. MILLER. The President's contingency fund, we view, as I understand it, as a continuing activity for the funding of contingencies.

Mr. PASSMAN. Would the same type of answer apply under development?

Mr. MILLER. No, it would not necessarily apply.

Mr. PASSMAN. Could you make any type of commitment under the President's contingency fund until the new authorization is passed?

Mr. MILLER. We could make—if a valid contingency occurred, we could make an allocation from the President's contingency fund.

Mr. PASSMAN. What would be a "valid contingency"?

Mr. MILLER. A disaster of any kind that would occur—anything that would meet the criteria of the contingency fund.

Mr. PASSMAN. Tell us something you could not do out of that fund.

Mr. MILLER. Something that we had previously presented to the Congress as a continuing activity we would not fund under the contingency fund.

Mr. PASSMAN. You say you have a right to vacate every project and substitute new ones, or that you can start projects without any illustrative justifications to the Congress—if you can do that, would you be able to start projects out of the contingency fund or the development grants or the supporting assistance?

Mr. MILLER. If they were contingencies that had occurred and had not been presented to the Congress, and they met the requirements of the contingency fund authorization in the appropriation, we could. But my point was, Mr. Chairman, that a continuing activity would not be funded with contingency funds.

Mr. PASSMAN. It is still a blank check, and you can do whatever you want. If you have a project, we shall say, in Brazil, and that project is a ZA–109–B, and it is for, we shall say, a civilian training center, and the Congress turned it down, but in fiscal 1964 that becomes a Y–203–Z and is known as an educational expansion program, inasmuch as you never justified it to Congress under this designation or number or title, you could allocate funds for it, could you not?

Mr. TENNANT. I think the question here is basically not in the numbering, because the numbering system is merely a means of capturing information for computer purposes, but whether it is or is not the same project. Assuming it was the same project, exactly the same project, and the Congress had turned it down, I don't think we would start it.

Mr. PASSMAN. If I gave the project number and its title, then that was in fiscal 1963. In fiscal 1964, it is a new number and it is a new title, and if you say you have expanded it, that there are more facets to this project than in previous years, then could you obligate money to it from the contingency fund?

Mr. MILLER. If it were a project, Mr. Chairman.

Mr. PASSMAN. That is good enough.

FUNDING OF MEETINGS OF THE INTER-AMERICAN DEVELOPMENT BANK

For the Inter-American Development Bank, last year we examined on an expense account of the previous year. I think the committee brought out what is an alltime record of extravagance for spending abroad, and they told us that the expense money came out of the Bank's window No. 1.

Then we discussed a meeting they had in 1961 down in Rio, which also established something of a record for the amount of expenditures, including representation, for 1 week. Then they met in calendar 1962 and 1963, also with expense accounts.

Did you fund these expense accounts for the Inter-American Development Bank out of the regular operations, or did you fund all three of these expense accounts and the previous one out of the Social Progress Trust Fund?

It was testified two ways, I believe, in the hearings, and we want to straighten it out.

Mr. TENNANT. My understanding was that Mr. Moscoso testified——

Mr. PASSMAN. Take the first expense account where these people went to Europe.

Mr. MILLER. You have lost me, Mr. Chairman.

Mr. TENNANT. I understood the testimony——

Mr. PASSMAN. Out of what account of what bank was the expense money paid for the trip to Europe? It was 1961 and we examined on it last year.

Mr. TENNANT. I understand these were the regular operating funds.

Mr. PASSMAN. All of them?

Mr. TENNANT. All of them.

Mr. PASSMAN. But it was testified, too, that for the first one they paid out of the capital account, as there had been no interest earned.

Mr. TENNANT. I believe Mr. Rhodes pointed out something along that line——

Mr. PASSMAN. All of this expense money came out of the same account?

Mr. TENNANT. Yes, sir.

FUNDING OF MOBILE BRIGADE PROJECT IN INDONESIA

Mr. PASSMAN. Could you tell us how much money you obligated in fiscal 1963 to the reequipment of the Indonesian mobile brigade project, No. S-71-AV?

Mr. TENNANT. This project was testified to by Mr. Janow earlier during the hearings. I had understood that during the fiscal year 1963 we obligated $2.1 million——

Mr. PASSMAN. Is that the same project number?

Mr. TENNANT. Yes, it is for the mobile brigade.

Mr. PASSMAN. You have two phases of that project. This is S-71-AW. When did you obligate that money?

Mr. TENNANT. May 1963.

Mr. PASSMAN. May 1963? That is subsequent to March 27; is it not?

Mr. TENNANT. That is correct. We also obligated at $2.7 million for the contingency account. The first obligation of $2.1 million was from the regular supporting assistance account, for communication equipment, transport, and so forth. The second transaction of $2.7 million of contingency funds was for arms and ammunition. It was also obligated in May 1963.

Mr. PASSMAN. That was done subsequent to March 27?

Mr. TENNANT. That is correct, sir.

USE OF DEOBLIGATED FUNDS

Mr. PASSMAN. I had considerable correspondence with Mr. Bell, and I have here two letters dated March 27, 1961.

I shall read them:

Hon. OTTO E. PASSMAN,
Chairman, Foreign Operations Subcommittee,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your letter of March 26. I apologize for not understanding correctly what should be included in the letter to Chair-

man Cannon. Accordingly I enclose a revised letter to Mr. Cannon making it clear that in this fiscal year this Agency now plans to obligate $4,910,000, and does not plan to obligate $3,711,000 of the $8,621,000 of deobligated funds which we had originally intended to reobligate.

I trust this will clarify my intentions satisfactorily. With respect to the other point in your letter, I quite agree that this proposed method of handling the matter is based on our mutual understanding, and is a reasonable way of handling this complex problem. I had not intended to give any other impression.

Sincerely yours,

DAVID E. BELL.

Mr. PASSMAN. The same date, March 27, 1963:

Hon. CLARENCE CANNON,
Chairman, Committee on Appropriations,
House of Representatives, Washington, D.C.

DEAR CHAIRMAN CANNON: Since submitting to you my letter of January 31, subsequently augmented by my letter of March 19, subsequent events have altered the necessity for the use of deobligated funds with respect to certain of the projects listed on the attachment to my January letter. I now find that, taking account of the relative urgency of the different projects we are carrying forward, and in the interest of the minimum use of obligational authority both newly appropriated by the Congress and deobligated from prior year funds, it will be preferable for us to withdraw our proposal to apply deobligated funds to three of the projects on the list attached to our letter.

Yemen: Technical support, project No. Z-99-2A.

Laos: Rural medical and health program, project No. P-99-AA.

Indonesia: Reequipment of Mobric, project No. S-971-AB.

Furthermore, current requirements for the use of deobligated funds for certain of the other projects have been reduced.

Accordingly, I should like by this letter to amend the list attached to my January letter by striking from it the three projects listed above, and by reducing the proposed use of deobligated funds for certain of the remaining projects. You will note that the results of these changes are to reduce our proposed use of deobligated funds from $8,621,000 to $4,910,000. We will not reobligate in the remainder of this fiscal year $3,711,000 of the $8,621,000 of deobligated funds which we had previously expected to obligate.

Sincerely yours,

DAVID E. BELL.

Mr. PASSMAN. Now, just a few days ago, I received another letter from Mr. Bell dated August 15, 1963, addressed to me—and a copy of this letter will be made a part of the record.

(The letter referred to follows:)

DEPARTMENT OF STATE,
AGENCY FOR INTERNATIONAL DEVELOPMENT,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., August 15, 1963.

Hon. OTTO E. PASSMAN,
Chairman, Subcommittee on Foreign Operations, Committee on Appropriations,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I understand that there has been some discussion during the hearings on the fiscal year 1964 AID appropriation request about our correspondence respecting the use of deobligated funds during fiscal year 1963. I would like to attempt to clarify any possible misunderstanding arising from that exchange of letters.

Our correspondence, including my letters of January 31, 1963, and March 27, 1963, concerned the use of deobligated funds under the limitation contained in the fiscal year 1963 appropriation statute. That provision, as you know, was intended to place a limitation upon the use of deobligated funds but did not modify or limit the use of new obligational authority.

On January 31, 1963, I wrote indicating that we intended to use deobligated funds for certain activities set out in an attachment to that letter. On March 27, I wrote again concerning the use of deobligated funds for those activities. I understand that one sentence in my letter of March 27, has given rise to some question—the second sentence of the letter: "I now find that, taking

account of the relative urgency of the different projects we are carrying forward and in the interest of minimum use of obligational authority both newly appropriated by the Congress and deobligated from prior year funds, it will be preferable for us to withdraw our proposal to apply deobligated funds to three of the projects on the list attached to our January letter * * *."

I regret that this sentence may have caused a misunderstanding. My intent was to indicate that the relatively urgent nature of some of the projects referred to in my January 31 letter might require funding before the discussion on the use of deobligated funds was resolved. The "relative urgency" was caused by the fact that some of those ongoing projects might have to be funded from new obligational authority before such resolution.

I also desired to indicate to the committee that we wished to use the funds appropriated by the Congress and deobligated from prior year as efficiently as possible. My reference to a "minimum use of obligational authority" referred, as you will appreciate, to the fact that any use of new obligational authority for those projects would reduce the amount of new obligational authority available for other program activities. For example, the funding of the MOBRIG project, No. S-71-AB, through use of new obligational authority reduced the amount of supporting assistance funds available for other purposes. Therefore, by the withdrawal of those projects from financing with deobligated funds, our total use of all funds (NOA and deobligations) was reduced. The sentence in question was meant to convey that fact.

Our joint review of this matter resulted in the saving of about $10 million. Such amount is earmarked for return to the Treasury. The use of deobligated funds for the projects listed in my letters of January 31, 1963, and March 19, 1963, was as follows:

Letter of Jan. 31, 1963:	
Initial proposed uses	$8,621,000
Revised uses	4,910,000
Savings	3,711,000
Letter of Mar. 19, 1963:	
Initial proposed uses	32,714,000
Revised uses	26,437,000
Savings	6,277,000
Total savings of deobligated funds	9,988,000

In summary, we reobligated $31,347,000 of deobligated funds for projects listed with my letters of January 31, 1963, and March 19, 1963, respectively, a savings of $9,988,000 from those initial estimates.

We have, I believe, been prudent with respect to the use of all deobligated funds during fiscal year 1963. A total of $51,672,000 in deobligated funds remained unobligated at the end of fiscal year 1963. As you know, these funds will lapse unless they are reappropriated by the Appropriations Committees. We have asked for reappropriation of approximately $38 million, the balance to revert to the Treasury. This policy of requesting reappropriation of unobligated balances allows the Appropriations Committees to review this matter as a part of our presentation and determine whether or not those funds should be so appropriated.

We have requested renewed authority to use deobligated funds because we believe that the request to the Congress for fiscal year 1964 takes into account recoveries from prior year funds in a fiscally responsible fashion.

The fiscal year 1963 appropriation statute limitation expressed the intent of the Congress to limit the use of deobligated funds to activities previously reviewed by the Congress. The fiscal year 1964 appropriation request takes full account of estimated recoveries, which have been considered an integral part of the anticipated financing of our fiscal year 1964 program. Unlike past years, the request for new obligational authority to finance our fiscal year 1964 program has been reduced by the amount of estimated deobligations. Thus, the entire amount of estimated available deobligated funds is applied to the funding of projects being presented to the committee during the present hearings. Because of this change, I believe that the present restriction on the authority to reobligate recoveries from prior year funds should be unnecessary.

I regret that any possible erroneous implication has arisen from my letter of March 27, 1963. I would be happy to provide you any further information on this matter or appear before you and your committee at your convenience.

Sincerely yours,

DAVID E. BELL.

Mr. PASSMAN. I am not now going to take the time to read but one paragraph from this letter:

I regret that this sentence may have caused a misunderstanding. My intent was to indicate the relative urgent nature of the project referred to in my January 31 letter might require funding before the discussion of the deobligated funds; and so on."

I have let the record speak for itself, hoping that in the future these unpleasant misunderstandings will not pop up.

RECONCILIATION OF TREASURY AND AID ACCOUNTS

I can understand how you could well have items coming in from the field that you had to list as an obligation out of unliquidated funds. I cannot understand, however, how you could withdraw the money from the Treasury and lower the total amount of the pipeline subsequent to June 28, fiscal 1963.

Here is a letter that I received from the Treasury Department, dated August 14, 1963, and I shall read it:

I want to confirm your understanding—as expressed in your telephone conversation with Mr. Mosso today—of the cutoff date reporting withdrawals and the daily statement of the U.S. Treasury. The withdrawals shown in the daily statement for any agency include all information received and compiled in the records of the Treasury of the United States as of the date of the report, and the figures published are final so far as the daily statement is concerned. This information posted after June 28, 1963 (the last working day of the fiscal year) will be applicable to fiscal year 1964.

As you probably know, the information shown in the daily statement for any particular withdrawal classification is not comparable, or even reconcilable to, information shown on the monthly statement of receipts and expenditure of the U.S. Government which is the official vehicle for reporting budgetary and other receipts and expenditures. The principal reasons for the differences are, first, in regard to the timing of the transactions, the date of statement (which is akin to a bank statement) includes transactions for which information has been received and cleared, regardless of when the underlying transaction occurred.

Checks issued near the end of the fiscal year 1963 could be received by the Treasury for payment in fiscal 1963 or 1964 and could, therefore, be in fiscal year 1963 or 1964 withdrawals of the daily statement. The monthly statement, on the other hand, reports expenditures on the basis of when the checks were issued. A check issued on June 30, 1963, is reported as a fiscal year 1963 transaction in the monthly statement, and a check issued on July 11, 1963, is reported as a fiscal year 1964 transaction regardless of when the information is received in the Treasury.

It is because of this precise cutoff that the monthly statement for June of each year—which presents full fiscal year figures—is published in July as a "preliminary" report, and is published in November or December in "final" form after all transaction data applicable to the prior fiscal year have been processed. Incidentally, the difference between the preliminary figures monthly statements have never been significantly large.

A second major difference between the data in the two publications is that the daily statement merges administrative budget and trust fund classifications, whereas the monthly statement differentiates sharply between the two categories.

I would be glad to discuss this matter further if you should desire.

Yours very truly,

H. R. GEARHART,
Commissioner of Accounts.

Now, Mr. Controller, your first statement came out—I believe you gave it to me—on July 25, and it indicated a grand total of unliquidated economic and military assistance, which was estimated, as being $7,263,647,000, with $515,585,000 unobligated or unreserved. That statement certainly included investment guarantees—I suppose that is the revolving account.

Subsequently the Controller gave me a statement that showed the amount, grand total, economic and military assistance, and that was given me on August 8, which was 13 days later. This showed the unexpended funds as having been reduced to $6,984,879,000, which to me is a significant reduction, yet the unobligated amount remains at the same figure.

What we are trying to establish now is how the pipeline could be reduced because it would take a voucher, according to my understanding, on the U.S. Treasury for the pipeline to be reduced. I can understand that you can reduce the amount of unobligated funds by putting them over into obligations, but how you get anything out of the Treasury subsequent to June 28 and reduce the amount of pipeline is the thing that is confusing me.

Mr. TENNANT. I would be very glad to explain that, sir.

First of all, on the Treasury statements. I think the one thing brought out in that letter that is very important is that the daily Treasury statement is on the basis of checks redeemed; that is, paid by banks. The monthly statements are on the basis of checks issued. Any statements which we give you are on the basis of checks issued.

Mr. PASSMAN. They post after the checks have been drawn?

Mr. TENNANT. Let me put it this way. When the checks are drawn they post it in a record that eventually appears in the monthly statement.

Mr. PASSMAN. Are you saying that when you have vouchers outstanding that are yet to be redeemed, and as the checks have not been cashed, when we look at the daily Treasury statement they have not been taken into account?

Mr. TENNANT. My understanding of the daily Treasury statement is that checks that have not been redeemed are not taken into account in that statement. However, they are taken into account in other Treasury statements.

Mr. PASSMAN. Where does this apply with regard to the deficit, when the checks has been cashed or when it was issued?

Mr. TENNANT. I think what happens is that various figures from both statements are used in explaining different items at different times.

Mr. PASSMAN. On this daily statement that we get from the Treasury showing withdrawals, they wind up showing their final statement. Let us say that you have $3 billion of outstanding Treasury vouchers that have not yet been cashed. When they establish the deficit, do they include that sum as a part of it, or as the checks have not been cashed, and you go according to withdrawals, would they take those into account in the next fiscal year?

Mr. TENNANT. My understanding—and I must state here that I am not an expert on Treasury procedures—is that there are two types of deficits. One is a cash deficit, and the other is a budgetary deficit. The figures that we are giving you in our Agency statements are

related to checks drawn, and reflect what we consider budgetary accounting.

Mr. PASSMAN. Then on your statement of July 25 you showed $7,263,647,000 on hand with the unobligated funds being $515,585,000, and on your statement of August 8 you reduced the funds on hand to $6,984,879,000. Would this mean additional checks or vouchers had been posted to that account?

Mr. TENNANT. This means that—maybe if I put this in sequence it would be helpful.

Mr. PASSMAN. At this point, I believe I could understand the matter better if you would answer my question. Would that mean new vouchers?

Mr. TENNANT. No.

Mr. PASSMAN. Vouchers that had been posted?

Mr. TENNANT. It would mean that vouchers that had been paid—that is, checks that had been issued on June 30 or prior thereto, on which we did not have reports when I gave you the first report—had come to our attention in the meantime.

Mr. PASSMAN. How did you make such a transaction without reducing the unobligated funds you had on hand by as much an $1? How could you post those checks, reduce the pipelines without reducing the unobligated funds?

Mr. TENNANT. The disbursements that occur affect the unliquidated obligations but do not affect the unobligated transactions.

Mr. PASSMAN. Mr. Gearhart of the Treasury said that the difference between the preliminary and final monthly statement had never been significantly large. Would you not agree, however, that when in 13 days you reduce the unexpended funds from $7,263,648,000 to $6,984,879,000 that would be considered rather large and significant?

Mr. TENNANT. Yes, sir. But the first figures that we gave you—I understood you wanted these figures promptly, and in meeting the targets that I understood that you wanted us to meet—we were unable to wait for detailed Treasury figures. On the first figures we gave you we were unable to reconcile to Treasury figures because we did not have the information yet.

Mr. PASSMAN. When you draw vouchers there is a record made?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. Do you need anything other than an adding machine to know how many vouchers have been drawn?

Mr. TENNANT. Our primary problem is to get in all the reports from overseas and all other agencies. As you noted in the letter you received from the Treasury, they are unable to give final figures on this type of transaction until November or December, I believe they said.

The schedule of closings that Treasury has provided us indicates that we—and I would be glad to put this in the record—the schedule indicates that reconciliations are to take place during August and September for finalization in October.

Mr. PASSMAN. I do not say that you would do it, of course, but it occurs to me that you could reduce this sum to, say, $5 million, that you could do that just by writing vouchers, because you take it out of the pipeline when you draw a voucher?

Mr. TENNANT. Yes, disbursements affect the pipeline. However, after June 30 we were unable to effect any disbursements through Treasury that would affect the fiscal year 1963 figures.

(Discussion off the record.)

DIFFERENCE BETWEEN REPORTS OF PRELIMINARY FIGURES

Mr. PASSMAN. You have copies of your sheet for July 25 and August 8?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. On item 1, "Development loans," that has held just about steady. I think it dropped down by, in round figures, about $23 million?

Mr. TENNANT. That is correct, sir.

Mr. PASSMAN. We get into the "Development grants," the purely giveaway area, and I believe that dropped from $425 million to $400 million? There was an extra $25 million taken out of that fund during the 13 days; is that about correct?

Mr. TENNANT. The point I don't think I have really got across clearly, sir, is that these transactions are items that occurred prior to July 1 which didn't get into the first report, as we had not yet received the information.

Mr. PASSMAN. I am trying to find out why it fell in this particular area, three accounts in 25 days. This is a very substantial reduction in the pipeline.

Mr. TENNANT. On that point, Mr. Chairman, my people who prepared these reports told me that in putting together the calculations, they pulled some boners and made some errors.

Mr. PASSMAN. Does that cover the situation?

Mr. TENNANT. That is not the complete story. There are also the unreported items.

Mr. PASSMAN. You have given one good reason, that it was boners and errors.

Mr. TENNANT. That is one of them. If you asked me, and I could do it, to draw up another set of figures today they probably would be slightly different than the ones I have given you.

Mr. PASSMAN. Would they be up or down?

Mr. TENNANT. I have no idea. The only time I can give you completely accurate figures is after reconciliation with the Treasury which is late in the year.

Mr. PASSMAN. What statement have I used in previous years to get up this recapitaulation sheet, do you recall?

Mr. TENNANT. As I recall, your recapitulation sheets are normally put out in the spring.

Mr. PASSMAN. No, that is not the tabulation to which I refer, I get one out showing the amount of funds unobligated.

Do you remember that every year along about the 1st of July I begin to ask you to get ready to give me a sheet detailing the unliquidated funds?

Could you tell us how much you had on hand last year at the time of, let us say, the second statement that came out in August? We might pin this whole thing down. This is a table that I put out last year.

Mr. TENNANT. I gave you two sets of figures last year.

Mr. PASSMAN. Let us look at this one year.

Mr. TENNANT. Let me explain what happened last year. I gave you a preliminary set. You called me one day and asked me to run another set for you. I ran another preliminary set of figures for you. They were slightly different; that figure here is not final.

Mr. PASSMAN. I know it is not final. Is this the first or second preliminary accounting?

Mr. TENNANT. Second preliminary.

Mr. PASSMAN. I want to be accurate. I am going to be accurate.

This last year was a second set of figures. Now I am going to use the second set of figures this year, your final figures.

If you will do this we can save a lot of time.

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. If you will furnish for the committe a list of postings between July 25 and August 8, what area and the amount, that will settle it. There are only about three major accounts involved.

Mr. TENNANT. For these particular transactions?

Mr. PASSMAN. That is right. You have a substantial difference there.

Mr. TENNANT. The letter you refer to talks about treasury statements. The reason I have a copy of the Treasury letter is that after the last discussion, I called Treasury and said, "Look, the chairman has been asking me a number of questions about Treasury accounting, I have been answering them the best I could. Am I correct or wrong?" They told me generally I was correct and they had already explained this in a letter to the chairman.

I have indicated I am not an expert on Treasury accounting.

Mr. PASSMAN. To me your word is just as good as if you had signed a note. But I realize that you do not run all the agency and there may be errors popping along here and there.

However, if you will, give the committee a list showing the differences between these two statements.

(NOTE.—See p. 2617 for reconciliation statement.)

(Discussion off the record.)

OBLIGATIONS UNDER CONTINUING RESOLUTION

Mr. PASSMAN. It looks as if we are going to go for a long time without an authorization and we cannot appropriate funds until Congress enacts an authorization bill. Let us assume that the Congress, in its wisdom, should make some adjustments in this program, and doubtlessly it will—using this hypothetically, we shall say that maybe the Congress, in its wisdom, should decide that you need $2,400 million for—fiscal 1964—and in fiscal 1963 you had an obligational level of, say, $3,600 million, and you go 6 months on a continuing resolution, at the end of 6 months you would have allocated $1,800 million. Then if the Congress works its wisdom and appropriates, say, $2,400 million, you could say, "I am sorry, the first 6 months we have obligated $1,800 million. That is only going to give us $600 million for the last half. Look what a mess you have got us into." But I could say, "Gentlemen, we were thinking about that matter before you got too far along, and we tried to offer some constructive suggestions."

MONTHLY OBLIGATIONS AND EXPENDITURES

Now, we make this request. Please provide tables showing: Obligations by month, beginning with July 1, covering each of the preceding 5 years; expenditures for the same periods; obligations by month to date in fiscal 1964.

You have these data for 5 preceding years for July and up to August 15, so if you will, give us July this year up to August 15.

(Information supplied follows:)

Statement of obligations/reservations against NOA,[1] July 1, 1958–June 30, 1963, by month and fiscal year

[In millions of dollars]

	Fiscal year 1959			Fiscal year 1960			Fiscal year 1961			Fiscal year 1962			Fiscal year 1963		
	Economic	Military	Total	Economic	Military	Total	Economic	Military	Total	Economic	Military	Total	Economic	Military	Total
July	24.5	21.3	45.8	12.2	23.3	35.5	34.9	24.8	59.7	77.3	43.0	120.3	58.0	39.4	97.4
August	101.0	23.4	124.4	55.3	47.0	102.3	153.3	43.4	196.7	165.7	27.0	192.7	112.3	89.5	201.8
September	263.3	27.3	290.6	59.4	26.4	85.8	66.6	57.2	123.8	289.7	19.8	309.5	38.2	74.5	112.7
October	252.8	31.3	284.1	73.3	24.2	97.5	146.1	702.0	848.1	200.3	49.4	249.7	68.0	170.1	238.1
November	88.3	612.0	700.3	219.3	13.7	233.0	303.1	111.0	414.1	413.2	182.9	596.1	164.7	491.6	656.3
December	190.0	53.0	243.0	218.6	394.8	613.4	257.2	35.3	292.5	73.7	89.0	162.7	198.9	(50.0)	148.9
January	197.4	39.2	236.6	138.1	94.0	232.1	136.4	68.9	205.3	255.0	236.1	491.1	356.7	109.1	465.8
February	113.2	17.0	130.2	136.0	103.9	239.9	223.7	36.6	260.3	203.6	88.2	291.8	142.8	61.9	204.7
March	87.2	40.5	127.7	135.1	168.6	303.7	201.4	92.0	293.4	420.3	264.3	684.6	215.3	33.0	248.3
April	91.3	142.0	233.3	192.2	200.6	392.8	153.8	46.1	199.9	174.8	49.6	224.4	129.4	95.4	224.8
May	207.0	293.7	500.7	317.9	70.7	388.6	201.2	282.7	483.9	288.1	338.3	626.4	412.2	80.7	492.9
June	330.0	211.5	541.5	327.4	191.2	518.6	227.7	286.9	514.6	597.0	197.8	794.8	[2] 495.8	[2] 212.5	708.3
Total	1,946.0	1,512.2	3,458.2	1,884.8	1,358.4	3,243.2	2,105.4	1,786.9	3,892.3	3,158.7	1,585.4	4,744.1	[2] 2,392.3	[2] 1,407.7	3,800.0

[1] Defined as new appropriations, unobligated carryovers, transfers, etc.
[2] Preliminary figures from preclosing June 1963 reports.
[3] June 30 military figures are not available. Total fiscal year 1963 obligation figure used is estimate as shown in budget document, with June figure representing amount of obligations/reservations required to reach this estimate.

Statement of expenditures, July 1, 1958–June 30, 1963, by month and fiscal year

[In millions of dollars]

	Fiscal year 1959			Fiscal year 1960			Fiscal year 1961			Fiscal year 1962			Fiscal year 1963		
	Economic	Military	Total	Economic	Military	Total	Economic	Military	Total	Economic	Military	Total	Economic	Military	Total
July	108.0	329.8	437.8	127.8	114.7	242.5	100.5	130.2	230.7	101.4	27.6	129.0	218.7	68.4	287.1
August	103.7	109.6	213.3	93.4	91.9	185.3	114.8	122.6	237.4	111.7	53.4	165.1	142.8	79.2	222.0
September	112.4	156.0	268.4	119.3	125.4	244.7	157.0	78.9	235.9	137.3	62.6	199.9	113.0	85.5	198.5
October	146.7	170.7	317.4	131.4	141.6	273.0	110.5	76.6	187.1	87.1	62.4	149.5	205.8	142.1	347.9
November	122.6	185.1	307.7	136.1	145.5	281.6	139.0	116.9	255.9	300.9	109.4	410.3	155.5	100.6	256.1
December	126.3	232.7	359.0	155.2	116.1	271.3	199.1	124.9	324.0	54.8	91.9	146.7	159.0	101.1	260.1
January	156.3	144.6	300.9	131.2	136.2	267.4	155.0	90.4	245.4	84.1	162.9	247.0	190.4	127.3	317.7
February	115.6	142.5	258.1	130.6	103.3	233.9	123.7	90.4	214.1	285.8	99.9	385.7	133.9	136.2	270.1
March	159.2	197.7	356.9	151.1	172.9	324.0	204.4	101.0	305.4	201.7	170.3	372.0	179.4	167.1	346.5
April	118.5	209.9	328.4	155.2	135.5	290.7	150.2	139.7	289.9	166.7	128.8	295.5	176.2	205.1	381.3
May	106.9	166.7	273.6	123.3	110.5	233.8	142.0	89.1	231.1	123.1	123.1	246.2	227.7	175.0	402.7
June	152.9	322.8	475.7	165.5	241.7	407.2	213.6	305.5	519.1	189.4	312.3	501.7	[2] 175.4	[3] 407.4	582.8
Total	1,529.1	2,368.1	3,897.2	1,620.1	1,635.3	3,255.4	[1] 1,809.8	1,466.2	3,276.0	1,844.0	1,404.6	3,248.6	[2] 2,077.8	[3] 1,795.0	3,872.8

[1] DLF expenditures for fiscal year 1961 were reported quarterly; therefore, the expenditures in the 3d month of each quarter will be high.

[2] Preliminary figures from preclosing June 1963 reports.

[3] June 30 military figures are not available. Total fiscal year 1963 expenditure figure used is estimate as shown in budget document, with June figure representing amount of expenditures required to reach this estimate.

Mr. TENNANT. Could I raise one question, Mr. Chairman?

Mr. PASSMAN. Surely.

Mr. TENNANT. On your August 15 request, we don't get midmonth reports from the field.

Mr. PASSMAN. All right, give it for July.

Mr. TENNANT. The next would be for August 31.

Mr. PASSMAN. If you want to project it for August, give us an estimate.

Mr. TENNANT. Yes, sir.

(Information supplied follows:)

Mutual security program preliminary and/or estimated obligations and reservations, July 1, 1963, through August 31, 1963

[In millions of dollars]

	July	August	Total
Military	[1] 35	[1] 200	235
Economic	52	[1] 95	147
Total	87	295	382

[1] Estimated.

Mr. PASSMAN. Could you tell us how much you put into the pipeline for fiscal 1963 from all spigots?

Mr. TENNANT. I have one further question on the August 15 request.

Mr. PASSMAN. We have forgotten August 15.

Mr. TENNANT. I know that, insofar as the economic is concerned. But it is my understanding that the military does not have their reports in for July 1963.

Mr. PASSMAN. Do your best, please.

TOTAL FUNDS AVAILABLE AND OBLIGATIONS IN FISCAL YEAR 1963

Could you again furnish for us an excerpt, please, of the amount you put into the pipeline last year?

Can you tell us for fiscal 1963 how much you reduced the new obligational authority? Sometimes you could only obligate 25 percent more maybe than the obligational authority by using the deobligated funds. In economic aid this has been very substantial.

Last year I think you had an appropriation of $3,928,900,000 for fiscal 1964, in new obligational authority. Then the unobligated funds brought the total up to $4,203,513,000, is that correct?

Mr. MILLER. I think $3,928 million is correct.

Mr. PASSMAN. Plus the unobligated funds from previous years, is that correct?

Mr. TENNANT. Yes, sir; approximately $4.3 billion of available funds for 1963, including carryovers.

Mr. PASSMAN. How much did you obligate out of that total amount?

Mr. TENNANT. Against that particular figure, Mr. Chairman, the obligations for fiscal 1963, military and economic, was $3,800 million.

Mr. PASSMAN. How much did you increase the pipeline?

Mr. TENNANT. The pipeline at the end of fiscal 1962 was $6,870,200,000.

Mr. PASSMAN. You gave us last year a figure of $6,698,860,000.

Mr. TENNANT. That is probably correct. It is the difference between the preliminary and the final figures.

Mr. PASSMAN. This was gotten out late in the year. This was after the appropriation was made.

Mr. TENNANT. I know, but the Treasury final figures do not come out until November or December. As a practical matter, to be entirely honest with you Mr. Chairman, the military figures are not as up to date as the economic figures; we are still using the budget estimate.

DIFFERENCES BETWEEN PRELIMINARY FIGURES

Mr. PASSMAN. We have not had such discrepancies since I have been chairman of this subcommittee—the difference between the preliminary figure and the second-stage figure. And this year the second-stage figure came only 13 days later than the first one. The first came July 25 and the next one on August 8.

You are down by almost $300 million in 13 days, from the first preliminary to the second preliminary report. The majority of this falls in three accounts. It is in that good old soft giveaway zone. I wonder if the people did not start disbursing a little faster than you would normally do?

Mr. TENNANT. No; there are no July 1963 disbursements in our report. I will be glad to give you the explanation.

Mr. RHODES. Will you yield, Mr. Chairman?

Mr. PASSMAN. I yield.

Mr. RHODES. Mr. Tennant, as I understand it, the explanation which you have given for this discrepancy that the chairman has pointed out is twofold. One, mistakes and two, checks out.

Mr. TENNANT. These are checks issued which were not reported to us fully. For example, if the mission in Iran made some payments in June and we had not gotten them onto our Washington books at the time we prepared our preliminary report, our expenditure figure would be understated.

Mr. RHODES. How much of the discrepancies are due to the errors and how much are due to the checks?

Mr. TENNANT. I cannot honestly tell you at this point.

Mr. RHODES. It seems to me that is a very large item unless most of it was due to the errors. What is the average of checks out throughout the year? In other words, as I recall it, you said that the agencies have made obligations and written checks which had not been reported. This is covering a period of maybe 13 or 14 days, just after July 1. Now, was the magnitude of these unreported expenditures greater during this period of time than it usually is, or less, or about the same?

Mr. TENNANT. I honestly can't tell you that either, I can say only that anything we produce during the months of July and August is preliminary until we get the Treasury computer runs. They are very difficult to reconcile out with our accounts. As we get these runs, we work in detail with Treasury to be sure we have picked up all of their transactions and vice versa. This year, in an effort to get you quicker figures on disbursements, we attempted a new system. We sent out cables to get disbursement information from the field at an earlier date than heretofore. Apparently this system did not work as well as we had hoped. I just don't know how much of the amount repre-

sents errors and how much represents amounts that were unreported. I won't really know until we get the final Treasury figures.

SYSTEM FOR ISSUANCE OF U.S. TREASURY CHECKS ABROAD

Mr. ANDREWS. Will the gentleman yield?

Mr. RHODES. Yes, sir.

Mr. ANDREWS. How many missions or agencies do you have throughout the world that are authorized to issue Treasury checks?

Mr. TENNANT. Well, in every one—I should say virtually every one—because we don't have disbursing offices in some of the African posts. In most of our posts the State Department's embassy has a U.S. disbursing officer who is an accredited employee of the Treasury Department and State Department. Any time we want to have a disbursement made we send the voucher to him and he disburses the amount. He is empowered to draw checks on the U.S. Treasury.

Mr. PASSMAN. Do they carry blank checks out there with them?

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. Out in the field.

Mr. TENNANT. Yes, sir; the Treasury disbursing office personnel have blank checks for use in accordance with Treasury procedures.

I would say, Mr. Chairman, that I don't believe that any July disbursements are included in any of these figures. July disbursements are shown as the fiscal 1964 transactions.

Mr. PASSMAN. There is a reduction of $300 million. Did you say it was a result of errors and mistakes?

Mr. TENNANT. Yes, and unreported transactions. As an illustration, if a particular post didn't report and they had in fact disbursed $10 million, we would not have picked up that $10 million. That would be one type of problem we run into in the year-end reconciliation process.

Mr. PASSMAN. How long has the policy been in effect that these employees of the Government are given Treasury blank checks that they fill in? Could you tell us the amount of disbursements they are privileged to make without Washington approval?

Mr. TENNANT. This procedure, to my recollection, was in effect when I worked overseas in 1949 and 1950.

Mr. PASSMAN. With the foreign aid program?

Mr. TENNANT. I worked for the State Department at that time, sir.

Mr. PASSMAN. Do you know of any expenditures that these AID people make overseas that could not wait until the voucher is mailed out of Washington? What is the hurry to give Iran or any other country $10 or $15 million, or maybe a $50 million check? Could it not be paid out of Washington and you would have better accounting procedures?

Mr. TENNANT. Well, the system that the Treasury has worked out——

Mr. PASSMAN. Yes, with the consent of the Congress.

Mr. TENNANT. Yes, sir. The Treasury system is used by the foreign aid program, the State Department, the U.S. Information Agency, and many other agencies.

Mr. PASSMAN. But you are dealing with relatively small accounts in those areas, are you not, as compared with the foreign aid area?

Mr. TENNANT. Compared to the foreign aid, I think that is correct, sir.

Mr. PASSMAN. Would there be any great harm done if the Congress should tighten up this procedure and foreign aid checks would be mailed out of Washington, rather than being issued out in the field where it goes into hundreds of millions of dollars in such a brief period? If you were to give Iran $75 million, what harm would be done if you delayed that 1 week until you got the check out of Washington?

Mr. TENNANT. For the most part, these checks are paid to individual vendors and not to the country.

Mr. PASSMAN. But why could the checks not come out of Washington?

Mr. TENNANT. I think the Executive Branch, with the consent of the Congress, has moved more and more toward decentralization over the last 10 or 15 years. This system was established by the Treasury Department and not by the AID agency.

Mr. PASSMAN. You requested legislation?

Mr. TENNANT. We did not request it.

My understanding is that this legislation and program was pressed by the General Accounting Office, the Treasury Department, and the Bureau of the Budget.

Mr. PASSMAN. Do you have any limitation for which they can draw checks, the amount?

Mr. TENNANT. I would have to obtain that from the Treasury and provide that for the record.

Mr. PASSMAN. Would it appear that the sky is the limit if the commitment has been made because in 13 days we have reduced the pipeline by approximately $300 million, using round figures?

Mr. TENNANT. I think there are some rules within the Treasury Department about the size of checks.

Mr. PASSMAN. Would you find out?

Mr. TENNANT. I will be glad to.

(Information supplied follows:)

OVERSEA DISBURSEMENTS BY U.S. DISBURSING OFFICERS STATIONED ABROAD

Each oversea U.S. disbursing officer is furnished a supply of U.S. Treasury checks: i.e., "check stock." These checks are prenumbered and carry the disbursing officer's symbol number. Each disbursing officer is required to sign a receipt for the number of blank checks received and is held accountable for each of the checks for which he has acknowledged receipt. There is strict control on the handling of voided, spoiled, or destroyed checks and unused checks are transferred by an official transfer and receipt form at the time of transfer of accountability to a new disbursing officer. Copies of all checks issued are also provided to the Treasury headquarters in Washington as part of the Treasury Department's comprehensive control procedures governing disbursing officer operations.

Present requirements are that U.S. disbursing officers immediately notify the fiscal Assistant Secretary of the Treasury, Washington, when a Treasury check in the amount of $1 million or more is issued to a payee other than an official or agency of the U.S. Government. This is a notice of issuance of a check and not a request for authority to issue a check in the stated amount since the purpose of this notice is to provide advance information to assure adequate funds are available in the Federal reserve account to cover the check at the time it is presented for payment.

The control to assure that checks are not issued for more than the amount provided in the applicable appropriation is handled through the use of bonded authorized certifying officers. Disbursing officers cannot issue checks unless they have been presented with a properly certified voucher personally certified by a previously designated certifying officer whose signature is on file with the Treas-

ury Department. The authorized certifying officer's certification to the U.S. disbursing officer includes language to the effect that the proposed payment is a valid charge against the cited U.S. Government appropriation and that funds are available under the applicable appropriation.

Mr. PASSMAN. Could you supply us with a list of the names of the AID mission heads and others who have the right to issue vouchers and sign vouchers, the number of AID missions to which you issue blank checks and they have the right to fill them in and sign them?

Mr. TENNANT. No checks are issued to AID missions or to AID employees as such. These are Treasury Department-State Department people. We have no control over the disbursing officer. Whether he wants to issue a check is solely within his province.

Mr. PASSMAN. The Treasury has a system whereby they mail blank checks out and these checks are filled out in the field; is that correct?

Mr. TENNANT. They have a system where the disbursing officers abroad are able to issue checks on their own.

Mr. PASSMAN. Does that mean that the checks are mailed out blank and they are filled in out there?

Mr. TENNANT. They are filled in by the disbursing officer who is stationed abroad.

Mr. PASSMAN. Can you tell us how many AID missions have the right to incur that type of obligation and who signs the checks? Is it the Ambassador?

Mr. TENNANT. No; the disbursing officer is named by the Treasury Department; I believe they are appropriately bonded.

Mr. PASSMAN. Do they work for AID?

Mr. TENNANT. They do not work for the AID Agency.

Mr. PASSMAN. Do they work for the U.S. Treasury?

Mr. TENNANT. My understanding is that they are technically employed by the State Department but have a Treasury responsibility on disbursing functions.

Mr. PASSMAN. I knew that those people had the right to make commitments but this is the first time that I ever knew the Treasury Department sends out blank checks and the AID people can make a recommendation that is an obligation and checks can be drawn.

Mr. TENNANT. I would like to clarify one point.

Mr. PASSMAN. Yes.

Mr. TENNANT. If AID requests disbursement be made, it must be certified by an authorized certifying officer in accordance with legislation which is specific on the point of personal responsibility.

Mr. PASSMAN. I know that, but it is done in the field.

Mr. TENNANT. The certifying officer hands it to the Treasury Department representative.

Mr. PASSMAN. In the field?

Mr. TENNANT. Yes; and he issues the check abroad.

Mr. PASSMAN. Am I making a statement of fact that these checks are sent out to, say, "Randolphville," and they go out unsigned and among the U.S. personnel there, a representative of the State Department technically, bonded under the Treasury Department, cooperating with the AID people, can fill in and sign checks for specific amounts out there?

Mr. TENNANT. That is right. The check is signed by that individual.

Mr. PASSMAN. Signed by that individual in the field?

Mr. TENNANT. That is correct; signed by the disbursing officer who is stationed abroad.

Mr. ANDREWS. Those checks that are written in the field are for personal services or local purchases?

Mr. TENNANT. Personal services, local purchases, travel; yes.

Mr. PASSMAN. Contractors?

Mr. TENNANT. Yes, local purchases could be contractors.

Mr. ANDREWS. For any heavy equipment or for any commodities purchased in this country you would have a different system of payment; would you not?

Mr. TENNANT. That is right. The heavy equipment purchased here is run through a letter of credit arrangement in banks. They are paid in New York, where the banks come to us for reimbursement.

Mr. ANDREWS. The military organization works the same way?

Mr. TENNANT. That is right.

Mr. ANDREWS. And in this country a postmaster writes his own check and writes the checks for all employees in that post office?

Mr. TENNANT. Yes, sir.

Mr. ANDREWS. There was a time when all checks in the field were written and sent from Washington?

Mr. TENNANT. Yes; at one time, that is right, some years ago.

Mr. ANDREWS. I think they concluded the cheaper way to handle the payment would be at the local level?

Mr. TENNANT. Yes; I believe it is all part of that general program of decentralization.

Mr. PASSMAN. I am not opposed to a system of decentralization, but I never knew before that AID could incur obligations and have them paid out in the field with vouchers. All of this comment is brought about by the fact that in 13 days the pipeline in AID dropped by almost $300 million. The main case was made, if I remember correctly, that you are waiting to find out the postings from the field.

Mr. TENNANT. Mr. Chairman, on this question of submitting this type or set of figures I would like to request the committee to wait until we close the books and give you final figures.

Mr. PASSMAN. If that is necessary.

However, I know of no reason why 15 days after the end of the fiscal year that a mission in Lebanon and Jordan could not have into Washington the amount of money which has been paid out.

Mr. FLYNT. Is there a dollar limit on the amount of the checks that can be written in the field?

Mr. TENNANT. We are talking about Treasury Department procedures which don't apply to our employees, they apply to Treasury employees. My understanding is that Treasury has certain rules with respect to the issuance of checks in large amounts. Now, whether they are limitations on the disbursing officer or whether they are merely advices that he has to send to Washington, I don't know. It seemed to me when I worked abroad about 10 or 15 years ago, that the disbursing officer was required to advise Washington any time he was going to issue large amounts.

Mr. FLYNT. Then I take it the answer is "Yes," that there is a dollar limitation.

Mr. TENNANT. I hate to say that conclusively. I would like to check that out for you, sir.

Mr. FLYNT. Realizing that the checks are actually signed by a Treasury official, the requisition for such checks has to come from the AID agency representative in the field; does it not?

Mr. TENNANT. That is right.

Mr. FLYNT. Is there any dollar limitation on the amount of a field requisition for field payment that your agency has set?

Mr. TENNANT. We issue allotments to each mission chief. That is a controlling factor. The allotments are issued by the Washington headquarters. A mission cannot exceed those allotments. Hence, an individual request cannot exceed those allotments. I would also like to point out that the procedure for effecting disbursements—and this procedure applies to every agency both stateside and abroad—is established under the certifying officer's law. It included a requirement that no disbursement can be made unless the voucher is signed by an authorized certifying officer, duly authorized by the Agency, and that designation is made here in Washington. That certifying officer is responsible for each proposed payment he certifies. If anything is wrong with that payment he is personally responsible under the law as the accountable individual. He signs the voucher, hands it to the disbursing officer and the disbursing officer is responsible for issuing the check.

RECONCILIATION OF PRELIMINARY FIGURES

Mr. PASSMAN. I wish to repeat that you are to give us a listing of the $300 million difference in the category of obligated funds for fiscal year 1963 between your statements of July 25 and August 8. Will you also indicate whether or not these transactions were made out of no-year funds or whether they were made out of 1-year funds?

Mr. TENNANT. I will be glad to, sir.

(The information supplied follows:)

RECONCILIATION OF FISCAL YEAR 1963 EXPENDITURE FIGURES (CURRENT FISCAL YEAR AND PRIOR YEAR ACCOUNTS)

EXPLANATION OF DIFFERENCES BETWEEN FIRST PRELIMINARY REPORT OF JULY 25, 1963, AND SECOND PRELIMINARY OF AUGUST 8, 1963

1. The first preliminary report showed that the unliquidated obligations (and hence unexpended) were considerably higher than the unliquidated figures in the second preliminary. This was occasioned by an understatement of expenditures on the first report. A recapitulation of the three most significant differences follows:

Unliquidated obligations

[In thousands]

	First preliminary	Second preliminary	Difference
Development grants	$378,441	$353,987	$24,453
Supporting assistance	559,885	358,139	201,746
Contingency fund	254,902	219,093	35,810
Total understatement of expenditures in first preliminary report			262,009

2. Actually there is a greater difference than 15 days between the two preliminary reports. While the first report was delivered to the committee under the date of July 25, 1963, it included only June 30, 1963, information which we had received in Washington by July 15 from oversea missions, other agencies, and various Washington reporting units. In those instances where we had not received a field report we estimated the expenditures for the fiscal year. After the crash report was drawn off for the committee our year-end closing and

reconciliation processes were resumed. As work proceeded our personnel noted differences between the "preclosing" cable information received from abroad and the formal written reports which were now coming in from the missions. They also noted some errors in the original compilations. As these differences grew in number the staff considered the possibilities of a second preliminary. As soon as key superivsing personnel became aware of the fact that the differences would probably be of fairly large magnitude, they directed the preparation of a second preliminary report, even though they recognized that further changes would subsequently be effected as part of the year-end reconciliation activities which are still in process.

3. A considerable portion of the work that went into preparation of the first preliminary was on an overtime, pressure basis inasmuch as we were attempting to provide to the committee early information as to the magnitude of the unexpended balances. It was therefore necessary to summarize the expenditure information received through mid-July quickly. This year a new system had been installed to expedite handling of this preclosing preliminary year-end data. After disclosure of the differences between the first and second preliminary reports, a summary analysis indicated that the new techniques employed had fallen down, partially due to misinterpretation of instructions and parially due to inadequate control mechanisms which would pinpoint problem areas. This latter point was critical inasmuch as compilations were being completed and released before detailed data on expenditures was available from the Treasury Department. In addition, normal differences existed due to nonreceipt of certain field reports, differences between estimates and actuals, overhead allocation adjustments, and in-transit items.

4. The understatement of expenditures summarized in Item 1 above are accounted for in the following categories:

(*a*) Differences between "preclosing cables" received from oversea missions in early July and the more comprehensive written reports received late in July and early August	—$10, 137, 548
(*b*) Expenditures made from prior year appropriations were inadvertently omitted from the first preliminary. Some personnel misunderstood supervisory instructions and thought that the report was to show only those expenditures which were chargeable to the current year appropriation ledger	266, 938, 046
(*c*) In-transit expenditure items not picked up as to the "target date" did not permit the technical analyses work necessary to identify such items	5, 460, 065
(*d*) Year-end journal voucher adjustments to revise "overhead" allocations. The final adjustment reduced the charges to the "Development grant" appropriation	—251, 087
Total	262, 009, 476

5. In evaluating the events which caused the foregoing differences, it is clear that: (1) the special preliminary reporting procedures, which bypassed our normal internal checks and control processes in order to meet a preliminary figure on a crash basis, failed to provide the accuracy originally planned; (2) that while the special crash reports had some errors, the Agency's basic accounting records were accurate; and (3) the Agency's accounting processes and normal reporting procedures do provide reliable data which are reconciled with the U.S. Treasury accounts as soon as specific information at the appropriation level is received from the U.S. Treasury.

LIMITATIONS ON FOREIGN AID OBLIGATIONS LATE IN FISCAL YEAR

Mr. FLYNT. This prior series of questions brings me to this, first with this observation. That for many years we have been told that there is a practice among Government agencies during the last 30 to 60 days of a fiscal year to determine how much money remains unexpended and unobligated and that it is either openly or tacitly agreed that requisitions will be made during those last few weeks of a fiscal year on the theory that if money is left unexpended and unobligated that there may be a tendency on the part of Congress to reduce the

appropriation for succeeding fiscal years. Does that situation obtain in the Agency for International Development?

Mr. TENNANT. No, sir. As you will probably recall our legislation establishes a limitation on the amount we can obligate in the last month of the year. It is not to exceed 20 percent, as I recall. Therefore, we are bound by statute on that particular point.

DIFFERENCES BETWEEN PRELIMINARY REPORTS

Mr. FLYNT. Further along that same line, does it not occur to you and does it not seem to you, that a difference of $300 million in these two sets of figures is a substantial or perhaps even an excessive difference?

Mr. TENNANT. Yes; it is a substantial difference, Mr. Flynt, but primarily this occurs because of the fact that we are unable to produce complete figures—maybe through a misinterpretation of mine of the chairman's request—within the target date. I thought the chairman wanted these figures as soon as possible. The first runs from the Treasury, as I recall, were not obtained until early August. Therefore, the figures that we had to provide, or which we did provide, were not balanced with the Treasury control figures. When the Treasury talks about no significant differences in their figures, and I don't know how much difference does exist in their figures, they are probably talking about differences between their August runs to the December runs.

Mr. FLYNT. Off the record.

(Discussion off the record.)

AGENCY YEAR-END FISCAL REPORTING SYSTEM

Mr. PASSMAN. When they issue those vouchers, those vouchers are filled in then and a copy of the voucher is retained for posting and it is proper for that item to be posted at the end of the day. Would there be any reason why, say by the fifth day of July each year you could not have a dispatch, or at the latest the 10th day of July each year, showing the number of the voucher, the date and the amount?

Mr. TENNANT. We will be glad to work on this proposed system but I do want to point out——

Mr. ANDREWS. If they cannot get them in in 10 days somebody is dragging his feet out there.

Mr. TENNANT. I agree we could do everything quicker but correspondence from places likes Nepal, Paraguay, and so forth, it is virtually impossible.

Mr. PASSMAN. Are there not other methods of communication?

Mr. TENNANT. We will try to set up a more expeditious routine.

AGENCY PROCEDURE FOR SALARY PAYMENTS IN AID MISSIONS

Mr. ANDREWS. I would like to know the mechanics of salary payments for your technicians or other employees in the field.

Pick out one. India. What is the currency over there?

Mr. TENNANT. Rupees.

Mr. ANDREWS. You have a man detailed over there for 2 years. How often do you pay him?

Mr. TENNANT. He is hired here in Washington. His salary scale, benefits and so forth are set by Washington. They cut an appointment action on him establishing his salary. We pay him every 2 weeks.

Mr. ANDREWS. How is he paid and where is he paid?

Mr. TENNANT. He is paid out of our office in New Delhi through disbursements made by the U.S. disbursing officer working for the State Department in New Delhi.

Mr. ANDREWS. Do they give him a check?

Mr. TENNANT. Under the requirements that exist they are supposed, that is, the State Department and AID requirements, require payment wherever possible in rupees for the amount that he would expend locally and the balance in dollars. They might issue him two checks, a rupee check and a dollar check. Most Americans are paid with checks rather than cash. If an American is paid in dollars he is supposed to buy his local currency from the U.S. Treasury disbursing officer.

Mr. ANDREWS. Let us say he gets a check. What do you do with this check?

Mr. TENNANT. To the extent that he has stateside costs, that is, expenses where he has to pay dollars for things are are necessary for his upkeep——

Mr. ANDREWS. Where, in New Delhi?

Mr. TENNANT. Yes; but he may have to import food or something like that.

Mr. ANDREWS. He is living in a country where the currency is rupees.

Mr. TENNANT. That is correct.

Mr. ANDREWS. He buys his groceries with rupees, he pays his rent and utility bills with rupees.

Mr. TENNANT. Yes. Most of his costs are rupees. Let us say he wants to buy a suit of clothes, and he wants to import it from London or New York. In that case he needs foreign exchange. I would assume that the type of clothes that may be produced in Delhi are not what the average American would buy.

Mr. ANDREWS. We are dealing with a hypothetical case. Would he spend 80 or 70 percent of his salary in rupees? Let us say 60 percent.

Mr. TENNANT. I could not really say without reference to our files.

Mr. ANDREWS. Do we pay him in rupees that we have acquired?

Mr. TENNANT. The Treasury Department representative, if he has rupees that are U.S. owned, he will use those first and not go out and buy any rupees. The Treasury representative under his rules is not supposed to buy any rupees until he uses up the rupees he has in his possession.

Mr. ANDREWS. We have rupees running out of our ears.

Mr. TENNANT. That is right, in Delhi he would not buy any as we have excess foreign currency in India.

USE OF U.S.-OWNED FOREIGN CURRENCIES

Mr. ANDREWS. Let us stick to New Delhi and the technician there who is paid every 2 weeks. Let us say his salary is a thousand dollars a month and he needs $600 in rupees for living expenses and other expenditures that he has in New Delhi. You could give him $400 in cash or a check which he would send back to this country for deposit in

his bank, and another check for $600 in rupees for his living expenses over there?

Mr. TENNANT. Yes, sir.

Mr. ANDREWS. Now, we own the rupees; is that right?

Mr. TENNANT. That is correct.

Mr. ANDREWS. How much of that $1,000 monthly salary would you charge to AID?

Mr. TENNANT. The total $1,000.

Mr. ANDREWS. Where would you get the credit for $600 in rupees that we gave him?

Mr. TENNANT. The $600 worth of rupees that we paid him are charged to the AID appropriations just the same as the dollar charges but the Treasury makes an adjusting entry which takes it out of their local currency holdings. In effect there is an adjustment within the U.S. Treasury. While our account shows a charge of $600 for salaries, the Treasury has not really paid out any dollars, since they have substituted rupees for a dollar payment.

Mr. ANDREWS. Has this question ever been developed by this committee, or before the legislative committee? It appears to me we could keep this foreign aid program moving with the foreign currency that we have accumulated.

Mr. TENNANT. There is a statute, section 1415, which was enacted by the Congress in 1955 or thereabouts in the old mutual security program which said that agencies operating abroad could not use local currencies unless they charged their dollar appropriations an equivalent amount.

Mr. ANDREWS. You are still operating under that statute?

Mr. TENNANT. Yes, sir; that statute is still active in effect.

Mr. ANDREWS. So, then, if you have a billion dollars worth of salaries in this bill and you were able to finance half of it with foreign currency and half of it in U.S. currency, you would charge AID the billion dollars for the salary item, whereas, as a matter of fact, only a half billion dollars is in U.S. dollars.

Mr. TENNANT. Yes; when you take the U.S. Government as a whole. We are charged with the entire billion dollars, but the U.S. Government does not have an outflow of a billion dollars.

Mr. ANDREWS. We are dealing in the field of high finance and I am not an expert in that field.

Mr. TENNANT. There has been a lot of work done by the Treasury Department, the Bureau of the Budget, GAO, and others to maximize the use of local currency along the lines you suggest.

Mr. ANDREWS. Does the Treasury report show it as assets?

Mr. TENNANT. Yes, sir; the local currencies are in the Treasury report as assets. There is a comprehensive report put out. You will recall we had an abbreviated version here one day during the hearings when you were questioning on a prior occasion.

Mr. ANDREWS. I would say this is a pretty good way to sell our foreign currency that we have accumulated.

Mr. TENNANT. We have had extensive discussion on the Senate side with Senator Williams who sponsored amendments which effect certain changes in the Treasury as to the way they keep their records.

Mr. ANDREWS. You have enough Indian Government rupees in the Treasury of the United States to finance at least 50 percent of the cost of the AID program in India, have you not?

Mr. TENNANT. Yes; there is a tremendous amount of local currency in India. These amounts can be used for local costs, which are the salary costs you are talking about, but could not be used for the foreign exchange costs that are used on the program side.

Mr. ANDREWS. I understand that but my hypothetical man is living in New Delhi; he is paid every 2 weeks. Everything he buys in New Delhi has to be paid for in rupees.

Mr. TENNANT. That is right. His housing and so forth.

Mr. ANDREWS. Why do you not work out some plan where you could cut your dollar cost of foreign aid considerably by the use of foreign exchange that we own and have on hand and is of little value to us except to be spent for salaries? Is there any restriction on the part of the Indian Government that prohibits us from paying that man in rupees without taking dollars and converting them into rupees?

Mr. TENNANT. No, this is a U.S. statute imposed by the U.S. Congress that requires that anytime we pay out——

Mr. ANDREWS. The effect of that statute, then, is to prohibit us from using rupees?

Mr. TENNANT. No, we use the rupees to the maximum extent possible. Insofar as our program is concerned, it merely means that our appropriation gets charged with the full cost of this technician, even though part of his cost is met from local currency holdings.

Mr. PASSMAN. You are saying, in effect, that a country issuing its own currency would not provide the foreign exchange they need to buy commodities?

Mr. TENNANT. That is correct. We were at that point discussing, primarily, payments to a technician.

Mr. MILLER. India, Mr. Chairman, with a program of about $450 million in loans for foreign exchange cost and $800 million——

COMPARISON OF FISCAL YEAR 1963 APPROPRIATIONS WITH OBLIGATIONS

Mr. PASSMAN. I believe that the final "Mutual Security" program appropriation last year amounted to $1,032,400,000 less than the budget estimate; is that correct?

Mr. TENNANT. That is correct, sir.

Mr. PASSMAN. Even after that reduction, you still finished the fiscal year not obligating $128,900,000, plus all reappropriated funds; less than the amount appropriated. You obligated a total of $3,800 million, and Congress had appropriated $3,928,900,000.

Mr. TENNANT. Yes, sir. Your figure I did not get; was it $3,928,900,000?

Mr. PASSMAN. That is right.

Despite all the fighting last year and all the hair raising by top echelon people and the claims that Congress was wrecking the program, you still wound up the year with all the deobligated funds, using as such, with all the money reappropriated, plus $128,900,000 of new authorization unused, which means that the Congress appropriated more money than you could possibly use. How could you possibly come within $128,900,000 of obligating the amount of the

new appropriation and still have on hand as of June 30, 1963, under section 1, $368,608,000 of unobligated funds?

Mr. TENNANT. There are several reasons for this, Mr. Chairman.

Mr. PASSMAN. Did the Congress, in effect, in some accounts, appropriate more money than was actually needed?

Mr. MILLER. In the contingency funds——

Mr. PASSMAN. In the contingency fund, did Congress appropriate more money than was actually needed and you are turning back $117 million?

Mr. TENNANT. We are turning back $117 million.

Mr. PASSMAN. If you had gotten more you could have spent that and this, too; is that what you are saying? Or did Congress appropriate more money than you needed?

Mr. MILLER. You gave us more money than we needed.

Mr. PASSMAN. Thank you.

Mr. MILLER. We are pleased that we used the contingency fund so carefully this year.

Mr. PASSMAN. I think you have been more extravagant this year than ever before.

I have cited correctly the amount of unobligated funds in section 1, $368,608,000, when we pick up the others, including the revolving funds, you had on hand $515,585,000; is that correct?

Mr. TENNANT. That is correct. That includes military and economic, investment guarantees and so forth.

UNOBLIGATED BALANCES

Mr. MILLER. Mr. Chairman, if we could go down a few of those——

Mr. PASSMAN. It is not necessary.

Mr. MILLER. The figure of 515 should, I think, be explained.

Mr. PASSMAN. It has been explained, but you may proceed.

Mr. MILLER. The $117 million from the contingency fund is the largest single unobligated balance. That we believe is appropriate.

Mr. PASSMAN. That is your trick fund. It is the one on which you are trying to sell Congress that you are such good operators you are going to turn it back. I think it is the most abused fund that you had last year.

Mr. MILLER. The second major item is development loans which are no-year funds.

Plus the Alliance for Progress.

Those two no-year funds which amount to about $190 million, plus the unobligated balance in the contingency funds, make up by and large the entire amount except for development grants, where there is a $46,200,000 figure. Most of the $46,200,000 in unobligated funds at the end of the year in development grants come from deobligations which were not——

I am sorry; most of the $46,620,000 in development grants are deobligated funds which, in accordance with the discussions and correspondence that you had indicated earlier, we did not reobligate for use during fiscal 1963.

Mr. PASSMAN. These items have previously been discussed in detail.

Mr. TENNANT. We have discussed it from time to time but since we are back to discussing it we want to reiterate it.

Mr. PASSMAN. Yes, but you have those figures in the record.

Mr. TENNANT. Those figures are in the record.

Mr. PASSMAN. Perhaps you may wish to discuss them further, Mr. Controller, with Mr. Miller. You might also wish to discuss the other $688 million of unobligated funds that are technically obligated, placed over in the category of reservations, pending the signing of contracts.

RESERVED FUNDS FOR APPROVED LOANS

Mr. RHODES. Could you describe that $688 million?

Mr. TENNANT. That figure represents loan commitments which have been approved by the Administrator and the Development Loan Committee. After a loan is approved, we earmark the money to cover the pending agreement. We are now in the process of working out details of these loan agreements. When the loan agreements are signed they become legal obligations.

Mr. RHODES. In other words, negotiations are in process?

Mr. TENNANT. Yes.

Mr. PASSMAN. It is carried in a reservation status?

Mr. TENNANT. Yes, sir. We report these figures as commitments under the caption "Obligations/Reservations."

Mr. RHODES. Sort of a shadow area.

Mr. PASSMAN. Is it not also true that there are items for which you reserved money as far back as fiscal year 1962 but the contracts are yet to be signed?

Mr. TENNANT. I think there were one or two transactions in fiscal year 1962.

Mr. PASSMAN. Did you not have a score or more in fiscal year 1963, which are now a year old, or older, that have yet to be signed?

Mr. TENNANT. There are quite a few in 1963. However, these are big, complicated transactions and we want to exercise caution. In working out the details of negotiations we run into technical problems.

Mr. MILLER. We believe it is the fiscally prudent thing. When we have an outstanding obligation we believe we should have the funds on hand to meet that.

Mr. PASSMAN. If you had the money properly obligated to start with, then you would not have all these deobligated funds. I think last year there was in excess of $300 million in deobligated funds in economic and the military programs. The economic aid category alone included about $51 million of deobligated funds, did it not?

Mr. MILLER. My recollection is that it is about $50 million.

Mr. PASSMAN. Is not $51 million net, the latest report?

Mr. TENNANT. That is the carryover from deobligations not reobligated as of June 30, 1963.

Mr. PASSMAN. Yes, and since the start of these hearings you have indicated a lot of other commitments, some of them development loans of prior years that will be deobligated.

Mr. TENNANT. There were some statements by the witness along that line.

Mr. RHODES. Is any of this $688 million represented by loans in process for the Alliance for Progress?

Mr. TENNANT. Yes, the figure includes the Alliance for Progress loans.

AIR TRAVEL BY FOREIGN ASSISTANCE PERSONNEL AND PARTICIPANTS

Mr. PASSMAN. Mr. Tennant, of the 64,500 individuals involved in the aid program, military and economic, including the participants, all of them do some flying, do they not, getting to and from certain places?

Mr. TENNANT. Yes, that is correct. In some cases participants costs are partially borne by the cooperating country.

Mr. PASSMAN. I never know what you people are up to when you say look what the other country is doing. Our aid is a supplement to what they do for themselves, is it not?

Mr. TENNANT. That is correct.

EXPENDITURES FOR COMMODITIES

Mr. PASSMAN. Have you been able yet to arrive at a figure for the cost of the commodities charged to this program for fiscal year 1963?

Mr. TENNANT. Not for fiscal 1963. I provided you an insert for prior years, earlier during these hearings.

Mr. PASSMAN. We want to find out what part of the total is for commodities. We claim that is an export, a commodity you have shipped out. Perhaps only about a billion dollars in commodities is involved in the total of annual expenditures. Is that correct?

Mr. TENNANT. I believe about $863 million in fiscal 1962.

Mr. PASSMAN. What was the other part of it?

Mr. TENNANT. This is out of a total of about $1.8 billion in fiscal year 1962.

Mr. PASSMAN. That is economic aid alone.

Mr. TENNANT. Yes, sir.

Mr. PASSMAN. Do you have comparable figures for the military aid program?

Mr. TENNANT. The military in 1962, out of a total amount of expenditures of $1.4 billion, they show—no, I would have to provide it for the record.

Mr. PASSMAN. Pick some other year on military.

Mr. TENNANT. These figures are broken out between cost of material and construction only.

Mr. PASSMAN. You do not have any information with you?

Mr. TENNANT. No, sir.

Let us see what we can work out.

(Information supplied follows:)

Military assistance program, fiscal year 1963 estimated expenditures

[In thousands of dollars]

1. Commodities	$1,308,876
2. Services:	
(a) Direct compensation and benefits	28,945
(1) Salaries, direct hire	19,349
(2) Other direct compensation	731
(3) Personnel benefits	8,865
(b) Travel and allowances (including foreign trainees)	50,606
(c) Other services	406,573
(1) Construction	52,600
(2) Training [1]	58,002
(3) Supply operations [1]	116,916
(4) Infrastructure	95,000
(5) Balance of other services [1]	84,055
Total	1,795,000

[1] Exclusive of compensation and travel.

Mr. PASSMAN. What, again, is the amount of the commodity component for economic aid?

Mr. TENNANT. That was $863 million out of $1.8 billion.

Mr. PASSMAN. What percentage would that be?

Mr. TENNANT. It is a little less than 50 percent. I guess about 45 percent.

Mr. PASSMAN. About 45 percent commodities, 55 for all other categories.

Those figures cover salaries and expenses for the 64,500 employees and participants as well as contract personnel with universities, colleges, trade schools, and so forth?

Mr. TENNANT. These figures cover the total AID program. The 64,000 figure you used includes military.

BREAKDOWN OF EXPENDITURES UNDER FOREIGN ASSISTANCE

Mr. PASSMAN. Of the $1.8 billion for economic aid, do you have a chart which shows how much of that is for subsistence, how much is for travel?

Mr. TENNANT. Technicians' salaries and international travel is $69 million on this chart for fiscal year 1962.

Mr. PASSMAN. Could you break that item down and show the amount for travel and related expenses?

Mr. TENNANT. I think we will have to provide you that.

Mr. PASSMAN. Here is what we want: One, commodities. Two, direct-hire salaries. Salaries to direct hire. Three, personnel for contract services. Four, travel allowances, food, and related expenses. Give us the commodities first. Then give us the salary of all of them. Then give us the travel, including all related expenses. And the contracts service.

Mr. MILLER. This would add if we put in International Organizations, which is a separate category——

Mr. PASSMAN. You may delete the International Organizations.

Mr. TENNANT. We will work it out, Mr. Chairman. I think the problem here is that some of the detailed runs are not out yet.

(Information supplied follows:)

AGENCY FOR INTERNATIONAL DEVELOPMENT

Preliminary fiscal year 1963 expenditures by cost component

[In thousands of dollars]

	Preliminary fiscal year 1963 expenditures	Estimated breakout by component					
		Commodities	Travel	Contracts	Salaries	International organizations	Other
Commodities	1,160,935	1,160,935					
Participants	23,925		4,785				19,140
Technicians	65,225		8,081		57,144		
Contracts	135,784			135,784			
Cash transactions	270,906						270,906
International organizations	93,492					93,492	
Social progress trust fund	49,000						49,000
Administrative expenses	57,828		3,595		36,766		17,467
Other services:							
Other agencies	26,237						26,237
Projects	63,645						63,645
Development loans	104,696						104,696
Program support	25,658		341		6,344		18,973
Balance of other services	501						501
Total	2,077,832	1,160,935	16,802	135,784	100,254	93,492	570,565

AVERAGE SALARY FOR U.S. AND FOREIGN NATIONAL PERSONNEL PROGRAMS

Mr. PASSMAN. It looks to me as if this thing has gotten down to the point that it may be as low as 40 percent is actually foreign aid in the form of goods. However, the spending has the same effect on our balance-of-payments situation if they are dropping these salaries and expenses abroad.

Now, the salary scale has considerable spread. Could you give us the average annual salary?

Mr. TENNANT. I think I have that here, sir. The fiscal year 1963 average salary for both Washington and overseas personnel is $10,300 per annum.

Mr. PASSMAN. Is that figure for all personnel in AID, both military and civilians?

Mr. TENNANT. That is just AID, not the military. It excludes the military, but all of the AID agency's U.S. national employees.

Mr. PASSMAN. It does not include foreign nationals. Do you have the breakdown for that category of employees?

Mr. TENNANT. Foreign nationals, I think, average about $1,500 per annum.

Mr. PASSMAN. When you give us expenses for these people, are you going to include the expenses of all personnel in this category, economic?

Mr. TENNANT. Economic; yes, sir.

Mr. PASSMAN. Then try, if you can, to give us a comparable sheet on the military program.

Mr. TENNANT. Yes, sir.

(Information supplied follows:)

The estimated average salaries of personnel paid with military assistance funds in fiscal year 1963 were: U.S. civilians, $7,492,000; foreign nationals employed by Department of Defense activities, $1,033,000; and foreign nationals employed by allocation account activities, $1,574,000.

Mr. PASSMAN. The contract personnel is in there because that is included in that 64,500. That figure includes all personnel in AID, participants and AID people, does it not?

EXPENSES FOR PARTICIPANTS

Mr. MILLER. Participants are not in the AID Agency.

Mr. PASSMAN. Participants are part of the program. The total personnel of 64,500 includes the participants.

Mr. TENNANT. I think Mr. Miller is merely pointing out that participants are not employees of the AID Agency.

Mr. PASSMAN. Not as such. But they draw the spending money, they draw expenses, and you are dealing with personnel.

Mr. TENNANT. Participants are people we are trying to train.

Mr. PASSMAN. There are about 18,000 participants?

Mr. TENNANT. Roughly.

Mr. PASSMAN. You have to pay for the airplane tickets to bring them over and take them back?

Mr. TENNANT. That is right.

Mr. PASSMAN. You give them allowances and spending money, do you not?

Mr. TENNANT. We give them per diem for food and lodging.

Mr. PASSMAN. Do they not have a little spending money that is included?

Mr. TENNANT. I think I hedged on the question of spending money in a previous exchange.

Mr. PASSMAN. We do furnish a little spending money. Are you familiar with how much spending money there is for each participant?

Mr. MILLER. Mr. Chairman, they do spend money. The exact nature of the expenditures, I think, Mr. Tennant might speak to that.

Mr. PASSMAN. Please try to give us a breakdown of the $1,500 for the participant and how much spending money, how much for travel, how many room and board?

Mr. MILLER. Well, we will have to provide that.

(Information supplied follows:)

BREAKDOWN OF PARTICIPANT EXPENSES

The total cost of the AID worldwide training program is approximately $44 million per year. This includes the cost of the oversea training staffs, the training staffs in AID/Washington and in each of the participating agencies, travel, tuition, medical expenses, maintenance allowances, and other support costs. The average cost per participant is approximately $3,500 per year. It is not possible to state how much of this is for travel, per diem, tuition, etc., because of the different per diem rates applicable to the various types of training and the various methods of paying for international travel. On international travel, for example, of the 77 countries in which AID has training programs, 20 pay all travel costs for their participants; in 18 countries AID and the cooperating country share the costs of travel; and in 38 countries AID pays travel costs.

The maintenance allowance paid to participants varies according to his geographical location and the type of training he is undertaking. Lower rates are

provided for participants located in academic institutions than for those who are in travel status. In any case, the per diem covers such items as lodging, food, laundry, drycleaning, haircuts, recreation, and similar expenses. It is not intended that the rate provide for more than a modest standard of living.

Mr. PASSMAN. You do not disagree that they have some spending money, do you?

Mr. TENNANT. It is per diem in lieu of lodging and food.

Mr. PASSMAN. It amounts to the same thing. You include something in there so that if a participant needs an aspirin tablet he would have the money to go down and buy it?

Mr. TENNANT. That is true.

Mr. PASSMAN. If he happens to get a hamburger or Coca-Cola on the corner that is in there, too.

Mr. MILLER. The per diem expenditures may be spent by the individual or participants just as they are by Federal employees or anyone else receiving per diem. They may spend it for food and lodging or aspirin tablets.

Mr. PASSMAN. You say they may spend this money as they see fit?

Mr. MILLER. The per diem expenditures they use for their expenses.

Mr. PASSMAN. Food and lodging?

Mr. MILLER. Food and lodging; yes, sir.

Mr. PASSMAN. Nothing but food and lodging?

Mr. MILLER. This is an expenditure that is calculated to provide them a sufficient amount for their food and lodging. And whatever expenditures they have included in the per diem, almost anything.

Mr. PASSMAN. We are trying to find out if it is not a fact that the per diem allowance is liberal enough so that they have some funds for spending money.

Mr. TENNANT. The computation of per diem as I understand it is computed on the principle of food, lodging, and tips incidental thereto.

How the man actually spends the actual cash is beyond the control of the U.S. Government.

Mr. PASSMAN. Tips would be what you might call a little spending money?

Mr. TENNANT. I would say so, sir.

Mr. PASSMAN. Thank you.

DIFFERENCES IN PRELIMINARY FIGURES SUBMITTED

Let us have the list showing the $300 million variation in funds over a 13-day period.

Mr. TENNANT. We will produce it as fast as we can. We will get the military and see what their target is, too.

Mr. PASSMAN. This is dealing primarily with economic aid. We want to see what countries came through so slowly on this $300 million.

Mr. TENNANT. I want to be very clear on the military. The figures shown on those charts are the figures that are in the military presentations. The military indicates that they have no preliminary June 30, 1963, figures ready as yet.

Mr. PASSMAN. But you do have the $300 million difference in the economic aid figures?

Mr. TENNANT. That is in economic entirely. As I have just said, the military figures have not changed from the presentation figures.

Mr. MILLER. They stated they had no later figures.

Mr. PASSMAN. We shall deal with the economic part of it, what nations, the date of the voucher, to whom payable, the name, and the amount, and when you received it in the AID Agency during those 13 days. The rest will be in the error category, which is understandable.

Mr. TENNANT. Mr. Chairman, I would like to point out on these two tables, the July 25 and the August 8 table, the military figures as I look at them are exactly the same.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. TENNANT. The thing I wanted to be sure the committee realized is that later when the military figures change I want to be on notice they probably will change.

Mr. PASSMAN. We shall not blame you if the military aid figure is, say, $200 million more than they have reported.

Mr. TENNANT. Mr. Chairman, as I indicated earlier, in accordance with Government agency regulations, each agency goes through an audit process to review all of the outstanding obligations on June 30. This process occurs during the months of July and August and the final figures on this are required in the Treasury in September. It is conceivable that these audit findings may disqualify some obligations and increase the unobligated.

Mr. PASSMAN. The accurate statements may increase the amount of unobligated funds?

Mr. TENNANT. It may increase or decrease.

Mr. PASSMAN. Do you see some indication the figure would be increased?

Mr. TENNANT. I would think it would increase from the standpoint that auditors in reviewing transactions may disqualify some transactions on the books that don't qualify.

Mr. PASSMAN. Can you give us another statement as of Tuesday, August 20?

Mr. TENNANT. The difficulty of providing you with a revised statement on the unobligated balance is the fact that these audits occur not only here in Washington for Washington transactions but occur in each one of the missions for mission transactions. They are in the middle of these audits at the present time.

Mr. PASSMAN. Are you telling us that there is no way we can anywhere near accurately give the Congress a listing on the amount of funds unexpended?

Mr. TENNANT. Those figures are the best figures we can give you at this time.

Mr. PASSMAN. When is the next time you can give us the figures? You gave us a statement on August 8.

Mr. TENNANT. The next figures we can give you, as I see it, Mr. Chairman, would be around October. My understanding is the Treasury routine requires through the middle of October for the reconciliation process.

Mr. PASSMAN. What date would you have given us if we had said "Mr. Controller, give us a current statement on unobligated funds on everything in the pipeline"?

Mr. TENNANT. The August 8 figures.

Mr. PASSMAN. What is so significant about the August 8 statement?

Mr. TENNANT. Both of those tables are headed as of June 30, 1963.

Mr. PASSMAN. But you have two dates down there, your estimate as of July 25 and the estimate as of August 8.

Mr. TENNANT. Those are the dates the documents were typed.

Mr. PASSMAN. You indicate the next statement could be up, that they may disallow certain charges. Do you have have some indication that will be the fact?

Mr. TENNANT. This is just the normal routine in an audit.

Mr. PASSMAN. You could not give us another estimate until October?

Mr. TENNANT. Those are the only reasonable figures we can give you, sir.

Mr. PASSMAN. When are we going to get a list, Mr. Tennant, showing what countries sent in these reports late, and in what amounts, and for what purposes?

Mr. TENNANT. And what errors occurred?

Mr. PASSMAN. Yes.

Mr. TENNANT. I assume we can get that information in for you in the next 3 or 4 days.

Mr. PASSMAN. Could you give it to us by Thursday morning?

Mr. TENNANT. I think we probably could. I will try to get them to you Thursday morning. I might slip a few hours.

Mr. PASSMAN. I have never yet sent out a statement on the AID program that was not from your figures. I do not intend to do so this time. Certainly we want figures as accurate as it is possible to get them.

INCREASE IN FOREIGN ASSISTANCE PIPELINE

What does your figure show you withdrew from the pipeline in fiscal year 1963?

Mr. TENNANT. Fscal 1963?

Mr. PASSMAN. Yes.

Mr. TENNANT. We had an increase of $114 million for both military and economic.

Mr. PASSMAN. I am talking about the total withdrawals.

Mr. TENNANT. I am sorry, the pipeline increased $114 million——

Mr. PASSMAN. How much did you disburse and what were the expenditures?

Mr. TENNANT. Total expenditures during fiscal year 1963 were $3,857.2 million.

Mr. PASSMAN. Does that figure include this $300 million discrepancy we have been talking about?

Mr. TENNANT. These are based on August 8 figures.

Mr. PASSMAN. Is this an accurate statement? In fiscal 1962 you withdrew $3,198,100,000. In fiscal 1961, you withdrew $3,276,600,000, and in fiscal 1960, you withdrew $3,265,400,000.

Mr. TENNANT. The 1962 figure that you read I believe is a preliminary figure. The 1961 figure you gave me is the final figure. The 1960 figure I don't have with me, sir.

Mr. PASSMAN. You gave me these figures.

Mr. TENNANT. Yes, sir. Any time we can further explain these figures we will be glad to help.

Mr. PASSMAN. I can assure you we will be calling upon you.

You certainly agree there is an increase in the last 3 years over previous years?

Mr. TENNANT. Yes, sir.

Mr. MILLER. I think in the development loan category there was of course a large obligated amount in the early stages which had not been expended because many of these were for long-term projects. Now the expenditure rate in the development lending is increasing over time.

Mr. PASSMAN. But the pipeline still goes up. The pipeline is up again, is it not, about $114 million?

Mr. TENNANT. That is right.

Mr. PASSMAN. It may be up $114 million, depending on whether or not when you have another look at these postings, when you have a final audit, whether or not there has been an error. This is subject to correction, is it not?

Mr. TENNANT. Yes, sir, it is true on the development loan category. the nature of the project, there are capital projects, that the disbursements in the early years, the loans are relatively small and in the latter years they will increase substantially as Mr. Miller has pointed out.

Mr. MILLER. In effect, in the nonloan category, it has been going down somewhat in terms of the pipeline.

Mr. PASSMAN. It would appear to me that a good part of this came out of this regular straight-out give-away fund. Supporting assistance is where you got really a big bite; am I correct?

Mr. TENNANT. I think——

Mr. PASSMAN. Am I right? Supporting assistance is primarily economic, and is where we lost this $200 million. Is that correct?

Mr. TENNANT. Yes, that is right.

Mr. PASSMAN. So you cannot blame that situation on the so-called development loan fund. The big discrepancy is in the old give-away part of the program.

Mr. MILLER. In the non-loan category in 1960 the expenditure rate was——

Mr. PASSMAN. Mr. Miller, all we are trying to do now is find out about the $300 million. We have just put our finger on $200 million of it being in the grant aid part of supporting assistance.

Mr. MILLER. Yes, Mr. Chairman.

Mr. PASSMAN. If you make these obligations you have a right to draw all of the money out of the pipeline. However, I do not think that we are in a position to discuss the matter further until we see that list concerning the difference in figures by $300 million.

Mr. TENNANT. We will send that to you as quickly as possible.

Mr. PASSMAN. I believe that under development grants, the old shared grants part of the program, you pick up $25 million. This so-called loan business is only $5 million. In supporting assistance you pick up $200 million. In the contingency fund, it looks as if you are going to pick up about $35 million. You work in those categories, please.

Mr. TENNANT. We will do that, sir.

Mr. PASSMAN. We are very grateful to you, Mr. Tennant and Mr. Miller, but I believe that you agree that there is cause for confusion and room for improvement with regard to the matters we have discussed.

Mr. MILLER. We will be glad to help you in any way we can.

Thank you again, gentlemen.

This subcommittee will now adjourn, to meet next, subject to call.

WEDNESDAY, AUGUST 14, 1963.

OBLIGATIONS UNDER CONTINUING RESOLUTION, FISCAL YEAR 1964

Mr. PASSMAN. The committee will come to order.

I should like to make one or two brief observations before we hear the outside witnesses.

I spoke with Mr. L. D. Mosso, Division of Central Reports, Bureau of Accounts, U.S. Department of the Treasury, code 184, extension 5506, with respect to Treasury statements.

When the Treasury statement for June 30 is issued, whatever it shows under "withdrawals from the U.S. Treasury" closes that fiscal year so far as applying any withdrawals to this statement. All bills for payment received subsequent to June 30 naturally are dated in July and are included as a part of the new fiscal year's withdrawals and are so listed.

If an agency operating under a continuing resolution has obligated $3,450 million for fiscal year 1963, then the agency would be able to obligate one-twelfth of that amount per month until it receives its new appropriation. If, however, the agency showed total obligations of $3.9 billion for fiscal 1963 it could then obligate one-twelfth of the $3.9 billion per month until it receives the new appropriation. And if an agency operated for a period of 4 to 6 months on a continuing resolution at a very high figure, then at the time of considering the final amount for a full fiscal year it would not have a bona fide claim but yet a very strong argument to persuade the Congress to appropriate maybe more than had been intended because of having permitted the agency to withdraw at a very high rate for approximately one-third, or 40 percent, of the new fiscal year.

On the other hand, there is a question of the Budget permitting obligations to be made retroactive. As there is no statutory cutoff date, there is no absolute administrative cutoff date, it is not difficult to understand how the previous fiscal year would indicate a very high figure for obligations.

Mr. RHODES. Mr. Chairman, will you yield?

Mr. PASSMAN. Yes; I yield.

Mr. RHODES. Just to tie this down as to figures, if I understand the chairman correctly—and I think he is absolutely correct—if an agency was operating on an average obligational authority of $3.6 billion for a fiscal year and assuming the agency operated on a continuing resolution for the next 4 months of the following fiscal year, the agency would be able to obligate on the basis of $300 million a month.

Mr. PASSMAN. That is correct.

Mr. RHODES. Carrying the example further, if at the end of the 4 months the agency had obligated $1.2 billion, and assuming the Congress appropriated for the agency for the next fiscal year only $2.4 billion, then for the last 8 months of the fiscal year the agency would have to obligate $2.4 billion minus $1.2 billion, which would leave $1.2 billion for the balance of the fiscal year.

Mr. PASSMAN. That is absolutely correct. And that is why it is especially important to establish at this time the actual amount of obligations. They have given two or three figures for two or three

different periods. We have requested a letter from the Treasury Department explaining how these matters operate because the Congress may this year, in its wisdom, agree on a lower appropriation. Therefore, if the agency should not get the appropriation until say, November or December, then it is quite obvious the pressure would be great on the Congress to appropriate at the same level that had been obligated and the pressure could be rather difficult to overcome.

Mr. RHODES. In the example I just gave, if this agency received an appropriation for new obligational authority of $2.4 billion, they would only be able to obligate $150 million a month for the rest of the fiscal year whereas they had been operating at a level of $300 million per month.

Mr. PASSMAN. If you get several months into the new fiscal year without the Congress approving an appropriation bill, permitting the agency to operate under a continuing resolution, to say the least it jams up the procedure of operation.

Mr. RHODES. It points up the necessity for quicker action on the program.

Mr. PASSMAN. That is right, and particularly on this program. The others are more or less controlled, but not this one.

Mr. RHODES. That is right.

UNITED NATIONS CHILDREN'S FUND

WEDNESDAY, AUGUST 14, 1963.

WITNESSES

MRS. VIRGINIA M. GRAY, EXECUTIVE SECRETARY, CITIZENS COMMITTEE FOR UNICEF

MRS. MARGARET F. STONE, CHAIRMAN, CITIZENS COMMITTEE FOR UNICEF

Mr. PASSMAN. We are pleased to have with us this morning Mrs. Virginia M. Gray, of the Citizens Committee for UNICEF. It has been our privilege to have Mrs. Gray before this subcommittee every year, I think, for the past 8 years. This will make the ninth year.

Mrs. Gray, I think you are accompanied by Mrs. Stone?

Mrs. GRAY. Yes.

Mr. PASSMAN. Mrs. Stone, are you the chairman of the Citizens Committee for UNICEF?

Mrs. STONE. That is correct.

Mr. PASSMAN. We are happy to have both of you here and shall be glad to hear from you, Mrs. Gray, if you have a statement.

Mrs. GRAY. Thank you very much. It is always a pleasure and a privilege to appear before your subcommittee, and I am especially happy that our chairman, Mrs. Stone, was able to be with us this morning. It is not often she is able to come when these hearings are scheduled.

I would like, with your permission, because I know you like to run on a tight schedule, to file the statement and speak to several points.

Mr. PASSMAN. The procedure you suggest will be quite acceptable, and if the chairman, Mrs. Stone, wishes to make a statement she, too, will have that privilege.

Mrs. GRAY. Thank you.

(The following statement was submitted for the record:)

STATEMENT OF MRS. VIRGINIA M. GRAY, EXECUTIVE SECRETARY, CITIZENS COMMITTEE FOR UNICEF, ON BEHALF OF THE APPROPRIATION FOR THE UNTIED NATIONS CHILDREN'S FUND, AUGUST 14, 1963

The Citizens Committee for UNICEF, an informal clearinghouse of legislative information serving a number of national organizations which support continued participation by the United States in UNICEF, once again presents to this subcommittee a brief usmmary of the views of our organizations. This statement has been authorized by the following national organizations:

American Association of University Women.
American Parents Committee.
American Veterans Committee.
Association for Childhood Education International.
Child Study Association of America.
Child Welfare League of America.
Cooperative League of America.
Friends Committee on National Legislation.
Jewish War Veterans of the U.S.A.
Methodist Church—Women's Division of Christian Service of the Board of Missions.
National Association of Colored Women's Clubs, Inc.
National Association of Social Workers, Inc.
National Congress of Colored Parents and Teachers.
National Council of Jewish Women.
National Jewish Welfare Board.
Unitarian Women, Alliance of.
United Church Women.
Women's International League for Peace and Freedom.
YWCA, National Board.

First Things First—The Value of a Focus on Children

This year when the entire foreign aid program of the United States has been undergoing a most searching review, our organizations believe that it is more important than ever to call the attention of the Congress to the wholehearted approval which the vast majority of the American public gives to UNICEF. This endorsement is much more than a sentimental response to the appeal of a suffering child. It is rather the commonsense recognition that an investment in children is an investment in the future of civilization. The world simply cannot afford to neglect its most valuable resource, its leaders of the future.

We have known for a number of years that over two-thirds of the world's children live in the so-called underdeveloped countries but, as census taking has become more than mere estimates for some of these areas, it has been learned that about 75 percent of the world's child population lives in low-income countries. In some developing countries children under 15 account for 40 percent of the population in contrast to 25 to 30 percent in the more economically advanced areas of the world.

UNICEF has an immense psychological advantage. It focuses the attention of country ministries on the importance of improving the welfare of their own children. UNICEF provides much more than the supplies and equipment (the antibiotics, bicycles, jeeps, maternal and child health clinics, and other commodities); it also serves as a catalyst in offering the know-how, the guidance in planning programs to fit the modest or the ambitious undertakings of a country eager to help its own children. UNICEF also encourages, by scholarships and stipends, the training of nurses, teachers, sanitarians, and other technicians without whom the long-range objectives of these programs would never be realized. These local people must be trained in order to be able to carry their new knowledge to the remote, isolated regions where their help is needed most.

Aid to children is a prerequisite to economic development

A country's economic development depends on its people in the long run, even more than on its natural resources or its industrial capacity. Unless much more is done to improve the health and develop the skills of the oncoming generation in the developing countries, a great deal of money spent on ambitious projects of economic development will not be productive. While focusing on children, UNICEF recognizes that many of the child's needs are inseparable from those of his family and his community. Control of infectious diseases such as malaria

and trachoma, for example, or the education of mothers in the simple rules of sanitation or the provision of a pure water supply, all can lift the level of the whole community to make the environment a safer place for a child to grow up. Thus the type of program on which UNICEF continues to concentrate is the essential foundation on which other programs of economic and social development must necessarily build.

UNICEF help is self-help

UNICEF not only encourages, it requires any country wishing to obtain the benefits of UNICEF aid to demonstrate a willingness and ability to contribute to the aid of its own children. To quality for international aid in any area of UNICEF concern (except emergencies), the country seeking aid must be ready to allocate from its own resources an amount at least equal to the external help it is seeking. On the average over recent years the assisted countries have been providing about $2.50 for every $1 of UNICEF aid. For 1962 such internal matching with respect to moneys allocated amounted to $2.70 per UNICEF dollar. Under such a system of self-help, made possible by these limited international funds, there are no political objectives of the kind that are often inherent in aid which is otherwise extended. Countries that help themselves gain strength, pride, and true independence of external domination.

U.S. contribution was 11.2 percent of total governmental contributions in 1962

With the proposed contribution by the U.S. Government of $12 million for fiscal 1964, the fifth year for this same amount, the matching percentage (based on the understanding between the Congress and the administration) is limited to 40 percent of total Government contributions for this year. It should be pointed out in this connection that a much more realistic ratio would be one including all funds devoted to UNICEF work; i.e., including the internal matching provided by the aided countries themselves. On this basis the U.S. contribution amounts to only 11.2 percent. When it is further realized that these same aided countries contribute, in addition to the required matching funds for work within their own borders, a donation to UNICEF's central account, the significance of their participation becomes all the greater.

Increasing contributions of countries other than the United States

A total of 105 governments contributed to UNICEF in 1962 (see list attached) compared with 60 in 1954. Seven countries (Ivory Coast, Kenya, Togo, Kuwait, Congo (Léopoldville), Cyprus, and Saudi Arabia) gave for the first time. Since 1954 the amount given by governments other than the United States has more than doubled.

To the suggestion being heard with increasing frequency that the time has come for other industrialized countries of the world to take up a larger share of the costs of foreign aid, UNICEF can illustrate that this trend is already occurring in its program financing. In 1962 substantial increases were reported from Sweden, Canada, Austria, Czechoslovakia, Denmark, Norway, Greece, and Spain, among others. The fact that 33 countries last year paid their pledges to UNICEF in U.S. dollars should also allay the fears of some that this program causes further strain on the U.S. balance of payments.

Urgent needs of children still unmet

We have tried to place the role and the accomplishments of UNICEF in the broad perspective of its service to children and to the ever-continuing struggle to make this world a better place for future generations. The needs of children go far beyond the scope of the modest efforts that UNICEF itself can make or could be expected to meet even with many times the present budget. We know, however, that requests for aid totaling $51 million have already reached UNICEF in 1963. Too large a number of these requests will have to be denied because sufficient funds are not available at this time. In spite of its magnificent achievements, the funds with which UNICEF operates are modest indeed when compared with the overall aid program before this committee.

With this fact in mind, I should like to conclude this presentation with the hope that, while our organizations support the State Department's request for $12 million for fiscal 1964, we shoud like to suggest that the U.S. Government raise its sights for 1965 and request a substantial increase in the U.S. contribution next year When that happens the organizations for which I am authorized to speak will be ready and eager to urge the members of this committee to vote approval of such an increase. We are most grateful for your consistent support of UNICEF in the past and are counting on your continued approval. We know that you share our concern for all children upon whom the future depends.

Thank you.

SCHEDULE C

United Nations Children's Fund—Contributions from governments to the central account (including contributions receivable) during the year ended Dec. 31, 1962

Governments	Currency paid or pledged	U.S. dollar equivalent
Afghanistan	U.S. dollars (receivable)	10,000.00
Argentina	Pesos (receivable)	45,454.55
Australia	Pounds	537,600.00
Austria	Schillings	57,918.79
Belgium	Francs (receivable)	160,000.00
Brazil	Cruzeiros	232,878.77
Do	Cruzeiros (receivable)	54,495.91
Total, Brazil		287,374.68
British Caribbean territories:		
Antigua	Pounds sterling	116.67
Grenada	U.S. dollars	1,166.67
St. Lucia	U.S. dollars	1,744.16
British Honduras	Guatemalan quetzales	348.50
Brunei	Pounds sterling (receivable)	3,266.67
Bulgaria	Leva	4,273.50
Burma	Pounds sterling (receivable)	56,000.00
Byelorussian Soviet Socialist Republic	Rubles	62,500.00
Cambodia	U.S. dollars	3,000.00
Cameroon	Francs (CFA)	8,163.26
Canada	U.S. dollars (receivable)	742,552.62
Central African Republic	Francs (CFA) (receivable)	3,810.86
Ceylon	Pounds sterling	14,725.52
Chile	U.S. dollars (receivable)	80,000.00
China	N.T. dollars (receivable)	10,000.00
Do	U.S. dollars (receivable)	5,000.00
Total, China		15,000.00
Colombia	U.S. dollars (receivable)	150,000.00
Congo (Brazzaville)	Francs (CFA)	7,734.49
Congo (Léopoldville)	U.S. dollars	11,996.00
Do	U.S. dollars (receivable)	5,004.00
Total, Congo (Léopoldville)		17,000.00
Costa Rica	U.S. dollars (receivable)	30,000.00
Cuba	Contribution in kind (sugar)	70,000.00
Cyprus	U.S. dollars	1,000.00
Czechoslovakia	Koruny	52,083.33
Dahomey	Francs (CFA)	5,000.00
Denmark	Kroner	173,760.00
Dominican Republic	U.S. dollars (receivable)	20,000.00
Ecuador	U.S. dollars	4,322.84
Do	U.S. dollars (receivable)	5,677.16
Total, Ecuador		10,000.00
El Salvador	Guatemalan quetzales (receivable)	20,000.00
Ethiopia	Dollars	18,000.00
Federal Republic of Germany	Marks	1,375,000.00
Federation of Malaya	Pounds sterling	24,500.00
Finland	Markkaas	50,937.50
France	Francs	1,022,448.98
Do	Francs (receivable)	86,734.70
Total, France		1,109,183.68
Gabon	Francs (CFA)	10,204.08
Gambia	Pounds sterling	560.00
Ghana	Pounds sterling (receivable)	16,800.00
Greece	U.S. dollars	57,000.00
Guatemala	Quetzales (receivable)	30,000.00
Holy See	U.S. dollars	1,000.00
Hong Kong	Pounds sterling	3,500.00
Hungary	Forints (receivable)	12,875.54
Iceland	Krónur	10,651.16
India	Rupees	504,000.00
Do	Pounds sterling	125,781.25
Total India		629,781.25
Indonesia	U.S. dollars (receivable)	100,000.00
Iran	U.S. dollars	270,300.00
Iraq	U.S. dollars (receivable)	41,942.50

United Nations Children's Fund—Contributions from governments to the central account (including contributions receivable) during the year ended Dec. 31, 1962—Con.

Governments	Currency paid or pledged	U.S. dollar equivalent
Ireland	Pounds	10,000.00
Israel	U.S. dollars (receivable)	35,300.00
Italy	(1)	(1)
Ivory Coast	Francs (CFA)	10,204.08
Jamaica	U.S. dollars	8,385.00
Japan	Yen	170,000.00
Jordan	Pounds sterling	2,797.20
Kenya	East African shillings	280.11
Korea, Republic of	U.S. dollars	3,500.00
Kuwait	U.S. dollars (receivable)	5,000.00
Lebanon	Pounds	12,993.25
Libya	U.S. dollars	4,500.00
Liechtenstein	do	1,000.00
Luxembourg	Belgian francs	6,000.00
Madagascar	Francs (CFA)	5,102.04
Mali	Francs (CFA) (receivable)	5,000.00
Mexico	U.S. dollars	500,000.00
Monaco	French francs	2,040.82
Morocco	U.S. dollars	5,000.00
Do	U.S. dollars (receivable)	20,000.00
Total, Morocco		25,000.00
Netherlands	Guilders	82,872.93
New Zealand	Pounds	210,000.00
Nicaragua	U.S. dollars (receivable)	10,000.00
Niger	Francs (CFA)	4,081.63
Nigeria, Federation of	Pounds sterling	42,000.00
North Borneo	Thai bahts	3,266.67
Norway	Kroner	136,500.00
Pakistan	Rupees	58,800.00
Do	Pounds sterling	37,734.38
Total, Pakistan		96,534.38
Panama	U.S. dollars	10,000.00
Peru	Soles	67,289.72
Do	Soles (receivable)	22,429.91
Total, Peru		89,719.63
Philippines	Pesos	205,000.00
Poland	Zlotych	60,150.00
Rumania	Lei (receivable)	25,000.00
Sarawak	Pounds sterling	8,166.67
Saudi Arabia	U.S. dollars (receivable)	10,000.00
Sierra Leone	Pounds sterling	280.00
Singapore	do	6,533.33
South Africa, Republic of	Rands	30,084.18
Spain	Pesetas	66,666.67
Sudan	U.S. dollars	10,000.00
Sweden	Kronor	500,000.00
Switzerland	Francs	348,837.21
Syria	Pounds (receivable)	11,204.48
Thailand	Contribution in kind (rice)	139,111.14
Togo	U.S. dollars	4,500.00
Trinidad and Tobago	do	7,000.00
Tunisia	do	11,345.63
Turkey	Liras	194,444.44
Ukrainian Soviet Socialist Republic	Rubles	125,000.00
U.S.S.R.	do	675,000.00
United Arab Republic	Pounds	94,710.00
United Kingdom of Great Britain and Northern Ireland.	Pounds sterling	938,000.00
United States of America	Dollars	8,603,227.00
Do	Dollars (receivable)	3,396,773.00
Total, United States of America		12,000,000.00
Upper Volta	Francs (CFA)	3,061.23
Vietnam, Republic of	U.S. dollars	7,500.00
Yugoslavia	Dinars	200,000.00
Total		23,586,902.70

[1] The statement made by the representative of Italy at the session of the UNICEF Executive Board in September 1959, concerning the prospect that Italy would increase its contribution from $96,000 to $288,000, subject to Parliamentary approval, has been implemented by Parliamentary action to the effect that the contribution has been increased from $96,000 to $192,000 beginning with 1962. Thus actual payments made by Italy in respect of contributions for 1959, 1960, and 1961 were $96,000 for each of these years.

Mrs. Gray. The first thing I would like to mention is point to the fact this year we have 19 national organizations that have joined together in supporting the statement that the Citizens Committee for UNICEF is authorized to make. Of course the National Congress for Parents and Teachers statement is always made separately, but this is the largest group that has ever joined the statement of the Citizens Committee for UNICEF and we are happy to have them with us.

The main things I wanted to say this morning center around some of the suggestions that came out of the Clay report, and I think it is rather helpful to have them pointed up in relation to the Children's Fund.

I was very much impressed when I heard General Clay testify before the House Foreign Affairs Committee in the open session, which was the one I could attend, that the recommendations he made in general were things for increasing the amount of self-help which the countries are able to devote to their projects. The thought came to me over and over that the things that the Clay Committee was recommending are the things the Children's Fund has been doing from the beginning. It is really dependent on self-help, for the countries that ask for aid do not receive any aid until they demonstrate their ability and willingness to help their own children. I think this is the reason for the success of the Children's Fund. I do not wish to make comparisons, but I wish others would follow the example of the Children's Fund.

Another point I think was of great importance in General Clay's report was his suggestion that there should be a considerable amount of aid from the industrialized countries of the world, that they should increase their help. With that in mind, I thought we should call attention to the fact that a total of 105 governments contributed to UNICEF in 1962, and I have attached to the statement a list of all the countries that contributed to the central account. This does not include the countries that contribute administrative costs for regional offices and it does not include what is termed reimbursable procurement. It includes only the earmarked contributions to UNICEF's central account.

Mr. Passman. This is developing into quite a large organization, is it not?

Mrs. Gray. It is certainly gaining support all around the world. There are seven new countries that contributed for the first time in 1962.

Mr. Passman. Many of the countries get more out than they put in, do they not?

Mrs. Gray. In one sense, but in every case they match the amount put in in addition to the amount they put in the central account.

Mr. Passman. If they did not get more than they put in there would not be any use for such an organization, would there?

Mrs. Gray. I can only agree with you to a certain extent. I think there would be need for it because the international organization is the catalyst, it sends them know-how and focuses the attention of the country on the need to help the children, to educate the children, and that you can have no promising improvement unless you educate your people.

To continue on the increasing contributions from the industrialized countries, in 1962 there were substantial increases from Sweden, Canada, Austria, Czechoslovakia, Denmark, Norway, Greece, and Spain.

And I happen to know that Japan, which has been making such rapid improvement, is increasing its contribution in the year ahead.

I think this is an important factor for the American people to understand, that it is not just the U.S. Government helping the children of the world but all the other countries are contributing. And last year 33 countries made their contributions to UNICEF in U.S. dollars, which shows that this program is not causing a strain on the U.S. balance of payments.

I would like to discuss a little bit this whole question of matching because while I know the gentlemen of this committee understand it very well, I think there is much misunderstanding among some of the Members of Congress and among the general public on how the matching is done.

In that connection, first of all, I would like to ask if you would be interested, Mr. Chairman, in inserting in the record this table that shows there were 37 governments last year which contributed to UNICEF in excess of their assessed ratio as assessed by the United Nations.

Mr. PASSMAN. The tabulation will be inserted in the record at this point.

(The statement follows:)

Comparison of government contributions to UNICEF for 1962 with U.N. assessment rates for 1962

[There were 37 governments which contributed proportionately as much or more in relation to total government contributions to UNICEF for 1962 than they were assessed by the United Nations for its regular 1962 budget. Of these, 27 governments contributed proportionately at least ¼ more to UNICEF than they were required to pay to the United Nations; they are listed below. Of these, in turn, 20 governments contributed proportionately at least ½ more to UNICEF than they were required to pay to the United Nations; they are marked by an asterisk next to their names]

Country	United Nations assessment rate	Add ¼ to U.N. rate	Percent of total contributions to UNICEF (in relation to $23.6 million)
Australia	1.66	2.08	2.28
Burma*	.07	.09	.24
Chile	.26	.33	.34
Colombia*	.26	.33	.64
Costa Rica*	.04	.05	.13
Cuba	.22	.28	.30
Denmark	.58	.73	.74
Dominican Republic*	.05	.06	.08
El Salvador*	.04	.05	.08
Ethiopia*	.05	.06	.08
Guatemala*	.05	.06	.13
Iceland	.04	.05	.05
India	2.03	2.54	2.67
Iran*	.20	.25	1.14
Iraq*	.09	.11	.18
Mexico*	.74	.93	2.12
New Zealand*	.41	.51	.89
Norway	.45	.56	.58
Peru*	.10	.13	.38
Philippines*	.40	.50	.87
Sweden*	1.30	1.63	2.12
Switzerland*	.95	1.19	1.48
Thailand*	.16	.20	.59
Turkey*	.40	.50	.82
United Arab Republic*	.25	.31	.40
United States*	32.02	40.03	[1] 50.85
Yugoslavia*	.38	.48	.85

[1] In addition to government contributions to the Central Account, some governments have made cash contributions in implementation of UNICEF-aided projects, as well as contributions toward the local administrative costs of UNICEF field offices; these were not taken into account when the above list was prepared, but should be included in figuring the U.S. matching percentage which is limited to 42 percent in 1963 and is proposed to be 40 percent in 1964.

NOTE.—In the case of Switzerland, the rate used is the one recommended by the Committee on Contributions for contributions by this Government to activities of the United Nations in which it participates.

Mrs. GRAY. They contributed as much as 50 percent more than they would have had to contribute in this connection if they were paying on the basis of their assessment.

This leads into the problem that has come up, I understand, that several Members of Congress have proposed a limitation to limit all U.S. contributions to one-third of other governments' contributions that would apply to all international organizations. Our organization, of course, hopes that this will be defeated if it is brought up.

I would like to make another point in regard to that matter. I think it is not realistic to relate the percentage in something like the Children's Fund merely to the central account of UNICEF. I think if we want to be realistic and measure what the other countries are contributing, the U.S. contribution amounts to only 11.2 percent of total government contributions.

Mr. PASSMAN. I have never been able to comprehend the reasoning in support of such a formula. Our contribution is high. When you speak of nations matching funds, they are matching for their own use. The Congress has been very liberal to UNICEF.

Mrs. GRAY. You certainly have.

Mr. PASSMAN. We have recommended all the funds you have requested. But you come in with more suggestions that could mean more contributions in the future. You say other countries are increasing their contributions, yet you suggest that we increase our contribution. With the tremendous improvement you are showing I would not want the United States—especially in view of the fact that we are having to borrow the money—to increase its contribution.

Mrs. GRAY. This is in terms of proportions in many cases.

Mr. ROONEY. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Thank you very much, Mrs. Gray. We want you to know that you are always welcome to come before this subcommittee.

Mrs. GRAY. Thank you very much.

Mr. PASSMAN. We shall be pleased to hear from Mrs. Stone.

STATEMENT OF MRS. MARGARET STONE

Mrs. STONE. Thank you, Mr. Chairman.

I just wanted to say one thing on the point you raised about countries getting more out of it than they put in.

I think both the countries that give to the central fund and the countries that receive aid get about the same out of it in different ways. I think the people tend to forget that UNICEF is purely a supply organization. We send them supplies only. The supplies come from the United States and we buy these tractors and DDT and everything from the United States, which helps our businessmen tremendously. So we get a good deal out of it as well as giving our money.

Mr. PASSMAN. Thank you very much.

Mr. GARY. Let me ask one question: Does that $23,586,000 include the amounts that the recipients put up in addition?

Mrs. GRAY. No, it does not, not at all. This is only the contributions to what UNICEF sets up as its central account. There are other accounts which they label trust accounts which are contributions that

are not for internal matching but for aid. For example, the Asian regional office is located in Bangkok. The Thai Government contributes for the administrative costs of that office. That is a contribution to UNICEF's central program but it is not, because of the bookkeeping arrangements, since it is a specific earmarked fund, it is not contributed to their central account. I think that causes confusion.

Mr. GARY. Could you give us the amounts that the individual recipient countries that receive aid put up to match these funds?

Mrs. GRAY. Within their own countries?

Mr. GARY. Yes.

Mrs. GRAY. I do not have that here. I will see if I can get it. That would be a very long table.

Mr. GARY. I do not mean a table. I mean the total.

Mrs. GRAY. The total? It averages out to $2.70 per UNICEF dollar.

Mr. RHODES. If the gentleman will yield, the lady has said the U.S. contribution is 11 percent of the total.

Mr. GARY. Thank you. That is the information that I wanted.

Mrs. GRAY. That is on the basis of the contributions of the matching funds from the other countries.

Mr. PASSMAN. But we are not one of the recipients.

Mrs. GRAY. No. We have never asked to be.

Mr. PASSMAN. I do not think it makes a valid point when you say certain people do something for themselves. What we are doing is supplementing what they are doing for themselves, but we are putting up $12 million of the $23 million. Is that correct?

Mrs. GRAY. That is true for 1962 except for the administrative and reimbursable procurement which runs to almost $4 million in addition.

Mr. PASSMAN. Thank you.

I am correct in saying that some countries do something for themselves and this is a supplement to that effort?

Mrs. GRAY. Yes.

ACTIVITIES IN CUBA

Mr. RHODES. Do you know what activities UNICEF has in Cuba?

Mrs. GRAY. I do indeed because this is one of the things I looked into. I thought Congress would be interested in this.

There was only one project authorized in Cuba in 1960. A limited amount of money was given to it and then the Cuban Government decided they wanted to change the arrangements and the funds have never been given. They were approved in February of 1960, which is really before all the trouble had happened. That was a $132,000 allocation that was approved at that time, and only $87,000 was spent and there were no further purchase orders issued by UNICEF and no indication they will show up because Cuba is not meeting the standards of UNICEF in this program.

Mr. RHODES. The dollars were not turned over to Cuba, they were purchase orders?

Mrs. GRAY. Yes, but to make it measurable we state it in dollars.

Mr. RHODES. But the dollars were not turned over in a bank account or otherwise?

Mrs. GRAY. No.

Mr. PASSMAN. I hope this subcommittee will recommend the full amount for UNICEF. But there is one thing I have always had a

quarrel with and that is for someone to try to make their point sound better by indicating what others are doing for various groups; that is, what they are doing for themselves. In foreign aid we are giving $10 billion a year, counting the interest on the borrowed money.

Mrs. GRAY. May I say to the gentleman when he said he did not think this table makes a very good case, I considered this before I asked to have it included and I think it makes an impressive case to show what some of these countries just emerging from a primitive life are contributing. I think it is impressive.

Mr. PASSMAN. The table is impressive but some of the countries are getting along better than you seem to think.

Thank you.

Mrs. GRAY. Thank you very much.

UNITED NATIONS CHILDREN'S FUND

WITNESSES

MRS. ROBERTA C. COX, MEMBER, WASHINGTON COMMITTEE ON LEGISLATION, NATIONAL CONGRESS OF PARENTS & TEACHERS

MRS. BARBARA D. McGARRY, MEMBER, WASHINGTON COMMITTEE ON LEGISLATION, NATIONAL CONGRESS OF PARENTS & TEACHERS

Mr. PASSMAN. We shall be happy to hear at this time from Mrs. Cox, representing the National Congress of Parents & Teachers.

Mrs. COX. I am Roberta C. Cox, a member of the Washington Committee on Legislation of the National Congress of Parents & Teachers, and Mrs. Barbara D. McGarry, who is also a member of our Washington committee, is with me.

Mr. PASSMAN. We are pleased to have you with us, Mrs. Cox. You may proceed with your statement.

Mrs. COX. Before I read this statement I would like to make this one point. The reason the National Congress of Parents & Teachers does not join in the statement made by the Citizens Committee for UNICEF is that we feel so strongly about UNICEF we want to make a separate statement for the National Congress of Parents & Teachers. It is a priority item in our legislative program and so we do feel very strongly about it.

I am submitting this statement for Mrs. Fred L. Bull, national chairman of legislation of the National Congress of Parents & Teachers, to urge you to appropriate $12 million as the U.S. Government's contribution to UNICEF, the United Nations Children's Fund, for fiscal 1964.

Since 1897 the National Congress of Parents & Teachers has worked consistently to promote the welfare of children. This organization is aware of the fact that as the world grows smaller the problems of children across the world have as vital an effect on our own children as the problems of the children across the city, or on the next farm, or even next door. Concern for children is much more than a pretty sentiment. It is our considered opinion that investments in the welfare of children pay off as the soundest investments that can be made.

The National Congress of Parents & Teachers has been proud to support UNICEF since it was organized in December 1946 to help meet the emergency needs of children in the aftermath of the war in

Europe. The National Congress of Parents & Teachers has been proud to support its growth from an emergency operation to a permanent organization dedicated to the welfare of children around the world. We feel especially close to UNICEF both because of its dedication to the welfare of children, and because one of our own American citizens, Maurice Pate, has been its Executive Director from the beginning. Mr. Pate, as you know, was a successful investment banker who retired to invest his life in the future of the world—its children.

Through UNICEF mankind wages peace, focusing assaults on our common, vicious enemies: hunger, disease, poverty, superstition, and ignorance. Through cooperation with other United Nations agencies (such as FAO, WHO, the Bureau of Social Affairs, etc.) phenomenal victories have been won against malaria, against tuberculosis, against leprosy, against yaws, against trachoma. Significant inroads have been made against superstition. Malnutrition and hunger are being combated through the development of nutritional resources. Sound practices in maternal and child welfare have been established in many places.

UNICEF aid is of far-reaching significance for it is based on the sound idea of helping people help themselves by the establishment of permanent improvements which they will themselves maintain. As you know, to qualify for UNICEF aid the country making the request must contribute from its own resources an amount equal to the UNICEF aid. Last year, 1962, the average contribution per country aided was $2.70 for every dollar of UNICEF money spent.

Every child comes helpless into the world. Months of complete helplessness are followed by long years of growth during which his potential for work and for assuming responsibility develop along with social and mental capabilities. Children are at the complete mercy of their environment to an extent unknown to any other animal on earth. The declaration of the rights of the child puts it succinctly: "* * * mankind owes to the child the best it has to give."

We hear a great deal of talk these days about security, and we pour out billions in the name of security without batting an eye. Just where does our deepest security lie? Is not our most real security rooted in the development of succeeding generations of human beings growing to maturity with healthy minds in healthy bodies? We read the predicted statistics of possible atomic war and our blood is chilled, yet the pernicious enemies of childhood—enemies which we have the know-how to conquer had we the heart and the will for it—are constantly killing and maiming millions with as indiscriminate a ruthlessness as the bomb itself.

It is actually inconceivable that sane adults would tolerate any thought of withdrawing 1 penny of financial support from UNICEF's effectively administered programs aimed at affording protection for the world's children and at the same time stimulating the down-to-earth approach of helping people help themselves. UNICEF is, as you know, financed entirely by voluntary contributions. Our Government's contribution is in part a measure of its continuing dedication to the proposition that every human being is of significant worth.

Let me assure you that the National Congress of Parents & Teachers, with its more than 12 million memberships, supports as a priority item on its legislative program U.S. support of UNICEF. The National Congress of Parents & Teachers urges you to contribute $12

million as the U.S. Government's contribution to the United Nations Children's Fund. This is the same amount that we have contributed for the past 4 years.

Thank you.

Mr. PASSMAN. Thank you very much, Mrs. Cox. You always make a very fine statement and I know I speak for the entire subcommittee when we thank you for appearing and supporting this program.

I want to say with respect to the leprosarium in Louisiana, one of the most dedicated and understanding Members of Congress, John Fogarty, who is chairman of the Appropriations Subcommittee that handles funds for the Department of Health, Education, and Welfare, sent, by my invitation, a committee to Carville, La., to meet with the director and to meet with these wonderful people who had the misfortune of contracting Hansen's disease. Not only has there been great improvement as a whole at this Public Health Service hospital, but they have built individual brick cottages for the older patients so that the married couples there may have cottages, and it is now literally a new world for those people.

Mrs. McGarry, do you wish to make a statement?

Mrs. MCGARRY. No, thank you.

FOREIGN AID PROGRAM, 1964

WITNESSES

GUSTAVE BURMEISTER, ASSISTANT LEGISLATIVE DIRECTOR, AMERICAN FARM BUREAU

J. B. THAYN, ASSISTANT LEGISLATIVE DIRECTOR, AMERICAN FARM BUREAU FEDERATION

Mr. PASSMAN. We welcome to this session Mr. Burmeister and Mr. Thayn, representing the American Farm Bureau Federation.

Incidentally, gentlemen, I am a life member of the Louisiana Farm Bureau Federation.

Mr. BURMEISTER. We are pleased to know that.

Mr. PASSMAN. We recently lost one of America's great Farm Bureau leaders when Larry Lovell, the Louisiana LFBF president, was called to the great beyond.

Mr. BURMEISTER. We certainly did.

Mr. PASSMAN. We shall be pleased to hear your statement.

Mr. BURMEISTER. We appreciate the opportunity to present the views of the American Farm Bureau Federation with respect to appropriations for fiscal 1964 foreign aid programs. The new obligational authority requested in the budget message totaled $4,945 million, but the President's April 2, 1963, message reduced this amount to $4,525 million. The Foreign Affairs Committee further reduced the total to $4,087 million. This amount compares with $3.9 billion appropriated for each of the last 2 fiscal years.

Farm Bureau is a free, independent, voluntary organization of over 1,600,000 farm and ranch families located in some 2,700 counties and 49 States and Puerto Rico. We do not have an organization in Alaska. Because of the large sums involved in foreign aid programs and the influence they have on our international balance of payments, the Federal budget deficits, the national debt, and taxes, Farm Bureau

members are much concerned. Through a program of policy development at county, State, and national levels, they have given thorough consideration to this problem and have concluded in part as follows:

The United States stands as an example of the progress possible in a free society. However, we should make clear that it is not our policy to attempt "to buy the right decisions."

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The United States does not have an inexhaustible supply of funds. The funds must be invested, not merely spent, so as to achieve peace and raise the standard of living in these countries.

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Requests for funds should be justified, nation by nation, and presented to Congress for approval. Congress should authorize appropriations on an annual basis only after careful review and reevaluation of the progress of the plans.

It is interesting to note that the Clay Report on Foreign Aid includes much the same philosophy as indicated in our policies for 1963. We are pleased that the Clay Committee report supports many of the principles in our policies and we hope that the Congress will be able to consider the specific problems in detail and country by country. It has been and still is Farm Bureau's policy that future commitments should be predicated upon:

(1) A well-defined program whose specific aim is to provide technical information and retraining at a level which is consistent with each nation's current stage of development.

(2) The granting of loans on the basis of sound commercial standards when there is reasonable expectation of repayment.

(3) Continued military assistance where this is determined to be essential to nations directly threatened by Communist military aggression which they have demonstrated a will to resist.

(4) An overall plan designed to make clear the source of aid and the economic system that made it possible.

The time has come to reexamine our policies and plans for assistance to foreign countries. We need to look closely at the needs of each country and what it can do for itself as well as what assistance the United States can afford. This is true for both military and economic assistance. Many countries that have been receiving aid have achieved such a level of economic development that they can now proceed without external help except for occasional hard loans from private and international lending agencies. There are other countries which, because of their relationships, should receive most of their aid from former mother countries. We should not move into new areas, but concentrate on fewer countries and areas where our assistance will be effective and our interests will be advanced.

Farm Bureau believes that the most important considerations fall into two categories:

1. The need to reduce U.S. Government expenditures looking toward a balanced budget, a tax cut, and a solution to our balance-of-payment problem.

2. Reexamination of each country's position with a view to determining its needs and ability to absorb aid under a longtime plan of economic development.

It is generally recognized that a substantial tax cut is needed in order to provide a climate for a satisfactory economic growth in the

United States. A tax cut without a sharp reduction in Government spending would not achieve this objective but start a new spiral of inflation. We testified recently on this subject before the House Ways and Means Committee and proposed that the administration's request for new obligational authority be reduced by $13.6 billion, before any consideration is given to a tax cut. Of this proposed reduction, $2 billion is possible in the foreign aid program as originally budgeted by the administration, or $1.6 billion below the reduced request.

As pointed out in our policies outlined above, the United States does not have unlimited funds—in fact, the economic position of our country is such that we need to exercise the utmost care in spending and in making future commitments. We cannot continue to have huge budget deficits and expect to maintain a sound dollar. The International Monetary Fund and the United States have consistently told other countries to get their house in order, if they expect to receive monetary assistance. Our persistent balance-of-payment deficit and losses of gold have caused great concern and, worst of all, the situation is not showing any signs of improvement. Despite optimistic forecasts a year ago, the payment deficit totaled $2.2 billion in 1962, compared with $2.4 billion in 1961. Since 1950 the payment deficit has amounted to about $25 billion. We cannot continue to spend more abroad than we take in.

As the Clay report points out, there is a need to reexamine the aid program country by country, and to discontinue contributions to those countries which have made sufficient progress to be able to go forward on their own resources with occasional hard loans from the private sector, the Eximbank, or some of the international lending institutions. Many of these countries have been receiving U.S. aid for at least a decade. It should be clear now that most of these countries are not going to become fully developed in a decade or two, but will have to be satisfied with a slower advancement until a sizable proportion of their citizens develops the capability and a desire to acquire technical skills sufficient to enable them to operate a developed economy. We need to make every dollar of our aid contribution count and spend it only where there is reasonable expectation that it will achieve some worthwhile results.

The United States should not attempt to expand aid plans for most countries in Africa. Practically all of these countries have relationships and understandings with their respective former mother countries in Western Europe. In nearly every case, there is already a going aid program in progress and the assistance should be the responsibility of our allies in Western Europe. The United States gave practically no assistance to these countries before they gained their independence, and there appears to be little justification for us to assume the full responsibility now. It would appear that much of the Near East could also be assisted by the developed nations of Western Europe. We must make it plain that we expect Western Europe to assume its share of the burden and responsibility.

Thus the United States should concentrate on a few countries in the Far East, South Asia, and Latin America. The 95 countries and areas now receiving U.S. aid could be greatly reduced over the next few years. An effective job done in fewer countries would achieve much

more for our people than the "shotgun" approach which we have been following in recent years.

There needs to be a new philosophy developed with respect to foreign aid. We need to let the underdeveloped countries know that we are moving toward a decreasing trend in aid contributions, that their development depends largely on their own efforts, and that progress in development is a long, slow process. The best assurance that can be given the less-developed countries is an economically strong and growing America.

We need to fit the money to the plans rather than the plans to the money.

MILITARY ASSISTANCE

One of the major categories of grant aid is military assistance provided largely for those countries on the periphery of the Communist bloc. Summary data for this program are as follows:

[In millions]

	Fiscal 1962	Fiscal 1963	Administration proposal, fiscal 1964
Authorized	$1,700	$1,700	$1,405
Appropriated (adjusted)	1,577	1,325	1,405
Unexpended balance	2,598	2,785	2,360
Estimated expenditure	1,390	1,750	1,450

The Foreign Affairs Committee authorized $1,225 million.

An analysis of the expenditures and carryovers, both reserved and unreserved, indicates to us that this request can be reduced materially. We agree with the Clay report that spending for foreign military assistance can be reduced to around $1 billion annually over the next 3 years. With this in mind, we recommend that $900 million be appropriated for fiscal 1964. Such an appropriation, along with the estimated carryover into fiscal 1964 of $2.4 billion, will provide sufficient funds for estimated expenditures. It is recognized that a large portion of the expenditures in any given year is for military supplies ordered on the basis of funds reserved from appropriations made in previous years. A decrease of about $150 million per year in the expenditure rate from that proposed will result in expenditures of $1 billion in fiscal 1966. A number of countries which have been receiving military aid grants should be able to carry on without any further assistance from the United States. It is estimated that about 75 percent of the military assistance is in countries on the periphery of the Community bloc. It is proposed that future programs be limited to these areas.

DEVELOPMENT LOANS

The Foreign Assistance Act of 1961, as amended, included an authorization for development loans of $1.2 billion for fiscal 1962 and $1.5 billion per year for the fiscal years, 1963 through 1966. For fiscal 1964, the administration estimates that $1,060 million will be

needed—almost $500 million less than was authorized in advance last year, but $85 million more than was appropriated for fiscal 1963.

[In millions]

	Fiscal 1962	Fiscal 1963	Administration proposal, fiscal 1964
Authorized	$1,200	$1,500	$1,500
Appropriated (adjusted)	923	975	1,060
Unexpended balance	----------	912	1,663
Estimated expenditure	10	224	296

This loan program replaced the Development Loan Fund which was established in 1958. The Development Corporation was abolished and its functions were transferred to AID in November 1961. There was an unexpected balance in the liquidation account of nearly $1.5 billion at the beginning of fiscal 1962, but it is estimated that this amount will be reduced to $693 million by the beginning of fiscal 1964, and to $276 million by the beginning of fiscal 1965.

Approximately $190 million of the 1962 appropriation for development loans were immediately transferred to the Alliance for Progress loan account, and only $10.5 million were actually disbursed or expended in fiscal 1962. In fiscal 1963, planned expenditures amount to only $224 million, so that there is about $1,663 million expected to be carried into fiscal 1964. While it is recognized that funds must be obligated as soon as discussions about a loan begin, and sometimes these discussions and negotiations continue over a long period, it does not appear to us that another large appropriation for this category is needed in fiscal 1964. It is our view that $700 million, together with the carryover, will provide ample funds for the coming year.

A change in policy needs to be implemented looking toward concentration of development assistance in fewer countries and shifting much of the burden of loans to other countries and lending organizations. Planned expenditures in fiscal 1964 amount to $296 million. We believe that they could and should be limited to not more than $600 million annually during the next 2 or 3 years.

Commercial banks, the Eximbank, and the International Bank for Reconstruction and Development can take care of all hard loans, and the International Development Association is available for soft loans. In addition, the Inter-American Development Bank has been set up to take care of most of Latin American requirements. Another source of soft loans is the foreign currencies generated by title I of Public Law 480 sales of agricultural products which result in nearly $1 billion annually in loans of local currencies back to the receiving countries for economic development. The International Monetary Fund is available for balance-of-payment loans. All of these sources together

provide huge sums for loans to meet almost any requirement of the underdeveloped countries. (See table below.)

International Monetary Fund quotas and bank subscriptions

[In millions]

	IMF	IBRD	IFC	IDA
Total	$15,057	$20,485	$96.5	$916
United States paid in	4,125	635	35.2	197
United States pledged but not paid	2,000	5,715		123

We recently testified before the House Banking and Currency Committee in favor of an extension of the life of the Eximbank and an increase in its lending authority to $9 billion. Farm Bureau has consistently supported expanded lending authority for sound lending institutions with the view that loans from them to underdeveloped countries would gradually reduce the requirement for direct aid from the United States. It is our belief that loans rather than grants not only provide the economic assistance needed by these countries, but also develop a certain business discipline required to become successful developing nations.

ALLIANCE FOR PROGRESS

The first authorization for the Alliance for Progress was enacted in fiscal 1963 but other funds were transferred for grants and loans in fiscal 1962. Summary data are as follows:

[In millions]

	Fiscal 1962	Fiscal 1963	Administration proposal, fiscal 1964
Authorized		$600	$800
Appropriated (adjusted)	$190	515	850
Unexpended balance	600	635	870
Estimated expenditure	155	280	401

Funds for the Alliance for Progress are authorized under four categories as follows:

(1) Economic grants up to $100 million annually;

(2) Development loans, not less than $500 million annually;

(3) Special Progress Trust Fund, $394 million establish in 1961 and available until expended; and

(4) Inter-American Development Bank, for which the U.S. contribution to date totals $450 million in the form of paid-in shares of capital stock, $150 million; Fund for Special Operations, $100 million; and an appropriated reserve for callable stock of $200 million.

For Foreign Assistance Act of 1961, as amended, authorized $600 million annually for the Alliance for Progress for the fiscal years 1963 through 1966 with the stipulation that not less than $500 million annually shall be available, subject to appropriations, for development loans. A total of $190 million was transferred to the Alliance for Progress loan account in fiscal 1962 from funds appropriated for development loans. From the appropriation of $600 million in 1961

for Latin American development and Chilean reconstruction assistance program, a total of $206 million was established as an economic grant account, and $394 million was transferred to the Inter-American Development Bank as a Social Progress Trust Fund.

For fiscal 1963 there was appropriated (adjusted) $90 million for economic grants and $425 million for development loans in Latin America. Expenditures in fiscal 1962 and 1963 in all three categories have been relatively small as it has taken time to develop programs, and large sums are expected to be carried over into fiscal 1964. The administration has requested $850 million for fiscal 1964, including $100 million for economic grants, $200 million for Social Progress Trust Fund, and $550 million for development loans. The Foreign Affairs Committee authorized the $200 million increase for the Social Progress Trust Fund. We do not believe that the amounts requested are justified in view of the large carryover and the slow progress made to date. We believe that these programs should be reviewed carefully and that the amounts indicated below will be ample for fiscal 1964:

(1) Economic grants, $50 million;
(2) Social Progress Trust Fund, $100 million; and
(3) Development loans, $400 million.

These amounts will provide for the planned expenditures in each category in fiscal 1964 and an ample carryover for planning and organization of programs at a pace consonant with realities. A total approximating $1 billion (in the three funds) will be carried over for this purpose.

Another administration request is for $50 million to be paid into the Special Operations Fund of the Inter-American Development Bank. To date $100 million has been paid into this Fund by the United States, and the requested fund would raise the total contributed to the Bank or set aside for this purpose to $500 million. There seems to be quite a proliferation of funds, which raises questions as to their justification and results in much confusion as to their uses. If this additional $50 million is authorized and appropriated, the United States will have contributed $300 million as paid-in funds, a callable capital stock reservation of $200 million, and the Social Progress Trust Fund (operated by the Bank) of $394 million plus whatever is authorized and appropriated for this purpose for fiscal 1964. If the various administration requests are enacted the total of U.S. funds available to the Bank would be $1,094 million. Our recommendation would hold this figure to $994 million.

ECONOMIC GRANTS OTHER THAN ALLIANCE FOR PROGRESS

The administration has requested new obligational authority under four general categories of economic grants for areas outside Latin America, and for administrative expenses as indicated below:

[In millions]

	Fiscal 1962	Fiscal 1963	Administration proposal, fiscal 1964
Authorized	$1,357	$1,222	$1,210
Appropriated (adjusted)	1,220	1,084	1,210
Unexpended balance	1,294	1,176	1,059
Estimated expenditure	1,336	1,200	1,204

The total requested for these purposes is $1,120 million or $126 million more than was appropriated for these purposes for fiscal 1963. This increase is requested even though it is expected that $1,059 million will be carried over into fiscal 1964 and that estimated expenditures will total $1,204 million. The Foreign Affairs Committee authorized $1,002 million, or a reduction of $208 million, from the requested amount. We recommend that the total appropriation for these categories be reduced to $777 million. Expenditures under these categories can be reduced over the next few years, and a start can and should be made in fiscal 1964. We suggest that the estimated carryover and our proposed appropriation will provide sufficient funds for expenditures of about $1,000 million in fiscal 1964. These programs should be reduced during the next few years to about one-half their level during recent years or about $600 million annually. It is our view that this can be accomplished as countries now receiving this type of aid reach such levels of economic progress that any further need for outside aid can be met through loans from international lending institutions. Also, the United States should not expand this kind of aid to any new countries.

The major part of the grant program falls into three categories: development grants, supporting assistance, and the contingency fund. It is evident that from the way in which funds appropriated for these categories have been shifted from one category to another, consideration should be given to combining the three into one. The requests for fiscal 1964 total $1,014 million, and projected expenditures total $978 million. The Foreign Affairs Committee authorized $809 million. It is believed that, with an estimated carryover from fiscal 1963 in these three funds totaling $973 million, a new appropriation of $600 million will be ample to meet all foreseeable requirements. In fact, our recommended reduction would still permit all estimated expenditures for fiscal 1964 to be made. The net result would be a reduction in the projected carryover into fiscal 1965 from $1,009 million to $595 million. This would be in line with our proposal to change the trend from an expanding to a decreasing expenditure for these purposes over the next few years.

It is intended that development grants be used primarily for technical assistance, demonstration, and training to provide the underdeveloped countries the know-how with which to increase their standard of living. In many countries this program has been in progress for more than a decade, and undoubtedly much has been achieved. For these reasons we believe that the United States can now reduce its contribution and limit its activities to fewer countries which demonstrate a desire for such assistance and which provide the economic and political climate requisite for progress.

Supporting assistance is another form of development grant made to bolster the economy and political situation of countries which are receiving military assistance. Here again, many countries have advanced to the point where they should be able to make progress without this assistance. Any outside help required could now be obtained through loans from international lending institutions, and by encouraging private investment.

We strongly recommend that the programing of grant aid be made on the basis of a sound plan for each country and that funds be

provided only to fit the plan. If this were done, there would be little need for a large contingency fund. We believe that this fund is just another category set up for the purpose of obtaining additional funds from Congress. If an emergency or unforeseen requirement should develop during the year, Congress could pass a supplemental or deficiency appropriation as it does in so many cases for domestic programs. The complete elimination of the contingency fund together with the reductions in the authorizations of the other two categories recommended by the Foreign Affairs Committee would bring the total to $609 million or close to our recommended figure for the three combined.

The request also includes funds to be contributed by the United States to international organizations for various and sundry purposes. In fiscal 1963 relatively small amounts were distributed to 12 different organizations and projects. The administration has requested a total of $136 million for fiscal 1964 and has estimated expenditures at $127 million. It is our belief that $120 million together with the carryover will provide ample funds to meet all U.S. commitments to these organizations in fiscal 1964. It should be noted that the carryover into 1964 is estimated at $74 million. These expenditures are in addition to about $85 million contributed by the United States as its annual share of general expenses of international organizations.

On July 6, 1961, Farm Bureau testified before the House Committee on Foreign Affairs in regard to the Foreign Assistance Act of 1961. In the course of this testimony, we made the following statement (pp. 1423–1424, official hearings before the Committee on Foreign Affairs, Mutual Security Act of 1961, pts. I–III):

> On May 24 the United Nations Special Fund approved a $1,157,000 grant to assist the Cuban Government in agricultural research. We are opposed to using U.S. money for the purpose of assisting Castro in his efforts to collectivize Cuban agriculture. We do not believe Congress should again authorize U.S. participation in the U.N. Special Fund. We recommend that sections 301 (a) and (b) of H.R. 7372 be amended so as to specifically prohibit such participation.

Despite protests and representations of the United States, the director of the U.N. Special Fund has made it clear in recent months that this contribution to the Castro efforts in Cuba will be made.

This committee is familiar with the massive expropriation of property which the Castro government has perpetrated. Of course, Cuban agriculture has suffered grievously from such policies. Cattle herds have been decimated—even sugar production has declined drastically.

It is a fact that the owners of most of the property expropriated have never received real recompense of any kind. Many of these owners were American institutions and American citizens. It is a matter of law that foreign aid should not be extended to countries which expropriate without proper recompense. Yet, it is apparently the intention of our Government to again contribute 40 percent of the program financing for the U.N. Special Fund.

For administrative expenses of AID and the services of the State Department directly connected with foreign assistance, the request is for $60.2 million. We recommend $57 million for this purpose in fiscal 1964, or about the same as was available in fiscal 1963.

CONCLUSION

In conclusion, we recommend that the requested amount for the foreign assistance program be reduced from $4,525 to $2,927 million. We believe that a country-by-country analysis of the military and economic programs will show that the United States can curtail its activities and contributions and that both the United States and the free world will benefit. This may appear to be a sharp reduction, and in the case of new appropriations it is. However, the decrease in actual expenditures would be slight in fiscal 1964. It will take several years to bring annual expenditures into line with the program level which we have proposed. We firmly believe that a change in direction is needed and that a start must be made this year.

Foreign aid: Summary—Administration estimates

[In millions of dollars]

	Fiscal 1962	Fiscal 1963	Fiscal 1964	Recommended by AFBF, fiscal 1964
Unexpended balances:				
Military aid	2,598	2,785	2,360	2,360
Development loans [1]	1,471	2,019	2,359	2,359
Alliance for Progress	600	635	870	870
Other grants	1,294	1,176	1,060	1,060
Total	5,963	6,615	6,649	6,649
New obligational authority:				
Military aid	1,577	1,325	1,405	900
Development loans	[2] 923	975	1,060	700
Alliance for Progress	[2] 190	515	850	550
Other grants	1,220	1,084	1,210	777
Total	[3] 3,910	[4] 3,899	4,525	2,927
Total available:				
Military aid	4,175	4,110	3,765	3,260
Development loans [1]	2,394	2,994	3,419	3,059
Alliance for Progress	790	1,150	1,720	1,420
Other grants	2,514	2,260	2,270	1,837
Total	9,873	10,514	11,174	9,576
Estimated expenditures:				
Military aid	1,390	1,750	1,450	1,300
Development loans [1]	[5] 375	635	716	716
Alliance for Progress	155	280	401	401
Other grants	1,338	1,200	1,204	1,000
Total	3,258	3,865	3,771	3,417
Balance, end of year:				
Military aid	2,785	2,360	2,315	1,960
Development loans [1]	2,019	2,359	2,703	2,343
Alliance for Progress	635	870	1,319	1,019
Other grants	1,176	1,060	1,066	837
Total	6,615	6,649	7,403	6,159

[1] Development loans and Development Loan Fund liquidation account.
[2] For fiscal 1962, $1,112.5 million was appropriated for development loans, but $189.6 million was transferred to Alliance for Progress loans.
[3] Does not include $5 million for advance acquisition of property.
[4] Does not include $30 million appropriated for investment guarantee fund.
[5] Includes $27.8 million of Development Loan Fund liquidation account carryover transferred to investment guarantee fund.

Mr. BURMEISTER. Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you very much, Mr. Burmeister.

I think you have made a very fine statement. There is one thing, however, I hope that in the future you will see fit to delete and that is

the recommendation of a supplemental, or deficiency, appropriation. I think that practice is responsible for at least $10 billion of our public debt. If this Agency should ever get started off on supplemental appropriations, then I do not know how far afield it would go.

Mr. BURMEISTER. May I say, sir, we did not intend to actually recommend. We said if you got into an awful position they could get some more.

Mr. PASSMAN. Thank you again, sir.

WEDNESDAY, AUGUST 14, 1963.

1964 FOREIGN ASSISTANCE PROGRAM

WITNESSES

JOHN TEETER, VICE PRESIDENT, PFIZER CO.
JAY H. CERF, MANAGER, FOREIGN-COMMERCE FOREIGN POLICY DEPARTMENT, CHAMBER OF COMMERCE OF THE UNITED STATES
JOHN C. L. DONALDSON, ASSISTANT MANAGER, FOREIGN COMMERCE-FOREIGN POLICY DEPARTMENT, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. PASSMAN. Mr. Teeter, I expect that most of us are members of the chambers of commerce back in our respective States. I know that I am in Louisiana.

Do you have a prepared statement, sir?

Mr. TEETER. Yes, I do. If you like I can proceed and read this.

Mr. PASSMAN. We shall welcome your comment, Mr. Teeter.

Mr. TEETER. I am John O. Teeter, vice president of Pfizer International, New York City. My testimony on H.R. 7885 represents the views of the Chamber of Commerce of the United States. I serve on the chamber's foreign policy committee, its joint subcommittee on foreign aid, and its newly created advisory committee on foreign aid.

My purpose in appearing before you today is to recommend an appropriation of not more than $3,612,250,000 in new funds for the fiscal 1964 foreign assistance program.

I want to emphasize that the chamber fully supports foreign assistance programs as a means of strengthening the free world. An effective U.S. foreign aid program is essential to our national security and our foreign policy objectives. Properly conceived and carried out, foreign aid should, can, and does promote the American system; provide a counterforce to international communism; promote responsible local foreign development, and protect our increasingly important oversea markets and sources of supply, as well as our military security.

Foreign aid aims at fostering the national interest in several ways. It is designed to provide military protection at less cost than the United States could undertake alone. Longer range, in addition to furthering political freedom abroad, it is intended to help develop strong free world markets in the less developed areas—markets whose strength and growth can expand and strengthen the U.S. domestic economy. In addition, foreign aid is an expression of deep American moral and spiritual instincts.

The chamber has made numerous substantive recommendations for improving the foreign assistance program to the House Foreign Affairs and Senate Foreign Relations Committees. These recommendations have been translated into specific proposed amendments to the Foreign Assistance Act of 1963. These recommendations are designed to improve aid methods, to promote provisions for stricter AID accountability, and to provide for greater private enterprise participation. Seven of the chamber's proposed amendments have been adopted by the House Foreign Affairs Committee and are included in the new foreign aid bill, H.R. 7885. The essence of another was written into the committee's majority report.

The chamber regards the authorization proposed in H.R. 7885 as a ceiling, and recommends that the total requests of $4,087,075,000 be reduced by $484,825,000, to $3,612,250,000. An appropriation of that size should provide adequate funds to allow greater efficiency and economy of operations as outlined by Secretary Rusk on July 16 in his appearance before the Senate Appropriations Committee, and at the same time fully support U.S. foreign policy objectives.

We urge both specific reductions in the administration's revised requests and specific support for a number of development programs. In reaching these recommendations, numerous chamber committees, the board of directors, and staff have reviewed the past performance of our foreign aid operations and have examined carefully all unclassified data on the program for the current fiscal year.

The three major objectives of our foreign assistance recommendations are:

1. Curtailment of specific appropriations pending more demonstrable moves toward long-range economic development programs.

2. A return of foreign aid programs to the sound principles of long-range economic development laid out in the 1961 Act for International Development.

3. The development of means for a vastly stepped-up inflow of private capital, know-how, and initiative.

We call the committee's attention to the comparative budget analysis attached to this statement which shows the chamber's recommendation for each major budget item in the foreign assistance program.

Our recommended cuts are as follows:

DEVELOPMENT LOANS

We recommend that $900 million in new funds be provided for the Development Loan Fund. The administration is requesting $1,060 million for this category.

The chamber supports the Fund as an instrument to (1) foster an eventual shift from purely government-to-government dealings in the economic development of less-developed countries to greater private investment of acpital, know-how and initiative; (2) provide a basis for long-range planning essential to the efficient conduct of U.S. assistance to other countries; and (3) contribute to basic economic growth and stability within the less-developed countries.

Development loans as originally authorized by Congress are highly desirable for long-range plans and programs to build up the economic resources which are prerequisite to development—factories, power

dams, mines, farms, roads, and ports. These loans also finance the teaching of necessary operating skills. However, money from the Fund has been used to pay off unsound national debts, to prop up shaky currencies, and to bail out governments in balance-of-payments or political crises. The chamber has proposed substantive amendments and appropriation controls to reestablish the original objectives of the Fund.

DEVELOPMENT GRANTS

We recommend an appropriation of $200 million for development grants. This is a reduction of $57 million from the administration's request. We are encouraged to see language in H.R. 7885 emphasizing the shift from grants to loans and utilization of the services of U.S. technicians associated with private firms in contracting foreign assistance programs.

ALLIANCE FOR PROGRESS

We recommend an appropriation of $400 million for the Alliance. A cut of $250 million from the administration's request will still provide adequate funds for Alliance activities functioning under the present program.

This recommended reduction does not imply lack of chamber support for the Alliance of Progress. On the contrary, we endorse the objectives of the Alliance and believe that the program could prove to be an outstanding contribution to the development of regional cooperation among free nations.

More money alone will not solve the problems of the Alliance, which is still not adequately organized to meet its goals. Programs of the Alliance need to be reexamined and made more consistent with what is possible to accomplish.

The chamber supports the House Foreign Affairs Committee's recommendation for a consolidation of international programs to coordinate hemispheric aid, trade, and financial policies.

Latin American nations should participate more actively in alliance programs and be encouraged to create a much more favorable atmosphere for private business investment and enterprise. We note with interest the recently proposed establishment of an inter-American development committee to encourage increased Latin American participation in alliance programs.

SUPPORTING ASSISTANCE

We recommend an appropriation not to exceed $300 million for activities of supporting assistance. This would be $80 million below the amount recommended in H.R. 7885 and $135 million below the administration request. As military assistance is cut back, supporting assistance can be reduced for such things as supplies and wages for personnel.

MILITARY ASSISTANCE

We recommend an appropriation not to exceed $1.2 billion in new funds for military assistance. This recommended reduction represents a cut of $205 million from the administration's revised request. This program already is being cut back in Western Europe and in

other areas, but can be accelerated to provide considerable additional savings. Our recommended reduction of $205 million is based on unclassified information giving breakdowns of appropriations by areas. For example, savings can be made from among the spending requests for $671 million in the Far East and Asia, $77 million in Latin America, $442 million in the Near East and south Asia, and particularly from the ever-increasing, $196 million fund for "non-regional" programs.

Further savings can be made by ending the practice of propping up the showcase military forces of some countries.

Other industrialized nations, increasing in wealth, should help bear more of the cost of this military assistance.

Additional savings could be achieved by an increase in operational efficiency if Congress included the military costs of the program in the budget of the Department of Defense.

CONTINGENCY FUND

The chamber recommends an appropriation of $200 million for the President's contingency fund. The initial administration request for fiscal 1964 of $400 million was scaled down twice, in $100 million increments, to the present $200 million figure in H.R. 7885, which the chamber originally recommended on March 15. To decrease the likelihood of events being unduly classified as emergencies, specific congressional authority should be required for new expenditures.

ADMINISTRATIVE EXPENSES—AID

We recommend an appropriation of $50 million in new funds for AID administrative expenses. The administration request of $57.25 million seems more than ample in the light of recent State Department pronouncements verifying its efforts toward greater efficiency and economy of operations. Our proposed increase of $500,000 over appropriations of $49.5 million in fiscal year 1963 can be justified by the need for more talented and experienced personnel.

ADMINISTRATIVE EXPENSES—STATE DEPARTMENT

We recommend an appropriation of $2.7 million for State Department administrative expenses relating to foreign aid. This recommendation would hold funds at last year's level of expenditures in view of no apparent justification for the requested increase of $325,000.

SUMMARY OF RECOMMENDED REDUCTIONS

It should be noted that of our recommended $484,825,000 reduction in the House Foreign Affairs Committee figure of $4,087,075,000, we suggest paring more than one-half from military aid and supporting assistance. Though most of the remainder would be withheld from the Alliance for Progress, the chamber supports the full original authorization for the Inter-American Development Bank and its Social Progress Trust Fund.

The programs for which we recommend full budgetary support are:

SOCIAL PROGRESS TRUST FUND

The chamber supports the full $200 million request for the Inter-American Development Bank's Social Progress Trust Fund.

This fund benefits the people of Latin America and is one of the real successes of the Alliance for Progress program. Its money is used for loans for low-cost housing, potable water and sanitation, and agricultural and technical aid so essential to raise living standards in Latin America. Each loan is matched by local financing. The loans are used to establish private credit institutions and other private enterprise.

The chamber also supports the administration's request for a $50 million regular subscription to the Inter-American Development Bank.

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

We support the $136,050,000 revised request for international organizations and programs on two counts. First, the chamber believes multilateral foreign aid, to which other industrialized nations contribute through international lending institutions, should be encouraged and emphasized as a practical alternative to U.S. financing alone. Second, the 13 programs financed under this account represent current commitments which the U.S. Government is obligated to fulfill.

AMERICAN SCHOOLS AND HOSPITALS ABROAD

The chamber supports the full revised request of $20 million for American schools and hospitals abroad as necessary to provide U.S. citizens serving overseas with nedeed educational and health facilities, and—to the extent American hospital care is provided local foreign nationals—as worthy humanitarian projects which benefit the U.S. image abroad.

HOSPITALS ABROAD (LOCAL CURRENCY)

The chamber supports the full request for $2 million for the American-sponsored children's hospital in Poland.

SURVEYS OF INVESTMENT OPPORTUNITIES

The chamber endorses the administration's original request (later dropped) for $1.5 million to help finance feasibility surveys of potential areas for U.S. private investment in the underdeveloped countries as vital to much-needed private business participation in the foreign assistance program. We believe this request on behalf of promoting private participation in oversea development should not have been dropped.

SUBSCRIPTION TO INTERNATIONAL DEVELOPMENT ASSOCIATION

The chamber supports the administration's entire request of $61.7 million to cover its regular subscription to this international lending institution which specializes in local currency loans to nations in need of basic development.

TWO ACHIEVEMENTS REVIEWED

Most analyses of U.S. foreign assistance tend to point out the shortcomings of the aid program, relegating little more than passing notice to its achievements. Two notable recent achievements are:

(1) In support of accomplishing foreign assistance goals, the Development Assistance Committee of the Organization for Economic Cooperation and Development reported last month that member countries are "softening" the terms of their aid credits—liberalizing interest rates and repayment conditions.

(2) The required purchase of U.S. goods under the economic assistance program—now running 87 percent—has contributed to the recent 8-percent increase in the second quarter of U.S. exports over 1962 figures. Although this rise comes in the face of a slowdown in the rate of increase in industrial production abroad, it indicates an improved competitive position for U.S. products.

The U.S. business community has a direct interest and stake in the accomplishment of U.S. foreign assistance goals. Government-to-government aid by itself can neither afford the costs of the program nor accomplish its objectives. An increasing share of the task must be undertaken by the private sector. Recently, the vice president of the Inter-American Development Bank noted significantly that continued economic and social progress in Latin America requires a greater surge of private investment. He pointed out that an analysis of U.S. and European attitudes toward foreign aid indicates it is quite unlikely Government outlays to Latin America will be increased from present levels. This informed observation could also apply to other parts of the free world.

Comparison of budget requests and recommendations for the foreign aid program

[In thousands of dollars]

Activity	Chamber recommendation, fiscal year 1964	H.R. 7885 authorization, fiscal year 1964	Revised administration request, fiscal year 1964	Congressional appropriation, fiscal year 1963	Chamber recommendation, fiscal year 1963	Administration request, fiscal year 1963
Development loans	900,000	1,060,000	[1] 1,060,000	975,000	900,000	1,250,000
Development grants	200,000	217,000	[1] 257,000	225,000	235,000	335,000
American schools and hospitals abroad	20,000	10,000	20,000			
Investment guaranties				30,000	100,000	100,000
Surveys of investment opportunities	1,500				3,500	5,000
Alliance for Progress	400,000	600,000	[1] 650,000	525,000	400,000	600,000
Social Progress Trust Fund	200,000	200,000	200,000			
International organizations and programs	136,050	136,050	136,050	148,900	148,900	148,900
Supporting assistance	300,000	380,000	435,000	395,000	400,000	481,500
Contingency fund	200,000	200,000	300,000	250,000	200,000	400,000
Military assistance	1,200,000	1,225,000	[1] 1,405,000	1,325,000	1,350,000	1,500,000
Administrative expenses—AID	50,000	54,000	57,250	49,500	50,000	55,000
Administrative expenses—State	2,700	3,025	3,025	2,700	3,000	3,100
Hospitals abroad (local currency)	2,000	2,000	2,000	2,800		2,800
Total, foreign aid program	3,612,250	4,087,075	[1] 4,525,325	3,928,900	3,790,400	4,961,300

[1] Additional reductions in these activities subsequently suggested by General Clay would further lower total by $200,000,000 to $500,000,000.

Mr. TEETER. I think, having read your article of last month which appeared in the New York Times, we start out perhaps on a different premise, our stating we are very much in favor and support the aid program.

Mr. PASSMAN. I observe that you do.

Mr. TEETER. Somehow or the other we are striving to meet halfway to greatly improve this program.

Mr. PASSMAN. You state that you have examined carefully all unclassified data on the program for the ensuing fiscal year. I want to commend you for your statement based upon the unclassified information. If you had had access to the classified information, you would have, I believe, cut your recommendation even further.

I wonder if in making these recommendations, you took into account the fact that we actually have a public debt that exceeds by $24 billion the combined public debts of all the other nations of the world? Also, it looks as if it is impossible for the administration to bring our balance-of-payments situation under control.

You mention about the more liberal terms of some of the other members of the several consortia. However, I wonder if you realize that when they give a grace period they are drawing a very high rate of interest on the money during the grace period. People who have a good investment would prefer to have it outstanding rather than have the loan repaid. Some of these countries that have agreed to give a grace period of 3 to 5 years are drawing these high rates of interest on that money during the grace period.

Are you aware of that fact?

Mr. TEETER. Yes.

Mr. PASSMAN. I do not believe there have been but two countries perhaps which have made reductions in their loan rates.

Usually, for example, Great Britain charges the regular rate, plus a penalty of one-quarter of 1 percent.

You mention the military program. I think I can say that most of the people who have studied this problem most carefully believe the military aid would be costing probably twice as much as it is if you left the decision entirely up to the Defense Department.

For all practical purposes, the military aid program is in the defense budget. All we do is made a recommendation. The Defense Department procures, and out of that reservation AID reimburses the Defense Department for their purchases.

However, how would you ever know what you had in here for foreign aid if you actually buried the MAP request in the defense budget? You could never find it.

Do you not realize sir, that foreign aid is now costing our country in excess of $10 billion annually including the interest on the borrowed money? If you take all spigots of foreign aid, and there are 16 of them, under 8 different statutes, and including the interest on the money we borrow to give away, it is costing in excess of $10 billion annually.

What amount did you recommend last year for this program?

Mr. TEETER. Our recommendation last year was $3,790,400,000. The request was $4.9 billion.

Mr. PASSMAN. Congress reduced the appropriation by $1,032,400,000. Yet when we pulled up at the end of fiscal year 1963, AID had on hand unobligated $1,203 million.

On June 30, the Agency had $515 million on hand completely unencumbered and unobligated, including the revolving funds. They had an additional $688 million technically unobligated. It was an amount that the Agency had made commitments on. They put it in a reservation category pending the signing of the contracts.

If you look at the amount of withdrawals from the pipeline for the past 4 years, it has averaged $3.2 billion annually.

What has happened actually is that the Agency is pyramiding funds. The Agency is putting more into pipeline than it is drawing out, consequently AID is having larger and larger unexpended balances.

Mr. RHODES. In your statement several times you mention you favor a figure "not more than." Would you care to clarify why you use those words? You did it several times.

Mr. TEETER. I can explain that in this manner.

Again, based on the unclassified information we received, we studied this problem very carefully and made cuts as deeply as we felt we could go with proper reasoning behind them. There may be other information that would lead to the thought these cuts could go deeper than the $3.6 million. If we were to receive information and recommendations along these lines, the chamber groups would look at these very, very carefully and study them and hopefully we would go into a further reduction to go below the $3.6 million figure.

Mr. RHODES. The figures you use are a ceiling and not a floor?

Mr. TEETER. That is right. It is a ceiling. There has been too much fat in this program very obviously.

Mr. RHODES. I join with the chairman in deploring the size of the program you approve. I really do not feel you are doing the business community any great service by making a statement like this. The members of this subcommittee are undoubtedly likely to cut below this. You have not strengthened our hand.

Yours is an organization of the conservative type. Yet you approve a program greatly in excess of the probable appropriations that will be recommended by the subcommittee. This will cause some doubts as to the validity of our cuts. Yet I am sure we have studied this program much more thoroughly than you have.

Mr. PASSMAN. Does the gentleman realize that in this program for fiscal year 1964 there is a request for funds for about 100 nations?

Mr. TEETER. Yes.

Mr. PASSMAN. There is nothing like this program's budget request in any other branch of Government. The presentation is for money based upon illustrative justifications—they list projects. We may or may not fund these projects. They have the right to substitute new projects for them. The Congress appropriates funds for, say, Argentina. They could use those funds in Algeria or some other nation.

In the development credit program, they do not know what country will get the funds, or what projects until they get the funds.

This appropriation is practically a complete blank check.

They have the right to deobligate funds, use the money for some other project, or substitute one project for one they initiated. They can start new projects during the year without any justifications.

Last year in the aid program they started projects that cost $35 million without even an illustrative justification to the Congress.

The ultimate cost will be $88 million just on the projects they started without any illustrative justification simply because they had funds in excess of their needs.

As far as I am personally concerned, I think the amount you recommend is far in excess of what they could possibly use in any prudent manner whatsoever.

Mr. ROONEY. I have just one question. Having looked at this requested amount that the administration so carefully prepared, can tell us how much of this requested amount would mean business for members of your organization?

Mr. TEETER. Do you mean the U.S. Chamber of Commerce?

Mr. ROONEY. Yes.

Mr. TEETER. As we have pointed out, the 87-percent figure is money which would be expended in the United States.

Mr. ROONEY. Eighty-seven percent?

Mr. TEETER. Eighty-seven percent is the figure we have been working with.

Mr. ROONEY. Of that 87 percent, how much would go to member firms of your organization?

Mr. TEETER. I do not think I could honestly answer that question.

Mr. ROONEY. Where did you get the figure 87 percent? The aid agency uses the figure 80 percent?

Mr. DONALDSON. The 87 percent is the current rate of new contracts being signed. The 80-percent figure is the current level; including commitments that were made before the loans were tied even tighter than they are now. Their overall goal is to raise it to a level of 90 to 95 percent.

Mr. PASSMAN. When we make allocations to these 100 countries and they requisition their needs, when the ships pull away from the docks of the ports of this country loaded with our generosity, you know of course that the invoices are sent down to the U.S. Treasury to be paid for out of the taxpayers' till, and not out of earnings of the recipient countries from their exports.

Mr. TEETER. I know that is a fact.

Mr. PASSMAN. There are only three things the other countries can do with the dollars we credit to them—requisition something they need from this country, or buy our gold with their earnings when we ship to them what they would normally buy with their earnings, or else they will buy our securities. It all ultimately has an effect on the public debt, or an effect on the balance of payments or gold reserves. Those three matters are closely related.

Mr. TEETER. I agree with a great deal of what you say.

Mr. PASSMAN. Will you agree that every nation on the face of the earth, regardless of how small or new, earns certain sums of money from their exports?

Mr. TEETER. That is true.

Mr. PASSMAN. Normally that money enters into the channels of commerce. We would sell something, if not directly, at least in-

directly. But when we credit these free dollars by which they requisition their needs, or much of their needs, this then releases to them their earned dollars to do with whatever they please—to buy gold, securities, or to speculate. You do not quarrel with that fact; do you?

Mr. TEETER. I am afraid that is true.

Mr. PASSMAN. If this were the way to create prosperity, I would quickly advocate we triple the aid program and, therefore, triple the prosperity.

Mr. TEETER. The point I would like to make is, we are endeavoring to build greater markets abroad for American industry. I think it is important that the development take place in these countries so a better climate will be set for American business to do business abroad.

Mr. PASSMAN. When we build up a $554 billion gross national product, and we did so last year, if we should go back and pick up the 1940 price tags and fit them to 1962 production, would we not in reality have had a $263 billion gross national product?

Mr. TEETER. I imagine so.

Mr. PASSMAN. Furthermore on this $554 billion figure, do we not have stuck in there along the way $137 billion of taxes which we must draw off in order to keep these generous programs going on a local level, State level, and Federal level, and by that procedure, we have gone a long way toward pricing ourselves out of the world market, and largely so through out generosity.

I believe we are about 40 percent out of the world market in agricultural commodities; are we not?

Mr. TEETER. I am not sure of the figures.

Mr. PASSMAN. Every bale of cotton we sell, for instance, we subsidize by approximately 20 percent in order to meet world prices.

Thank you, sir, for being with us. And our very best wishes.

WEDNESDAY, AUGUST 14, 1963.

FOREIGN ASSISTANCE PROGRAM

WITNESSES

WALTER HARNISCHFEGER, HONORARY CHAIRMAN OF THE CITIZENS FOREIGN AID COMMITTEE

ELGIN GROSECLOSE, RESEARCH CONSULTANT, CITIZENS FOREIGN AID COMMITTEE

GEN. BONNER FELLERS, NATIONAL CHAIRMAN, CITIZENS FOREIGN AID COMMITTEE

LEWIS LLOYD, ECONOMIC ADVISER FOR DOW CHEMICAL CO.

T. COLEMAN ANDREWS, BUSINESS EXECUTIVE, RICHMOND, VA.

Mr. PASSMAN. The committee will come to order.

We have some more of our distinguished fellow Americans before the subcommittee at this time.

We are glad to have you with us, gentlemen.

I believe that the first witness of this group to testify will be the Honorable Walter Harnischfeger, honorary chairman of the Citizens Foreign Aid Committee.

The committee will be pleased to hear from you at this time, sir.

Mr. HARNISCHFEGER. I appreciate this opportunity for my limited appearance.

I would like to suggest one thing if you find time. In my major memorandum, I have quoted from a statement of the American Bankers Association, and they have indicated how serious this balance of payment and flight of gold is.

I would like to suggest in your spare time—I know you have a lot of it—you sort of review those facts, because, after all, if there is anyone that should know something about fundamentals, and particularly the integrity of the dollar, it is the American Bankers Association.

Mr. Chairman and members of the committee, my name is Walter Harnischfeger. I am chairman of the board, Harnischfeger Corp., a heavy industry in Milwaukee. I am also honorary chairman of the Citizens Foreign Aid Committee. Today marks my 11th appearance before the congressional committees which act on foreign aid. I thank you for the opportunity again to appear.

Since my last appearance before the House Appropriations Subcommittee on Foreign Operations, I have again been in Europe. And I have visited a certain number of Latin American countries and attended a number of additional international conferences. I also appeared before the Clay committee where I emphasized the many deficiencies of our foreign giveaway program.

In fiscal 1964 we face a planned deficit of $10 billion. In addition, we contemplate a tax reduction to stimulate the economy. In the light of this situation, our Government must tighten its belt, just as we must do in business to restore a balanced budget. This reduction in spending is necessary to maintain confidence in the integrity of the dollar. And the dollar is the keystone to sound economy throughout the free world.

LATIN AMERICA

Our lavish giveaway program is undermining private capital and private investments in underdeveloped countries. In Latin America, our lavish aid program has resulted in a substantial flight of private capital. In certain cases, foreign bureaucrats are using our foreign aid to buy out their interests in a private venture, and are then sending their capital to Switzerland as a haven against internal devaluation.

In developing any so-called underdeveloped area, the first fundamental is to insist upon the proper business climate. Our State Department policy toward Cuba has more than offset the millions that we are pouring into Latin America. Latin America can best attain a sound economic growth by our resolving the Cuban situation. This would prevent teams of Cuban-trained Latin Communists from infiltrating the various countries where we are pouring in our billions. In Cuba, the Commies are indoctrinating hundreds of thousands of youths, from the age of 8 to 12, on philosophy of hate, destruction, and chaos. Unless we take action, in about 10 years these youngsters will be infiltrating Latin America, fomenting chaos and class war. It is difficult to conceive why the administration and State Department do not recognize the seriousness of this situation. When you have a bush fire, you extinguish it before it becomes a forest fire.

In Brazil, our $2 billion aid has not brought about stability nor has it stopped the expansion of communism. Over a billion of Brazilian capital has been spent in building Brasilia. These funds should have been used to expand the productive area of Brazil and to develop its resources.

Just recently, Brazil has made a $600 million trade agreement with Russia. Brazil will send the Soviets coffee, cocoa, and cotton. The Soviets will send Brazil wheat, oil, and machinery. In the light of the aid we extend to Brazil, why should not Brazil trade her coffee for our wheat? Since there is a shortage of wheat in Russia, the question arises, Where will Russia find wheat for export? Possibly the answer lies in the fact that we have been sending our wheat in British bottoms to Poland, a Communist satellite.

In Bolivia, we are spending several hundred million dollars after the Communists have taken over and nationalized the tin, lead, and zinc mines. Bolivia's production and efficiency have been declining every year, entailing greater deficiencies which we, in turn, finance.

CLAY COMMITTEE REPORT

We do not quarrel with many of the Clay committee findings and conclusions. A number of foreign aid deficiencies reported by the Clay committee have been repeatedly singled out by our committee in presentations before the congressional committees which act on foreign aid. However, in the light of our unbalanced budget, balance-of-payments deficits, flight of gold, and the undermining of business by our giveaway program, we believe the Clay report does not go far enough and is unrealistic. I am listing some of these deficiencies and commenting on them. The Clay report—too much, for too many, too soon.

> * * * we are trying to do too much for too many too soon, that we are overextended in resources and undercompensated in results, and that no end of foreign aid is either in sight or in mind.

Comment: There are some 12,817 foreign aid officials around the world who are busy thinking up schemes to socialize the world. Unless they are brought home promptly and systematically, no end is in sight for the giveaway program.

The Clay report—increased concern.

> There has been increasing concern as well over the contribution of foreign aid to the persistent deficits in our international balance of payments—12 in the last 13 years. These deficits have produced a sustained decline in our gold stock and a marked increase in foreign-owned dollar balances, with a resulting loss in our international liquidity.

Comment: While the Clay committee invites attention to our balance-ofpayments deficits and the resultant flight of gold, it offers no satisfactory remedy other than mentioning that increased aid expenditure in the United States has mitigated the harmful effect of unfavorable balances of payments. The Clay report then proceeds to endorse the overall aid program.

Since foreign aid started, we have had an unfavorable balance of payments each year—except in 1957, the year of the Suez crisis. As a consequence, our gold reserve has dropped from $24.5 to $15.6 billion. Meanwhile, foreign held short-term dollar credits total $25.3 billion redeemable in gold.

Unfortunately, the position of our gold reserve grows more vulnerable as foreigners amass dollar credits as the result of our Government having spent overseas annually more than $6 billion. This $6 billion foreign expenditure is largely due to the foreign aid program plus the $3 billion which is spent by and for our oversea forces.

Foreign governments hunger for gold to harden their currencies. This hunger will cease only when our dollar is once more as good as gold. The dollar cannot again be so considered until we put our economy in order. To put our economy in order, so that foreigners will not be tempted to buy our gold, we must stop deficit spending at home and return to a favorable balance of international payments. This can only be effected by deep cuts in Government spending both at home and abroad.

THE CLAY REPORT—FREE ENTERPRISE

We believe the United States should not aid a foreign government in projects establishing government-owned industrial and commercial enterprise which compete with existing private endeavors.

Comment: The Citizens Foreign Aid Committee endorses, wholeheartedly, this principle. Despits its soundness, however, aid in the past and at present has been principally from our Government to recipient governments. This procedure is especially pronounced in Latin America.

In his book "South Wind Red," former Under Secretary of Commerce Philip A. Ray has analyzed the Alliance for Progress. His findings include:

(1) Marxist fashion, the United States is imposing on the Latins—

more government-to-government aid, government intervention, government planning, government ownership—policies that can do nothing except push Latin America faster down the road to communism * * * no significant attempt is being made to enlarge private capital flow to Latin America.

Thus, the U.S. Government policy precludes our taking full advantage of the person-to-person free enterprise system which reflects the true genius of our people.

(2) The Soviet system even more drastically handicaps its own foreign aid efforts. No Soviet person can enter into business relationship with any foreigner—

either as a partner, employee, coowner, seller, buyer, principal, or agent * * *. None can emigrate, take a job, nor export anything from Russia, nor buy a single article from anyone unless the Russian Government so elects. Yet Red influence in Latin America gains while ours wanes.

(3) Mr. Ray suggests how our Government could reverse this socialistic trend:

Allow fast IRS tax writeoffs for venture capital.
Underwrite private loans for sound developments.
Guarantee private insurance for political and expropriations risks.
Warn Latin governments against expropriations.
Urge profit-sharing measures for Latin Americans.
Withdraw as free enterprise succeeds.

(4) Mr. Ray estimates a $2 billion private capital investment would create 500,000 jobs for Latin Americans. Despite Mr. Ray's sound analysis and recommendations, the Alliance for Progress is failing to attract substantial private investment.

THE CLAY REPORT—SELF-HELP

"The United States should be increasingly more specific on the self-help and reforms its seeks and do so on a country-by-country basis. At the top of such a list are the goals of monetary stability, sound financial and social budgeting, reductions, and eventual elimination of subsidies to government enterprises, tax systems, and administration which contemplate raising local revenue levels, stimulating private local and foreign investment, and distributing the tax burden more fairly * * *.

Comment: Despite this sound advice for recipient countries, the Clay report recommends continuation of the aid program with a slight reduction. The reduction, however, is insufficient to alleviate our unfavorable balance of payments and return our own Government to a sound economic program.

There are enormous aid funds available without any aid appropriation for fiscal 1964. According to Senator Harry F. Byrd: "The balances (unexpended) totaling $21.3 billion in all foreign aid accounts together with new budget requests totaling $5.4 billion would make up this tremendous sum of $26.7 billion available for foreign aid in the coming year * * *." These funds should once more be thoroughly rescreened and funds earmarked for unsound projects should be cancelled out. The most effective and least objectionable organization, from the standpoint of the United States, whose loans are substantially self-liquidating is the Export-Import Bank. They now find themselves without sufficient funds. Instead of voting more billions through backdoor Treasury financing, such appropriations as are required to meet commitments should be rescreened and diverted to the Export-Import Bank.

The Export-Import Bank has really done the most outstanding job in connection with underwriting American enterprises and, of course, they have no more funds. We, as a committee, are against the backdoor spending, but we do believe they should appropriate these unused balances and divert them to the Export-Import Bank.

It is incomprehensible to me how the Clay Committee can recommend continuation of the present aid program in the light of the $21.3 billion already available, of our debt, unfavorable balance of payments, flight of gold, widespread failure of the aid program, and the imminent overall threat to our economy.

Suppose that foreigners call our gold and the dollar is discredited globally, which is a distinct possibility. Would the Clay Committee then recommend continuance of the aid program? Had it not better be drastically cut now so as to insure a favorable balance of payments and thereby arrest the flight of gold?

THE CLAY REPORT—IDA INCREASES RECOMMENDED

* * * we would point out that the International Development Association (IDA), an affiliate of the International Bank for Reconstruction and Development, is a readymade instrument to accomplish these purposes (increased loans).

Comment: While I am thoroughly familiar with the background of IDA, the policy of lending hard money for soft implicates us in the political orbit of many countries. In addition, despite its cautious and conversative management, the World Bank, because of our aid program, also finds itself involved in the economy of soft currency countries. These involvements should be avoided. Furthermore, while I heartily endorse the recommendations of the Clay Committee that aid

should not be given to compete with private investments, the facts remain that our entire fundamental philosophy of aid and the Alliance for Progress has brought about and will continue to bring about a flight of private capital unless the fundamentals are very severely tightened.

THE CLAY REPORT—U.S. SECURITY VIA AID

U.S. security interests will require maintaining our military assistance program for some years to come * * *.

Comment: It is abundantly clear that the NATO surface forces of 22 divisions in Europe and other troops about the Soviet frontier can offer only token resistance to the huge Red army. If Russia has aggressive intent, therefore, it is our strategic striking power rather than the vastly outnumbered free world surface forces deployed globally which deters attack. Moreover, it is clear even to the layman that the free world forces about the Soviet frontier can offer no security to the United States. Our country is vulnerable only to attack from the sky. Our surface forces cannot influence such attacks emanating from inside Russia.

THE CLAY REPORT—PRINCIPAL AID BURDEN SHOULDERED BY UNITED STATES

We are convinced that the burden of sustaining foreign assistance to the less-developed countries is falling unfairly upon the United States and that the industrialized countries can and should do more than they are now doing. The present inequity is even more apparent when one adds defense expenditures to economic assistance to detremine the national shares in the total expense of protecting and advancing the free world's well-being. This matter is of even greater concern when one considers the negative U.S. balance of payments.

Comment: From the start, in early 1959, the Citizens Foreign Aid Committee has repeatedly invited the attention of the Congress that American taxpayers were shouldering the major portion of the aid burden. To this in 1959 the Department of State took violent exception.

Foreign military assistance has cost American taxpayers more than $40 billion. In NATO, the United States is shouldering a disproportionate share in defense costs. In 1962 U.S. military expenditures were $51 billion; all other NATO powers spent $19 billion. Moreover, our 6th Fleet in the Mediterranean, our six divisions in West Germany with tactical air support, lift more than a $12 billion defense burden annually from Europeans and shift it to American taxpayers. In addition, the United States provides strategic nuclear striking power for the entire free world and we alone challenge Russia in space.

Today, in contrast to the early years of the aid programs, the executive branch of the Government is frank to say that we are carrying an unfair burden and is urging foreign countries to carry their fair share of the load. But as in 1959, the prosperous industrial countries continue to drag their feet when it comes to foreign aid.

The following tabulation indicates the proportion that the various nations of the free world are spending on defense. This data was recently reported in a responsible financial service.[1]

[1] Monthly analysis, Dec. 20, 1963, Lionel D. Edie & Co., 530 Fifth Ave., New York.

One. We spend more of our actual resources on defense than the rest of the free world combined.

Two. We spend more of our gross national product on defense than any other country in the free world.

Three. Our proportionate costs for defense are 150 percent greater than Western Germany and Italy, 100 percent more than that of Canada, and between 50 and 60 percent more than that of France or the United Kingdom.

Four. If we were to reduce our defense burden to the level nearest ours (the United Kingdom) we would release $15 billion in taxes for civilian needs and pursuits. If we were to lower our proportion to that of Germany we would release $31 billion to civilian purchasing power. That is the measure of the drain and burden that we are carrying that Europe is not carrying.

Defense spending as a percentage of gross national product

	1957	1958	1959	1960	1961
United States	11.0	11.1	10.6	10.2	10.6
United Kingdom	8.0	7.5	7.3	7.1	7.3
France	7.6	6.7	7.0	6.6	6.5
Germany	2.9	3.1	3.6	3.9	4.0
Italy	(1)	(1)	(1)	(1)	3.8

[1] Not available.

Is defense a stimulant? It has become more and more common to hear that defense spending is a stimulant to the economy * * *.

What utter nonsense. Defense is not a stimulant. It is a cost. It is an irretrievable cost. We get little in the way of economic return from defense spending * * *.

Defense spending is a cost. Now you will say, What would happen if defense were less? We answer that the consumer would have more * * *.

In this debate and discussion about our growth rate, let's not forget that our defense burden is no asset * * *.

If, for example, they (European allies) were to pick up 2 percentage points of our defense costs relative to the GNP, we could grant a tax reduction of $10 billion and cut spending at the same time. That would be a beautiful combination.

AMERICAN BANKERS ASSOCIATION ON THE BALANCE OF PAYMENTS

I quote from a recent statement by the Advisory and International Committee and the Economic Policy Committee of the American Bankers Association on the balance of payments.

The risks inherent in a failure to secure improvement in the balance of payments cannot be overcome by the creation of a supranational credit-creating institution. In fact, impressions that the United States is seeking additional means to finance the existing deficit, rather than concentrating on the elimination of the payments problem, could prove seriously damaging to international confidence in the dollar. We are convinced that present strains on the international payments system have stemmed not from any existing shortage of international liquidity, but rather from balance-of-payments deficits in key-currency countries.

Continuing discussions of means of maintaining an adequate volume of international liquidity over the long run are assuredly in order. The danger today, however, is that the mirage of painless financing of payments deficits through some vaguely outlined type of supranational monetary authority may weaken the will to preserve those fundamental disciplines which protect the orderly growth of the free world economy. Indeed, actions that might be interpreted by creditor countries as efforts on the part of key-currency nations to avoid these disciplines could well lead to a crisis of confidence and to substantial contradictions, rather than increases, in international liquidity. Under certain circumstances, the dangers of undue emphasis on the financing of persistent deficits also can lead to an excessive piling up of debt which must be worked off before overall improvement in the payments position can be realized.

The strengthening of balance-of-payments policies now required must be sufficient to create a clear-cut basis for confidence in the early resumption of progress which can be expected to culminate in the restoration of a sustainable payments position. The adjustment in policies must therefore reflect a realistic appraisal of the areas in which short-term improvement is attainable. With domestic economic expansion producing a rising level of imports, the export surplus is not likely to improve—and may, in fact, deteriorate—in 1963. Moreover, ambiguities in the longer range trade outlook raise questions concerning the wisdom of waiting indefinitely on improvement in the trade surplus as the final solution to payments disequilibrium. If short-term improvement is to be secured, consequently, immediate steps will be required to reduce the gold and dollar drain arising from private capital outflows and from activities of the Federal Government. These steps can and should be taken within the framework of an overall economic program designed to strengthen the performance of the domestic economy, thereby assuring the ultimate restoration of payments equilibrium.

With respect to foreign aid, we are sympathetic to the need for a sustained flow of economic and technical assistance to those developing nations of the world which have demonstrated their ability to use wisely the resources placed at their disposal and to follow domestic economic policies conducive to sustainable growth. In the final analysis, however, it is clear that aid payments cannot bestow benefits if, by virtue of the foreign exchange costs which they impose on the United States, they endanger that international monetary stability on which developing nations are so heavily dependent for their own economic progress.

We would emphasize, particularly, the urgent need for the assumption by our allies of a larger portion of the responsibility for aid to developing nations. It should be noted, too, that the need for aid on the part of developing nations could be substantially reduced by the elimination in many European countries of trade policies which feature sharply discriminatory treatment of manufactured goods from low-wage countries.

Nevertheless, we are convinced that unwillingness to make adjustments ultimately could lead to the impairment of international financial order, thereby completely jeopardizing the economic strength, the political stability, and the mutual defense of the free world. Therefore, we cannot subscribe to the view that the foreign exchange costs of our aid and defense programs are rigid or immutable.

The United States has incurred a deficit in its balance of payments during 12 of the past 13 years. After allowing for the single surplus in 1957, the deficits amounted to $26 billion. The financing of these deficits has resulted in an $8 billion reduction in the Nation's gold stock and an $18 billion increase in foreign-held liquid claims.

Continued erosion of the Nation's international liquidity, coupled with a failure of the payments deficit to show any appreciable decline, has brought greater urgency to the Nation's balance-of-payments problem. As the problem becomes more acute, the task of preserving international confidence in the dollar also threatens to become more difficult. The length of time still available for orderly correction of the payments deficit cannot be forecast. It is clear, however, that deficits of the current magnitude cannot be sustained indefinitely without imposing an unmanageable strain on the dollar and on the international monetary system. If risks of imposing such a strain are to be avoided, restoration of equilibrium in the balance of payments must be elevated to the highest order of priority among the Nation's economic and political objectives.

The foregoing is certainly ample evidence of the seriousness of this entire situation and it is inconceivable to many of us that Congress does not recognize this important and serious situation which is the keystone to sound commerce, employment, and a free society. Unless prompt and constructive action is taken in these matters, the result is bound to be dollar devaluation followed by price controls and wage controls or inflation with all of its serious implications.

A PRACTICAL BUSINESS POINT OF VIEW

American businessmen working with foreign businessmen can develop essential projects to expand the economy and improve the standard of living. To do this the political and economic climate must be favorable. No aid should be extended to governments which expropriate property without prompt, adequate payment. Of great assistance are religious and professional relief organizations like Friends Field Service Committee. They assume social and educational responsibilities.

Communism undoubtedly is one of the great threats in the world today and it is apparent that we cannot buy our way out of communism by a giveaway program. In fact, in many areas, we have done irreparable harm and actually financed communism. Furthermore, if we continue to follow this wasteful program, the Communists will not even have to fight a war in order to attain their end.

We should not be disturbed by the aid being given by the Soviet Union. Its program of foreign aid began in 1954 and by June 30, 1962, had pledged the sum of $5.6 billion in assistance to 25 countries, some in the Communist bloc. In addition, Eastern European satellites pledged $920 million and Communist China $410 million.

In the same period international organizations provided more than $5 billion in aid, by far the largest part—about 80 percent—from the World Bank. The United States supplies 30 to 40 percent of all aid funds spent by international organizations. And U.S. direct aid now totals more than $100 billion.

In the light of the relative progress that the Communists have made in taking over other countries, it should be clear that the dissipating of American resources is not the answer to maintain foreign countries within our orbit.

I believe that all of us recognize that by virtue of science, inventions, and speed of transportation, the world has become smaller. America cannot live in isolation. The evolution of the human race has taken many thousands of years. Our policy of endeavoring to make everyone a Cadillac user in 10 years can lead only to catastrophe. Germany tried to conquer the world twice. Her allies left her at the critical time. A good friend of mine who heads one of the largest basic industries in Germany told Hitler seven times that Germany did not have the industrial potentials to accomplish what he had in mind.

With 6 percent of the world population, we in America are following the same pattern step by step. We also do not have the industrial potentials to dominate the world. Our allies will leave us as they did in Korea. The only practical solution is to keep the home base strong.

CONCLUSIONS

(1) The Alliance for Progress is run to a great extent by inexperienced young people who do not possess the background and years of practical knowledge to build any enterprise much less a country. They dream up new ways to socialize a country.

(2) The Clay Committee has made a great contribution in pointing out weaknesses in the aid program. The value of exposing weaknesses in the aid program is enhanced when one realizes that it is an

administration committee which would not have been formed if the President had had any misgivings that it would support the major portion of the program. It obviously is the administration hope that the Clay recommended cuts will stand and thereby give the administration credit for cuts—but cuts which will not restrict the program. Nevertheless, the fact that it recommended minor cuts in the aid program should be effective in influencing the Congress to cut still deeper.

(3) Excessive taxes and wages are the greatest obstacle to restoring a competitive position for the American manufacturer and exporter. If these were brought into line by a substantial reduction in foreign aid, it would tend to restore sound natural growth and at the same time increase employment within the country.

Moreover, if we stop the giveaway, funds would be available for sound financing of American enterprise abroad. It has been estimated that the termination of foreign handouts would increase our exports by 30 to 40 percent. However, if aid continues, why should foreigners buy products which they can get for nothing? For example, Greece has cautioned her farmers to reduce wheat production because under Public Law 480 we, in effect, give them ample supply of wheat. Our exports, stimulated by aid reduction, would strengthen our economy. It would also bring home dollars.

(4) As a result of 50 years of experience in manufacturing and in serving basic industries, together with knowledge gained by personal contacts and observing the results of our loose spending, I cannot overemphasize the seriousness of our position today. Our present route can lead only to inflation, 5-cent pensions and social upheaval. We went through one depression in the thirties which rocked our country and the civilized world. It could happen again with far greater disastrous results. With the Congress lies the responsibility to correct these conditions. We raise the question: where in our Constitution has the Congress the power to use American taxpayers' funds on an international welfare program that can lead only to bankruptcy and international breakdown?

(5) The Citizens Foreign Aid Committee goes along with Senator Harry F. Byrd's recommendation for a cut of $3.3 billion in new aid requested appropriations. This cut would leave more than $23 billion remaining available to obligate and spend; aid could continue at the present rate for 4 or 5 years. If it is not stopped long before then, I predict the foreign handout program will collapse our economy.

Mr. PASSMAN. Thank you very much.

I want to make an observation off the record.

(Off the record.)

Mr. PASSMAN. The Clay report does not mean a great deal, in my opinion other than some limited recommendations.

I read, however, from page 20 of that Committee's report:

> AID informs us that if our criteria were now in effect, present programs would be reduced by approximately $500 million, and there would be additional reductions in the following years as some of these programs were phased further down or out.

I do not know where they would apply the $500 million, whether they would reduce the President's request by $500 million, or whether they want to reduce the President's revised budget from $4.5 billion to $4 billion, or whether they want to take what the Foreign Affairs

Committee has recommended, $4 billion, and reduce that sum to $3.5 billion.

In this program there are five categories. The budget request is one level, the authorization is another level, the appropriation is another level, the amount of programing is another level, and the amount of withdrawals from the pipeline is another level.

When you get to the lower level, the average withdrawal for the past 4 years, prior to this year, has been around $3.2 billion. If you should apply the $500 million cut to the withdrawal program out of the pipeline, it means the Clay Committee is advocating $2.7 billion. If it is based on the amount that you obligate, put in the pipeline, then of course it would be about $3.2 billion. If it is based upon the appropriation, it would be $3.4 billion. If it is based on the budget request, it would be $4.5 billion. I really do not know what the Clay Committee means by reducing the amount by $500 million.

Mr. HARNISCHFEGER. I would like to emphasize a point. If you could get in your bill a statement that would reduce these 11,000 personnel around the world progressively, one-third every year, that would help. That is one of the seats of all the evils.

I talked to one of our agents from Chile, and I expect we have several hundred people down there dreaming up giveaway programs. They say, we know we are to spend our money in Chile.

Mr. PASSMAN. Your recommendation has much merit.

Our next witness is a former tax collector, generally recognized as one of the greatest tax experts in America, a former U.S. Commissioner of Internal Revenue.

Mr. Andrews, we are very happy to have you before this subcommittee. We shall be pleased to hear you at this time.

STATEMENT OF T. COLEMAN ANDREWS

Mr. ANDREWS. Gentlemen, let me say that naturally it is nice to have you report such a good opinion of me, but I am really not that good.

It is like when my wife says she loves me, and I do not believe it but I am glad to hear it anyway.

I am T. Coleman Andrews, of Richmond, Va.

I was Commissioner of Internal Revenue from early February 1953 to the end of October 1955.

I am presently an executive in the insurance business—both life and casualty. I appear on behalf of Citizens Foreign Aid Committee.

I have appeared previously on behalf of this group before committees of both the House and Senate. There are no new reasons for opposing our Government's foreign aid policy; the old reasons have simply become more compelling. I may not expect, therefore, to say anything to you that you have not already heard. I address you with an increased feeling of urgency, however, because the consequences of our misguided foreign aid policy have multiplied and grown steadily since I was last here. But because there are no new reasons for my opposition I shall be brief.

Originally my opposition to our foreign aid policy was economic. It was clear to me from statements as to our gold position and balance of payments issued by the State Department that a gold crisis was

developing and this was directly attributable to our foreign aid policy. As time went on, I began to perceive that the problem was not only an economic one but also a moral one.

I shall speak first about the economic problem.

Our situation as to gold supply is alarming. The last information I have indicates our total gold stock is only $15.633 billion, whereas our gold obligations and commitments to foreigners amount to $27.350 billion, and that our domestic gold requirements stand at $12.755 billion. For 2 weeks in a row in July our gold reserves dropped $50 million

Considering how twisted our thinking has been as to so many matters in which our self-interest has been involved, I would not venture even a guess as to the direction in which we would move should we become faced with the necessity of choosing between protecting our own currency and honoring our obligations to foreign creditors.

But let us assume that we would in such case take the position that such gold as we have would have to be first used to protect our own currency. That would leave only $2.878 billion for honoring the $27.350 billion of foreign claims on gold, or just a little better than 10 cents on the dollar.

Is there any wonder, gentlemen, that seeing our predicament growing steadily worse, our foreign creditors are becoming seriously concerned? And should we be surprised to hear from friendly Canada the opinion:

> American available gold has shrunk so badly that a concerted rush could develop into a gold crisis, not in months or years, but in days.

Note gentlemen, that this opinion says, "not in months or years, but in days."

And considering the provocations with which we have been taunting France's De Gaulle, should it come as any surprise to us if De Gaulle were to demand specie for the balance of credits that his Government holds, and started a run on Fort Knox? It wouldn't surprise me any, especally in view of the recent revelation that there is presently available to foreign aid authorities more than $23 billion of unexpended funds.

I am not one who feels that there is no place whatsoever for foreign aid.

On the contrary, I feel that constructive foreign aid is necessary.

I do not ask you, therefore, to abolish foreign aid. But I ask, with all the earnestness at my command why, if there is in fact more than $23 billion of unexpended funds available for foreign aid, appropriate any more money for this purpose until this balance is reduced to a reasonable level, especially when every dollar we spend for foreign aid either worsens our gold situation or is inflationary in effect.

Gentlemen, the course that we have been following up to now is the path of disaster.

We must end our headlong plunge toward financial catastrophe some time, and, with more than $23 billion of unspent funds in hand, I know of no better time than now.

It cannot be expected that the patience of our foreign creditors will last forever. The noted economist, Dr. Melchior Palyi, already has reported that even the German Central Bank—the bank of our best friend in Europe—holds that Europe is fed up with supporting the

dollar and that the Governor of the Netherlands Bank feels likewise.

Dr. Palyi further reports that the French Prime Minister has said that the Bank of France no longer considers the dollar convertible.

Now permit me to speak briefly about the moral side of this matter, gentlemen. In one of my appearances against the level of foreign aid and the policy applied in following it—that was about 2 years ago, as I recall it—I pointed out that Washington had constantly denied, until a short time before, that foreign aid was responsible for the drain upon our gold supply, but a British official had charged the contrary, and the State Department—or the Treasury Department, I don't recall which—was forced to agree.

The Government's denial that foreign aid was responsible for the drain on our gold reserve was deception of the rankest sort, gentlemen. In other words, to put it bluntly, our Government had been deceiving us. No official of the Government able to read the Treasury Department's reports on the balance of payments and our gold supply could possibly have failed to see what foreign aid was doing to us. To deny this effect of foreign aid, therefore, was to engage in bald deception, and this, I submit, was unpardonably immoral.

Now comes the President to say on the 22d of last month, according to columnist Ruth Montgomery, in a report published by King Features Syndicate:

> **If France and Germany should present their dollar credits for payment, the United States would be bankrupt.**

Let me interpolate. If only two countries, France and Germany, should present their dollar credits for payment, the United States would be bankrupt. I have not heard that statement denied.

To admit this, and yet demand further appropriations for foreign aid, with more than $23 billion of unspent foreign aid appropriations available, is to compound the immorality of the deception that I have just mentioned.

Should one wonder, therefore, that the charge has recently been made that the real reason for foreign aid is neither military nor charitable, but to implement the grand design; that planners now in the saddle plot global socialism, Atlantic union, world government, disarmament, World Court, international police force, because to finance the grand design foreign aid is imperative. Should we be surprised when the president of the Chamber of Commerce of the United States sugests that "the critical issue of national political morality must be dealt with if we are ever to regain responsible government here in America."

I shall not labor the point, gentlemen, because I think I have demonstrated beyond the possibility of successful challenge that our foreign aid policy has been characterized by extreme irresponsibility and shameful immorality, to say nothing of the outrageous inefficiency in the administration of the policy that has so often been brought to your attention.

But I suggest that there is an even more deplorable aspect of this matter. And this is what I would like to emphasize to you today, gentlemen. I remind you of the horrible atrocities that were committed in Angola in March of 1961:

> **Women violated and hideously murdered.**
>
> **Children hacked to pieces and their remains hung from the branches of trees.**

The bodies of children found with their stomachs cut open and their abdominal cavities stuffed with grass and bits of wood which had been set afire.

A local administrator and his wife tied to boards and sliced methodically into pieces.

All the members of a village slaughtered.

A businessman compelled to watch his wife being raped and then obscenely murdered despite her advanced state of pregnancy and her stomach cut open and the unborn child pulled out and beheaded.

Both the legs and arms of children cut off and a grotesque game of football played with the children's twitching bodies.

Women and girls led away, stripped, raped, and cut open, many of them killed by stuffing large branches of trees into their genital organs.

Children dead from hemorrhages caused by the gouging out of their eyes.

The owner of a local sawmill, together with his wife, two small sons, and several others, tied to planks of wood and then fed into the mill's circular saw.

All of that and more occurred in Angola, gentlemen, as the result of a revolt which our Government not only encouraged but helped finance, and now this very day guerrillas are being trained with our approval, and with our money, for an even bloodier assault.

Gentlemen, the blood of those people is on our hands, on the hands of the American people.

To say that our part in this horrible massacre is immoral is to put it lightly.

There just isn't any word in our language or any other to describe the enormity of our sin.

Our foreign aid and foreign policy are responsible. Without it, it could not have been done.

And then let us remember Katanga, where, in Elisabethville, for example, U.N. troops—

Proceeded to clean up house by house, looting radios, watches, and clothing;

To knock down everyone who got in their way;

To finish off the wounded by disemboweling them with a knife or shooting them through the head;

Raping women, using those who fled as living targets;

Killing children by kicking in their heads;

Wiping out entire families.

Yes, gentlemen, all that was done by troops of the U.N. Troops whom we supported.

Never in the history of the world has there been anything so horrible as these atrocities, which, from what I have read, are an infinitesimal part of the savagery that has been committed in our name and with our support. Who would have ever thought that the United States of America would have been party to such as this?

Truly, gentlemen, we have been made parties to murder, pillage, and rape, the horror of which has never been exceeded at any place or any time in history.

The blood of the unfortunate victims of our misguided foreign policy and foreign aid is on the hands of every one of us and we face a terrible judgment from which I fear that no kind or level of repentance will save us.

It isn't just a matter of morality. It is a matter of savagery. But we can at least show a desire to return to the decency and justice that heretofore has been characteristic of us as a people, and of our Government, by putting an end to the means by which our honor has been betrayed. And right here is where it can be done, gentlemen. You can stop it if you will and if you can. It has been said that the be-

havior of the people's representatives is but a reflection of the behavior of the people. I disagree with that.

This is not true, gentlemen, for the simple reason that the people are not in a position to know what their Representatives learn. And I do not see how any of you gentlemen could possibly have the time to supply all the information that the people ought to have. But the people are learning. The people are learning, for example, that there are large sums of foreign aid funds unexpended. They know the national debt is completely out of hand. They know the unfavorable balance of payments is continuing and will continue to be worse and that our gold stock will be depleted in a very short time. They know the foreign aid program has been shot through with corruption, and they are learning that the financing of Communist expansion by foreign aid is a fact and not a theory. These things they are gradually learning and unless I mistake completely the temper of the people as I observe it, I can assure you that the people are becoming aware of what has been going on and that sooner or later they will, by one means or another, put a stop to what has been happening. Let us hope that their action will be peaceful.

All this business of balance of payments and our gold supply, all of that is tremendously important, but, gentlemen, this is more important because we sit here today responsible for the death, for the torture, and for the brutality of thousands upon thousands of innocent people. It would not have happened if we had not made it possible.

Mr. PASSMAN. Thank you, sir.

On page 5 you state:

Should we be surprised when the president of the Chamber of Commerce of the United States suggests that "the critical issue of national political morality must be dealt with if we are ever to regain responsible government here in America."

Just before you came in, we had before the committee Mr. John Teeter of the Chamber of Commerce of the United States, and he strongly recommended continuation of this foreign aid program on what I regard as a fantastically high level.

Being a businessman and a member of the Chamber of Commerce, I have to recognize in his statement, something of a selfish position, a stand being taken by interests which are profiting from this program.

The chamber's position about foreign aid, it appears to me, is inconsistent with many of their other announced objectives.

Mr. ANDREWS. May I say something?

Mr. PASSMAN. Surely.

Mr. ANDREWS. First of all, let me point out that I did not attempt to justify this statement. I simply asked if you were surprised that these kinds of statements are being made. If I understand correctly, the position taken by the present president of the U.S. Chamber of Commerce, he evidently is far apart from some of the other members of the chamber.

All I can say is if they ask for an extremely high foreign aid program or ask for anything, I say they are wrong.

Mr. PASSMAN. They were asking that Congress appropriate $3,612,250,000.

Mr. ANDREWS. Then I think they do the business people of America, and the people of America generally, a disservice.

Mr. HARNISCHFEGER. I was on many committees of the U.S. Chamber of Commerce for many years, and in the last week I wrote the President on what you are talking about. I said a great many of the people that are supporting the chamber work for the opposite when they ask for a big foreign aid program.

Mr. ANDREWS. I was put on their committee on expenditures and, believe me, there will be no such recommendation coming from that committee without my dissent.

Mr. PASSMAN. On page 5 you also state:

> But I suggest that there is an even more deplorable aspect of this matter. I remind you of the horrible atrocities that were committed in Angola in March of 1961.

We wish you would submit the authority for this statement, sir.

Mr. ROONEY. Off the record.

(Discussion off the record.)

Mr. ANDREWS. I can give you the authority on that. I do not have it here. I think it came out of the paper Ce Soir.

Mr. ROONEY. Off the record.

(Discussion off the record.)

Mr. PASSMAN. If you will please furnish us the background authority for that particular observation.

Mr. ANDREWS. I will be glad to give it to you. I gave it to my secretary yesterday when she typed this.

Mr. PASSMAN. It will be inserted at this point in the record.

(Information supplied follows:)

RICHMOND, VA., *August 15, 1963.*

Hon. OTTO E. PASSMAN,
House of Representatives,
Washington, D.C.

DEAR OTTO: This is in response to your request at the hearing yesterday that I give you the documentation of the atrocities that I cited in my statement to your committee. The Katangan atrocities were reported by a Belgian citizen in the newspaper Le Soir of January 7, 1963. This person had been an eye witness to what he reported and his report was later confirmed by numerous other corroborating reports.

The Angolan atrocities of March 15, 1961, were reported by Portuguese-American Committee on Foreign Affairs, 20 Pemberton Square, Boston, Mass.

It was good to see you again yesterday, and I hope that you are going to be able to reduce the administration's foreign aid request as substantially as you said you hoped.

Cordially,

T. COLEMAN ANDREWS.

Mr. PASSMAN. General Fellers, we shall be pleased to hear from you, sir.

STATEMENT OF BRIG. GEN. BONNER FELLERS

General FELLERS. Mr. Chairman and members of the committee; my name is Bonner Fellers. Today marks my 18th appearance before the congressional committees which act on foreign aid. For this opportunity again to appear I am grateful.

At the risk of appearing presumptuous I wish briefly to sketch my military background. I do this because today many of those shaping defense policy have far less military experience than I and some are wholly without any military experience.

Fifteen years of my service were in foreign lands—Europe, the Middle East, the Philippines, and Japan. In 1936–38 in the Philip-

pines I was a member of General MacArthur's staff and liaison officer between him and President Quezon. From October 1940 through July 1942 I was the U.S. observer of combat with the British in the Libyan Desert campaigns. There I witnessed tank combat, naval and Royal Air Force operations, and antiaircraft defense. I observed combat of British, Free French, Indian, Australian, New Zealand, South African Forces, Italian, and German Forces.

From 1943 until my retirement in 1946 I was on the staff of General MacArthur in the Southwest Pacific and in Japan. Among my assignments were chief of joint planning, combat observer, military secretary to the C. in C. and Secretary General of the Allied Council of Japan.

Since retirement I have written and lectured on national defense.

ECONOMIC AID, MILITARY ASSISTANCE, AND U.S. SECURITY

Over the years, it has become increasingly clear that a majority of Congressmen support foreign aid in the belief that it is essential for our own security. This belief is the most fallacious of all assumptions relating to the foreign aid program.

A major Red military attack against the United States can come only from—

Armed spacecraft.
Bombers and missiles based on Russia and Cuba.
Missiles fired from submarines or surface craft.

Friendly conventional forces along the Sino-Soviet frontier cannot influence these Red attacks from the sky. Our NATO allies have not the power to prevent these attacks. In modern war our homeland itself is in the frontline. And the pretending, in this air and space and nuclear age, that U.S. military aid to Eurasian friends places the U.S. first line of defense thousands of miles from our shores, or that our NATO allies can defend us, is dangerous chicanery.

Only our own defensive measures and strategic striking power can defend the United States against a Red attack. Except for the deterrent power of U.S. striking forces, all Eurasia is vulnerable to Red surface and air attack. Moreover, all the free world is vulnerable to Red attack from the sky. Since friendly Eurasian countries may be blackmailed into denying United States oversea bases, we must be prepared to defend from and to strike principally from North America and from Polaris submarines. There may be no other effective alternative.

COLLECTIVE DEFENSE

The United States cannot buy allies. We have had experience in the effectiveness of the collective defense. It was tried in the Korean war and it utterly failed. In this war, 500,000 South Koreans fought heroically. Our contribution was 450,000 American troops; and we probably paid most of the bills. All other U.N. allies combined contributed a token force of 45,000—a mere 10 percent of the American effort and less than 5 percent of the total forces. Under this collective concept, for the first time in our history, we failed to win a war.

The Soviets need not fear a land invasion by NATO. Even were NATO far stronger than at present, the Soviets with their three

great allies—distance, winter, and manpower—would be able to survive a NATO attack.

Strategic nuclear striking power has given a new meaning to alliances. This threat is so great that the moment hostilities are imminent, the Reds will be compelled to blackmail the NATO powers into neutrality or incinerate them in the initial strike of the war.

Should war come, it is we, not Europe, which will be struck. Our European allies will receive such Soviet punishment as their war effort invites. If they stay out of the way, they will survive. If they attempt to attack the Soviet Union, they will be destroyed.

ROLE OF U.S. FORCES

Today U.S. superior nuclear striking forces are the only effective war deterrent. These striking forces place an umbrella of protection over the entire free world. They are effective because they possess the capability of destroying Communist military might. There are ample recent historical illustrations:

In 1946 after a sharp U.S. note, the Reds vacated Azerbaijan.

Truman doctrine opposed Communists in Greece and Turkey.

The United States fought a war in Korea and kept the war limited.

The United States garrisoned Europe and encircled the U.S.S.R. with bases.

The Reds cut off Berlin supplies; we mounted a massive airlift.

During Red Chinese attack on Quemoy, United States convoyed supplies.

The United States landed troops in Lebanon.

The United States blockaded Cuba while the Reds were arming Castro.

The United States is fighting Communists in southeast Asia.

None of these incidents, each displeasing to the Kremlin, incited Red intervention. The reason is clear. The United States has had overwhelming supremacy in strategic nuclear striking power. Consequently, the Kremlin, despite its dream of world domination, has not dared to challenge our free world support. Conversely however, without our superior nuclear striking power, no strategy—economic, military, political, or psychological—can succeed against the Communists.

MILITARY ASSISTANCE, FISCAL 1964

ASIA

Secretary of Defense McNamara's master argument for $1.4 billion military assistance in fiscal 1964 was that 70 percent of the aid would go to the countries on the periphery of the Sino-Soviet bloc. This proposed allocation reflects the old-fashioned, ineffective concept of Communist containment. Nevertheless, planners may argue that our aid is not for Red containment but rather to meet Communist subversion or guerrilla action. If these border states have the determination, certainly they have the means to handle subversion among their own people. To meet Communist infiltration and guerrilla action is another matter. It is conceivable that the Reds, now and then, may deliberately plan to entice U.S. intervention. From sanctuaries within the Sino-Soviet bloc as much strength can be sent into free countries

along the periphery as the Reds may elect. Thus, the enemy has the option of prolonging or winning these unorthodox wars, just as he chooses. He can easily create a challenge which we, if unlikely to gain a favorable decision, should not accept.

From Okinawa the U.S. Air Force is an effective war deterrent against North Korean aggression. It is therefore safe gradually to withdraw our two divisions stationed in South Korea. This would prevent some $200 million from falling annually into foreign hands.

Nevertheless, our entanglements and commitments in South Korea, Formosa, and South Vietnam cannot now be terminated. South Korea has had more aid than her economy could absorb. The Nationalist Chinese are reported as moving toward self-sufficiency. The war in South Vietnam requires our support. Based on past grants and the present situation, some $500 million may be required for these three Asiatic regions in fiscal 1964.

EUROPE

Prosperous Europe needs no aid. Our Sixth Fleet, troops, and Air Force stationed in Europe, lift a $12 billion annual tax burden from European shoulders and place it on the American taxpayers. Our troops in West Germany are mere token forces should the Reds make a determined effort. Consequently, why not gradually withdraw them, leaving only our battle groups in Berlin as token forces? This would prevent $600 million annually from falling into foreign hands.

Inexperienced military planners of today, who claim that the NATO forces can defend Europe against a surface attack, have forgotten Soviet operations in World War II. Against the Red army Hitler committed 220 divisions, beautifully equipped and sharpened for battle. In this German attack, the Red army absorbed the greatest shock in all history. The Russians suffered 9 million casualities. Despite this unprecendented punishment inflicted on the Russians, by January 1943, the German armies were forced to start their withdrawal. The Red army followup with 502 divisions was savage. In June 1944, 150 Red infantry and 75 armored divisions struck the German Army Group Center; 300,000 German youths were slaughtered. At the same time, south of the Carpathians, 101 Red rifle and 63 tank formations totally destroyed 16 German divisions. East of the Gulf of Riga, 120 Red infantry and 43 tank divisions overran opposition and poured into east Prussia. By January 1945, the vaunted German Eastern Front Army was reduced to 103 infantry and 32½ panzer divisions, wholly shattered and depleted and totally defeated.

Thus it is obvious that our allies, even with U.S. economic aid and military assistance, do not and cannot defend themselves, nor can they materially contribute to the security of the United States. On the other hand it is the United States which has the capability of deterring war and thereby is defending the free world. Surely if the United States extends this protection, our allies should provide the ground forces which they deem necessary and release our oversea garrisons.

AFRICA

These emerging countries would fare far better without military assistance of any kind.

LATIN AMERICA

The military leadership in Latin America is doubtless more friendly to the United States than are the civilian officials. Each of the Latin American states already has sufficient forces and equipment to effect internal security—provided the will to do so is present.

The United States traditionally has defended Latin America against Eastern Hemisphere aggression. In the recent Communist takeover of Cuba we failed. The effect is disastrous throughout the Latin American states. Nevertheless, if the Monroe Doctrine still lives, slight, if any, military assistance is required for Latin America.

IMPACT OF FOREIGN AID ON U.S. ECONOMY

In the early days of foreign aid no claim was made that it would continue beyond the Marshall plan. And while we could ill-afford the cost, aid expenditures appeared to result merely in a long series of deficit Federal budgets.

Today however, while economic aid continues, approximately half our military forces are overseas. Some $3 billion is spent annually by and for these troops. We are now extending military assistance and economic aid when we can no longer afford it. This is what economic aid and military assistance have done to our economy:

(1) Since these aid programs began, our gold reserve has dropped from $24.5 billion to $15.6 billion.

(2) Principally through our aid programs foreigners now hold $25.3 billion in short-term dollar credits redeemable in gold. We have practically no unobligated gold should foreign dollar claims be pressed.

(3) Foreign confidence in the dollar continually worsens.

(4) The only way to restore confidence in the dollar is to stop deficit spending both at home and abroad. This can be accomplished only by drastic reductions in foreign economic aid and military assistance.

THE KREMLIN OBJECTIVE

The ultimate Kremlin objective is world communism. The United States is the only country willing and able to challenge this Red goal.

To achieve world communism the capitalistic system must be collapsed. Our foreign aid spending, our unbalanced budgets at home, our balance-of-payments deficits abroad are most pleasing to the Kremlin.

To achieve world communism the Kremlin must persuade the United States to disarm. In this also we are rapidly accommodating the Kremlin. First, the Kremlin would have us do away with the bomb and the bomber. The proposed nuclear test ban, after the Soviets have made extensive tests in the atmosphere, if adopted means second place for the United States in nuclear weapons. No more intercontinental bombers are being built. The SKYBOLT to modernize the B-52 has been abandoned.

Undeniably, we are pursuing a course in profligate spending and disarmament according to Kremlin desires.

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RECOMMENDATIONS

The Citizens Foreign Aid Committee recommends:

(1) That military assistance for fiscal 1964 not exceed a total of $500 million.

(2) That deficit financing at home and abroad be terminated at once.

(3) That our strategic nuclear striking forces be maintained overwhelmingly superior to those of the Soviet Union.

Mr. PASSMAN. Thank you, General Fellers.

When two men are in business and always agree, one is unnecessary. Our economy is something we deal with daily, but the military is something you have to be in and actually know what is going on.

Mr. GARY. Mr. Chairman, is it not true that General Lemnitzer, the Supreme Allied Commander, told us the funds they were requesting are absolutely essential for the security of America?

Mr. PASSMAN. I may disagree with the amount, and I think we have the military aid program in too many nations, 70, but I will go along in general with the responsible military authorities on the matter of protecting America.

Mr. GARY. I did not say I agreed as to the amounts but I was asking if that is not the type of testimony we have had before this committee.

Mr. PASSMAN. That is true.

Mr. GARY. The testimony before this committee has not been given by underlings, who do not know anything. General Lemnitzer appeared and testified in person.

Mr. PASSMAN. Secretary McNamara and General Taylor testified also.

Mr. GARY. They all testified before this committee.

Mr. PASSMAN. Dr. Groseclose, may we hear from you, sir?

STATEMENT OF DR. ELGIN GROSECLOSE

Dr. GROSECLOSE. Mr. Chairman and members of the committee, my name is Elgin Groseclose, and I thank you for the privilege of again appearing before you to testify on the foreign aid appropriation bill. I offer first for the record a statement of my qualifications to testify on this legislation. Briefly, I have been concerned about the foreign aid program since I first saw it in operation in Iran in 1951. I have been acquainted with the Middle East for over 40 years, since shortly after World War I, when I taught in a mission school in Iran and did relief work in northwestern Iran and the Soviet Caucasus. During World War II I served as Treasurer General of Iran by appointment of the Iranian Parliament and have visited the Midle East at intervals since then. I am the founder and president of the only American organization for the blind of the Middle East—Welfare of the Blind, Inc.—which presently supports a clinic and workroom for the blind in Teheran and assists the schools for the blind in Bethlehem, Jordan. I am the author of six books dealing with the Middle East scene. I approach the foreign aid program, therefore, as one vitally interested in the welfare of human beings everywhere and in the responsibilities which our Christian faith assigns to the American people in assisting other peoples in their need.

Today, however, the crucial question is what foreign aid is doing to the American people and the U.S. economy. It is axiomatic that the U.S. economy is the keystone of the free world's economy and the U.S. dollar is the key currency of the world. Deeply concerned as we may be to elevate the economies and living standards of the underdeveloped countries, irreparable harm will follow if this is done at the expense of the deterioration of the U.S. economy. The United States is the largest and freest market in the world. Any reduction in the ability of this market to absorb the products of the world means a greater disaster to the underdeveloped world than any cutoff in foreign aid. In short, the greatest economic service we can render the underdeveloped countries is to maintain a strong domestic economy, and the greatest spiritual service we can render those countries is to maintain in this country a spiritual vitality in which integrity is paramount. I will devote, therefore, the time allotted me to a discussion of the impact of foreign aid upon the U.S. economy, and particularly upon increasing debility of the dollar, and our ability to maintain the integrity of the dollar. As qualifications for my remarks, a brief statement regarding my experience with the question may be of some use to the committee in assessing the weight to be accorded my views.

EXPERIENCE IN SOVIET RUSSIA

While doing relief work in the Soviet Caucasus, I had opportunity to observe the consequences of inflation. All economic activity was in paralysis due to a flood of paper money that had reduced the value of the note issue to nearly zero. Bread was almost sold by its weight in paper rubles. Such trade as did exist was sustained by the existence in circulation of a modest amount of Turkish gold lira and other gold coins. Despite the teachings of Marx and the contempt which Lenin is supposed to have expressed for gold—you will recall that he is supposed to have said that they would use it to pave their latrines—it was gold coins and gold coins only that permitted trade to rise above the primitive conditions of barter.

On my return to the United States I became for several years special agent in the U.S. Department of Commerce and the Department's specialist in Far Eastern finance, responsible for keeping the Department advised regarding gold and silver movements, and during this period the Department published my studies, "Currency Systems of the Orient" and "Budgets of Far Eastern Countries." Subsequently I had Wall Street experience with what is now the Morgan Guaranty Trust Co., was the first financial editor of Fortune, and taught at the University of Oklahoma. In 1934, the University of Oklahoma Press published my "Money: The Human Conflict," a survey of monetary experience, a work that was republished in 1961, after revisions to bring the story down to date, under the title "Money and Man."

WORLD WAR II INFLATION

In 1943, while serving as Treasurer-General of Iran, a principal task was that of combating the inflation that was then on the verge of reducing the country to a new anarchy. In the interval between my first and second visits, Iran, following the example of so many under the

tutelage of American money doctors, had abandoned its good silver coinage for a system of managed money and paper currency. Recalling the lessons of my earlier experience, I recommended reopening of the gold market and arranged for the sale of gold by the National Bank. The measure was effective. Gold was allowed to perform its proper function in the economy, inflation was checked, and the policy was adopted throughout the Middle East theater. I learned later that a similar policy had been recommended in the case of China by Dr. Arthur Young, adviser to the Chinese Nationalist Government, but had never been fully implemented.

Since 1944 I have been engaged in economic consultant work with an international clientele, and in 1960 was instrumental, with several like minded persons, in organizing the Institute for Monetary Research, Inc., a nonprofit organization to foster research into monetary phenomena and to promote a wider understanding of monetary behavior through the publication and dissemination of the results of research. In 1962 this institute published a monograph of my authorship entitled "The Decay of Money," a survey of Western currencies, 1912–62.

THE CRITICAL STATUS OF THE DOLLAR

The present critical status of the dollar in the international exchanges need hardly be argued. It has been the subject of extensive hearings and studies by the Joint Economic Committee and by various agencies of the executive branch. Efforts are made to attribute the continuing deficit in the balance of payments to causes other than the foreign aid program. The American businessman is being cudgeled and browbeaten to export more. The claim is also made that American foreign investments are a principal cause of the balance-of-payments deficit. The most popular whipping boy is, of course, the international speculator. The indisputable fact is that the balance-of-payments deficit began coincidentally with the adoption of the foreign aid program and the philosophy that there was a world shortage of dollars; it has continued ever since except for the brief period of the Suez crisis. Moreover, this deficit has been accompanied by a continuing suppuration of gold from the U.S. economy. The obvious cure of this condition is a constriction, if not the complete abandonment of the foreign aid program. So long as we cherish a free economy, the Government cannot compel our merchants to sell more abroad, particularly if foreigners do not wish to buy our products. It cannot impose quotas, tariffs, and other restrictions on imports without abandoning our policy of freer trade with the world and thereby defeat one of the major objectives of the foreign aid program. It cannot impose exchange restrictions without shattering world confidence in the dollar. Government can, however, reduce its foreign aid commitments and can do so with little damage to the recipients. The current indifference of Ceylon to the stoppage of foreign aid, in reprisal for expropriating property of U.S. nationals without compensation, is evidence of the ineffectuality of foreign aid either as a political lever for U.S. foreign policy or as a prop to the economy of the recipient countries.

FOREIGN AID AND THE GOLD DRAIN

The argument is offered that foreign aid is not the cause of the gold drain since theoretically some two-thirds to four-fifths of economic aid supposedly goes abroad in the form of U.S. exports. The simplest calculation discloses, however, that if 80 percent of our $5 billion aid bill is spent in buying U.S. commodities, then 20 percent is not so spent but goes to pile up in foreign balances or to acquire gold in this country. This is precisely what has been happening. We have given foreign aid far in excess of any foreign capacity to absorb and we have financed undertakings that have gone to the benefit of those least in need of it, so that much of these dollar credits have been used to acquire foreign bank balances or gold in Swiss numbered accounts.

Thus, since 1949, the cumulative deficit in the balance of payments is of the order of $25 billion. Foreigners have used more than $8 billion to buy U.S.-held gold, and the balance is held in callable funds—mainly bank deposits in U.S. banks and holdings of U.S. short-term Treasury notes. The total of these liquid items in the hands of foreigners is presently around $25.3 billion against a gold stock of $15,633 million.

FOREIGN AID AND DOMESTIC INFLATION

Most unfortunate, however, is the effect of foreign aid in weakening U.S. economic strength and security by promoting inflation at home. To the degree that foreign aid is provided, as alleged, in the form of goods, it takes goods out of the economy without any corresponding reduction of purchasing power within the economy, thereby creating to that degree an imbalance between purchasing power and goods in the market. (To the extent that foreign aid goes out in gold or dollar claims abroad, it weakens the U.S. dollar and is equally inflationary.) Moreover, by maintaining an artificial purchasing power for the dollar abroad through the process of maintaining external convertibility, by selling gold, while maintaining internal inconvertibility, the dollar becomes increasingly overpriced in international markets and goods priced in such dollars become too high for foreigners to buy. The result is that a competitive advantage is given to foreign-made products, an effect which in turn lessens our capacity to export and our ability to redress the balance of payments.

THE DECAY OF THE DOLLAR

It is clear to all who study the question that the stability of the dollar is currently being maintained by a facade of international agreements that may collapse at any time. Some of these arrangements are discussed in the March issue of the Federal Reserve Bulletin. We have been given the shocking disclosure that the U.S. Treasury, for the first time in history, has been compelled to borrow abroad in sums repayable not in dollars but in various foreign currencies, and that the amount of these borrowings presently totals $654 million. Not in the darkest days of the Civil War did the U.S. Treasury ever undertake to borrow and repay in any money except the U.S. dollar.

Under existing Federal Reserve legislation, $12.3 billion is required to support our internal currency and credit structure. An additional $500 million is required under recent legislation replacing outstanding silver certificates with Federal Reserve notes, making a total reserve requirement of $12.8 billion. The total gold stock is now $15.6 billion, thus leaving "free" reserves of around $2.8 billion. Against this net holding of $2.8 billion, special commitments have been made. There is, first, $800 million gold owing to the International Monetary Fund by reason of a purchase of gold from that Fund in 1958. To this must be added the previously mentioned $654 million foreign currency obligations created by the Treasury. The reciprocal exchange arrangements, or swap agreements, disclosed in the Federal Reserve Bulletin cover a total current commitment in excess of $1 billion, of which, according to the last report, $100 million had been drawn down. Recently the President announced a further gold borrowing from the IMF of $500 million. Thus, of some $2.8 billion so-called free reserves, $2 billion or more are under a special form of hypothecation for foreign obligations. Last year $900 million in gold was taken out of the country. It is obvious that the U.S. currency system trembles on the verge of technical bankruptcy.

END FOREIGN AID

The obvious solution to this problem is to end the foreign aid drain. It is the one major outgo over which the Government exercises exclusive control. To use this remedy the administration does not have to plead with anyone; it does not need new restrictive legislation to hamstring business; it does not need to discourage private investment abroad by the proposed tax on loans; it does not need to restrict foreign travel by American citizens. Reduction of foreign aid, along with stoppage of deficit financing, are the most salutary actions the administration can adopt to promote free world progress and to quiet world anxiety over the dollar.

I would like to address myself to some comments made by the House Committee on Foreign Affairs on this subject. Because of the authority this distinguished body carries before the Congress, this committee has made certain statements or drawn certain conclusions which I believe require some comment from us.

In the first place, it comments on the pipeline and points out in its Report on the Foreign Assistance Act of 1963, dated August 8, 1963, and draws the conclusion that because domestic departments of the Government always have unexpended dollars, there is nothing of concern in the fact the foreign aid program has unexpended dollars.

Now of course the answer to that is, "If our economy is in danger, and the dollar threatened—and there can be no doubt, whatsoever, that foreigners are extremely concerned about the dollar today—then these unexpended dollars are important because they can be spent without control from us and it is important that we cut off any new funds."

Second, ever since the foreign aid program began, the administration, or those in power, have been trying to create influence for it by arguments that will not stand water. The first one was that our foreign friends were spending far more for the common defense than

we were spending. We—the Citizens Foreign Aid Committee—exploded that some years ago, in a document in which we showed that the United States was spending over twice as much in relation to its GNP than the countries of Europe. Since then, the administrations in power have ceased that line of propaganda. Today they are arguing that foreign aid really is subsidizing American business.

Recently, Mr. Bell has made the statement that 90 percent of current aid dollars will be spent for U.S. goods and services.

Mr. ROONEY. Eighty-seven percent, according to the U.S. Chamber of Commerce.

Mr. PASSMAN. I want to say again that, so far as I am personally concerned, this type of claim is misleading—misrepresentation. After all, when these ships pull away from our shores, loaded with our wealth, it is a one-way deal. The manufacturer or jobber or broker sends the invoice down to the U.S. Treasury to be paid for out of the taxpayers' till. Where these recipients used to take money they earned from their exports or other sources, to pay for these goods, now they are getting them free. There is nothing coming back immediately. In some subsequent years, you may get a pittance back.

Mr. GROSECLOSE. I think the figures should be read into the record from their own documents that foreign aid (from p. 5 of their report) constitutes a cash drain of $1 billion. Apart from the goods and services shipped abroad under foreign aid, it represents a cash drain of $1 billion. Last year, foreigners took $900 million in gold from this country. It means they have taken or converted this cash into gold and drawn it out of the country.

Substantiation for that statement can also be found in the Department of Commerce publication, in "Survey of Current Business" for July 1963, page 28, which sets forth our foreign transactions and the balance of payments on goods, services, and unilateral transfers, which supports that statement.

Mr. PASSMAN. Of course, I think the outgo is far in excess of that figure. In addition to the goods and services, when you have a substantial portion of 64,500 people sleeping in hotels, buying meals, renting apartments, flying airlines abroad, those things, too, amount to dollars.

Mr. GROSECLOSE. I do think, also, that some answer should be made to the claim in this report that the main cause of our balance-of-payments deficit is our private foreign investments, which it lists as between $2 and $3 billion. The fact is, as shown by the balance-of-payment studies, that our foreign investments are more than paid for by earnings from these foreign investments, which last year totaled $3.8 billion as against $2.7 billion new investment.

Third, the committee stated that it notes with satisfaction, "that our aid programs have contributed to economic progress in the Near East."

The principal recipient of aid in the Near East has been Turkey, which has received through 1962, the figures you have, of course, but which might be read again, $3,430 million. Two or three years ago we put out a study—the Citizens Foreign Aid Committee—analyzing the economy of Turkey. We pointed out that aid had not improved the Turkish economy, that Turkey was today weaker militarily and economically than before foreign aid began. I was in Turkey in

1923 when the Turks were driving the Greeks into the sea without any foreign aid whatsoever.

I was in Turkey 12 years ago when foreign aid began. I have passed through Turkey briefly since then but I would like to refer to an official statement of equal authority with that of the committee, the Organization for Economic Cooperation and Development, which has just released a study on Turkey. If I may read into the record its conclusions, the report states on page 7:

> Despite a very rapid increase in population, the real gross national product increased more slowly in Turkey than in the rest of Europe. The standard of living showed virtually no improvement between 1953 and 1961, and such limited growth as did take place was only achieved by extending the area under cultivation beyond the economic limits and by piling up foreign debts which today constitute a heavy burden. Too much of the investment carried out during this period was misdirected; and policies concerning pricing, production, credit, foreign trade, and exchange rate gravely distorted the cost and price structure.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. GROSECLOSE. Mr. Chairman, the best way to maintain a strong military in Turkey is to maintain a strong economy in Turkey.

The fact is, under our foreign aid program they have socialized the economy, according to the Middle East and African Reporter.

Mr. PASSMAN. I think, however, it is admirable that those people would be willing to make the sacrifice in their standard of living in order to build and keep a strong military posture.

Mr. GROSECLOSE. Finally, I would like to refer to Yemen on which the House Foreign Affairs Committee comments on the fact that there is no evidence so far of a withdrawal or plan of withdrawal of the Egyptian forces from Yemen. I would like to point out for the record that last year we provided Egypt, in calendar year 1962, with $185 million. If we are interested in peace in Yemen and a peaceable Egypt we are certainly not assisting it by our extravagant foreign aid.

With those comments I will conclude my statement and thank you for the privilege.

Mr. PASSMAN. Thank you very much, Dr. Groseclose.

We also have with us Dr. Lewis E. Lloyd. Dr. Lloyd has been before this subcommittee in the past. We are very happy to have you return, Doctor. We welcome your statement at this time.

Mr. LLOYD. Thank you.

STATEMENT OF MR. LEWIS E. LLOYD

Mr. LLOYD. For the record, I am Lewis E. Lloyd of Midland, Mich., an economist and head of business research for the Dow Chemical Co.

I wanted to comment that I am appearing here today not in my business capacity but rather as a professional economist and a private citizen who is alarmed about our balance-of-payments situation and its implications for the foreign aid program. I have given special attention to the study of monetary and fiscal problems and for this reason the Citizens Foreign Aid Committee asked me to consider appearing before you.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Please proceed.

Mr. LLOYD. There is a lot of concern about this balance-of-payments problem today but it is not generally recognized that this problem is deeply imbedded in the whole fundamentals of economic exchange. You mentioned earlier, Mr. Chairman——

Mr. PASSMAN. A hundred percent responsible and I do not care how they try they cannot disprove it.

Mr. LLOYD. In addition to labor, in a society like ours some laborers produce goods and exchange these for other goods. Since we are so big we cannot do it by barter so we have money to bring about the exchange of goods.

It is important to note that if at any stage the goods are exchanged for money, and that money then is not exchanged for other goods and services, that we get into problems. In fact, there are people who produce goods and services for which there is no market. Conversely, if at any point some individuals get money, let's say like foreign aid, for which there are no goods and services traded, then a different type of imbalance develops which gives us problems also.

In the basic economic exchange between nations we find exactly this same thing, that fundamentally from the standpoint of basic economics it is the exchange of goods and services for goods and services and the money is merely the tool to bring about this exchange.

If by whatever means dollars leave the country and we do not get goods and services for these, we have a balance-of-payments deficit, as you know. I have indicated in the paper for the record what these various ways are.

I do not need to remind this committee through these foreign aids and grants how something like $100 billion have left our shores whereby we gave them money for which only part of it returned for goods and services in this country. If they all returned and bought the products from our industries, then at least we would have the jobs here that that represented, but many of them have not returned.

Mr. PASSMAN. If I may interrupt, please, I wish to note that all nations earn dollars or other convertible currencies from their exports and ordinarily they requisition their needs of our goods and services and they pay their earnings for these goods and services. Under this program, however, the manufacturers receive and fill the orders, but there has been a credit down at the U.S. Treasury by which the Treasury provides the money to pay for the invoices, thereby leaving in their country the convertible currencies or dollars they would normally send over to pay for their imports from us. It has been established that of what we are giving away, if we did not give it away, they would buy a substantial portion of it anyway, and they have the dollars available with which to do so. We do not get anything back for what we are sending out whereas under normal commerce we would bring back dollars or other convertible currencies.

Mr. LLOYD. You are so right, Mr. Chairman. The second chart shows the balance-of-payments imbalance, the negative balance we have had in recent years, as Mr. Harnischfeger mentioned, in 1957 of course the Suez crisis which forced Europe to buy a lot of petroleum from the dollar area. That gave us a slight balance of payments in that year but in general we have had a growing imbalance. That means the dollars left our shores and did not come back to this country. As a matter of fact, the official data on the balance of payments is

misleading in the last couple of years. The dotted line shows that the current imbalance in our economic trade amounted to in those years, roughly about $3.4 and $3.6 billion instead of the $2.4 and $2.2 billion which the official record shows, the difference being that in these years we had prepayment of long-term debt from particularly France and Germany and we have gone out and borrowed money in foreign currencies and last year those two things amounted to about $1.4 billion.

The imbalance in our current situation was much worse than the official data.

As a result of that we have come to the position where since 1948 and 1949 we have lost gold and are now down to $15.6 billion as you know and the dollar credits have increased at the same time. As mentioned earlier this morning the total short-term claims are in excess of $25 billion now but when we take out the short-term claims which we have against them and the monetary fund commitments we get down to in the neighborhood of $20 billion of active net short-term claims against our gold supply.

As a matter of fact, if we look at the consequences of this, the third chart shows the amount of gold we would have left if at any moment in the past dozen or so years we had attempted to pay off our foreign obligations. As a matter of fact, we are now short about $5 billion of being able to meet these foreign short-term claims and in addition our banking law requires a 25-percent reserve, which amounts to about $12,500 million now.

As a consequence of these large foreign claims against our gold supply we now find that our economic destiny is in the hands of foreigners. The dollar even now retains its position as a world currency only because the foreigners have not yet lost confidence in the dollar to the point where they have placed extensive demand for gold. As a result we are no longer free agents with respect to many of our own policies.

For example, monetary policy; interest rates in recent times have been rigged in an attempt to avoid the outflow of capital dollars and the foreigners call for gold.

We find also that even physical policy is somewhat restricted. Tax and budget considerations have to be tempered now by the possible reaction of foreigners.

When the exchange of goods and services between nations fail to balance, one country may be willing to hold the I O U's for another country for a limited period of time. In the end, however, the money commodity gold is the only tangible way that the account can be balanced. Normally foreigners with mounting dollar claims will present these for gold. So long as they trust the United States, however, to be able and willing to meet their future obligations to supply gold on request, they will be willing to hold the dollar claims in lieu of gold.

Mr. PASSMAN. I am tremendously interested in your statement and the information you are presenting.

There is nothing on the face of the earth that is going to take the place of gold as a support for a monetary system.

Mr. LLOYD. That is right.

Mr. PASSMAN. Without exception, when a country has lost its gold support for its currency, then the monetary system has lost its strength and prestige around the world. Is that not the record?

Mr. LLOYD. That is the record. There is no hope that modern economics can change this, or human nature, which is involved here.

As a matter of fact, as I am sure you know, a good monetary commodity has to have certain characteristics, and scarcity is one of them and durability and divisibility and things like that. The reason that gold has the value it has is, it takes human labor and capital to mine and refine it. If it was something anyone could get, it would have no value as a money commodity.

Mr. PASSMAN. As long as our money is supported with gold, then people who come into possession of the dollars accept it in lieu of gold?

Mr. LLOYD. Yes.

Mr. PASSMAN. And the minute they see that the dollar is no longer protected by gold, they want to get it out of their hands?

Mr. LLOYD. That is right.

They have some special incentives not to ask for gold. Much of the dollar claims are held in Treasury notes and bills which pay interest. When the claims are converted to gold, there is a loss of this interest plus a slight charge for safekeeping. Moreover, the industrial nations of Europe who hold the bulk of these dollar claims are well aware that were they to call for large amounts of gold, this would precipitate a liquidity crisis and force us to eliminate most or all of our foreign aid. Since a significant part of our foreign aid dollars still find their way into the industrial economies of Europe and Japan, they are loath to make any move which would force us into cutting our foreign aid.

In the past 3 years, many stopgap defensive actions have been taken to minimize the loss of gold. These actions have bought time and prevented a crisis, but they have not solved the fundamental problem which has steadily worsened.

Some of these actions are restrictions: The amount of goods which a tourist can bring back duty free, special taxation on foreign earnings and on foreign investments, renewed emphasis on "buy American" policy, and direct and indirect export subsidies; we have urged foreigners, particularly the Germans and French, to prepay installments on long-term debt; and finally, our Treasury has been borrowing foreign currencies in an effort to minimize gold loss.

These stopgap actions have bought time, but we have not used the time to solve the fundamental problems which we still have to face. The consequences of continuing on the collision course which we have been pursuing will be disastrous. The $25 billion of short-term claims against our gold has been used to a large extent by foreigners to support their monetary systems as though these dollar claims were, in fact, gold. After all, we have promised to redeem all dollars in gold whenever requested to do so. As a result of this, both we and the foreigners are extending credit against the same gold supply. When the day of reckoning comes, there will not be enough to go around. The $12 billion required for our 25 percent bank reserves and the $25 billion of foreign claims, adds to $37 billion of commitments against our gold reserve which is now down to about $15.6 billion.

This is precisely the sort of condition the world faced at the end of the twenties, because of the tie-in between the central banks in Europe and our banking system and the British, there was international overexpansion of credit for the total gold base.

The negative balance of payments represents dollars which do not come back to the domestic economy to buy the products of our labor. Had these dollars come back, we would have had more jobs in this country. In fact, the balance of payments is the best measure of overall balance between the jobs gained through exports and the jobs lost through imports.

Mr. PASSMAN. We are dealing with a bookkeeping transaction, but it has the same effect as if you actually shipped the dollars over and they came back.

Mr. LLOYD. That is correct.

In the past 5 years there has been an average outflow of about $3.5 billion per year. Had these dollars come back, we would have had about a million and a half more jobs in this country. There are those who are pushing for rapid and drastic further tariff reductions. Since our industries are already, on the average, noncompetitive in world markets, further tariff reduction under present conditions will only worsen the fundamental situation—this is no solution to the balance of payments.

Along with the growing unemployment, we find industrial stagnation. The industrial countries of the free world are growing faster than we are. This will continue until we correct the basic conditions which led to the outflow of dollars.

The final consequences of our unsound international economic policies will be a repudiation of the dollar in world markets. When this happens, it will bring economic depression to the United States and will cost us the loss of our world leadership.

Mr. PASSMAN. It would be a repudiation through circumstances?

Mr. LLOYD. Yes.

The situation is serious; it is growing more serious day by day, and the stakes are so high that we dare no longer postpone attacking the fundamental problem.

George H. Arris states our dilemma in these words:

> If we hit bottom, we have a number of choices. Either we notify the rest of the world that we no longer will pay our international debts in gold. Or we devaluate the dollar. Or we forget the 25-percent reserve requirement, put the dollar on a paper base and go on using up what gold is left to pay international obligations. Whatever the choice, this will be the end of the dollar as an international currency.

FUNDAMENTALS OF THE BALANCE-OF-PAYMENTS PROBLEM

There are two basic reasons for the balance-of-payments problem. The first is this massive giveaway program called foreign aid. The result has been a continuing transfer of dollars out of the country. However sound the program of rehabilitation for Europe and Japan was at the end of the war, we can no longer afford this dollar drain even if the results were good, which they are not.

The second important fundamental factor is the noncompetitiveness of American producers in the current world markets. The fact that we are noncompetitive is clearly evident to any careful student, as indicated in numerous ways.

1. While we have underutilization of both labor and plant in this country—unemployment and overcapacity—in Europe and Japan plants cannot be built fast enough nor enough workers found to meet their demands. Growth rates in Europe have been twice that of ours, and in Japan three times.

2. The character of our trade has changed. As recently as 1950 we imported primarily raw materials, tropical products, and products of low labor content, while we exported primarily finished manufactured goods of high labor content. By the end of the 1950's this had changed. We now export more agricultural products, raw materials, and products of low labor content, and import mostly finished products of high labor content—cameras, typewriters, radios, TV's, watches, automobiles, and scientific instruments, and so forth.

Mr. PASSMAN. Is it a fact that many of the most prosperous nations today are short of labor? In Japan, they have a shortage of over 300,000 people needed to do the work that must be done simply because of their increased markets; is that true?

Mr. LLOYD. You are very right.

Mr. PASSMAN. And many of the European countries need labor simply because of the demand they now have they did not previously?

Mr. LLOYD. That is certainly true. Not more than 3 months ago we set out to build an additional plant in Poland and were denied permission to start because there was not enough construction labor available to meet all their construction requirements.

Mr. PASSMAN. That kind of condition has been brought about principally because they are more competitive on world markets than some of the previous suppliers.

Mr. LLOYD. Clearly, we have a most perceptive chairman who understands the fundamentals of this as few people do.

3. The Department of Commerce data on trade shows a favorable balance, with exports exceeding imports by $3 to $4 billion. Included in the export data, however, are products which we buy with our own dollars and ship overseas. This, of course, is that part of the foreign aid dollar which is spent in the United States.

When we subtract out the shipments to military establishments, the agricultural products under Public Law 480, loans for export, and agricultural products which are subsidized, we find that our export surplus vanishes. Chart 4 shows U.S. imports and our exports adjusted to remove those which are bought with our dollars or subsidized. Moreover, according to the Commerce Department, about $2⅓ billion of the remaining exports are shipped from American companies to oversea subsidiaries. In many cases, of course, these are not competitive shipments either.

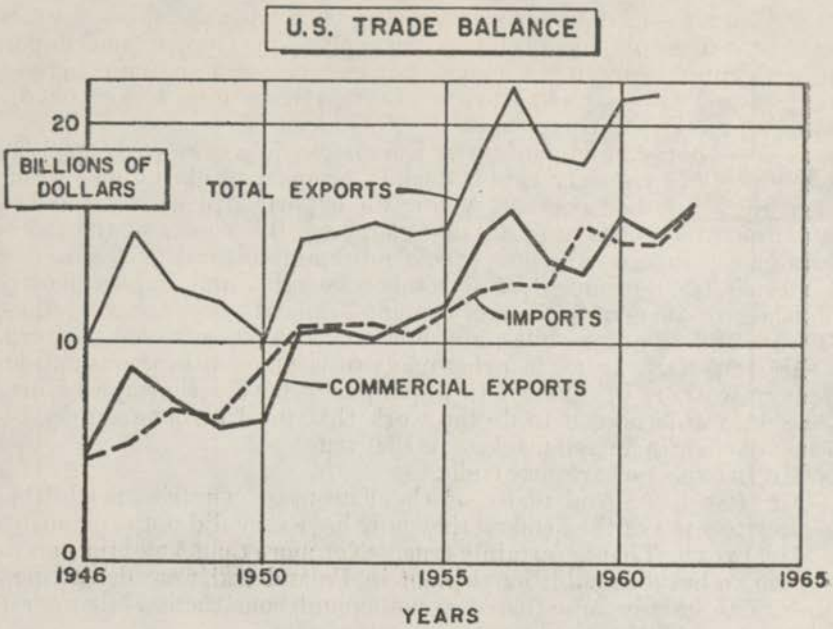

CHART 4

And finally, we count our imports on a foreign f.o.b. value, whereas other countries count their foreign trade on a c.i.f. (cost, insurance, and freight included) value. Since our imports arrive on foreign bottoms, we actually pay out dollars for the landed cost. Figure 5 shows the imports adjusted upward by a modest 15 percent to adjust to a landed-cost basis. It is clear, then, that even our trade balance adjusted to a competitive basis is unfavorable.

4. The final evidence of noncompetitiveness is, of course, the continuing and growing negative balance of payments. If we were fully competitive in world markets, the dollars which foreigners obtain by whatever means would be spent in this country for our products and our foreign accounts would show a balance.

Mr. PASSMAN. Would it make any contributions to what you are saying if we indicate that we are about 38 percent, on the average, out of the world market on agricultural commodities?

Furthermore, in many instances you can buy steel in Japan, delivered dockside at U.S. ports, for as much as $32 a ton cheaper than you can buy it out of Pittsburgh. That would include flat steel, nails and staples, and other types in everyday use.

Mr. LLOYD. Yes; that is right.

We became noncompetitive because the exchange rate between the dollar and other currencies has not been adjusted to the changing competitive picture. After the war, Europe and Japan replaced their war-torn and bombed-out plants by modern, new automated ones. They did this largely with our foreign aid dollars and with a great deal of technical assistance from us. Consequently, they have made a

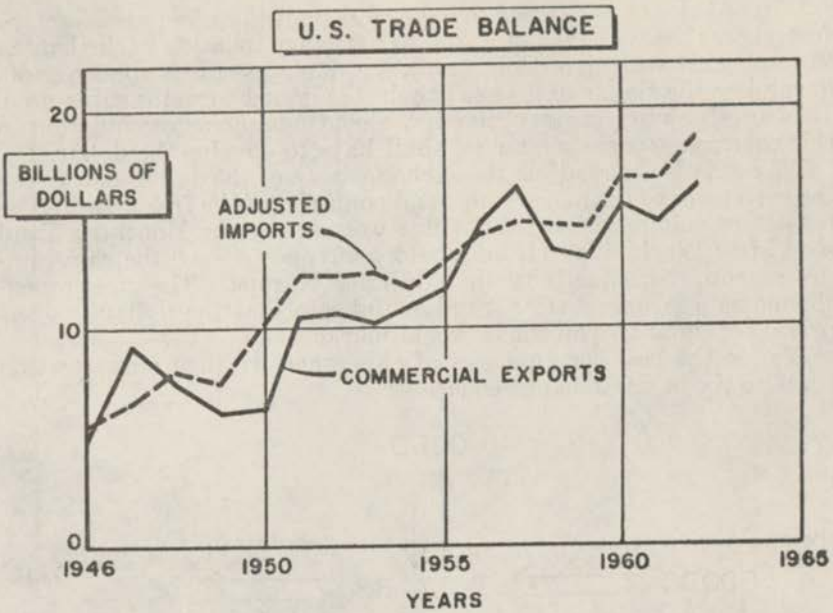

CHART 5

great leap forward in productivity. Their unions did not demand that this productivity increase be matched by wage increases, and thus the products of their factories became more competitive in world markets.

During World War II and in subsequent years, we have poured more than $90 billion of inflationary money into our economy. As a result of this inflation we have more than one worthless, printing press dollar for every good one. After the war when consumer goods became available, there were $2 coming to the marketplace to buy a dollar's worth of goods. Since the market couldn't tell the good dollar from the bad dollar, the price of goods was bid up until a dollar's worth of goods was selling at $2—in fact a little more, because the dollar is now worth only about 46 cents.

The price of labor went up with—in fact a little faster than—the price of goods; and as a result, today American workers and factories are no longer competitive in world markets.

BASIC SOLUTION TO BALANCE-OF-PAYMENTS PROBLEM

We need to take two steps to attack the balance-of-payments problem at its base. First, we must drastically reduce our foreign aid program and the small part of it which might be continued should require that the dollars be spent in the United States. This would at least insure that there were no export of jobs through our foreign aid giveaway program.

We need also to put an end to Federal deficits in order to reassure the foreigners that we have put a stop to monetary inflation in the United States. This will give them confidence that we will be able to avoid devaluing the dollar and lessen their likelihood of calling for gold. It is an absolute certainty that if we continue monetary inflation in this country, sooner or later we shall have to devalue the dollar.

We need also to readjust the exchange rate of the dollar as between the currencies of the major industrial countries of the free world. The present exchange rates of the dollar were set by the Monetary Fund soon after World War II, long before anyone foresaw the rapid improvement in productivity in industrial Europe. The present exchange rate is unrealistic. Studies indicate that the dollar is overpriced by about 25 percent in world markets.

We see the real consequences of this when we turn our attention again to the basic exchange equation:

When foreigners exchange goods and services to us for our dollars, normally they would exchange those dollars for other goods and services from us. It just so happens, however, that one of the goods which we offer the world is gold. Through the process of inflation the prices of our other goods and services have essentially doubled, but the price of gold remains at $35 an ounce as it was fixed in 1934. Thus today gold is the cheapest commodity we offer the world. It is not surprising, therefore, that foreigners who get dollars, prefer to keep part of those dollars to exchange for gold. Of course, as we have seen, they don't actually have to exchange them for gold as long as the world has confidence that we will honor our obligation to furnish gold upon demand. If we do not remove this distortion by an appropriate adjustment in the exchange rate, we will be forced eventually to devalue the dollar.

If the exchange rate were adjusted to be realistic, then our products would become competitive in world markets and we would earn back the dollars which foreigners obtain from us through trade, tourism, capital flow, and gifts.

It is clear that we cannot afford to continue our massive foreign aid program. Our taxpayers already are burdened with a Government debt which is about $100 billion larger than that of all the other countries of the free world together. If we continue our profligate giving, we shall hasten if not actually precipitate a world liquidity crisis. This will have dire consequence both for us and the free world. First of all, it would certainly disrupt the U.S. economy and result in the most severe setback our economy has seen since the 1930's. This would shake the confidence of the rest of the free world in the free enterprise

system. Other peoples would be skeptical of an economic system plagued with such difficult problems.

In the postwar years the dollar has become an important reserve currency. In a sense, we have become the bankers of the world. In the face of this circumstance there will be serious consequences if respect for the dollar is lost. We will lose more than our position as world banker; we will forfeit our leadership, politically, and ideologically as well.

Mr. PASSMAN. Thank you very much, sir.

In how many countries does the Dow Chemical Co. operate?

Mr. LLOYD. We have wholly or partially owned subsidiaries in 15 countries.

Mr. PASSMAN. Dow is one of the largest chemical companies in the world?

Mr. LLOYD. The fourth largest.

Mr. PASSMAN. You are head of the business research section of that company?

Mr. LLOYD. That is right.

Mr. PASSMAN. We want to thank you again, most sincerely, for coming here and giving us this valuable and factual information.

Mr. HARNISCHFEGER. Is it not a fact we do not permit our citizens to buy their own gold, putting the American citizen at a disadvantage to the foreigner?

Mr. LLOYD. The foreigners can take our dollars to a central bank and demand gold for them.

Mr. HARNISCHFEGER. If you want to rectify this position, you have to permit the American to do the same as the foreigner.

Mr. PASSMAN. Thank you again, gentlemen.

REPORT OF NAM'S GOVERNMENT ECONOMY COMMITTEE ON FOREIGN ASSISTANCE

We shall insert in the record, at this point, a report from the National Association of Manufacturers.

(The statements referred to follow:)

EXCERPTS FROM "THE FEDERAL BUDGET FOR 1964"—A REPORT OF NAM'S GOVERNMENT ECONOMY COMMITTEE ON FOREIGN ASSISTANCE

FOREIGN ASSISTANCE

Foreign aid is in two forms: military assistance, and economic and financial programs. The bulk of it is financed and administered through an administrative account called Funds Appropriated to the President:[1]

[1] Grants of commodities for famine relief (between $200 and $300 million are carried in the appropriations of the Department of Agriculture; very small amounts are also carried in the Departments of Commerce and State).

Foreign assistance

[In millions]

Fiscal years	Military	Economic	Total
New obligational authority:			
1962	$1,577	$2,338	$3,915
1963 estimate	1,325	2,604	3,929
1964 estimate	1,480	3,465	4,945
Expenditures:			
1962	1,390	1,836	3,226
1963 estimate	1,750	2,100	3,850
1964 estimate	1,450	2,300	3,750

NOTE.—It should be noted that under the Agency for International Development trust funds, there is an additional $953,000,000 of new obligational authority for foreign assistance, and $574,000,000 of expenditures. This is 30 percent above 1963 spending from these trust funds; and the 1963 expenditures were 20 percent above those for 1962.

Source: The budget, pp. 151–152.

Despite the net drop of $100 million in the $3,750 million 1964 expenditures over those for 1963, the overall picture of foreign assistance is an enlarging one. The more than a billion rise in requested obligational authority will sooner or later lead to increased spending. The surest way to assure a continuing lowering of expenditures is to reduce the level of spending authority.

The level of our foreign commitment should be reduced. There has been continuing and mounting attention in the Congress itself and in the press over recent years on the costliness and questionable effectiveness of the economic aid programs, including the charge of careless decisions and management. And the General Accounting Office has made critical findings in the military assistance programs. Surely at a time when it is apparent to all that our own economic defense needs reinvigoration, when every assist that expenditure control can give tax rate reform should be sought, when our overall international balance of payments continues to drain our gold supply, when confidence in our dollar has a somewhat tenuous place in international financial circles, when minimizing the deficit would help curb the potential inflation in the push of wage and fringe costs—surely at such a time some heed should be paid to criticisms by our own people of these foreign-assistance outlays.

Military assistance

It may appear encouraging to find a $300 million reduction in 1964 expenditures for military assistance, but this is due to the high level of supplies and equipment being delivered in 1963. It will be noted that the requested obligational authority for 1964 is above the 1963 figure, which indicates expansive planning. Furthermore, the budget explains a change of intent which carries implications of more rather than less spending, since the potential for "local development" is limitless:[2]

"Emphasis in military assistance is * * * shifting to the less developed nations, where more attention is being placed on building up units trained and equipped to maintain internal security and to contribute constructively to local development."

This suggests that the nature of the assistance may also be shifting from "military" to "economic"—where the increasingly larger outlays are occurring in the trust as well as the administrative funds.

That there may be room for cost curtailment in the military aspects of the assistance program is indicated by reports of the General Accounting Office. Savings of nearly $50 million were recently possible by a cancellation of requisitions for materials and supplies not required by the recipient country and by a reduction of requirements programed.[3] Furthermore, unclassified parts of the GAO's secret reports indicate such unnecessary and costly factors as "premature delivery of equipment * * * excesses and deficiencies in spare parts stocks of recipient countries * * * ineffective maintenance and use of delivered equipment * * * deficiencies in the U.S. Army management of spare parts for military assistance equipment."[4]

[2] P. 68.
[3] "Report for Improving Government Operations," Comptroller General of the United States, March 1962, p. 99.
[4] Op. cit., pp. 79–81.

GAO reports on this situation portend savings running into several hundred million. It is believed that a determined management effort could achieve a 20-percent, or $290 million, reduction in the 1964 spending for this 60-country program of U.S. military assistance.

Foreign aid and private enterprise

The recent experience of our own country indicates that it is not the expenditure of public funds which bring economic development and growth. It is the investment of private initiative, time, and capital. Throughout our history it has been the private sector which has generated the astonishing performance of the American economy. The most fundamental contribution which this country could make to other countries is a release of the capital investment potential now being held back by the structure of our tax rates on income. Venture capital, placed where both the risk and the profit were greatest, led this country when it was a developing economy to its economic achievements; and the same volatile materialism can benefit the development of today's emerging economies The kind of funds most likely to aid any economy—our own or others—are private, not public investments, voluntary, not involuntary capital creation. With a release of such funds through tax reform, the natural proclivity of venture capital to seek the most profitable level, will make for a kind of American aid that public funds cannot offer.

This in itself is a reason for taking meaningful steps to reduce the level of U.S. Government aid to other governments. There is a need to wean developing economies away from U.S. relief dollars, to encourage those economies to take steps which will entice private investments. The foreign aid program is an impediment to this, since it advances Government enterprise. Giving aid to other governments primarily strengthens their political rather than the economic structures. Thus there is little opportunity and litle incentive for private enterprise to participate in or contribute to long-range economic buildup in developing nations.

On this situation the Wall Street Journal editorializes as follows:[5]

"* * * we get the curious upshot of a supposedly free enterprise nation taking scores of billions of tax dollars from private individuals and businesses and using them to foster statist and socialistic institutions abroad. That policy cannot possibly serve the interests of foreign economic development, of the United States, or of freedom in the world."

The Morgan Guaranty Survey writing, specifically of our billion dollar involvement with the Alliance for Progress, has this to say:[6]

"By default—that is, by failing to insist that a major role be assigned to private enterprise—U.S. leadership in the Alliance has encouraged the strong bias toward Government enterprise * * *

"* * * By not insisting vigorously enough on the place of private capital in the Alliance framework and by not stressing sufficiently the creation of a receptive climate for investment—including foreign investment, toward which nationalism in many Latin American countries is becoming increasingly hostile—the United States has helped obscure the Alliance's basic purpose of calling forth a flow of private funds many times the amount of government-to-government aid."

An official study group emphasizes the same thing. The March 20, 1963, report of the Committee to Strengthen the Security of the Free World, under the chairmanship of Gen. Lucius D. Clay, expressed convictions, with regard to the Alliance for Progress, which had "worldwide appreciation." For example:

"* * * care must be taken even now to assure that U.S. assistance does not exceed amounts that can be usefully absorbed without encouraging even less effort and discipline on the part of government to the south.

"Latin America must be encouraged to see its essential choice between totalitarian, inefficient, state-controlled economies and societies on the one hand and an economically and politically freer system on the other, realizing that a society must begin to accumulate wealth before it can provide an improved standard of living for its members."

If we are to set an example for the so-called developing nations, and aid them with sound advice as well as what material assistance we can afford, we ought to stop helping them start off on the wrong foot. The President's budget says[7]

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[5] Mar. 15, 1963.
[6] February 1963.
[7] P. 71.

"A continued high level of new obligational authority will be required *to support the worldwide responsibilities of the the United States*" [emphasis added]. It would seem no more the responsibility of American taxpayers to support other economies through grants and loans than it is to support our own economy with public spending and subsidies. And it would seem no more effective in the long run, since reliable economic strength comes from economic self-support. Whatever may be the worldwide responsibilities which we can agree on and afford as a Nation, there will be no disagreement that the first claim on resources must be for the economic strength of our own country. In the priorities which must be set up for that purpose, the support of other economies take a subordinate place.

The bulk of "funds appropriated to the President" is devoted to the foreign assistance programs, and this account will start fiscal 1964 with $8,376 million of unobligated funds. It will end 1964 with these replenished somewhat for a total of $8,404 million. These are unobligated. This suggests first, that nearly $5 billion of requested new obligational authority for 1964 is undoubtedly excessive; second, that a declining level of commitments could be supported without enriching the backlog of obligational authority; and third, that a reduced level will actually contribute to the effectiveness of the program.

For all three reasons, but primarily to make way for more recognition of what private enterprise could do in these countries, to evidence faith that it can and will—with opportunity—contribute to the development of aided countries, Congress should deny $1 billion of the overall spending authority requested, without specific direction as to where the reduction should be applied, and with no effect on the 1964 expenditures necessarily required. The cut would be a token of intent, notice of retrenchments to come, so that other governments would be alerted to seek more development through private enterprise and in turn private enterprise would be encouraged to undertake more.

With regard to the Clay Committee's admonition about providing more aid than could be usefully absorbed, this overall cutback of authority should enforce a certain effectiveness not only in the receiving countries, but in our own aid program. Having to do with less should contribute to the long-term goal—envisioned by the Clay Committee as well as NAM and others—of a capacity to do with less.

Economic assistance

Modifications of the President's proposals for foreign economic aid could be effected among the following administrative accounts, and downward adjustments therein are suggested:

1. Supporting assistance to countries "which need help to maintain economic and political stability * * * and economic independence * * *." Requests for authority have been reduced slightly, and expenditures have been cut by a third since 1962; but this is the result of a transfer of grant projects to development loans. It is suggested that no new obligational authority be provided for 1964, and that expenditures be held to half of the $420 million budgeted.

2. Contingency fund: Expenditures have been running between $250 to $300 million. For 1964, $400 million of new authority is requested, with expected expenditures of $290 million to provide increased "flexibility to the President for meeting unforeseen emergencies and opportunities in foreign affairs. It is suggested that no priority be accorded the unforeseen and that $290 million be saved.

3. Social Progress Trust Fund: This is administered by the Inter-American Development Bank. Expenditures were $10 million in 1962, $45 million in 1963, and are budgeted at $117 million in 1964. To finance this expansion, $200 million of new obligational authority is requested. No priority is here assigned such expansion and it is suggested the 1963 level not be exceeded, thus cutting 1964 expenditures by $72 million.

4. Alliance for Progress: $700 million is requested in new obligational authority for grants and loans for 1964, with $284 million expected to be spent. The overall total of such aid which the President expects to provide for Latin America in 1964 through a number of channels is $1 billion. It is therefore suggested that authorization and expenditure under the grant portion of the alliance be held in abeyance completely for 1964; and that expenditures for loans not exced the $160 million 1963 level, which can be done within existing authority. This would combine into an expenditures saving of $124 million.

5. Development loans via revolving funds for the Near East and south Asia. This item accounts for over $1.2 billion, or nearly a third of the $3.5 billion total of 1964 obligational authority requested for economic aid; but the $297 million

of 1964 expenditures for these loans, although larger than the 1963 expenditure, represent only 13 percent of the total economic aid. The reason for the rise is given as "better planning, programing, and implementing capabilities in developing countries." This, of course, means better arrangements for making use of any forthcoming funds, thus the anticipation is for larger outlays. It is believed that consideration of any priority for mounting aid to these areas may be deferred until our own economic growth rate has recovered enough to justify it. It is suggested that new obligational authority be held to $600 million for 1964 and that spending be held to the 1963 level of $225 million, cutting expenditures by $72 million.

The first four items above involve $1,697 million of obligational authority to carry out authorizing legislation to be proposed. In the framework of today's domestic priorities, the President should refrain from proposing this legislation, and if it is proposed, the Congress should defeat it. This will help establish an atmosphere of retrenchment, and it will not foreclose the expenditures considered in this writing to have a spending priority for 1964.

Summary of foreign aid recommendation

[In millions]

Fiscal 1964	New obligational authority		Expenditures	
	Maximum	Cut	Maximum	Cut
Unallocated cutback		$1,000		
Military assistance	$1,190	290	$1,160	$290
Economic assistance:				
1. Supporting assistance		397	210	210
2. Contingency Fund		400		290
3. Social Progress Trust Fund		200	45	72
4. Alliance for Progress		700	160	124
5. Development loans	600	648	225	72
Total	1,790	3,635	1,800	1,058

The remaining overall totals for both military and economic foreign assistance in the administrative accounts would be as follows: [8]

[In millions]

1964	Budget estimates	Priority maximum
New obligational authority	$4,945	$1,310
Expenditures	3,750	2,692

Aid Program in Nigeria

STATEMENT OF MR. WILLIAM D. LOTSPEICH

Mr. Passman. Mr. William D. Lotspeich, from the Friends Committee on National Legislation, has submitted a statement, which will be made a part of the record at this point.

(The statement follows:)

Statement of William D. Lotspeich in Behalf of the Friends Committee on National Legislation

I am William D. Lotspeich, of Rochester, N.Y., a physician and teacher. My position is professor and chairman of the department of physiology of the University of Rochester School of Medicine and Dentistry. I have recently returned from 4 months in Nigeria where I served as a visiting professor of physiology in the new Medical School of the University of Lagos. This visit, with my family,

[8] And there would still be nearly a billion of new obligational authority and over one-half billion of expenditures for foreign assistance handled through the trust funds. Furthermore, there is the Eximbank's development project loan program involving well over $2 billion currently.

was part of an ongoing informal arrangement between the Universities of Lagos and Rochester whereby we are assisting in a number of ways during these early years of the new medical school's existence in Lagos. Our participation includes teaching, research, curricular planning, procurement of staff, and training of future staff, both in Lagos and Rochester.

I am a member of the Society of Friends and our mission in Nigeria, although not officially under Friends' sponsorship, did reflect a personal Quaker concern.

My statement is submitted on behalf of the Friends Committee on National Legislation, a Quaker organization supported mainly by contributions from Quakers. No single spokesman can speak officially for all members of the Religious Society of Friends, in view of its democratic organization and the cherished right of individual opinion. But there is widespread concern among Friends for the well-being of all mankind.

We support the administration's request for appropriations for U.S. economic aid programs, especially the technical assistance activities which help develop human resources. We support as well contributions to international organizations, particularly the U.N. Technical Assistance and Special Fund, aid to Palestinian refugees and UNCEF. We realize that at times these programs seem unending and unrewarding, but this is only natural, since economic aid and technical assistance are concerned with one of the most challenging of all activities, trying to bring about change, changes in economies, in institutions, and in people.

We oppose appropriations for military aid.

VIGOROUS SUPPORT FOR EXPANDED TECHNICAL ASSISTANCE

The great need for more technical assistance can be documented in many ways. David Bell told the recent Conference on Economic and Social Development that the United States has not been able to complete some projected loans because of a lack of trained leadership in the borrowing nations. His assistant, Leona Baumgartner, reminded the same audience that the single greatest obstacle to development in many countries is the inability of the people to use their own resources. But if I may, I should like to review with you some of my own experiences in Nigeria which have strengthened my belief that the United States must expand technical assistance to the underdeveloped nations in order to create a firm base for development aid.

THE HEALTH SITUATION IN NIGERIA

In the United States, England, and Scandanavian countries there is approximately 1 doctor for each 700 persons . In Nigeria the ratio is near 1 for every 40,000 persons. The current population of Nigeria is now about 40 million, and increasing; so this ratio will become even greater if Nigeria doesn't get more doctors rather quickly. This situation is typical for most of the newly developing countries. The disease and public health pattern is also typical. Some 50 percent of all children die before the age of 5. The complications of childbirth go unattended so maternal mortality is also very great.

The high death rate among the adult population results from infectious diseases we have largely conquered in this country: respiratory infections, malaria, typhoid, and yellow fever to mention a few. In the larger cities there are public health problems resulting from lack of pure water supplies, adequate sewage disposal, and food inspection; crowding and poor sanitation, and lack of mass immunization against smallpox, poliomyelitis, diphtheria, and tetanus cause high morbidity rates. A diet rich in starch and poor in protein combines with chronic infestation of the population with parasites, to weaken a large segment of the population.

The whole constellation of health problems could yield tomorrow to the application of public health measures in common practice here, and the Nigerians are well aware of this and are setting about vigorously to do something about it.

WHAT NIGERIA IS DOING ABOUT HER HEALTH PROBLEMS

The Nigeria Government has decided that the only way to meet the public health problems adequately is for Nigeria to train her own doctors. This decision makes real sense and represents a fine example of the sort of national self-help U.S. AID seeks in selecting countries for assistance. When she became independent in October 1960 Nigeria already had one medical school,

started some 12 years ago during the colonial period as a faculty of the University College of Ibadan. Its students had to take the University of London examinations and the faculty was largely British.

The new University of Lagos now provides the second school of medicine, this one proudly started by the Nigerians themselves in the first 2 years of their independence. This is a very impressive achievement. Ultimately it is their plan to establish at least two more such schools, one in the northern and one in the eastern region. If each of these four schools could ultimately produce 150 to 200 graduates a year, the gap in the doctor-to-population ratio could be significantly reduced and the health of the country commensurately increased.

During my stay in Nigeria, and in my contacts there before and since my visit I have been tremendously impressed with the caliber of the Nigerians leading this effort, and with the students who are participating in it. The decision to start the medical school in Lagos was taken in December 1961. The target date was October 1, 1962, for the opening of the new school with a faculty and an entering class of 28 students. Everyone, including we Americans, who believe it takes 48 hours to do the impossible, told them they couldn't do it. They said they realized that, but they would do it anyhow; and they did. What is more they are proceeding on schedule with the planned expansion from last October's impressive beginning.

WAYS OF STRENGTHENING TECHNICAL ASSISTANCE

Nigerians, and many other so-called underdeveloped peoples, do not need determination or the will to self-help; they need assistance now and in the crucial years ahead in staffing their medical schools until they have trained enough people of their own to take over the job completely. This situation in medical education is typical of the need for technical assistance in other areas such as agriculture, industry, and secondary education. Because this need is so urgent, and because these people look to us so hopefully for help, I want to urge here in the strongest terms an increase in our technical assistance rather than the decrease suggested by the Clay Committee report.

There is the implication in the report that technical assistance should be reduced because of a lack of adequate personnel. I am aware that the Agency for International Development has had difficulty in attracting qualified persons to render this service. But is this because they are not available? I don't believe so.

In my mind the Peace Corps has shown us quite clearly that there is a large reservoir of concerned and exceptionally able people in the country ready to offer themselves in the area of technical assistance if the national commitment and purposes of the program are clear, challenging, and presented to the people with a sense of urgency and excitement. With this in mind there are several things that could be done to strengthen our technical assistance program and make it as effective as the Peace Corps. I would like to present some ideas in this area as recommendations for the serious consideration of this committee:

(1) First we must reestablish confidence in the principle of technical assistance and in the agency that administers foreign aid. Only in this way can it achieve the stability and sense of commitment to pursue its mission with a sense of confidence. In this regard it is good that the U.S. AID program is now under Mr. David Bell's able leadership.

(2) We should reevaluate the effect of the U.S. emphasis on loans on our technical assistance programs. Has the decision to transfer most aid for social construction from the grant program to the loan program slowed down social development in the new nations? Can countries like Nigeria, with a per capita income of less than $100 a year and an illiteracy rate of 80 percent develop at a rapid pace if they have to borrow most of the funds they need to build schools, hospitals, and sewage facilities? Such facilities are essential to the development of human resources, but they constitute an immediate and sometimes heavy drain on limited capital resources.

We of the Friends Committee realize that the emphasis on loans stems in part from a belief that people and countries deal most responsibly with things they have to pay for. But this responsible response is already partially guaranteed by AID's requirement that each country must make a "significant monetary contribution * * * to each project" whether it is financed by grants or loans.

We would hope, therefore, that this committee would reexamine the reasoning which has led the United States to conclude that it is more efficient and effective to help finance social construction through loans, but perfectly acceptable to distribute some $1.5 billion of military aid each year on a largely grant basis.

(3) In addition to entering into technical assistance contracts with nongovernmental bodies, AID might consider offering universities and businesses matching funds, such as those granted universities for building construction, to make it easier for them to free persons for technical assistance work. These might include—

(*a*) Making up the salary differential between the home university and the foreign institution.

(*b*) Helping the home university pay retirement and other faculty benefits while the faculty member is away.

(*c*) Providing money for the university to establish and carry on the considerable administrative work connected with a noncontract arrangement such as that between Lagos and Rochester.

(4) Representatives from U.S. AID should carry on an intensive educational program around the country with students and faculty on college campuses, and with both management and labor in industry. The Peace Corps representatives I have met at our university have been effective ambassadors of that program, and their effectiveness could be duplicated by representatives of U.S. AID.

This is an age of concern for world peace and our fellow men. Not only students, but older persons alike feel the desire to do something constructive about world peace. Many citizens have a skill to share, or are willing to learn one on behalf of this cause. From the experience of the many who have participated in the international work-camp movement, or engaged in a good technical assistance project we know the effect of such experiences on understanding between peoples. Bridges of friendship are built that are stronger than any attempted with propaganda and indoctrination programs.

MILITARY AID HAS NEGATIVE CONSEQUENCES

This is also an age of increasing awareness of the barren futility of the military solution to international affairs. One can make a good case, it seems to me, for the proposition that military assistance may actually stifle the very developments we hope to encourage in a foreign country. The situation in Nigeria is worth a look in this regard. As in other newly independent underdeveloped countries the problem of establishing a stable democracy is a major one in Nigeria today. More autocratic leaders, such as Nkrumah in Ghana, maintain that the problems of development in a new nation are too great to permit the freedom and luxury of democracy. Thus loyal opposition tends to be crushed and the basic democratic freedoms gradually disappear. In Nigeria there is a viable democratic government at present, but the country could easily follow the path of Ghana, Indonesia, or Burma into autocracy if the forces that make for stable democracy are not strengthened in the coming years.

While we were there a number of well-educated Nigerians told us that the greatest hope for a stable democracy lies in the strengthening of education. Only some 20 percent of the population are literate, and secondary education follows an old and partly out of date syllabus with its accent on learning by rote. Many hope for an educational revolution that will not only broaden school coverage, but introduce a more imaginative, creative curriculum. Such schooling will prepare young men and women for lives as effective citizens and provide the trained wisdom required for a democracy in its houses of government. Here is where we need to offer encouragement and active help. To institute a military assistance program in such a country would simply mitigate against these basic needs for education, health, agriculture, and economic development, tend to encourage the military, and more likely reduce rather than strengthen the chances for democracy.

Therefore, we welcome Mennen Williams' statement that the United States does "not anticipate growth in the military assistance program for Africa, and most of all we do not wish to help generate any form of arms race. We would prefer a race in overcoming the economic and social problems that now beset the continent."

FOREIGN AID SHOULD STRENGTHEN BROTHERHOOD OF MAN

Foreign aid that concentrates on mutual technical assistance, the stimulation of self-help, and the opportunity for peoples of different nationalities to work together offers the best hope of strengthening "internationhood," and in this rests the best hope for mutual security. The dignity of man and the uniqueness of each individual are the cornerstones of our democratic form of government. By expressing these in our relations with other countries we work for the true meaning of the brotherhood of man. Our unique purpose as a nation and a people is not expressed by killing guerillas in a rice paddy, or dropping napalm bombs on innocent villagers, but in a personal sharing of the means, both material and spiritual, toward a full realization of the meaning of life. Our technical assistance programs since the end of World War II have been magnificent expression of this national purpose. Please, let's continue them, enlarge them, and improve them.

MORE AID SHOULD BE EXTENDED THROUGH U.N. PROGRAMS

I should like to make an additional plea to this committee and Congress to consider channeling more U.S. development aid and technical assistance through the United Nations. This would strengthen the U.N., make more effective use of the limited number of technicians available to development programs, and be more acceptable to new nations who sometimes resent advice from an individual power.

We realize that some Congressmen are uneasy over the fact that the United States contributes more than one-third of the budgets of some U.N. programs. We believe a higher contribution can be justified on several grounds:

(1) The United States is the richest nation in the world and has a responsibility to share its superior advantages with the less fortunate.

(2) If a U.N. program is constructive, the United States should not handicap it through irritation over the failure of other nations to give it the enthusiastic support it deserves.

(3) Any expenditure that helps raise living standards and increase the education and world view of the developing peoples is of benefit to the United States as well.

We understand that since the end of World War II, the United States has put $600 billion into defense and another $31 billion into military assistance in an effort to buy time to build a peaceful world. It is hard, therefore, to attach a percentage to what the United States can or cannot "afford" to contribute to building such a world.

But according to Prof. P. N. Rosenstein-Rodan of the Massachusetts Institute of Technology, the U.S. share of the total GNP of the richer[1] nations is 54 percent. We should not hesitate, therefore, to give wholehearted and increasing support to U.N. programs.

Mr. PASSMAN. I yield to Mr. Gary.

ARTICLE ON PEACE CORPS

Mr. GARY. Mr. Chairman, I have here a couple of newspaper clippings. A member of one of our leading families in Richmond joined the Peace Corps not long ago and the February 13 paper carried an account of her training for the Peace Corps and then on Wednesday, July 31, the paper carried a letter that she had written from Morocco. She is Miss Martha Horsley, from a very outstanding family in my district. As a matter of fact, she is a close neighbor of mine, and a graduate of Bryn Mawr. I thought it would be interesting to have

[1] Nations with GNP per head above $600.

her experiences in the record. I would like to insert first this newspaper item and then the letter.

(The item and the letter follow:)

RICHMOND MOROCCAN

A Richmond girl arrived in Morocco early this week, one of 50 Peace Corps volunteers who will see service there.

She is Martha Horsley, 21, daughter of Mr. and Mrs. T. Braxton Horsley of 201 Locke Lane.

Mrs. Horsey said her daughter joined the Corps in October, shortly before the Moroccan group left for training at California State Polytechnic College. She is one of 20 volunteers who will teach English in Moroccan schools. Others in the group will serve as surveyers in antierosion projects, and instructors in the expansion of irrigation systems on the edge of the Sahara Desert.

Miss Horsley was graduated from Collegiate School here in 1958 and Bryn Mawr College in 1962.

Mrs. Horsley said her daughter spent 1961 in Paris, living with a French family from Morocco, and has been interested in the north African country since then.

During the training period in California the volunteers studied the history and culture of Morocco, technical skills, American political and social institutions, French, physical fitness and health care.

Miss Horsley found the training "strenuous but worthwhile," her mother said.

She said her daughter's only disappointment was that she had to spend so much time teaching French to the other corpsmen that she had little time to learn Arabic.

"She did learn a little, however," Mrs. Horsley said, "and she wrote us she would give a brief speech of greeting in Arabic when they arrived in Morocco."

[From the Richmond News Leader, July 31, 1963]

RICHMOND GIRL FINDS MOROCCANS HOSPITABLE AND RELAXED ABOUT TIME

(EDITOR'S NOTE.—As one of the first members of the Peace Corps in Morocco, Martha W. Horsley of Richmond has had a variety of experience teaching English since she arrived in the north African country 5 months ago. She has taught advanced English in the port city of Casablanca and beginning English in Lalla Mimorna, a village near Rabat. Miss Horsley, a 25-year-old graduate of Bryn Mawr College, majored in French. She is the daughter of Mr. and Mrs. T. Braxton Horsley of 201 Locke Lane. This is a report of her observations and experience written in Casablanca.)

(By Martha W. Horsley)

Contrary to popular opinion, not everyone in the Peace Corps lives in a mud hut. I am in the semiunusual situation of being stationed in one of the biggest cities in north Africa. (I say "semiunusual" because there are many teachers in the Peace Corps stationed in big cities.)

Moroccans are very proud of Casablanca. It represents a situation which is found in any old country—a community where the modern and the traditional exist side by side. My acquaintances among Moroccans range from very poor to very rich and at each level there are families ranging from the ultramodern to the ultratraditional.

During the regular school term, I live with another girl in a two-room apartment next to the school. This summer I am living in a small village with a Jordanian lady, who is working for the United Nations, and another girl. My main job this summer is to help in community development.

At Casablanca I teach English conversation classes in an all-girl school. The first thing I taught them was that it is bad manners to chew gum in class (this surprised them as they consider it a very modern thing to do). Since then we have discussed everything from Halloween to the racial problem in the South.

For the most part, the girls know only what they have seen in the movies or read in the newspapers—all Americans are rich and dislike Negroes. It is frankly difficult to persuade them that this impression is not true.

Two things that particularly have struck me since I have come to Morocco are the hospitality and the Moroccan concept of time.

Although the hospitality is particularly noticeable in the countryside, the spirit of it has carried over to the big cities. It is a Moroccan tradition and is certainly more than legendary.

I have often been invited for mint tea (the national drink) or couscous (the national dish made from semolina) by people I hardly know. At first, I felt guilty about accepting so many invitations I could never repay, but as it is considered an insult to refuse, I now just accept and have a good time.

The south of Morocco—as the South in the United States—is especially famous for its hospitality.

And there is a very relaxed attitude in Morocco about time. Everything from "I'll see you in 5 minutes" to "I'm going to buy a motorscooter in the fall" is prefixed or suffixed by the word "inshallah," meaning "If God is willing." "Inshallah" is used to excuse any unforeseen occurrence.

Moroccans as Muslims—or as Moroccans—have little faith in the future. This lack of faith affects their life in terms of daily living and in terms of long-range planning.

Moroccans, like many other persons, would like a little more money, but most have no idea of investing or calculating on the future. The future, they believe, is too unpredictable.

Foreign Assistance Program

WITNESS

DR. N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

Mr. Passman. Mr. Danielian, our distinguished colleague, Mr. Natcher, has told us much about you and I am also personally acquainted with some of your accomplishments. We extend to you a cordial welcome.

Mr. Danielian. I appreciate that very much.

Mr. Natcher. Mr. Chairman, if you would yield to me at this point.

Mr. Passman. Certainly.

Mr. Natcher. I want to join with you, Mr. Chairman, in welcoming Dr. Danielian before our committee at this time and to say to him that it is a pleasure to have him with us.

Thank you, Mr. Chairman.

Mr. Passman. Dr. Danielian, I had the privilege of working with you on what I consider one of the most important projects of the century, the St. Lawrence Seaway.

We shall be pleased to hear from you, sir.

Mr. Danielian. First I want to say on behalf of myself and the whole community of the Great Lakes that we recognized that statesmanship you exercised in supporting the St. Lawrence Seaway at a time when it was not so popular in the South. We shall eternally be grateful to you for that expression of high-minded statesmanship.

I have followed your interest in the foreign aid program for many years but it was not until 1957 that I began taking a direct personal interest in our foreign economic policies because when Sputnik No. 1 went up I came to the conclusion, as expressed then by President Eisenhower as well, that we had reached a state of military stalemate with communism and that therefore economic policies would be the determining factor in our ability to maintain the strength of the United States and so ever since 1957 I have been making detailed studies of our foreign economic policies in the field of foreign aid, foreign trade, as well as our balance-of-payments situation and I come before you with deep conviction that unless we reorientate some of our policies in this field we are gradually going to diminish the strength of the United States.

In the case of military weapons, it is easy to determine whether a missile is going to fly 500 miles or 5,000 miles and you can experiment with it and then you can choose your weapons after such experiments. In the field of economic policy unfortunately it is not possible to have such experimentation and then if you choose the wrong weapons, which we sometimes do, we won't learn of its consequences until several years later when we have in the meantime attenuated our influence and power in the world. If we have reached a state of military stalemate and economic weapons are the important determining factors in this struggle for the survival of Western civilization, then I think we can be sure that the economic weapons, the policies we are adopting, are going to be helpful in securing the survival of our system.

It is with these feelings that we have over the period of the last 6 years developed certain concepts and recommendations which we have made before congressional committees. This is the first time I have had the privilege of being invited to appear before this committee, which has the vital function of determining the amount of money to be devoted to foreign aid.

I have a statement here which I should like to read because we have prepared it with care.

It is a privilege to be invited to appear before this committee which has the vital function of determining the amount of money to be devoted to foreign aid.

Over a period of years, we have made specific recommendations to the House Committee on Foreign Affairs and the Senate Committee on Foreign Relations. Among these the following sugegstions deserve special emphasis:

We have recommended, ever since 1960, that procurement under the foreign aid program be confined to the United States to diminish the impact of this program on the balance-of-payments deficit. We are glad to note that the Congress and the administration have accepted these suggestions.

I might say, at the time that I began making these suggestions it was not very popular with the State Department and various executive agencies. But historical developments show that we have been right and these policies have now been accepted as Government policy.

Two years ago section 604 was amended and this year the House Committee on Foreign Affairs, in its report, recommends the limitation of section 205, which authorizes transfer of 10 percent of these funds to the International Development Association, to conform to the provisions of the Foreign Assistance Act.

Actually, what section 205 does is authorize the transfer of 10 percent of these funds to the International Development Association to be used in accordance with the charter of the International Development Association, and these charter provisions do not permit procurement from any particular source, so funds turned over to the International Development Assocation under present conditions would continue to contribute to the balance-of-payment deficits. We suggested to the committee that that be revised, but the committee instead of revising the legislation in its report has recommended to the administration that in the administration of this program attention be paid to the balance-of-payments impact of this expenditure.

I do not know whether the committee's recommendation has the force of law and modifies the legislation but it seems to me that this committee——

Mr. GARY. Was it in the report of the committee?

Mr. DANIELIAN. It is in the report of the committee instead of changing the legislation.

Mr. GARY. It would not have the effect of law. It should be persuasive but it would not have the effect of law.

Mr. DANIELIAN. This committee might wish to pay attention to that. Any funds that are spent by these international agencies are subject to their charters which do not permit procurement in any particular area.

I have made a study of the impact of these. The World Bank claims that they are making an affirmative positive contribution to the balance-of-payments situation in the United States because more of their funds are spent in the United States than are taken out in dollars, but this is true because the World Bank has been borrowing abroad. Therefore, whatever amount is spent in the United States is a net contribution to us; but if you study their annual expenditures and procurement under their expenditures you will find that procurement in the United States has gone down progressively until now, about 20 cents out of every dollar lent by the World Bank is spent in the United States. Now when the World Bank borrows money abroad, and lends it, then we get 20 cents of that; but if we give a dollar to the World Bank, still 20 cents of that would come to the United States and 80 cents would go to other countries. Even though, cumulatively, the World Bank has made a contribution to our balance-of-payments situation, that is because they have been borrowing abroad and making loans and we are getting some of the procurement; but if we make contributions to these international agencies ourselves, you can expect now, under present competitive conditions, that we are only going to get 20 cents back and the other 80 cents is going to be spent in other countries.

Mr. PASSMAN. What international organizations specifically?

Mr. DANIELIAN. International Development Association, the World Bank.

Mr. PASSMAN. I am thinking about the percentage that we put in.

Mr. DANIELIAN. Inter-American Development Bank—any moneys contributed to the U.N.——

Mr. PASSMAN. All the contributions?

Mr. DANIELIAN. We have no control over procurement policies of these agencies.

Mr. PASSMAN. That is my understanding. The provision is to transfer 10 percent of what funds to——

Mr. DANIELIAN. The foreign aid funds. Section 205 authorizes the President to transfer——

Mr. PASSMAN. As much as 10 percent of the total to the International Development Association.

Mr. DANIELIAN. To be spent according to the charter provisions of the Development Association.

Mr. PASSMAN. The minute such a transfer might be made, then we would lose direct control?

Mr. DANIELIAN. That is right.

Mr. PASSMAN. We have to abide by the policies of the IDA once we have transferred it?

Mr. DANIELIAN. That is right.

Mr. PASSMAN. That provision is in the bill?

Mr. DANIELIAN. Yes.

Mr. NATCHER. It has been for 2 years.

Mr. DANIELIAN. The administration has not used this and they say they do not have present policies to use them but the authorization is there and they can use them.

Mr. PASSMAN. When was this provision put in the bill?

Mr. GARY. It was put in 2 years ago.

Mr. DANIELIAN. Yes.

We have recommended the strengthening of section 620(e) which deals with expropriation, particularly broadening the concept of expropriation to include "creeping" expropriation and "full value" in compensation. We are appreciative of the fact that the House Committee on Foreign Affairs has accepted these recommendations.

We urged that the act require that the President take appropriate steps to discourage nationalization. We are glad that the House Committee on Foreign Affairs has accepted this suggestion in section 601 as an integral part of our foreign policy.

Mr. PASSMAN. Doctor, if you will yield, with reference to "discouraging nationalization," the Bokaro Steel Mill in India would be a socialized, publicly owned operation.

Mr. DANIELIAN. Yes.

Mr. PASSMAN. That certainly would fall in this category of "nationalization," other than the government would not be taking something over that is already in existence?

Mr. DANIELIAN. Yes.

Mr. PASSMAN. They would be building something which would fall into the "nationalized" segment.

Mr. DANIELIAN. I should imagine so. There is a difference between taking what is in existence and nationalizing it or creating a new one.

Mr. PASSMAN. It would be supporting the same kind of policy, a Government-owned and Government-controlled plant.

Mr. DANIELIAN. Yes.

We recommended upgrading the Office of the Assistant Administrator for Private Enterprise, and increasing his responsibilities and authority. AID has agreed to accomplish this administratively, and the House Committee on Foreign Affairs has declared that it will watch these changes closely.

DEVELOPMENT OF PRIVATE ENTERPRISE

We recommended that 50 percent of the funds provided under section 202, the Development Loan Fund, and section 252, the Alliance for Progress funds, be allocated to the development of private enterprise in recipient countries.

Mr. PASSMAN. What do you mean by that statement, Doctor?

Mr. DANIELIAN. We suggest that these funds be allocated either through private banking systems or private development corporations or directly in the financing of enterprises in these countries.

Mr. PASSMAN. To whom would you recommend that the loans be made?

Mr. DANIELIAN. Corporate enterprises of one kind or another.

Mr. PASSMAN. American companies?

Mr. DANIELIAN. It can be local, mixed, it can be American, but it would be productive enterprises and these loans could be made on a commercial basis with interest rates commensurate at least with the cost of money to the Uniteed States.

Mr. PASSMAN. The Export-Import Bank makes industrial loans repayable in 15 or 20 years.

Do you not recommend that firms go in with their own capital, protected by the investment guarantee clause?

Mr. DANIELIAN. We do. Our long-range expectation is that as these investment guarantees are strengthened that the major part of the development program where commercial enterprises are involved will be transferred to the private investment sector.

Mr. GARY. Is this program you suggest already being done by the Inter-American Bank? Aren't we placing money with the Bank which is being loaned to these private enterprises?

Mr. DANIELIAN. In part, but I think you will find that a major effort that has been made in the foreign aid program has been primarily in the utilities and what we call the substructural area and we feel that there has got to be taxpaying industrial enterprises to create wealth, to support these public works programs. Now a major effort has been in the public works field and I think there has got to be a balance between public works and creative investments and so we suggested instead of making balance-of-payments loans out of the Development Loan Fund that at least 50 percent of it should be made available for encouragement of private enterprise.

Mr. PASSMAN. Would you not accomplish practically the same thing by recommending, for example, that the Alliance for Progress be reduced, say, by 50 percent and that the Government increase its investment guarantees so that private enterprise, with the know-how and the capital, would go in, without having to go in with Government money?

Mr. DANIELIAN. I agree with you, Mr. Chairman, and we have had a recommendation on it. The House committee has not accepted it. I will come to it as we proceed. Although the House Committee on Foreign Affairs declined to place percentage limitation on these funds, the policy declarations and self-help requirements added to the act by the committee require the foreign aid agency to proceed in this direction without delay.

We have suggested that aid be terminated at a certain specified date, if recipient countries fail to sign bilateral investment guarantee agreements. The House Committee on Foreign Affairs declined to accept this provision, on the representation of the AID Agency and the Department of State that negotiations are proceeding with a number of countries and they hope to make speedy progress in this direction. The principal countries involved in the Western Hemisphere are Brazil, Chile, Peru, and Mexico.

Mr. PASSMAN. Why should there be opposition to such types of bilateral investment agreements? All you are doing is agreeing with each other you will be honest; is that not correct?

Mr. DANIELIAN. Yes.

Mr. PASSMAN. If a nation will not agree that they shall not expropriate our property or wreck the investment by manipulation of

currency, as far as I am concerned they should not be in the aid program.

Mr. DANIELIAN. The Clay Committee recommended this. At sometime we have to draw the line. This program has been on the books since 1947 or 1948 and countries like Brazil, Chile, Peru, and Mexico have declined to sign them. Yet year after year they are here for public funds but they are not willing to guarantee private investments.

So it seems to me that having had this length of time we ought to draw the line some place and say: "If after a certain date you do not come along, you are just not going to have public funds." We feel strongly that if the Alliance for Progress is to succeed these countries must rely on private investments to a larger extent than at present.

Such investments will not be forthcoming unless appropriate guarantees against expropriation and other political risks are provided. If we don't do this, we may be throwing good money after bad, as all studies—that of the Clay Committee as well as the Grace Committee—prove that reliance must be placed for economic development upon private investments.

U.S. BALANCE-OF-PAYMENTS DEFICIT

The overriding concern of the United States in its economic relationships with other countries must be our balance-of-payments deficits. It is well known that we have been running a deficit since 1950, but this has been aggravated since 1958. In the last 5 years, we have been running deficits at an average of over $3 billion a year, excluding temporary and special payment arrangements. This has resulted in a cumulative deficit of nearly $26 billion, financed partly by the export of gold—over $8 billion, and partly by additions to our current liabilities to other countries. These liabilities now approximate $28 billion. We only have about $4 billion of free gold to satisfy these claims on demand.

I think you will find this situation graphically shown on this chart. We started with about $24 billion in gold in 1950. That has been decimated now down to less than $16 billion. The reserve requirement is a little less than $12 billion. It has to be kept as reserve. We only have about $4 billion in free gold to pay $28 billion in liquid liabilities. This indicates the liquid liabilities, so as the liquid liabilities have been going up the gold supply has been going down.

Our obligations to international agencies are included in this figure.

A good portion of these liabilities are owed to Western Europe—over $12 billion. You will find that most of this liability, a good chunk of it, is held in Europe and they are held in the United Kingdom, Italy, France, Germany, mainly the Common Market countries. They are in the position of really calling these chits if they want to, and embarrassing this country.

This gives the Common Market countries a leverage in economic negotiations with the United States. This means, in effect, that we have lost bargaining power with our allies and perhaps this explains to a large extent the truculence with which they approach trade negotiations with us.

It is absolutely necessary for the United States to bring the balance-of-payments deficits under control. These deficits derive from the foreign aid expenditures and the military commitments, to some extent in Europe, but to a larger extent in the Far East in the containment of Red China. To the extent that the foreign aid appropriations are contributory to our balance-of-payments deficits, we are in the position of assisting underdeveloped countries at the expense of the economic power and bargaining position of our country. We have, in fact, been going into debt, both domestically and internationally, in order to finance foreign aid. The record shows that as late as 1962, $1.1 billion of our balance-of-payments deficit was still due to outpayments of dollars under the foreign aid program.

This was about one-third of our balance-of-payments deficit.

Mr. PASSMAN. Have you included the tremendous amount of money that is spent by a good many of the 64,500 personnel who either travel overseas, live overseas, or have large expenditures overseas? It is not a commodity export out of our country, but it has the same effect. When you release dollars to those people overseas to be spent abroad that is not included in the $1.1 billion, is it?

Mr. DANIELIAN. No.

Mr. PASSMAN. Does it have the same kind of effect on our balance-of-payments situation?

Mr. DANIELIAN. I believe administrative expense would come in another category.

Mr. PASSMAN. It would have the same effect if it is spent by these people overseas, would it not?

Mr. DANIELIAN. Yes, sir.

This result, after almost 3½ years of effort to control the situation, is disappointing. It was in October 1959 when President Eisenhower took the first steps to control the Development Loan Fund expenditures, and to find that we have made such small progress since then is indicative of administrative looseness.

REASONS GIVEN FOR CONTINUATION OF AID PROGRAM

The reasons for the continued outpouring of dollars under the foreing aid program are as follows:

1. Contributions to international agencies, such as the Inter-American Development Bank, the International Development Association, the United Nations, and the World Bank (as in the case of the Indus River project) which, under the charter provisions of these agencies, cannot be required to be spent in the United States. We find it difficult to understand, under these conditions, why we keep adding dollars to the resources of these international institutions without protective safeguards against aggravation of our balance-of-payments deficits. In the Foreign Assistance Act of 1963, section 205 is carried on, allowing transfer of 10 percent of funds to IDA. The House Committee on Foreign Affairs has understood the implications of this and has therefore put a limitation on its use—in its report, not in the legislation. But there is also $200 million allocated to the Inter-American Development Bank for the Latin American Social Progress Fund, which is not subject to the provisions of the Foreign Assistance Act. Only last December, the Bank was allowed to borrow $75 million in the U.S.

money market. And now there is a proposition before the House (H.R. 7406), already approved by the House Committee on Banking and Currency, to authorize the U.S. Governor on the Bank's Board to vote for an increase in its capitalization by $1 billion. This commits the Congress later to appropriate the money. A look at the prospectus shows that about $500 million of this will be U.S.-dollar contributions, and in addition, the 50-percent gold or dollar contributions of other countries will probably come from reserves held in the United States, reserves replenished by foreign aid loans. Next, I predict, there will be proposals to increase the capitalization of the International Development Association. The President, the Secretary of the Treasury, and the Under Secretary of State promised to support such a proposal at the last meeting of the Association in September 1962.

We cannot solve our balance-of-payments problem without tightening the totality of our commitments in this field, and bringing all the loose ends under unified, purposeful control, if we are going to master this nagging payments deficit.

2. Another loophole is permission to spend dollars in underdeveloped countries for local costs of projects, such as labor and materials, on the theory that this will encourage economic development. The limitations on procurement are confined to 19 specified developed countries. The only way the United States can spend dollars on local projects is to buy local currency with dollars, and the dollars end up in the central banks, free to be spent anywhere they wish, through licensing of imports. In effect, therefore, the policy of allowing dollar expenditures on local costs of projects is nothing more than balance-of-payments assistance of dollars which the recipient countries can spend in other parts of the world.

3. Even though we limit procurement under our development loans to the United States, as long as we keep on making balance-of-payments loans to these countries, they are able to transfer to the loan or grants account their usual procurement in the United States, thereby satisfying the requirements of the Foreign Aid Act (and the Export-Import Bank's charter provisions as well when its resources are used for balance-of-payments loans) and then they turn around and spend their own foreign exchange earnings in other countries. Thus, what might have been a dollar sale to them is converted into a grant, and the hard foreign exchange these countries earn is spent in Japan or Western Europe. This is called the principle of substitution.

Mr. PASSMAN. Doctor, with reference to the way we acquire local currencies abroad, in addition to exchanging dollars for those local currencies, in many instances we acquire the local currencies by selling them surplus agricultural commodities, transactions which we refer to as soft loans. In that way we give the commodities. We get the local currency without actually putting up the dollars directly, even though originally it required dollars to purchase the commodities that we sold them and for which we accepted local currency. You accept that, as being a factual outline?

Mr. DANIELIAN. Yes. This is entirely different.

Mr. PASSMAN. I think we should indicate that we do acquire many of the soft currencies through this type of process.

Mr. DANIELIAN. Yes. But this is different. Let's take the Social Progress Fund just as an example. On June 1, 1961, a trust agree-

ment was executed between the President of the United States and the Chairman of the Inter-American Development Bank. That trust agreement provides that the funds, these Social Progress Funds, may be used for expenditures in the United States, or expenditures in the recipient country, or expenditures in any of the other members of the Inter-American Bank, which means that if a project is approved, let's say in Brazil and it has, let's say, 50 percent labor component, and the project cost $1 million; 50 percent of it would be $500,000 labor and materials component. We would make the advance knowing half of it is going to be spent for local materials and labor. Obviously you do not use U.S. dollars to hire local labor. You use cruzeiros. Therefore, what we are making essentially is a balance-of-payments advance to the Brazilian Government, which ends up in the central bank and then they use cruzeiros to employ the local labor.

So these provisions, it seems to me, are just an open seive for dollars to flow out. Consequently, as long as we keep making balance-of-payments loans, even the U.S. procurement requirement of the Foreign Aid Act will fail to control the balance-of-payments deficits of the United States.

To escape the seepage of dollars through this program, we must make sure that the dollars are allocated to specific incremental projects, to be spent for procurement in the United States, over and above their usual historic procurement in this country. We must, I believe, cease to make balance-of-payments loans.

This is particularly applicable to countries like Brazil.

I am glad that the House Committee on Foreign Affairs has taken cognizance of this problem and provided in section 102(d) that the assistance given under chapter II of the Foreign Assistance Act should not be diverted to short-term emergency purposes such as budgetary assistance, balance-of-payments loans, and military expenditures.

I realize that the AID Agency under the able administration of Mr. David Bell is going to have difficulty in effectuating this policy, because the country programs presented to the AID Agency are drafted in a general form with target objectives of economic growth, requiring so much import assistance to be financed by balance-of-payments loans.

Mr. PASSMAN. Will you give us some authority as to Mr. Bell's policy as you have just stated it?

Mr. DANIELIAN. I know Mr. Bell. I have known him for 15 years. I have had many discussions with him on this subject. I think his heart is in the right place. I think he is going to try his best to accomplish these purposes but I do think that he may be handicapped by the established administrative procedures, the pressures of the tremendous bureaucracy that develops these budgets, and also to some extent policy decisions by the State Department.

Mr. PASSMAN. I think Mr. Bell made a statement earlier this year to the effect that we could double our foreign aid and it would not greatly affect our economy. When he came before our subcommittee I asked him if he had made such a statement, and he said he may have made a similar statement.

Mr. DANIELIAN. David Bell is a good friend of mine, Mr. Chairman, and I have discussed these issues with him and from my personal discussions I have gotten the impression that he agrees in philosophy with the major premise of our recommendations.

I am always hopeful that even public officials in important places can, over a period of time, with persistent persuasion, agree with us, perhaps, and I am going to persist in this in as friendly a fashion as I can.

Mr. PASSMAN. Thank you, sir.

Mr. DANIELIAN. To effectuate this new policy in the act, it will be necessary to change the planning and budgeting, as well as administrative procedures, from a concept of increasing the gross national product through import assistance with balance-of-payments loans, to a projected basis, and to make the financing applicable to the individual incremental project.

It is interesting that this is exactly what European countries do in their foreign aid programs, except for Africa.

I was in Europe for 4 weeks, Mr. Chairman. I came back only 2 weeks ago. I have discussed this problem very extensively with representatives in OECD, with representatives in NATO and the European Economic Community, as well as the responsible officials of some of the principal governments in this field.

The Common Market is trying to integrate Africa into its economy through associate memberships, and therefore the Common Market has set up a fund of over $750 million to assist the African countries on a loan and grant basis.

Most of the economic assistance given by Europe to other countries is in the form of hard loans for specific projects. I was told recently by the Administrator of the aid program in Germany that they have resisted successfully the attempts of our American representatives in OECD to persuade them to make soft loans. They believe that economic development takes place best in financing on commercial terms for specific productive projects. This is their policy toward the whole continent of South America. In the case of their participation in joint efforts in the Far East, for instance, in relation to India, their loans are still on commercial terms. You only have to refer to page 20 of House Report 2410, 87th Congress, 2d session, this committee's report of last year, for the evidence of this issue.

Mr. PASSMAN. You know, of course, that those people are making hard loans and when they give a grace period the recipient of these hard loans must pay that same high rate of interest during the grace period?

Mr. DANIELIAN. Yes.

Germany, for instance, has guaranteed about $3.5 billion of private investments in underdeveloped countries. They believe this is more effective foreign aid than soft term loans and grants.

We find ourselves in this curious situation where the hard loans of Europe are being financed by the soft loans of the United States. I think it would not be unfair to conclude that the ability of many of these recipient countries to pay interest and principal on European hard loans depends upon the continuance of soft loans and grants by the United States.

Therefore, while the United States is committed to government-to-government balance-of-payments loans, European countries are busily engaged in expanding the opportunities for their own private enterprise, the security of which depends upon the continuance of U.S. taxpayers contributions.

We have recommended, therefore, that more emphasis be placed upon the private sector of economic development in recipient countris and that more encouragement be given to U.S. private investments in those countries. One hundred dollars or one hundred million dollars of private investments by U.S. citizens in these recipient countries, guaranteed, if necessary, by our Government, will do them just as much good, if not more, than $100 or $100 million contributed on a balance-of-payments basis by the U.S. taxpayer.

I submit also that where we encourage industrial development in these underdeveloped countries, we may find in the future that we are going to need the earning power on such investments to meet our balance-of-payments requirements in the future. One of the great errors we made in our relationship with Western Europe was to put the Marshall plan on a grant basis, instead of taking promisory notes in exchange. If we had those promissory notes today, we would not be in this difficult position with Western Europe in our balance of payments.

I am suggesting we think of this in terms of the new programs that we are undertaking.

We cannot tell what the future holds, but it would be the better part of statesmanship in defense of the U.S. economic position in the future to put economic assistance as much as possible on a businesslike basis with an interest rate at least commensurate to the cost of money to the U.S. taxpayer.

I am recommending these in connection with projects that are income-bearing projects. This program does not exclude the financing of services and utilities.

For this reason, we still recommend very strongly that at least 50 percent of the development loans be put on a businesslike basis to encourage specific industrial development projects through private business in the recipient country. The other 50 percent would still be available to undertake non-revenue-producing substructural public services, such as roads, schools, harbor projects, etc., under public auspices.

RECOMMENDATIONS

I hope this committee will find it possible to accomplish through amendments and its committee report the following objectives:

1. To allocate at least 50 percent of the development loan funds in sections 202 and 252 of the Foreign Assistance Act, to the development of specific projects through private channels, at interest rates commensurate at least with the cost of money to the U.S. taxpayer, to effectuate the policies and conditions prescribed in the Foreign Assistance Act, as recently reported by the House Committee on Foreign Affairs, under sections 102(d), 201(b), 252, and 601, as amended in each instance.

These are the sections that give encouragement to private enterprise, and these are the policies of the U.S. Government.

2. To prohibit the transfer of funds to the International Development Association under section 205, except under special agreements that provide for strict conformity with all the provisions of the Foreign Assistance Act as recommended by the House Committee on Foreign Affairs on page 13 of its report, with particular reference to procurement, section 604, and to expropriation, section 620(e).

3. The $200 million additional provided for the Social Progress Trust Fund, under section 401 of H.R. ——, to be administered by the Inter-American Development Bank, originally appropriated by Public Law 87–41, should also be made subject to a strict conformity to the provisions of the Foreign Assistance Act, by amendments of the trust agreement, dated June 1, 1961.

4. I am sure this committee realizes that the burden on the U.S. taxpayer for this purpose can be diminished only to the extent that ways and means are devised to encourage private investment in recipient countries. Whereas public funds are limited by the ability of the government to tax its citizens, there are large reservoirs of private savings which would be willing to undertake economic development projects anywhere in the world if there are proper safeguards against political risks. I hope the committee can find ways of impressing upon recipient countries that the continuance of aid will depend ultimately on their willingness to create the conditions, including guarantees of investments against expropriation, to open their doors to private investments; and that the American taxpayer will not indefinitely continue subsidizing current consumption beyond their means, as a nonrepayable consumer credit. It is not that the American people are not willing to undertake this humanitarian enterprise—witness the fact that since 1945 we have spent over $100 billion for this purpose. The hard economic and statistical realities make it simply impractical that this country alone, with a contribution of say $2.4 billion a year for economic aid, can accomplish enough to satisfy the rising expectations of one and a half to two billion people in the underdeveloped countries. This must be accomplished through productive enterprise, with the natives of those countries participating fully in this effort. We should certainly help them, but not as a continuing subsidy of current consumption.

5. Finally, I would like to emphasize that our advocacy of private development of industry and widespread private ownership is not a selfish, imperialist concept. It is motivated by a basic conviction that political freedom cannot exist without multiplicity of ownership and employment units within society. When all wealth and industry is controlled by the government (as in Soviet Russia, China, Egypt, and as recently has happened, in Burma), it is not possible to maintain individual freedom where everybody becomes a ward of the government. Nor can we expect the evolution of representative democratic institutions under such circumstances. It is for this reason that we are anxious to get away from government-to-government aid programs, and we suggest emphasis upon the development of multiplicity of private economic institutions. Whereas the U.S. taxpayer cannot undertake, as a practical matter, the uplifting of the standards of living of 1½ to 2 billion people appreciably to satisfy them all, and prevent social unrest and revolutions, we can, if our aid program is judiciously administered, help the development of a middle class, which will give stability to these governments, and provide the leadership for continued economic development. This can best be accomplished by channelizing aid programs through private institutions and encouraging private ownership of industrial enterprises.

Mr. PASSMAN. Thank you very much, sir.

You have made a forceful, factual statement. I disagree with a few of your observations, but that is to be expected. You have certainly set forth a lot of sound logic and facts.

Mr. NATCHER. I want to thank you for your appearance before our committee and I certainly join with my chairman in the statement he has just made concerning your testimony.

Mr. PASSMAN. The committee will now adjourn.

APPENDIX

Foreign Aid and U.S. Balance of Payments

The following information was supplied in response to interrogation on page 887:

AID AND THE U.S. BALANCE OF PAYMENTS

It is sometimes claimed that U.S. foreign assistance is responsible for the balance-of-payments deficit and the gold drain—that it has "undermined" the U.S. dollar. This argument seriously distorts the true situation by singling out one of many factors that contribute to this deficit—and a relatively small and decreasing factor at that; by giving no credit for long-range benefits which will accrue to the U.S. balance of payments from its foreign assistance programs; and by ignoring the significant role economic aid plays in maintaining current U.S. exports at a high level.

A SMALL AND DECLINING ELEMENT

Economic aid is only one of many elements in the balance of payments. In calendar year 1962, for example, payments which contributed to the $2.3 billion deficit included $16 billion for merchandise imports, $2.4 billion for net military expenditures, $3.3 billion of U.S. long- and short-term private investment abroad, $2 billion in tourist expenditures and only $1.1 billion of dollar outflows attributed to "economic aid"—of which the AID portion was $960 million.

AID expenditures entering the balance of payments have declined sharply in recent years and under recently tightened policies they will continue to drop. The pattern from fiscal year 1961, the year prior to organization of AID, to 1965, is as follows:

Total AID offshore expenditures (commodities and services)

	In millions
Fiscal year 1961 (actual)	$1,065
Fiscal year 1962 (actual)	983
Fiscal year 1963 (preliminary)	791
Fiscal year 1964 (estimated)	685
Fiscal year 1965 (estimated)	500

This decline in expenditures entering the balance of payments results from the fact that the newer procurement regulations have taken effect increasingly as commitments made in earlier years have been liquidated. The full effect of these regulations is only now beginning to be felt. Further tightening is being applied to the fiscal year 1964 funds now under consideration by the Congress.

Today, fully 80 percent of AID funds are committed for the export of U.S. goods and services—not dollars. Of the less than 20 percent which will enter the balance of payments, all but a minor fraction will be spent in less-developed—not developed—countries. Procurement is permitted in the emerging areas when it is competitive with U.S. products and to enable these countries to meet a portion of their foreign exchange needs through trade. The Brookings Institution estimates that around 40 percent of the free foreign exchange available to less-developed countries is ultimately spent in the United States. In Latin America, where AID programs have increased most rapidly in recent years, the ratio is 55 percent.

AID AND U.S. EARNINGS

The effect of existing AID procurement policies has been to increase AID-financed exports of commodities and services sharply. In fiscal year 1964 they are estimated at almost $1.6 billion, more than double the 1961 level.

By confining an increasingly larger proportion of its commodity financing to U.S. exports, economic aid contributes to the U.S. merchandise trade surplus. In calendar year 1962, U.S. merchandise exports totaled $20.5 billion and the surplus over imports was $4.3 billion. If the $2.3 billion in commodities financed by "economic aid," as broadly defined (including Public Law 480 surplus agricultural commodities, as well as AID-financed exports), are deducted, the surplus would be reduced to $2 billion. (See chart 1.)

AID AND THE LONG-TERM BALANCE OF PAYMENTS

Looking beyond the immediate balance-of-payments problem, there are positive long-term gains to be won for the United States from the establishment of growing economies abroad—the main purpose of our aid programs.

Prosperous nations buy more than poor ones. U.S. exports to the Marshall plan countries more than doubled from 1953 to 1962. Our exports to Japan more than tripled from 1950 to 1962. But our sales to the less-developed countries rose by only 15 percent during the 1950's. Chart 2 graphically illustrates that developed countries buy more from the United States.

In many of the developing countries—where our aid goes today— AID-financed exports are finding acceptance and becoming familiar to consumers. This should enhance our normal commercial export markets in the future as incomes and international purchasing power rise.

SOME CRITICISMS

1. It is sometimes said that the elimination of economic aid would wipe out the balance-of-payments deficit. While this inference seems warranted by a superficial examination of some summary arrangements of official statistics, it is not justified.

One summary from which such an inference might be drawn appeared recently in the New York Times. It dealt with the 1962 balance of payments as follows:

	In billions [1]
Credits	$7.6
Trade	4.3
Investment income	3.3
Debits	9.9
Military spending	2.4
Economic aid	3.5
Private investment	2.5
Short-term funds	.6
Tourist spending	.9
Deficit	2.3

[1] This summary is one of several contained in official Department of Commerce statistics.

This arrangement of the data seems to suggest that there occurred a $3.5 billion outflow attributable to economic aid. The unwary reader might infer that elimination of economic aid would more than wipe out the deficit.

The $3.5 billion debit for economic aid is derived by deducting $764 million—$617 million in loan repayments and $147 in IDB and IDA disbursement to restricted accounts in the Treasury—from gross economic assistance of $4.3 billion. But as table 2 shows, the latter includes $3.2 billion involving no dollar outflow ($2.3 billion of merchandise exports plus $0.9 billion of services and other items).

The dollar outflow from economic aid did not, therefore, total $3.5 billion in 1962. It was less than $1.1 billion, as indicated in table 1.

Today, as already indicated, the outflow is even smaller. Under present AID policies, for every $1 billion reduction in AID programs, $800 million fewer

U.S. exports would be financed, and balance-of-payments savings would be less than $200 million.

2. It is sometimes charged that foreign aid, whether or not tied to U.S. procurement, has an adverse effect on the U.S. balance of payments because it makes goods and services available that countries might otherwise buy with their own funds. There have been "guesses" that this adverse effect is equivalent to 100 percent, 34 percent, 26 percent, or some other proportion of total economic aid.

The evidence shows, however, that commercial imports from the United States have fluorished and the U.S. share of the local market has improved in countries assisted by our economic aid programs, except when the recipient's normal foreign exchange earnings have dropped sharply.

For example, a recent study of 32 countries outside of Latin America receiving about 80 percent of all AID and Public Law 480 assistance between 1957 and 1962 shows that total imports from the United States rose about four times as fast as total economic aid. In addition, imports from the United States as a percent of total imports by those countries rose from 13.5 to 14.5 percent during the period.

In Latin America, however, commercial imports from the United States decreased, and the U.S. share of the local market dropped. The decrease in commercial imports, in fact, was almost twice as great as the increase in U.S. aid. The decrease occurred because dollar earnings fell for reasons—such as the drop in coffee prices—having nothing to do with the aid program. An the drop in earnings was greater than the increase in aid. The net dollar loss, after deducting offsets of U.S. economic assistance, was about as much as the drop in Latin American imports from the United States.

AID assistance is extended to help countries import more than their own earnings allow. It is intended to add to regular imports, rather than substitute for them. That is why economic aid has shifted from the developed to the less-developed countries—it is the latter whose earnings are now far short of import needs for development and security. And that is why ordinary commerce with assisted countries tends to thrive, as the above evidence shows.

TABLE 1.—*Economic assistance in the U.S. balance of payments, calendar year 1962*

[Millions of dollars]

Derivation of the $3.5 billion economic aid debit:	
Gross economic assistance in balance of payments	$4,281
Less regular transactions:	
(*a*) Scheduled loan repayments	617
(*b*) Changes in associated liabilities (restricted accounts in U.S. Treasury)	147
Total	764
Net regular transactions	3,517

Composition of gross economic assistance:

Program	Total	Transactions involving no immediate dollar outflow from the United States				Dollar flows
		Total	Merchandise exports	Services	Capital transactions	
Foreign Assistance Act	1,925	966	679	282	5	[1] 959
Agricultural programs	1,335	1,322	1,220	102		13
Eximbank	621	621	442	48	131	
Other [2]	400	302	4	123	175	98
Total	4,281	3,211	2,345	555	311	1,070

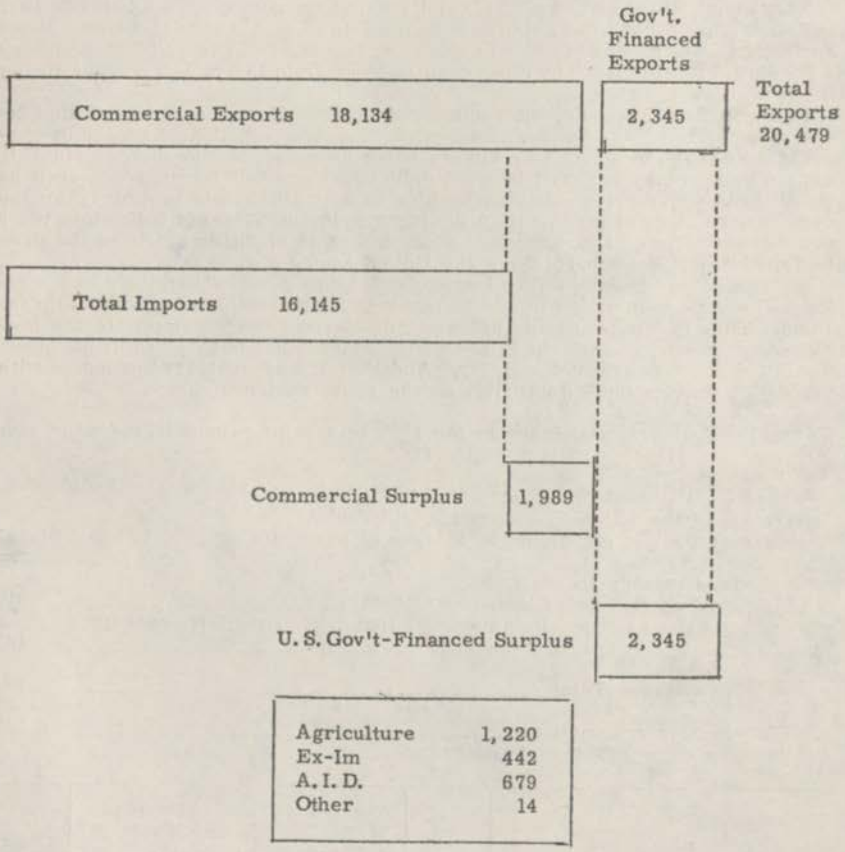
[1] It is only this amount which has any effect on the U.S. balance of payments.
[2] IDB, IDA, U.N. bond, Peace Corps, etc.

Source: U.S. Department of Commerce, Office of Business Economics, Balance-of-Payments Section.

CHART 1

U.S. NON-MILITARY TRADE SURPLUS IN 1962

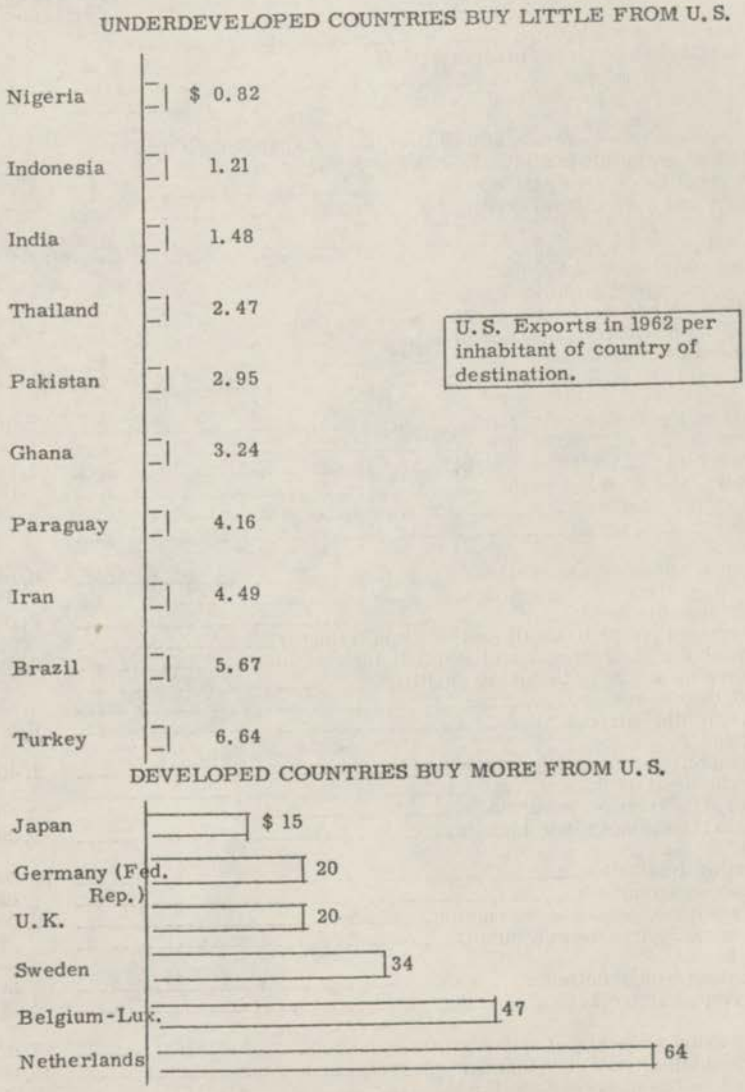
$ millions



SOURCE: "U.S. Balance of Payments"
U.S. Dept. of Commerce

CHART 2

ECONOMIC DEVELOPMENT BROADENS U. S. MARKETS



Loan Applications on Hand from Latin America

The following information was supplied in response to the interrogation on page 2142:

Loan Applications on Hand as of June 30, 1963

The following list of loan applications on hand as of June 30, 1963, totals $395.5 million.

Country and purpose	*Amount (thousands)*
Argentina:	
Irrigation network	$2,500
Modernization of river transport	1,770
School construction	6,558
Deciduous fruit production	698
Bolivia:	
Establishment, expansion and modernization of private industries	2,400
Drilling, exploitation and processing of crude oil	3,000
Construction of a tourist hotel	1,000
Supervised agricultural credit	3,700
Brazil:	
Electric power expansion	11,000
Cast iron pipe production	1,348
Brine industrial program	2,580
Chavantes hydroelectric power	10,000
Funil hydroelectric	2,000
Fortaleza power	2,400
Northeast Development Banks	20,000
Chile:	
Communications facilities	15,400
Development of timber property	3,000
Supervised agricultural credit	1,500
Fishing and canning plant	600
Feasibility studies	3,000
Housing	5,000
Colombia:	
Savings and loan associations	5,000
Health and medical facilities	7,000
Development bank	5,000
Supervised credit to small and medium industry	2,500
Capital for agricultural and small industrial loans	2,000
Expansion of manufacturing facilities	5,000
Medellin sewerage	4,100
Baranquilla airport	6,800
Costa Rica:	
Metropolitan emergency water supply	1,400
Development bank	4,100
Ecuador: IBRD road program	13,500
Guatemala: Salama-Coban highway	6,000
Mexico:	
Housing institution	20,000
School construction	2,000
Agricultural school construction	2,000
Nicaragua: Electric power supply	370
Panama:	
Abbatoir construction	300
Development bank	4,500
Peru:	
Expansion program of university	7,628
National highway development program	40,000
Aided self-help secondary roads	2,200
Construction of Pativilca hydroelectric plant	2,500
Hydroelectric power project Canon del Plato	2,200

Country and purpose	*Amount (thousands)*
Uruguay: Construction of primary classrooms	$5,000
Central America:	
Housing	10,000
Fund for Central American integration	25,000
Program loans under negotiation between United States and recipient countries which cannot be identified by individual country in unclassified form until negotiations are completed	110,000
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